

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required] for the fiscal year ended October 31, 1997 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 46268
Indianapolis, Indiana (Zip code)
(Address of principal executive offices)

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

The aggregate market value of the Registrant's voting stock held by non-affiliates as of January 22, 1998 was \$42,635,522.

The number of shares of the Registrant's common stock outstanding as of January 22, 1998 was 6,559,311.

DOCUMENTS INCORPORATED BY REFERENCE: None

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

(a) General Development of Business

Hurco Companies, Inc. (the Company) is an industrial automation company that designs and produces interactive computer numerical control (CNC) systems and software and interactive CNC-operated machine tool systems for sale through its own distribution network to the worldwide machine tool consuming market. The Company's proprietary CNC systems and related software products are either sold as an integral component of machine tools marketed by the Company or sold separately to machine tool end users and other machine tool manufacturers who integrate them with their own products.

The Company pioneered the application of microprocessor technology and conversational programming software to machine tool controls and, since its founding in 1968, has been a leader in the introduction of interactive CNC systems that automate manufacturing processes and improve productivity in certain segments of the metalworking industry. The Company has concentrated on designing "user-friendly" CNC systems that can be operated by both skilled and unskilled machine tool operators and yet are capable of instructing a machine tool to perform complex tasks. The combination of microprocessor technology and patented interactive, conversational software in the Company's CNC 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 electronic design and immediately begin production of that part.

The Company's executive offices and principal design, engineering, assembly and distribution facilities are located in Indianapolis, Indiana. Additional product design, assembly and warehouse facilities are located in Farmington Hills, Michigan; and sales, application engineering and service offices are located in High Wycombe, England; Munich, Germany; Paris, France; and Singapore.

(b) Financial Information About Industry Segments

The Company operates in one business segment, which consists of CNC systems and software and CNC-operated machine tools for cutting and forming metals.

(c) Narrative Description of Business

General

The manufacture of metal parts for industrial and consumer products primarily involves two major processes: metal cutting and metal forming. These processes are performed by machine tools. Metal cutting machine tools produce parts by milling, drilling, turning and grinding of a solid block of metal. Metal forming machine tools fabricate parts by shearing, punching, forming and bending flat sheets of metal.

Approximately three-fourths of the world's machine tools are made for metal cutting applications. The milling machine is one of the most common types of metal cutting machines. Milling machines shape a part by moving a rotating cutting tool, such as a drill, tap or mill, across a metal block. Although a majority of the milling machines in current use are still manually operated, an increasing number are now operated using CNC systems such as those produced by the Company. CNC-operated milling machines automatically and precisely shape parts by directing the movement of a cutting tool according to a program specifically designed for the desired part. Some CNC-operated milling machines, referred to as machining centers, are equipped with automatic tool changers that allow several different cutting tools to be used in a programmed sequence on the same part without having to remove the part from the machine.

Metal forming machines include press brakes, presses, shears and punches. The press brake is the basic machine tool used to perform simple bending operations on a wide variety of sheet metal to create parts such as computer cabinets, door frames, aircraft components and electrical enclosures. Each press brake uses one or more manual or automated gauge systems that determine where the bend will be made in the sheet metal part. Automated press brakes utilize CNC systems such as those produced by the Company.

The Company has pursued a strategy that is focused on developing and distributing to the worldwide machine tool market a comprehensive line of leading-edge interactive CNC products that incorporate proprietary technology designed to enhance the user's productivity through ease of operation and

adaptability to a wide range of manufacturing applications. As part of this strategy, the Company has adopted an open systems architecture that permits its CNC systems and software to be used with a variety of hardware platforms and has emphasized an "operator friendly" design that employs interactive "conversational" software. The Company outsources all of its machine tool manufacturing operations and a portion of its computer control manufacturing to certain independent contract manufacturers and is concentrating its resources on product research, development, design, marketing, distribution and service.

Products

The Company's principal products consist of CNC-operated machine tool systems (milling machines and machining centers) into which the Company's proprietary CNC systems have been fully-integrated as well as CNC systems and related software for both metal cutting machine tools and metal forming press brakes. The Company also produces and distributes software options control upgrades, hardware accessories and replacement parts and provides operator training and support services to its customers.

The following table sets forth the contribution of each of these product groups to the Company's total revenues during each of the past three fiscal years:

(Dollars in thousands)	Year Ended October 31		
	1997 ----	1996 ----	1995 ----
CNC-Operated Machine			
Tool Systems.....	\$61,679 (64.4%)	\$65,518 (65.9%)	\$55,711 (62.2%)
CNC Systems and Software*.....	18,801 (19.6%)	17,827 (17.9%)	19,027 (21.2%)
Service Parts.....	9,612 (10.1%)	10,005 (10.0%)	9,073 (10.1%)
Service Fees.....	5,637 (5.9%)	6,001 (6.2%)	5,821 (6.5%)
	-----	-----	-----
	\$ 95,729(100.0%)	\$99,351(100.0%)	\$89,632(100.0%)
	=====	=====	=====

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

CNC-Operated Machine Tool Systems

The Company designs and markets complete stand-alone milling machines and machining centers, each of which is equipped with a fully-integrated interactive Ultimax system. All of these machines are built to the Company's specifications by independent contract manufacturers. The Company's current line of machine tools is a complete family of products with different levels of performance features for different market applications and ranging in price from \$39,000 to \$150,000. Two series of products are offered within the product line -- the Advantage Series and the Performance Series -- each of which is marketed within a distinct price range and includes machines of differing sizes and power levels, ranging from a five-horsepower milling machine with an X-axis travel of 24 inches to a twenty-horsepower machining center with 50 inches of X-axis travel.

The Advantage Series products are equipped with the "Single Screen" version of the Ultimax CNC system and are intended for use by the independent contract manufacturer requiring a low-cost product with basic capabilities. The Performance Series products employ the same machine tool frame as the Advantage Series, but feature the more advanced Ultimax twin screen CNC system and software desired by the precision tool, die and mold market and parts manufacturers, where fast programming of complex parts is a key to competitiveness.

The Company's smaller machines -- those with an X-axis travel of 30 inches or less -- have embodied the Company's proprietary machine tool design since their introduction in 1994. In late fiscal 1996, the Company introduced two new machining center models with an X-axis of 40 inches that incorporate the same

proprietary design features. The larger machines -- those with an X-axis travel of 50 inches -- incorporate a machine tool platform developed by one of the Company's contract manufacturers. During fiscal 1997, approximately 95% of the machine tools sold by the Company embodied its proprietary design.

In the second fiscal quarter of 1998, the Company plans to introduce two OEM-sourced milling machine products which will incorporate the Company's Single Screen Ultimax CNC system. These machines will have an X axis travel of 30 inches and 40 inches, respectively, and will range in price from approximately \$35,000 to \$45,000.

In the first quarter of fiscal 1998, the Company introduced several new products which represent an expansion of the Company's strategy for the metal fabrication market. These products include 3 models of an OEM-sourced press brake (bending machine) and an OEM-sourced combination shear/press brake system, all of which incorporate the Company's Autobend CNC system, and which will be sold to the North American market through the Autobend Products division's distribution network. The Company will also offer European precision-ground tooling which will be sold either in conjunction with a press brake or directly to end-users of press brakes. The tooling is sourced under an exclusive distribution agreement with an Italian manufacturer.

CNC Systems and Software

The Company's CNC systems and software are marketed under the tradenames Ultimax(R), UltiPath(TM), Delta (TM) and Autobend(R). The Ultimax(R), UltiPath(TM) and Delta(TM) product lines are used to control metal cutting machine tools.

Autobend(R) CNC systems are used to control metal forming press brakes.

o Ultimax

The Company's patented Ultimax twin screen "conversational" CNC system, which incorporates an interactive and powerful "data block" programming methodology supported by extensive geometric and process data calculation software tools, enables a machine tool operator to create complex two-dimensional part programs directly from blue print inspection. Machine operators with little or no programming experience can successfully program parts and begin cutting operations in a short time with minimum special training. Since the initial introduction of the Ultimax CNC in 1984, the Company has added enhancements related to operator programming productivity, CAD compatibility, data processing throughput and motion control speed and accuracy. In 1994, the Company introduced the latest generation of the Ultimax CNC, the Ultimax 3/486, and in 1997 began marketing a Pentium*-based version of the Ultimax CNC. By incorporating Industry Standard Architecture (ISA) personal computer (PC) platform components, this CNC product offers improved performance while ensuring access to the most effective computing hardware and software technology.

In 1995, the Company introduced a software option that interprets part programs written for the worldwide installed base of competitors' CNCs; this software option, which provides industry standard data format compatibility, enables end-users to use Hurco's Ultimax CNC to run part programs initially programmed for a substantial portion of the large installed base of competitive CNCs and is intended to increase the Company's access to the contract machining market. In 1995, the Company developed a lower-cost "Single Screen" version of the Ultimax CNC to facilitate the penetration of the contract machining market. In late fiscal 1996, the Single Screen Ultimax CNC was made available on the Company's milling machines and machining centers. The Ultimax CNC system is sold primarily as a fully-integrated feature of a Hurco milling machine or machining center.

o UltiPath

UltiPath is a new, simple, low-cost interactive PC-based CNC system that permits conversational programming. This control product is intended for the 2-axis and 3-axis entry level machining market and enables skilled and unskilled machine operators to convert manual machine operations to easy-to-use CNC parts processing. The UltiPath CNC embodies the Company's patented interactive machining technology and its recently-patented "Object Oriented" software design methodology. The control utilizes the Windows 95** operating system as a key component of its executive software. The UltiPath CNC was introduced in September 1996 and became available for shipment in the fourth quarter of fiscal 1997. The product is marketed through the Company's distributors to end-users and to CNC control integrators and retrofitters serving the large installed base of manual milling machines.

o Delta Series

The Company's Delta series CNCs, which feature microprocessor-based electronics incorporating ISA computer platform components to provide enhanced performance at lower cost, are designed for the worldwide metalworking industry and are used on milling machines, machining centers, turning centers and punching equipment. The Delta CNC system is based on industry standard point-to-point programming methodology but incorporates software features that group industry standard commands into useful part features, such as circles and frames, to simplify programming. The Delta CNCs are designed and configured as general purpose products, which offer flexibility, reliability and ease of integration with a wide variety of machine designs, and are marketed to original equipment manufacturers and retrofitters of a wide range of machine tool systems.

* Pentium is a registered trademark of Intel Corporation.

** Windows 95 is a registered trademark of Microsoft Corporation.

In fiscal 1998, the Company plans to expand its product strategy to include marketing 2-axis and 3-axis, OEM-sourced, milling and turning machines featuring fully-integrated Delta CNC systems. These machines systems will be sold under the DynaPath(TM) name through the Company's subsidiary, Autocon Technologies, Inc.

o Autobend

Autobend CNC systems are applied to press brakes that form parts from sheet metal and consist of a microprocessor-based CNC and backgauge. The Company has manufactured and sold the Autobend product line since 1968. It currently markets two models of its press brake CNC systems, in combination with six different back gauges, through distributors to end-users as retrofit units for installation on existing or new press brakes, as well as to original equipment manufacturers and importers of press brakes. In fiscal 1998, the Autobend CNC system will also be sold as a fully-integrated feature of a Hurco press brake system.

o CAM and Software Products

In addition to its CNC product lines, the Company offers metal cutting and forming software products for programming two and three dimensional parts. Its primary products are the Ultimax PC and PC+, off-line programming systems, and a computer aided design (CAD)-compatible DXF (data file translation) software option. These products are marketed to users of both Ultimax and competitive CNC systems. Significant features of the Ultimax PC and PC+ include a CNC-compatible user interface, CAD compatibility and the availability of a configurable post processor. The DXF software option eliminates manual data entry of part features by transferring AutoCAD(TM) drawing files directly into an Ultimax CNC or the off-line programming system software, substantially increasing operator productivity. The Company has augmented its Autobend product line with a computer-aided manufacturing (CAM) software product, AutoBend PC(R), that enables the user to create and manipulate CNC compatible metal forming programs on a personal computer. In fiscal 1996, the Company's Ultimax CNC was enhanced with a software option that provides industry standard data format compatibility.

In fiscal 1997, the Company introduced UltiPro(TM), a high-speed machining software product for its Pentium-based Ultimax CNC platform. The UltiPro(TM) software enables a customer to increase machining productivity through the purchase of a new Hurco CNC machine system or by retrofitting and upgrading an existing 486 PC-based Ultimax system with the Company's new Pentium platform and the UltiPro(TM) software. In fiscal 1998, the Company expects to introduce several new software products including UltiNet(TM), a networking product for use by Hurco customers to transfer part design and manufacturing information to CNC machine systems at high speeds and to network CNC machining systems within a customer's manufacturing facility.

Parts and Service

The Company's service organization provides installation, operator training and customer support for the Company's products. During 1996, the Company transferred to its principal distributors primary responsibility for machine installation and warranty service and support for new product sales. Although

installation and service costs are borne by the distributor, the Company offers a greater price discount to those distributors providing such services. The Company's own service organization continues to service and support the installed base of discontinued models, and support its distributors with respect to complex service operations. The Company also provides software options, CNC upgrades, accessories and replacement parts for its products. Among the options are software programs and additional CNC features that allow a customer to upgrade the performance of its milling machines and machining centers. The Company's after-sale parts and service business helps strengthen customer relationships and provides continuous information concerning the evolving requirements of end-users.

Marketing and Distribution

The end-users of the Company's products are thousands of precision tool, die and mold manufacturers, independent metal parts manufacturers and specialized production groups within large manufacturing corporations. Industries served include aerospace, defense, medical equipment, energy, injection molding, transportation and computer equipment.

The Company's integrated CNC-operated milling machines and machining centers, along with software options and accessories, are sold primarily to end-users. The Company sells its CNC systems and related products (i) 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, (ii) to retrofiters of used machine tools who integrate them with those machine tools as part of the retrofitting operation and (iii) to end-users who have an installed base of machine tools, either with or without related CNC systems. During fiscal 1997, no single end-user of the Company's products accounted for more than 5% of its total revenues.

Sales are made through over 250 independent agents and distributors in 46 countries throughout North America, Europe and Asia. The Company also has its own direct sales personnel in the United States, England, France, Germany and Singapore, which are considered to be among the world's principal machine tool consuming countries. During fiscal 1997, no distributor accounted for more than 5% of total revenues. The Company has continuing agreements with each of its distributors, but may terminate those agreements upon prior notice ranging from 30 days to 180 days. Approximately 80% of the worldwide demand for CNC-operated machine tools and CNC systems comes from outside the U.S. and accordingly, the Company considers its international market presence to be critical to its operations.

The Company believes the demand for CNC systems and CNC-operated machine tools is driven by changing industrial technology and the related need for process improvements as well as capacity expansion. Factors affecting demand include: (i) the declining supply of skilled machinists, (ii) the need to continuously improve productivity and shorten cycle time, (iii) an aging machine tool installed base that will require replacement with more advanced and efficient technology and (iv) the industrial development of emerging countries in Asia and Eastern Europe. However, the demand for machine tools and related 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 its products on a worldwide basis, the Company attempts to reduce the potential impact on its total revenues of adverse changes in economic conditions in any particular geographic region.

Competition

Numerous companies compete with the Company's product lines in the United States and international markets. Many of these competitors are larger and have greater financial resources than the Company. The Company strives to compete effectively by designing into its products critical proprietary features that offer a distinct value differential from comparably-priced competitive products in terms of enhanced productivity, technological capabilities and ease of use. In addition, by offering its products in a range of prices and capabilities, the Company seeks to meet the needs of a broad potential market. The Company also believes that its competitiveness is aided by its reputation for reliability and quality, its strong international sales and distribution organization and its extensive customer service organization.

In the world-wide industrial market, the Company is a leader in providing

interactive CNC machine tools incorporating user-friendly, conversational programming systems. The Company's principal competitors in the CNC metal cutting machine tool market include Bridgeport Machines Inc., Cincinnati Milacron Inc., Fadal Engineering (a subsidiary of Giddings & Lewis Inc.), Haas Automation, Inc., Milltronics Manufacturing Co., Republic-Lagun Machine Tool Co., and Tree Machine Tool Co. Inc. A large number of foreign builders including Matsuura Machinery Corporation, Mori Seiki Co., Ltd., Okuma Machinery Works Ltd., and Yamazaki Mazak Corporation also compete with the Company.

In the worldwide CNC systems market, the Company is a leader in providing user-friendly, "conversational" programming systems for CNC machine tools, although its principal competitors, such as Fanuc Ltd., Mitsubishi Machine Tools, Heidenhain Corp., Siemens Industrial Automation, Inc. Southwestern Industries, Bridgeport Machines, Inc. and Allen-Bradley Co., also offer "user-friendly" programming features. Fanuc Ltd. is the world's largest supplier of CNC systems.

The Company believes it is one of the largest domestic manufacturers of CNC gauging systems for press brakes. Automec Inc., a CNC gauge manufacturer, and Cybelec SA, a control manufacturer, are the Company's major competitors for these products in the United States. The Company also competes with Cybelec in Europe.

Manufacturing

The Company has established a manufacturing strategy which includes the development of a global network of contract manufacturers who manufacture the Company's products to the Company's design, quality and cost specifications. This has enabled the Company to lower product costs, lower working capital per sales dollar and to increase manufacturing capacity without significant incremental investment in capital equipment or increased employment.

The Company's CNC-operated machine tools and milling machines are manufactured to its specifications in Taiwan by three manufacturing contractors. The Company has worked closely with its Taiwan-based contract manufacturers to increase their production capacity to meet the rising demand for its machine tool products and believes that such capacity is sufficient to meet the Company's current and projected demand. During 1997, the Company entered into a contract manufacturing agreement with a European machine tool builder to manufacture machine tools for the Company's European subsidiaries. Although the Company is exploring additional manufacturing sources for certain of its machine tool products, alternative sources are not readily obtainable and any significant reduction in capacity, or performance capability, on the part of its existing machine tool manufacturing contractors would have a material adverse effect on its operations.

The Company assembles and tests its CNC systems at its own facilities in Indianapolis, Indiana and Farmington Hills, Michigan using readily available, industry-standard personal computer components (such as hard disk drives, VGA cards and motherboards) as well as proprietary system components that are produced to the Company's specifications by several domestic suppliers. In October 1996, the Company entered into a contract manufacturing agreement with Hurco Automation Ltd. (HAL), a Taiwanese-based, affiliated company formed by the Company and six Taiwanese investors. HAL is manufacturing certain CNC systems to the Company's specifications, and is also supplying certain proprietary and standard components to be used in domestic production. The Company believes that alternative sources for the proprietary components are readily available.

Backlog

Backlog consists of firm orders received from customers and distributors. Backlog was \$7.4 million, \$9.0 million and \$15.3 million as of October 31, 1997, 1996, and 1995, respectively. Backlog at October 31, 1995 was higher than normal due to strong demand during fiscal 1995 for the Company's new line of machine tool products combined with limited product availability. The reduction of backlog at October 31, 1996 reflects increased availability of product for shipment. Fiscal 1997 orders were \$94.8 million compared to \$93.1 million for fiscal 1996, and \$98.9 million for fiscal 1995.

Intellectual Properties

The Company considers certain features of its products to be proprietary and owns, directly or through a subsidiary, a number of patents that are significant

to its business. IMS Technology, Inc. (IMS), a wholly-owned subsidiary of the Company, owns domestic and foreign patents (the Interactive Machining Patents) covering the machining method practiced when a machine tool is integrated with an interactive CNC. The Company also holds a non-exclusive license covering features of the automatic tool changer offered with certain of its CNC machining centers. In September 1995, the Company was awarded a new patent on an object-oriented methodology (open architecture) for CNC software.

Since October 1995, IMS has initiated a number of infringement actions against enterprises that it believes are employing or practicing machining methods covered by one of the Interactive Machining Patents. These enterprises include end users of interactive CNCs, machine tool builders employing interactive CNCs within their products and CNC manufacturers whose control designs permit use of interactive methods when coupled to machine tools (CNC Users). See Item 3. Legal Proceedings.

IMS is actively pursuing a program to license the use of the Interactive Machining Patents. During fiscal 1997 and 1996, IMS entered into agreements with 15 CNC Users under which IMS has granted a non-exclusive license to practice methods covered by the Interactive Machining Patents in exchange for lump-sum payments or fixed payments through fiscal 2001. The Company recorded license fee income of \$9.1 million and \$590,000, net of legal fees and expenses, in fiscal 1997 and 1996, respectively. Subject to the continuing validity of the U.S. Interactive Machining Patent, certain of the existing license agreements at October 31, 1997 are expected to result in additional license fee income, net of legal fees and expenses, of approximately \$1.2 million through 2001. In addition, IMS has received a royalty-free non-exclusive license (with a right of sublicense to the Company) under six patents owned by two of the licensees.

From November 1, 1997 through January 20, 1998, IMS has entered into a number of additional license agreements, including agreements with four CNC Users which were defendants in the infringement actions. These agreements provide for cash payments, substantially all of which is to be received in fiscal 1998. These payments are expected to increase income by approximately \$1.4 million, net of legal fees and expenses, in the first quarter of fiscal 1998. In addition, one of the agreements is with a supplier to the Company and provides for discounts on future purchases of product by the Company through December 31, 2001. This agreement, with respect to product discounts, is expected to reduce the cost of such future purchases by approximately \$600,000.

Although settlements have been reached with a number of the defendants in the on-going IMS patent infringement litigation which have resulted in license agreements with IMS, the remaining defendants are continuing to contest the IMS claims. IMS is continuing to pursue the litigation and is also engaged in licensing discussions with other CNC Users that are not parties to the litigation. There can be no assurance that IMS will enter into license agreements with any of the remaining defendants, or any other CNC Users, or that the terms of any future license agreements will be similar to those previously entered into.

Research and Development

Research and development expenditures for new products and significant product improvements were \$1.9 million, \$1.7 million and \$1.4 million in fiscal 1997, 1996, and 1995, respectively. In addition, the Company capitalized expenditures of \$1.6 million in 1997, \$1.3 million in 1996 and \$1.2 million in 1995 related to software development projects.

Employees

The Company had 326 employees at the end of fiscal 1997, none of whom is covered by a collective-bargaining agreement or represented by a union. The Company has experienced no employee-generated work stoppages or disruptions and considers its employee relations to be satisfactory.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

The following represents a breakdown of Company sales to the indicated geographic regions for the past three fiscal years (in thousands):

	1997 -----	1996 -----	1995 -----
North America.....	\$46,915	\$50,398	\$49,005

Europe.....	45,725	44,014	35,434
Asia and other*.....	3,089	4,939	5,193
	-----	-----	-----
Total.....	\$ 95,729	\$99,351	\$89,632
	=====	=====	=====

* Sales to Asia, including exports in fiscal 1997 constituted only \$2.2 million, or 2.3% of total sales.

Export sales from the United States were \$5.3 million in fiscal 1997, \$5.8 million in fiscal 1996 and \$6.4 million in fiscal 1995.

Information regarding Total Sales, Operating Income and Identifiable Assets by geographical area is shown in Note 16 to the Consolidated Financial Statements.

Item 2. PROPERTIES

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

Location	Square Footage	Principal Uses
Indianapolis, Indiana	165,000 (1)	Corporate headquarters, design and engineering, product testing, CNC assembly, sales, application engineering and customer service.
Farmington Hills, Michigan	37,500	Design and engineering, product testing, CNC assembly, sales, application engineering and customer service.
High Wycombe, England	45,000 (2)	Sales, application engineering, customer service.
Paris, France	2,800	Sales, application engineering, customer service.
Munich, Germany	10,700	Sales, application engineering, customer service.
Singapore	1,200	Sales, application engineering customer service

(1) Approximately 65,000 square feet is available for lease in fiscal 1998. (2) Approximately 24,000 square feet have been sublet to a subtenant since November 1995.

The Company owns the Indianapolis facility and leases the other facilities. The leases have terms expiring at various dates ranging from March 1999 to February 2004. The Company believes that all of its facilities are well maintained and are adequate for its needs now and in the foreseeable future. The Company does not believe that it would experience any difficulty in replacing any of the present facilities if any of its current leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

On October 10, 1995, the Company's wholly-owned subsidiary, IMS Technology, Inc. (IMS), commenced an action in the United States District Court for the Northern District of Illinois against a group of end-users of interactive CNCs, machine tool manufacturers who incorporate interactive CNCs in their products and manufacturers of CNCs (CNC Users) designed to permit use of interactive methods when coupled to machine tools. IMS alleged that the defendants infringed the IMS United States interactive machining patent (the Patent) and is seeking monetary damages and an injunction against future infringement. IMS has subsequently entered into settlements with a number of the defendants and has dismissed all

claims against them. The defendants who have not settled are: Okuma Machinery Works, Ltd.; Okuma American Corporation; Ellison Machinery Company of the Midwest, Inc.; and Apollo Machine & Manufacturing Company, Inc.

On January 11, 1996, IMS commenced an action in the United States District Court for the Eastern District of Virginia (which was subsequently transferred to the United States District Court for the Northern District of Illinois) against two CNC Users with whom IMS has subsequently entered into settlements. On January 29, 1996, Mitsubishi Electric Corporation (Mitsubishi) was added to the action. This action alleges infringement of the Patent and seeks monetary damages and an injunction against future infringement.

IMS and the Company are defendants in an action pending in the United States District Court for the Northern District of Illinois that was commenced January 29, 1996 by Mitsubishi and Mitsubishi Electric Industrial Controls. This action seeks to have the Patent declared invalid. In September 1997, the court dismissed Mitsubishi's claims that IMS and the Company had misused the Patent and violated federal antitrust actions. Other claims that remain at issue are whether IMS and the Company disparaged Mitsubishi's goods and business, made false statements concerning the Patent, interfered with Mitsubishi's business and violated state consumer fraud statutes. The complaint seeks unspecified damages and injunctive relief. In a counter-claim, IMS alleges that the plaintiffs have infringed the Patent.

The three actions described above are being coordinated under local court rules. Discovery is currently in process.

On July 3, 1997, IMS commenced an action in the United States District Court of Virginia against a number of CNC Users alleging infringement of the Patent. This action seeks monetary damages and an injunction against future infringement. IMS has subsequently entered into settlements with a number of the defendants and has dismissed all claims against them. The only defendant who has not settled is Haas Automation, Inc.

On September 29, 1997, IMS commenced an action in the United States District Court for the Eastern District of Virginia against a number of CNC Users alleging infringement of the Patent. This action sought monetary damages and an injunction against future infringement. All of the defendants in this action have settled with the Company.

Although IMS believes that the Patent is valid and its claims of patent infringement have substantial merit, it is unable to predict the outcome of any of these actions.

In addition, the Company is involved in various other claims and lawsuits arising in the normal course of business. None of these claims, in the opinion of management, is expected to have a material adverse effect on its consolidated financial position or results of operations.

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

None.

PART II

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

The Company's Common Stock is traded on the National Market tier of the NASDAQ Stock Market under the symbol "HURC". The following table sets forth the high and low sales prices of the shares of Common Stock for the periods indicated, as reported by the Stock Market.

	1997		1996	
Fiscal Quarter Ended:.....	High	Low	High	Low
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -

January 31.....	\$ 6-1/4	\$ 4-1/2	\$ 7-1/4	\$ 4-1/4
April 30.....	6-1/4	4-3/4	4-5/8	3-1/4
July 31.....	6-3/16	5-1/4	7	4-1/8
October 31.....	9-7/16	5-3/4	6-1/2	4-1/2

The Company does not currently pay dividends on its Common Stock and intends to retain earnings for working capital, capital expenditures and debt reduction.

The Company had approximately 556 holders of record of its Common Stock as of January 12, 1998.

During the period covered by this report, the Company 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 the Consolidated Financial Statements of the Company 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,				
	1997	1996	1995	1994	1993
Statement of Operations Data: (Dollars in thousands, except per share amounts)					
Sales and service fees.....	\$95,729	\$99,351	\$89,632	\$72,628	\$72,230
Gross profit.....	\$27,773	\$28,421	\$23,470	\$15,565	\$11,079
Selling, general and adminis- tration expenses.....	\$21,047	\$21,343	\$19,002	\$18,129	\$22,652
Restructuring charge.....	\$ --	\$ --	\$ --	\$ --	\$ 6,750
Operating income (loss).....	\$ 6,726	\$ 7,078	\$ 4,468	\$ (2,564)	\$ (18,323)
Interest expense.....	\$ 1,938	\$ 3,211	\$ 4,250	\$ 3,301	\$ 2,828
Net income (loss).....	\$13,804	\$ 4,264	\$ 204	\$ (5,791)	\$ (21,144)
Earnings (loss) per common share-primary.....	\$ 2.06	\$.72	\$.04	\$ (1.07)	\$ (3.89)
Weighted average common shares outstanding-primary.....	6,704	5,907	5,536	5,407	5,438

	As of October 31,				
	1997	1996	1995	1994	1993
Balance Sheet Data: (Dollars in thousands)					
Current assets.....	\$42,222	\$44,108	\$46,356	\$43,096	\$49,314
Current liabilities.....	\$19,370	\$23,336	\$26,479	\$16,985	\$16,312
Working capital	\$22,852	\$20,772	\$19,877	\$26,111	\$33,002
Current ratio.....	2.2	1.9	1.8	2.5	3.0
Total assets.....	\$58,748	\$59,750	\$61,421	\$59,558	\$67,287
Long-term obligations.....	\$9,602	\$ 20,273	\$27,459	\$35,245	\$37,888

Total debt.....	\$10,043	\$22,110	\$33,599	\$34,813	\$37,540
Shareholders' equity.....	\$29,776	\$16,141	\$ 7,483	\$ 7,328	\$13,087

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. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the machine tool industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, (i) changes in general economic and business conditions that affect demand for CNC control systems, machine tools and software products, (ii) changes in manufacturing markets, (iii) innovations by competitors, (iv) quality and delivery performance by the Company's contract manufacturers and (v) governmental actions and initiatives.

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 revenues and the year-to-year percentage changes in the dollar amounts of those items.

	Percentage of Revenues			Year-to-Year % Change	
	1997	1996	Increase (Decrease) 1995	97 vs. 96	96 vs. 95
	----	-----	-----	-----	-----
Sales and service fees.....	100.0%	100.0%	100.0%	(3.6%)	10.8%
Gross profit.....	29.0%	28.6%	26.2%	(2.3%)	21.0%
Selling, general and administrative expenses...	22.0%	21.5%	21.2%	(1.4%)	12.4%
Operating income.....	7.0%	7.1%	5.0%	(5.0%)	58.4%
Interest expense.....	2.0%	3.2%	4.8%	(39.6%)	(24.4%)
Net income.....	14.4%	4.3%	.2%	223.7%	1,990.2%

Fiscal 1997 Compared With Fiscal 1996

Sales and service fees in fiscal 1997 decreased \$3.6 million, or 3.6%, compared with fiscal 1996. Of the total decrease, \$2.6 million reflected the net effects of translating foreign currency revenues into U.S. dollars for financial reporting purposes.

Sales of CNC-operated machine tools, which totaled \$61.7 million in fiscal 1997, were 5.9% below the \$65.5 million recorded during fiscal 1996. The decrease occurred in the U.S. market, with a decline of \$2.4 million, or 8.9%, as well as in S. E. Asia, where the decline of \$1.9 million, or 69.9%, was most pronounced and reflected the economic turmoil in that region. Sales of CNC-operated machine tools in Europe increased \$523,000, or 1.5%, in spite of the adverse impact of foreign currency translation. In comparing the fiscal 1997 and 1996 results, it also should be recognized that the first half of fiscal 1996 was marked by an unusually high level of shipments, as the increasing availability of products from the Company's contract manufacturers permitted an accelerated reduction of the higher than normal backlog that existed at the end of fiscal 1995. Sales of CNC systems and software (which do not include systems that are sold as an integral part of a machine tool) increased during fiscal 1997 by \$974,000, or 5.5%, primarily due to increased shipments of Autobend(R) control products in response to improved worldwide market demand. Sales of service parts and service fees decreased by \$757,000, or 4.7%, compared to fiscal 1996, which is attributable to improvements in recent years in the quality of the Company's products along with a transfer to the Company's distributors in the United States of responsibility for certain servicing activities. International sales,

including exports from the United States, increased to approximately 51% of consolidated sales for fiscal 1997 compared to 49% for fiscal 1996.

Worldwide new order bookings during fiscal 1997 were \$94.8 million, an increase of 1.8% from the \$93.1 million reported for fiscal 1996, in spite of the unfavorable effect of weaker foreign currencies. New order bookings would have been \$97.4 million, an increase of 4.6% measured at average fiscal 1996 exchange rates (constant U.S. dollars).

New orders for CNC-operated machine tools increased 7.5% in units and 11.1% in constant U.S. dollars. Domestic U.S. machine tool orders increased 9.3% in units and 16.1% in dollars which was attributable primarily to demand for the Company's proprietary-designed 40 inch axis machining center models introduced in late fiscal 1996. Machine tool orders in Europe increased 15.3% in units and 14.3% in constant U.S. dollars, also due in large part to demand for the new 40 inch axis models. These increases were partially offset by a decline in machine tool orders in South East Asia of \$1.9 million, or 69.9%, to less than \$1.0 million in fiscal 1997. The Company does not expect market conditions in South East Asia to improve in the near future.

New orders for CNC systems and software, exclusive of CNC systems and software sold as an integrated component of machine tools, declined \$1.3 million, or 7.1%, due primarily to reduced orders for the Delta series controls from OEM customers. In fiscal 1998, the Company plans to expand its product strategy to include marketing 2-axis and 3-axis, OEM-sourced milling and turning machines featuring fully-integrated Delta CNC systems. These machine systems will be sold under the DynaPath(TM) name through the Company's subsidiary, Autocon Technologies, Inc.

Backlog at October 31, 1997 was \$7.4 million compared to \$9.0 million at October 31, 1996.

Gross profit percentage, as a percentage of sales, increased to 29.0% in fiscal 1997, compared to 28.6% for fiscal 1996 net currency translation effects. The improvement in margin is attributable to the combined effects of an increased percentage of higher-margin European shipments in the total sales mix and increased domestic and European shipments of higher-margin products introduced in the latter part of fiscal 1996.

Selling, general and administrative (SG&A) expense in fiscal 1997 decreased by approximately \$300,000, or 1.4%, from fiscal 1996 and is primarily the result of translating operating expenses of foreign subsidiaries into U.S. dollars for financial reporting purposes.

Interest expense for fiscal 1997 decreased approximately \$1.3 million, or 39.6%, from the amount reported for the corresponding period in fiscal 1996, primarily due to a \$12.1 million reduction in outstanding borrowings and the payment during fiscal 1996 of \$240,000 of nonrecurring fees to the Company's lenders.

License fee income, net for fiscal 1997, represented approximately 68.1% of income before taxes compared to 13.5% in fiscal 1996 and was attributable almost entirely to 13 agreements entered into during the year by the Company's wholly-owned subsidiary, IMS Technology, Inc. (IMS), pursuant to which IMS granted fully paid-up licenses of its interactive CNC patents in exchange for cash payments by the licensees, substantially all of which was received concurrently with the license grants. Further, under a license agreement with a principal supplier to the Company, approximately \$500,000 is expected to be received in future periods in the form of discounts on purchases by the Company, which will be reflected as a reduction of the cost of such purchases. As of October 31, 1997, additional license fees of approximately \$1.2 million, net of legal fees and expenses, related to future payments under completed license agreements have been deferred and are expected to be recognized in income over the four-year remaining life of the licensed patent.

From November 1, 1997 through January 20, 1998, IMS has entered into a number of additional license agreements, including agreements with four CNC Users which were defendants in the infringement actions brought by IMS concerning the U.S. IMS interactive machining patent (the Patent). These agreements provide for cash payments, substantially all of which is to be received in fiscal 1998. These payments are expected to increase income by approximately \$1.4 million, net of legal fees and expenses, in the first quarter of fiscal 1998. In addition, one of the agreements is with a supplier to the Company and provides for discounts on future purchases of product by the Company through December 31,

2001. This agreement, with respect to product discounts, is expected to reduce the cost of such future purchases by approximately \$600,000.

Excluding those CNC Users that are defendants in the patent infringement actions, there are a limited number of remaining CNC Users that IMS has identified as potential licensees for the Patent. Accordingly, management believes it is unlikely that future license fee income from such other potential licensees would equal that recorded in fiscal 1997.

For further information, refer to Note 10 to the Consolidated Financial Statements.

The provision for income taxes is almost entirely the result of foreign withholding taxes related to license payments received during the fiscal year. The income tax liability incurred in the United States and certain other jurisdictions was offset by the reversal of valuation allowance reserves against the Company's net operating loss carryforwards. Net operating loss carryforwards available to offset pre-tax income in future periods are set forth in Note 6 to the Consolidated Financial Statements.

Primarily as a result of the substantial licensing fee income received during the period, net income for fiscal 1997 increased by approximately \$9.5 million compared to fiscal 1996. The increase also reflected the benefits of improved margins and the substantial reduction in interest expense.

Fiscal 1996 compared with Fiscal 1995

Total sales and service fees of \$99.4 million in fiscal 1996 increased \$9.7 million, or 10.8%, over fiscal 1995, inclusive of a \$1.0 million decrease attributable to weaker European currencies when converting foreign currency revenues into U.S. dollars for financial reporting purposes. On a worldwide basis, sales of CNC-operated machine tools totaled \$65.5 million, an increase of \$9.8 million, or 17.6%, over fiscal 1995, and sales of CNC systems and software (which do not include systems and software sold as an integrated part of CNC-operated machine tools) totaled \$17.8 million, a decrease of \$1.2 million, or 6.3%, from fiscal 1995. The increase in the CNC-operated machine tool product line reflected the continued strength of the world's principal machine tool markets, strong demand in Europe for the Company's Advantage series of machine tools, (which was introduced in that market in mid 1995) and enhanced availability of the Company's products for shipment as a result of capacity increases on the part of its contract manufacturers. The decrease in CNC systems and software sales was primarily the result of decreased shipments of Autobend products to original equipment manufacturers, some of whom have developed their own CNC systems. Revenues attributable to sales of parts and service fees increased \$1.1 million, or 7.5%, from fiscal 1995 levels, primarily as a result of increased part sales to support the increase in the installed machine base.

In the United States, sales and service fees in fiscal 1996 increased \$0.6 million, or 1.1%, over fiscal 1995 reflecting a slight increase in shipments of machine tool products. Increased shipments of Delta series control systems for metal cutting machine tools, primarily to original equipment manufacturers, were offset by decreased shipments of Autobend control products to the metal fabrication equipment market.

European sales and service fees in fiscal 1996 increased \$8.6 million, or 26.5%, over fiscal 1995, inclusive of the effects of currency translation for financial reporting purposes. European sales measured in local currency increased 29.4%. The improvement was primarily attributable to an increase in unit shipments, without a significant change in margins or average selling prices, aided by a full year of sales of the Advantage series product line, continued strength of the European machine tool market and increased availability of products for shipment.

International sales, including export sales, increased to approximately 49% of total consolidated sales for fiscal 1996 compared to 45% for fiscal 1995.

Worldwide new order bookings for fiscal 1996 were \$93.1 million, a decrease of \$5.8 million, or 5.9%, from fiscal 1995. While international orders increased \$2.7 million, or 6.8%, in spite of lower foreign currency translation rates, domestic orders declined \$8.5 million, or 14.5%. The decline in domestic bookings was due almost entirely due to the fact that domestic machine tool bookings during the first half of fiscal 1995 reflected unusually high demand for the just introduced Advantage series machine tool line fueled, in part, by

distributor anticipation of limited product availability. The increasing availability of Advantage series products for shipment in the second half of fiscal 1995 and first half of fiscal 1996 enabled the Company to assure its domestic customers shorter delivery times, which, along with somewhat slower machine tool demand, contributed to a decline in the order rates. Domestic order bookings in the second half of fiscal 1996 approximated that of the comparable period in fiscal 1995 due in part to the introduction of new machine tool products in September 1996. Consolidated backlog at October 31, 1996 was \$9.0 million compared to \$15.3 million at October 31, 1995, reflecting increased availability of products for shipment.

Gross profit margin as a percentage of revenues increased to 28.6% in fiscal 1996 from 26.2% in fiscal 1995 despite the unfavorable impact of foreign currency translations for financial reporting purposes. The increase is the result of an increased percentage of higher-margin products in the total sales mix along with the increase in the percentage of total sales attributable to higher-margin international sales.

Selling, general and administrative (SG&A) expenses in fiscal 1996 increased \$2.3 million, or 12.4%, over fiscal 1995 net of unfavorable currency translation effects. The increase reflects a \$500,000 increase in product development expenses, expenditures related to the bi-annual International Manufacturing Technology Show (IMTS) and increased selling expenses associated with increased unit volume.

The improvement in operating income in fiscal 1996 continues the Company's trend of improved profitability over the past three years as a result of its completed restructuring program, the introduction of new higher-margin products and an improved machine tool market worldwide.

Interest expense in fiscal 1996 decreased \$1.0 million, or 24.4%, from fiscal 1995. The decrease is the result of a \$11.5 million reduction of debt, reduced interest rates on the Company's variable rate bank borrowings, and reduced incremental fees paid to the Company's lenders. The incremental fees, which are non-recurring, amounted to \$240,000 in fiscal 1996 and \$400,000 in fiscal 1995.

License fee income in fiscal 1996 of \$590,000, net of legal fees and expenses, results from two separate licensing agreements entered into by the Company's wholly-owned subsidiary, IMS Technology, Inc., with respect to its interactive machining patents. Under the terms of the agreements, additional fees of approximately \$1.4 million, net of legal fees and expenses, are expected to be received in annual installments through fiscal 2001, of which approximately \$386,000 is expected to be included in income in fiscal 1997.

The provision for income taxes of \$94,000 in fiscal 1996 relates to the earnings of a foreign subsidiary. The income tax liability incurred in the United States and certain other jurisdictions was offset by the reversal of valuation allowance reserves against the Company's net operating loss carryforwards. Net operating loss carryforwards available to offset pre-tax income in future periods are set forth in Note 6 to the Consolidated Financial Statements.

Year 2000 Issue

The Company has assessed and continues to assess the impact of the Year 2000 Issue on its reporting systems and operations. The Year 2000 Issue exists because many computer systems and applications currently use two digit field codes to designate a year. As the century date occurs, date sensitive systems will recognize the year 2000 as 1900 or not at all. An inability to recognize or properly treat the year 2000 could cause the Company's systems or those of the Company's suppliers to process critical financial and operational information incorrectly. The Company is not aware of any Year 2000 Issue that would have a material adverse effect on its operations.

Foreign Currency Risk Management

The Company manages its foreign currency exposure through the use of foreign currency forward exchange contracts. The Company does not speculate in the financial markets and, therefore, does not enter into these contracts for trading purposes. The Company also moderates its 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. The results of these programs achieved management's objectives in fiscal 1997 and fiscal 1996. See Note 1 to the Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

At October 31, 1997, the Company had cash and cash equivalents of \$3.4 million compared to \$1.9 million at October 31, 1996. Cash provided by operations totaled \$16.0 million in fiscal 1997, compared to \$8.5 million in fiscal 1996. Cash flow from operations in fiscal 1997 was enhanced by receipts of approximately \$9.1 million of license fees, net of legal fees and taxes received during fiscal 1997, compared to \$590,000 in fiscal 1996.

Working capital was \$22.9 million at October 31, 1997, compared to \$20.8 million at October 31, 1996. The working capital increase is attributable to an increase of cash of \$1.5 million along with a \$1.2 million reduction in the current portion of long-term debt. Accounts receivable decreased \$1.0 million as a result of the decrease in sales and improved collection efforts. Inventory declined \$2.1 million, primarily in purchased parts inventory and is attributed to the Company's contract manufacturing program. The favorable impact on working capital resulting from the reduction in inventory and accounts receivable was almost entirely offset by decreases in accounts payable and accruals. The ratio of current assets to current liabilities was 2.2 to 1 at October 31, 1997 compared to 1.9 to 1 at October 31, 1996.

Capital investments for fiscal 1997 consisted principally of expenditures for property, equipment and software development projects. Other investments included \$190,000 in the second fiscal quarter with respect to Hurco Automation, Ltd. (HAL). As of October 31, 1997, the Company has a commitment to invest an additional amount of approximately \$370,000 in HAL through fiscal 1999. The Company's investment activities were funded through cash flow from operations.

Effective September 8, 1997, the Company's Bank Credit Agreement and Senior Notes Agreement were amended and restated. The principal terms of those agreements as amended and restated are set forth below:

a) Bank Credit Agreement

The Company's bank credit agreement provides for a revolving, unsecured credit facility expiring May 1, 2000, which permits borrowings, at any one time outstanding, of up to \$22.5 million (inclusive of outstanding letters of credit of up to \$12.0 million). Of such borrowings, up to \$5.0 million may be drawn in designated European currencies. Interest on all outstanding borrowings will be payable at LIBOR plus an amount ranging from .75% to 2.0% based on a prescribed formula, or at the Company's option, prime.

The agreement requires the Company to maintain a specified minimum net worth and establishes maximum leverage and fixed charge coverage ratios. Cash dividends and redemptions of capital stock are permitted subject to certain limitations. The Company is required to maintain consolidated tangible net worth (as defined) of not less than \$20.0 million plus (i) 50% of cumulative net income subsequent to April 30, 1997 and (ii) 75% of the net proceeds from sales of capital stock. Total consolidated debt may not exceed 50% of consolidated capitalization (defined as total debt plus consolidated tangible net worth).

b) Senior Notes

At October 31, 1997, the Company had outstanding approximately \$7.1 million of unsecured Senior Notes, bearing an interest rate of 10.37%, of which approximately \$1.8 million is due on December 1, 1997 and the balance is due in equal annual installments through 2000.

Effective September 8, 1997, the agreement governing the Senior Notes was amended and restated on an unsecured basis. In connection therewith, the interest rate on the Senior Notes was reduced to 10.37% from 10.87% and the financial covenants were amended to conform to those contained in the Company's amended and restated bank credit agreement.

Outstanding borrowings under the Company's bank credit facilities and Senior Notes were reduced by \$12.1 million during fiscal 1997, primarily as a result of repayments made with cash flow from operations, including license fees. Management believes that cash flow from operations and borrowings under its

credit facilities will be sufficient to meet the Company's working capital needs for the foreseeable future.

The Company was in compliance with all loan covenants at October 31, 1997.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Public Accountants

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, 1997 and 1996, 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, 1997. These financial statements and schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1997, in conformity with generally accepted accounting principles.

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. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana
December 5, 1997.

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended October 31,

	1997	1996	1995
	(Dollars in thousands, except per share amounts)		
Sales and service fees.....	\$ 95,729	\$ 99,351	\$ 89,632
Cost of sales and service	67,956	70,930	66,162
	-----	-----	-----
Gross profit.....	27,773	28,421	23,470
Selling, general and administrative expenses.....	21,047	21,343	19,002
	-----	-----	-----
Operating income	6,726	7,078	4,468
License fee income, net (Note 14)	10,095	590	--
Interest expense.....	1,938	3,211	4,250
Other income (expense), net.....	(51)	(99)	(14)
	-----	-----	-----
Income before income taxes.	14,832	4,358	204
Provision for income taxes (Note 6)	1,028	94	--
	-----	-----	-----
Net income	\$13,804	\$ 4,264	\$ 204
	=====	=====	=====
Earnings per common share - primary.....	\$ 2.06	\$.72	\$.04
	=====	=====	=====
Weighted average common shares outstanding - primary.....	6,704	5,907	5,536
	=====	=====	=====
Earnings per common share - fully diluted.....	\$ 2.04	\$.72	\$.04
	=====	=====	=====
Weighted average common shares outstanding -fully diluted.....	6,776	5,907	5,582
	=====	=====	=====

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

HURCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	As of October 31,	
	1997	1996
	(Dollars in thousands, except per share amounts)	
Current assets:		
Cash and cash equivalents.....	\$ 3,371	\$ 1,877
Accounts receivable, less allowance for doubtful accounts of \$757 in 1997 and \$785 in 1996.....	15,687	17,162
Inventories	21,752	24,215
Other.....	1,412	854
	-----	-----
Total current assets.....	42,222	44,108
	-----	-----

Long-term license fee receivables (Note 14).....	1,178	1,040
	-----	-----
Property and equipment:		
Land.....	761	761
Building.....	7,067	7,095
Machinery and equipment.....	11,463	12,662
Leasehold improvements.....	1,121	1,002
	-----	-----
	20,412	21,520
Less accumulated depreciation and amortization of.....	(11,218)	(11,714)
	-----	-----
	9,194	9,806
	-----	-----
Software development costs, less accumulated amortization of \$4,692 in 1997 and \$3,752 in 1996.....	4,447	3,792
Other assets.....	1,707	1,004
	-----	-----
	\$ 58,748	\$ 59,750
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable.....	\$ 7,448	\$ 9,715
Accounts payable-related parties.....	1,798	1,692
Accrued expenses.....	6,886	7,454
Accrued warranty expenses.....	1,452	1,425
Current portion of long-term debt.....	1,786	3,050
	-----	-----
Total current liabilities.....	19,370	23,336
	-----	-----

Non-current liabilities:

Long-term debt	8,257	19,060
Deferred credits and other	1,345	1,213
	-----	-----
	9,602	20,273

Commitments and contingencies
(Notes 10, 11 and 13)

Shareholders' equity:

Preferred stock: no par value per share; 1,000,000 shares authorized; no shares issued.....	--	--
Common stock: no par value; \$.10 stated value per share; 12,500,000 shares authorized; 6,544,831 and 6,531,871 shares issued and outstanding in 1997 and 1996, respectively..	654	653
Additional paid-in capital.....	50,349	50,312
Accumulated deficit.....	(16,404)	(30,208)
Foreign currency translation adjustment.....	(4,823)	(4,616)
	-----	-----
Total shareholders' equity.....	29,776	16,141
	-----	-----
	\$ 58,748	\$ 59,750
	=====	=====

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

	Year Ended October 31,		
	1997	1996	1995
	----	----	----
Cash flows from operating activities:			
Net income	\$ 13,804	\$ 4,264	\$ 204
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	2,078	2,677	2,861
Unrealized (gain) loss on foreign currency transactions.....	294	267	(59)
Change in asset/liabilities (Increase) decrease in accounts receivable.....	1,043	356	(3,148)
Decrease in inventories.....	2,107	959	1,004
Increase (decrease) in accounts payable	(2,096)	856	2,118
Increase (decrease) in accrued expenses	(681)	(534)	902
Other.....	(525)	(346)	(156)
	-----	-----	-----
Net cash provided by operating activities.....	16,024	8,499	3,726
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sale of equipment.....	126	34	99
Purchase of property and equipment....	(640)	(561)	(551)
Software development costs.....	(1,595)	(1,318)	(1,066)
Other	(418)	(181)	86
	-----	-----	-----
Net cash (used for) investing activities.....	(2,527)	(2,026)	(1,432)
	-----	-----	-----
Cash flows from financing activities:			
Advances on bank credit facilities.....	30,173	49,985	68,625
Repayments of bank credit facilities...	(39,154)	(55,088)	(69,997)
Repayments of term loan.....	(3,036)	(6,342)	--
Proceeds from exercise of common stock options.....	38	47	29
Proceeds from stock rights offering, net	--	4,802	--
	-----	-----	-----
Net cash (used for) financing activities.....	(11,979)	(6,516)	(1,343)
	-----	-----	-----
Effect of exchange rate changes on cash...	(24)	(152)	20
	-----	-----	-----
Net increase (decrease) in cash..	1,494	(195)	971
Cash and cash equivalents at beginning of year.....	1,877	2,072	1,101
	-----	-----	-----
Cash and cash equivalents at end of year..	\$3,371	\$ 1,877	\$ 2,072
	=====	=====	=====
Supplemental disclosures:			
Cash paid for:			
Interest.....	\$ 1,828	\$ 2,759	\$ 3,656
Income taxes.....	\$ 1,234	--	--

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

	Common Stock Shares Issued & Outstanding	Amount	Additional Paid-In Capital	Accumulated Deficit	Foreign Currency Translation Adjustment
	(Dollars in thousands)				
Balances, October 31, 1994.....	5,413,682	\$541	\$ 45,546	\$ (34,676)	\$ (4,083)
Net income.....	--	--	--	\$ 204	--
Translation of foreign currency financial statements.....	--	--	--	--	(78)
Exercise of common stock options	11,620	2	27	--	--
	-----	-----	-----	-----	-----
Balances, October 31, 1995.....	5,425,302	\$ 543	\$45,573	\$ (34,472)	\$ (4,161)
Net income.....	--	--	--	\$ 4,264	--
Stock Rights Offering.....	1,085,389	108	4,694	--	--
Translation of foreign currency financial statements.....	--	--	--	--	(455)
Exercise of common stock options..	21,180	2	45	--	--
	-----	-----	-----	-----	-----
Balances, October 31, 1996.....	6,531,871	\$ 653	\$ 50,312	\$ (30,208)	\$ (4,616)
	=====	=====	=====	=====	=====
Net income.....	--	--	--	\$13,804	--
Translation of foreign currency financial statements.....	--	--	--	--	(207)
Exercise of common stock options	12,960	1	37	--	--
	-----	-----	-----	-----	-----
Balances, October 31, 1997....	6,544,831	\$ 654	\$50,349	\$ (16,404)	\$ (4,823)
	=====	=====	=====	=====	=====

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 its wholly-owned and controlled subsidiaries (the Company). A 24% ownership interest in an affiliate recorded using the equity method and a 15% ownership interest in an affiliate recorded at cost are included in Other Assets on the accompanying Consolidated Balance Sheets. Intercompany accounts and transactions have been eliminated.

Statements of Cash Flows. The Company considers 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. Foreign currency translation adjustments are recorded as a separate component of shareholders' equity. Foreign currency transaction gains and losses are recorded as income or expense as incurred.

Hedging. The Company enters into foreign currency forward exchange contracts to hedge certain firm intercompany sale commitments denominated in foreign currencies (primarily pound sterling and German marks) for which the Company has

firm purchase commitments. The purpose of these instruments is to protect the Company from the risk that the U.S. dollar net cash inflows resulting from the sales denominated in foreign currencies will be adversely affected by changes in exchange rates. Gains and losses on these hedge contracts are deferred and recognized as an adjustment to the related sales transactions.

The Company enters into foreign currency forward exchange contracts periodically to provide a hedge against the effect of foreign currency fluctuations on receivables denominated in foreign currencies. Gains and losses related to contracts designated as hedges of receivables denominated in foreign currencies are accrued as exchange rates change and are recognized as "Other income (expense), net" in the Consolidated Statements of Operations. Gains and losses related to contracts designated as hedges of net investments in foreign subsidiaries are accrued as exchange rates change and are recognized in the "Foreign currency translation adjustment" portion of shareholders' equity on the Consolidated Balance Sheets.

The U.S. dollar equivalent notional amount of outstanding foreign currency forward exchange contracts was approximately \$19.0 million as of October 31, 1997 (\$17.8 related to firm intercompany sales commitments) and \$12.6 million as of October 31, 1996 (\$10.1 million related to firm intercompany sales commitments). Deferred losses related to hedges of future sales transactions were approximately \$408,000 and \$61,000 as of October 31, 1997 and 1996, respectively. Contracts outstanding at October 31, 1997, mature at various times through July 21, 1998. All contracts are for the sale of currency. The Company does not enter into these contracts for trading purposes.

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

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

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

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

License Fee Income, Net. From time to time, the Company's wholly-owned subsidiary, IMS Technology, Inc. ("IMS") enters into agreements for the licensing of its interactive computer numerical control (CNC) patents. License fees received or receivable under a fully paid-up license, for which there are no future performance requirements or contingencies, are recognized in income, net of legal fees and expenses, if any, at the time the license agreement is executed. License fees received in periodic installments that are contingent upon the continuing validity of a licensed patent are recognized in income, net of legal fees and expenses, if any, over the life of the licensed patent.

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 included in selling, general and administrative expenses. Expenditures and related third-party reimbursements for the last three years were (in thousands):

Year Ended October 31,

	1997	1996	1995
	----	----	----
Research and development expenditures.....	\$ 1,870	\$ 1,689	\$ 1,362
Less: amounts reimbursed by third parties...	--	58	354
	-----	-----	-----
Net research and development expenses..	\$ 1,870	\$1,631	\$ 1,008
	=====	=====	=====

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, and 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. The Company capitalized \$1.6 million in 1997, \$1.3 million in 1996 and \$1.2 million in 1995 related to software development projects. Amortization expense was \$940,000, \$1.0 million and \$864,000, respectively, for the three years ended October 31, 1997.

Earnings Per Share. Earnings per share of common stock are based on the weighted average number of common shares outstanding, which includes the effects of outstanding stock options computed using the treasury method.

Income Taxes. The Company records income taxes under Statement of Accounting Standards (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.

HURCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. The Company designs and produces computer numerical control (CNC) systems and software and CNC-operated machine tools for sale through its own distribution system to the worldwide machine tool industry. The Company's proprietary CNC systems and related software products are either integrated with machine tools marketed by the Company, sold to machine tool end users or sold to other machine tool manufacturers who integrate them with their own products.

The end market for the Company's 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. The Company's products are sold through over 250 independent agents and distributors in 46 countries throughout North America, Europe and Asia. The Company also maintains direct sales operations in the United States, England, France, Germany and Singapore.

Credit Risk. The Company sells products to customers located throughout the world. The Company performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses, and such losses have been within management's expectations.

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.

Reliance on Contract Manufacturers. The Company contracts principally with three machine tool builders located in Taiwan for the manufacture and assembly of CNC machine tool systems, based on the Company's designs and specifications, utilizing CNC systems provided by the Company. During 1997, the Company entered into a contract manufacturing agreement with a European machine tool builder to manufacture machine tools for the European subsidiaries. Any interruption from these sources would restrict the availability of the Company's machine tools, which would affect operating results adversely.

3. INVENTORIES

Inventories as of October 31, 1997 and 1996 are summarized below (in thousands):

	1997	1996
	-----	-----
Purchased parts and sub-assemblies.....	\$ 9,749	\$ 12,354
Work-in-process.....	1,578	1,942
Finished goods.....	10,425	9,919
	-----	-----
	\$ 21,752	\$ 24,215
	=====	=====

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

4. DEBT AGREEMENTS

Long-term debt as of October 31, 1997 and 1996, consisted of (in thousands):

	1997	1996
	-----	-----
Bank revolving credit facilities.....	\$ 1,900	\$ 10,931
Bank term loan.....	--	1,250
Senior Notes.....	7,143	8,929
Economic Development Revenue Bonds, Series 1990.....	1,000	1,000
	-----	-----
	10,043	22,110
Less current portion.....	1,786	3,050
	-----	-----
	\$ 8,257	\$ 19,060
	=====	=====

As of October 31, 1997, long-term debt was payable as follows (in thousands):

Fiscal 1998.....	\$1,786
Fiscal 1999.....	1,786
Fiscal 2000.....	3,686
Fiscal 2001.....	2,785

	\$10,043

As of October 31, 1997, the Company had unutilized credit facilities of \$13.9 million available for either direct borrowings or commercial letters of credit. As of October 31, 1997 and 1996, the Company had \$6.2 million and \$7.7 million, respectively, of outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments.

As of October 31, 1997, \$1.0 million of the domestic bank revolving credit facility was payable at a LIBOR based rate of 6.8%, and the remaining portion of the domestic bank revolving credit facility was payable at 8.5%. As of October 31, 1996, interest was payable at 8.25% on the domestic bank revolving credit facility and bank term loan. Interest was payable on the European credit authorization at rates ranging from 6.25% to 9.5% as of October 31, 1997, and from 6.8% to 9.8% as of October 31, 1996. Interest was

payable on the Senior Notes at 10.37% and 10.87% at October 31, 1997 and 1996, respectively.

Effective September 8, 1997, the Company's Bank Credit Agreement and Senior Notes Agreement were amended and restated. The principal terms of those agreements, as amended and restated, are set forth below:

a) Bank Credit Agreement

The Company's bank credit agreement provides for a revolving, unsecured credit facility expiring May 1, 2000, which permits borrowings, at any one time outstanding, of up to \$22.5 million (inclusive of outstanding letters of credit of up to \$12.0 million). Of such borrowings, up to \$5.0 million may be drawn in designated European currencies. Interest on all outstanding borrowings will be payable at LIBOR plus an amount ranging from .75% to 2.0% based on a prescribed formula, or at the Company's option, prime.

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

The agreement requires the Company to maintain a specified minimum net worth and establishes maximum leverage and fixed charge coverage ratios. Cash dividends and redemptions of capital stock are permitted subject to certain limitations. The Company is required to maintain consolidated tangible net worth (as defined) of not less than \$20.0 million plus (i) 50% of cumulative net income subsequent to April 30, 1997 and (ii) 75% of the net proceeds from sales of capital stock. Total consolidated debt may not exceed 50% of consolidated capitalization (defined as total debt plus consolidated tangible net worth).

b) Senior Notes

At October 31, 1997, the Company had outstanding approximately \$7.1 million of unsecured Senior Notes, bearing an interest rate of 10.37%, of which approximately \$1.8 million is due on December 1, 1997, and the balance is due in equal annual installments through 2000.

Effective September 8, 1997, the agreement governing the Senior Notes was amended and restated on an unsecured basis. In connection therewith, the interest rate on the Senior Notes was reduced to 10.37% from 10.87% and the financial covenants were amended to conform to those contained in the Company's amended and restated bank credit agreement.

The Economic Development Revenue Bonds are payable in five equal annual installments beginning on September 1, 2001, and are secured by a letter of credit issued in the amount of \$1.1 million by the bank. The Bonds' interest rates adjust weekly and, as of October 31, 1997 and 1996, interest was accruing at a rate of 3.8%.

5. FINANCIAL INSTRUMENTS

The carrying amounts for trade receivables and payables approximate their fair values. At October 31, 1997, the carrying amounts and fair values of the Company's financial instruments, which includes bank revolving credit facilities, senior notes, and Economic Development Bonds are not materially different.

The Company also has off-balance sheet 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 and fair value of these contracts were \$19.0 million and \$20.2 million, respectively, at October 31, 1997. 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. Neither the risks of counterparty non-performance nor the economic consequences of counterparty non-performance associated with these contracts are considered by the Company to be material.

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

6. INCOME TAXES

The provision for income taxes in fiscal 1997 includes \$1.0 million of foreign withholding taxes related to certain license fee payments received in fiscal 1997. 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 off-setting valuation allowance. The Company's total deferred tax assets and corresponding valuation allowance at October 31, 1997 and 1996, consisted of the following (in thousands):

	October 31,	
	1997	1996
Tax effects of future tax deductible items related to:		
Accrued inventory reserves	\$ 707	\$ 715
Accrued warranty expenses	311	370
Other accrued expenses	858	922
	-----	-----
Total deferred tax assets	1,876	2,007
	-----	-----
Tax effects of future taxable differences related to:		
Accelerated tax deduction and other tax over book deductions related to property, equipment and software	(1,876)	(1,476)
Other	(575)	(575)
	-----	-----
Total deferred tax liabilities	(2,451)	(2,051)
	-----	-----
Net tax effects of temporary differences	(575)	(44)
	-----	-----
Tax effects of carryforward benefits:		
U.S. federal net operating loss carryforwards, expiring 2008-2012	5,869	9,909
Foreign net tax benefit carryforwards with various expiration years	941	1,862
U.S. federal general business tax credits, expiring 2008-2012	1,545	1,543
U.S. Alternative Minimum Tax Credit with no expiration	221	--
	-----	-----
Tax effects of carryforwards	8,576	13,314
	-----	-----
Tax effects of temporary differences and carryforwards	8,001	13,270
Less valuation allowance	(7,780)	(13,270)
	-----	-----
Net deferred tax asset	\$ 221	\$ --
	=====	=====

The Company's 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, the Company has established a full valuation allowance against carryforward benefits with expiration dates and is recognizing the benefits only as reassessment demonstrates they are realizable. 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 the Company's income tax expense.

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

Income (loss) before income taxes (in thousands):

	Year Ended October 31,		
	1997	1996	1995
Domestic.....	\$ 10,303	\$ (625)	\$ (1,786)
Foreign.....	4,529	4,983	1,990
	-----	-----	-----
	\$ 14,832	\$ 4,358	\$ 204
	=====	=====	=====

Differences between the effective tax rate and U.S. federal income tax rate were (in thousands):

Tax (benefit) at U.S. Statutory Rate.....	\$ 5,191	\$ 1,525	\$ 71
Foreign Withholding Taxes.....	1,012	--	--
Effect of International operations tax rates in excess of U.S. statutory rates.....	342	254	--
State Income Tax (benefit).....	16	--	--
Effect of losses without a current year tax benefit.....	--	--	625
Utilization of net operating loss carryforwards.....	(5,533)	(1,685)	(696)
	-----	-----	-----
Provision for income taxes.....	\$ 1,028	\$ 94	\$ --
	=====	=====	=====

Foreign withholding taxes are the result of withholding taxes on certain license fee payments received during fiscal 1997. The Company's provision for income tax in fiscal 1997 and 1996 represents taxes currently payable.

7. EMPLOYEE BENEFITS

The Company has defined contribution plans that include a majority of its employees worldwide, under which Company 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. Company contributions to the plans are based on employee contributions or compensation. These Company contributions totaled \$307,000, \$252,000, and \$213,000 for the years ended October 31, 1997, 1996, and 1995,

respectively.

During 1996, the Company initiated a non-qualified deferred compensation plan for certain executives of the Company. The purpose of this defined contribution plan is to provide executives with an additional mechanism to save throughout their employment. The Company has made only minor contributions to the deferred compensation plan during fiscal 1997 and 1996.

During 1997, the Company initiated Split-Dollar Life Insurance Agreements with certain officers of the Company. Under the terms of the agreements, the Company pays all of the premiums on behalf of the officers. The Company will be repaid the premiums from the policies' cash surrender value when the policies are terminated in accordance with the provisions of the agreements.

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

8. STOCK OPTIONS

In March 1997, the Company adopted the 1997 Stock Option and Incentive Plan (the 1997 Plan) which allows the Company to grant awards of options to purchase shares of the Company's common stock, stock appreciation rights, restricted shares and performance shares. Under the provisions of the 1997 Plan, the maximum number of shares of common stock that may be issued is 500,000. The total number of shares of common stock which may be granted to any individual during the term of the 1997 Plan may not exceed 100,000 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 the Company's Board of Directors (the Committee) as the Committee determines at the time of grant. The option price 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, 1997, 5,000 shares had been granted under the 1997 Plan.

In 1990, the Company adopted the 1990 Stock Option Plan (the 1990 Plan) which allowed the Company to grant options to purchase shares of the Company's common stock and related stock appreciation rights and limited rights to officers and key employees of the Company. Under the provisions of the 1990 Plan, the maximum number of shares of common stock which may be issued under options and related rights is 500,000. There is no annual limit on the number of such shares with respect to which options and rights may be granted. Options granted under the 1990 Plan are exercisable for a period up to ten years after date of grant and vest in equal installments over a period of three to five years from the date of grant. The option price may 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 may 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, 1997, 1996 and 1995 and the related activity for the year is as follows:

	Year Ended October 31,		
	1997	1996	1995
Outstanding at beginning of year..	431,620	380,700	354,900
Granted.....	5,000	104,800	62,700
Canceled.....	(1,800)	(32,700)	(19,080)
Expired.....	--	--	(6,200)
Exercised.....	(12,960)	(21,180)	(11,620)
	-----	-----	-----
Outstanding at end of year.....	421,860	431,620	380,700
	=====	=====	=====
Exercisable at end of year.....	283,416	204,151	138,600
	=====	=====	=====
Available for future grants.....	507,814	12,814	84,914
	=====	=====	=====

The range of option prices per share for outstanding options and the prices at which options were exercised during 1997, 1996 and 1995 are summarized below:

	Year Ended October 31,		
	1997	1996	1995
Option price.....	\$2.13 - \$7.50	\$2.13 - \$7.50	\$2.13-\$7.50
Exercise price.....	\$2.13 - \$5.13	\$2.13 - \$3.88	\$2.13-\$2.88

HURCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

As of October 31, 1997 and 1996, there were outstanding options held by certain members of the Board of Directors to purchase 75,000 shares of the Company's common stock at \$5.13 per share and 25,000 shares at \$7.00 per share. All were exercisable as of October 31, 1997 and 1996. The options expire at various dates between 2002 and 2006.

In October 1995, SFAS No. 123, "Stock Based Compensation," was issued. This statement requires the Company to choose between two different methods of accounting for stock options. The statement defines a fair-value-based method of accounting for stock options but allows an entity to continue to measure compensation cost for stock options using the accounting prescribed by APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Use of the APB 25 accounting method results in no compensation cost being recognized if options are granted at an exercise price at the current market value of the stock. The Company will continue to use the method prescribed under APB 25, but is required by SFAS 123 to make proforma disclosures of net income and earnings per share as if the fair value method had been applied, if material. Application of the fair value method would not have a material impact if it had been applied in the financial statements for the year ended October 31, 1997.

9. RELATED PARTY TRANSACTIONS

The Company and Air Express International Corporation (AEI) are related parties because a common group of shareholders holds a substantial ownership interest in both companies. AEI provides freight forwarding and shipping services for the Company. The cost of these freight services are negotiated on an arms length basis and amounted to \$2,554,000, \$1,773,000 and \$1,438,000 for the years ended October 31, 1997, 1996 and 1995, respectively. Trade payables to AEI were \$30,000, \$208,000 and \$27,000 at October 31, 1997, 1996 and 1995, respectively.

The Company owns an approximate 15% interest in one of its Taiwanese-based suppliers. This investment is carried at cost and is included in Other Assets. Purchases of product from this supplier are negotiated on an arms length basis and totaled \$8,196,000, \$8,616,000 and \$4,369,000 for the years ended October 31, 1997, 1996 and 1995, respectively. Trade payables to this supplier were \$1,768,000, \$1,484,000 and \$1,519,000 at October 31, 1997, 1996 and 1995, respectively.

Refer to Note 13 for a description of Hurco Automation, Ltd. (HAL). Transactions with HAL during fiscal 1997 were not material.

10. LITIGATION AND CONTINGENCIES

On October 10, 1995, the Company's wholly-owned subsidiary, IMS Technology, Inc. (IMS), commenced an action in the United States District Court for the Northern District of Illinois against a group of end-users of interactive CNCs, machine tool manufacturers who incorporate interactive CNCs in their products and manufacturers of CNCs (CNC Users) designed to permit use of interactive methods when coupled to machine tools. IMS alleged that the defendants infringed the IMS United States interactive machining patent (the Patent) and is seeking monetary damages and an injunction against future infringement. IMS has subsequently entered into settlements with a number of the defendants and has dismissed all claims against them. The defendants who have not settled are: Okuma Machinery Works, Ltd.; Okuma American Corporation; Ellison Machinery Company of the

Midwest, Inc. and Apollo Machine & Manufacturing Company, Inc.

On January 11, 1996, IMS commenced an action in the United States District Court for the Eastern District of Virginia (which was subsequently transferred to the United States District Court for the Northern District of Illinois) against two CNC Users with whom IMS has subsequently entered into settlements. On January

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

29, 1996, Mitsubishi Electric Corporation (Mitsubishi) was added to the action. This action alleges infringement of the Patent and seeks monetary damages and an injunction against future infringement.

IMS and the Company are defendants in an action pending in the United States District Court for the Northern District of Illinois that was commenced January 29, 1996 by Mitsubishi and Mitsubishi Electric Industrial Controls. This action seeks to have the Patent declared invalid. In September 1997, the court dismissed Mitsubishi's claims that IMS and the Company had misused the Patent and violated federal antitrust actions. Other claims that remain at issue are whether IMS and the Company disparaged Mitsubishi's goods and business, made false statements concerning the Patent, interfered with Mitsubishi's business and violated state consumer fraud statutes. The complaint seeks unspecified damages and injunctive relief. In a counter-claim, IMS alleges that the plaintiffs have infringed the Patent.

The three actions described above are being coordinated under local court rules. Discovery is currently in process.

On July 3, 1997, IMS commenced an action in the United States District Court of Virginia against a number of CNC Users alleging infringement of the Patent. This action seeks monetary damages and an injunction against future infringement. IMS has subsequently entered into settlements with a number of the defendants and has dismissed all claims against them. The only defendant in this action who has not settled is Haas Automation, Inc.

On September 29, 1997, IMS commenced an action in the United States District Court for the Eastern District of Virginia against a number of CNC Users alleging infringement of the Patent. This action sought monetary damages and an injunction against future infringement. All of the defendants in this action have settled with the Company.

Although IMS believes that the Patent is valid and its claims of patent infringement have substantial merit, it is unable to predict the outcome of any of these actions.

In addition, the Company is involved in various other claims and lawsuits arising in the normal course of business. None of these claims, in the opinion of management, is expected to have a material adverse effect on its consolidated financial position or results of operations.

11. OPERATING LEASES

The Company leases facilities and vehicles under operating leases that expire at various dates through 2002. Future payments required under operating leases as of October 31, 1997, are summarized as follows (in thousands):

1998.....	\$1,942
1999.....	1,285
2000.....	902
2001.....	696
2002.....	417

Total.....	\$ 5,242
	=====

Rental payments for the years ended October 31, 1997, 1996 and 1995 was \$1.9 million, \$1.9 million, and \$2.0 million, respectively.

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

12. RIGHTS OFFERING

On July 3, 1996, the Company issued and sold 1,085,389 shares of common stock at a price of \$4.63 per share pursuant to a subscription rights offering. The net proceeds of approximately \$4.8 million were used to pay \$3.1 million of installments of the Company's outstanding indebtedness to its senior lenders that were due on July 31, 1996. Of the amount paid, \$1.4 million consisted of an installment payment on the bank term loan bearing interest at a variable rate and \$1.7 million represented an installment payment on the Company's Senior Notes. The balance of the net proceeds was used to reduce outstanding revolving credit borrowings.

13. HURCO AUTOMATION, LTD.

In October 1996, the Company entered into an agreement with six Taiwanese investors for the purpose of forming a company, Hurco Automation, Ltd. (HAL). HAL's scope of activities includes the design, manufacture, sales and distribution of industrial automated products, software systems and related components, including CNC systems and components manufactured under contract for sale exclusively to the Company. At October 31, 1997, the Company had invested \$394,000 in the HAL which results in 24% ownership. The Company has committed to invest an additional amount of approximately \$370,000 in two installments through fiscal 1999 which will result in 35% ownership. The Company is also committed to purchasing a defined number of CNC systems from HAL between February 1, 1997 and July 31, 1999. The Company is accounting for the investment using the equity method. The investment of \$374,000 at October 31, 1997 is included in Other Assets on the Consolidated Balance Sheet.

14. LICENSE FEE INCOME, NET

License fee income, net for fiscal 1997 was attributable almost entirely to 13 agreements entered into during the year by the Company's wholly-owned subsidiary, IMS Technology, Inc. (IMS), pursuant to which IMS granted fully paid-up licenses of its interactive CNC patents in exchange for cash payments by the licensees, substantially all of which was received concurrently with the license grants. Further, under a license agreement with a principal supplier to the Company, approximately \$500,000 is expected to be received in future periods in the form of discounts on purchases by the Company, which will be reflected as a reduction of the cost of such purchases. As of October 31, 1997, additional license fees of approximately \$1.2 million, net of legal fees and expenses, related to future payments under completed license agreements have been deferred and are expected to be recognized in income over the four-year remaining life of the licensed patent.

Although settlements have been reached with a number of the defendants in the on-going IMS patent infringement litigation which have resulted in license agreements with IMS, the remaining defendants are continuing to contest the IMS claims. IMS is continuing to pursue the litigation and is also engaged in licensing discussions with other CNC Users that are not parties to the litigation. There can be no assurance that IMS will enter into license agreements with any of the remaining defendants, or any other CNC Users, or that the terms of any future license agreements will be similar to those previously entered into.

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

15. QUARTERLY HIGHLIGHTS (Unaudited)

1997 (In thousands, except per share

data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees.....	\$22,278	\$22,580	\$24,637	\$26,234
Gross profit.....	6,482	6,846	7,175	7,270
Gross profit margin percentage....	29.1%	30.3%	29.1%	27.7%
Selling, general and administrative expenses.....	5,046	5,216	5,352	5,433
Operating income.....	1,436	1,630	1,823	1,837
Net income	1,016	6,201	2,534	4,053
Earnings per common share - primary.....	\$.15	\$.93	\$.38	\$.60

1996 (In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees.....	\$ 23,224	\$ 26,095	\$ 23,039	\$ 26,993
Gross profit.....	6,475	7,231	6,988	7,727
Gross profit margin percentage...	27.9%	27.7%	30.3%	28.6%
Selling, general and administrative expenses.....	5,049	5,363	5,223	5,708
Operating income.....	1,426	1,868	1,765	2,019
Net income.....	572	1,031	957	1,704
Earnings per common share - primary.....	\$.10	\$.19	\$.16	\$.26

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

16. BUSINESS SEGMENT AND INTERNATIONAL OPERATIONS

The Company operates in one business segment which consists of computer numerical control (CNC) systems and software and CNC-operated machine tools for cutting and forming metals. Summarized is information regarding Total Sales, Operating Income and Identifiable Assets by geographical areas (in thousands):

	United States	Europe	Asia	Eliminations	Consolidated
1997					
Sales to unaffiliated customers.....	\$51,823	\$42,910	\$996	\$ --	\$95,729
Transfers between geographic areas.....	26,435	2,013	75	(28,523)	--
Total sales.....	\$78,258	\$44,923	\$1,071	\$(28,523)	\$95,729
Operating income.....	\$ 2,390	\$ 4,558	\$(222)		\$ 6,726
Identifiable assets as of October 31, 1997.....	\$ 42,525	\$15,895	\$ 328		\$58,748

	=====	=====	=====	=====	=====
1996					
Sales to unaffiliated customers.....	\$ 54,760	\$ 41,528	\$3,063	\$ --	\$99,351
Transfers between geographic areas.....	26,921	3,790	33	(30,744)	--
Total sales.....	\$ 81,681	\$ 45,318	\$3,096	\$(30,744)	\$99,351
Operating income.....	\$ 2,184	\$ 4,348	\$ 546		\$ 7,078
Identifiable assets as of October 31, 1996.....	\$ 42,779	\$ 14,763	\$2,208		\$59,750
1995					
Sales to unaffiliated customers.....	\$ 54,172	\$ 32,881	\$2,579	\$ --	\$89,632
Transfers between geographic areas.....	18,374	880	--	(19,254)	--
Total sales.....	\$ 72,546	\$ 33,761	\$2,579	\$(19,254)	\$89,632
Operating income.....	\$ 2,570	\$ 1,607	\$ 291		\$ 4,468
Identifiable assets as of October 31, 1995.....	\$ 45,255	\$ 15,404	\$ 762		\$61,421

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

17. NEW ACCOUNTING PRONOUNCEMENTS

In February, 1997, the Financial Accounting Standards Board released Statement of Accounting Standards No. 128, "Earnings Per Share" (SFAS 128), which changes the method of computation of earnings per share (EPS). SFAS 128 replaces Primary EPS with Basic EPS and replaces Fully Diluted EPS with Diluted EPS. Basic EPS, unlike Primary EPS, does not consider dilution for potentially dilutive securities. Diluted EPS uses an average share price for the period whereas Fully Diluted EPS uses the greater of the average share price or end-of-period share price. SFAS 128 is effective for fiscal 1998 and earlier adoption is not permitted. Basic EPS computed under SFAS 128 for the three and twelve months ended October 31, 1997 was \$.62 and \$2.11, respectively. Diluted EPS computed under SFAS 128 for the three and twelve months ended October 31, 1997 was \$.60 and \$2.06, respectively.

18. SUBSEQUENT EVENT (Unaudited)

From November 1, 1997 through January 20, 1998, IMS has entered into a number of additional license agreements, including agreements with four CNC Users which were defendants in the infringement actions brought by IMS concerning the U.S. IMS interactive machining patent. These agreements provide for cash payments, substantially all of which is to be received in fiscal 1998. These payments are expected to increase income by approximately \$1.4 million, net of legal fees

and expenses, in the first quarter of fiscal 1998. In addition, one of the agreements is with a supplier to the Company and provides for discounts on future purchases of product by the Company through December 31, 2001. This agreement, with respect to product discounts, is expected to reduce the cost of such future purchases by approximately \$600,000.

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

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors of the Registrant

The following information sets forth the name of each director, his age, tenure as a director, principal occupation and business experience for the last five years:

Name	Age	Served as a Director Since
Hendrik J. Hartong, Jr.	58	1986
Andrew L. Lewis IV	41	1988
Brian D. McLaughlin	55	1987
E. Keith Moore	75	1990
Richard T. Niner	58	1986
O. Curtis Noel	62	1993
Charles E. Mitchell Rentschler	58	1986

Hendrik J. Hartong, Jr. has been a general partner of Brynwood Management, the general partner of Brynwood Partners Limited Partnership, since 1984. Mr. Hartong has also served as Chairman of the Board of Air Express International Corporation since 1985.

Andrew L. Lewis IV has served as Chief Executive Officer of KRR Partners, L.P. since July 1993. Mr. Lewis was a consultant for USPCI of Pennsylvania, Inc. from 1991 to 1993. Mr. Lewis is also a director of Air Express International Corporation.

Brian D. McLaughlin has been President and Chief Executive Officer of the Company since December, 1987.

E. Keith Moore has served as President of Hurco International, Inc., a subsidiary of the Company, since April 1988. Mr. Moore is also a director of Met-Coil Systems Corporation.

Richard T. Niner has been a general partner of Brynwood Management, the general partner of Brynwood Partners Limited Partnership, since 1984. Mr. Niner is also a director of Air Express International Corporation, Arrow International, Inc. and Case, Pomeroy & Company, Inc.

O. Curtis Noel has been an independent business consultant for more than ten years specializing in market and industry studies, competitive analysis and corporate development programs with clients in the U.S. and abroad.

Charles E. Mitchell Rentschler has served as President and Chief Executive Officer of The Hamilton Foundry & Machine Co. since 1985.

Each director of the Company serves for a term of one year, which expires at the

next annual meeting of shareholders of the Company when his successor has been elected. There are no family relationships between any of the directors or executive officers of the Company.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information with respect to the executive officers of the Company as of January 5, 1998:

Name	Age	Position(s) with the Company
Brian D. McLaughlin	55	President and Chief Executive Officer
Roger J. Wolf	57	Senior Vice President, Secretary, Treasurer and Chief Financial Officer
David E. Platts	45	Vice President, Research and Development
James D. Fabris	46	Executive Vice President - Operations
Richard Blake	39	Vice President of the Company and President Hurco Machine Tool Products Division
Stephen J. Alesia	31	Corporate Controller

Brian D. McLaughlin has been President and Chief Executive Officer of the Company since December 1987. From 1982 to 1987, he was employed as President and General Manager of various divisions of Ransburg Corporation, an international manufacturer of factory automation equipment. Previously, he was employed in general management and marketing management positions with Eaton Corporation.

Roger J. Wolf has been Senior Vice President, Secretary, Treasurer and Chief Financial Officer since January 1993. Prior to joining the Company, Mr. Wolf was Executive Vice President of a privately-owned investment and service business for over seven years. Previously, he served as Vice President, Corporate Controller and Vice President, Treasurer of Ransburg Corporation, an international manufacturer of factory automation equipment.

David E. Platts has been employed by the Company since 1982, and was elected Vice President, Research and Development in 1989.

James D. Fabris was elected Executive Vice President - Operations in November 1997 and Vice President of the Company in February 1995. Jim was President of Hurco Machine Tool Products Division from November 1993 to December 1997. He served as President of Acroloc, Inc., a subsidiary of the Company, from July 1991 to October 1993 and as Vice President of Operations of Hurco Manufacturing Company from 1988 to 1991.

Richard Blake was named President of Hurco Machine Tool Products Division in November 1997, Vice President of the Company in January 1996, and Managing Director, Hurco Europe, Ltd., a subsidiary of the Company, in December 1993. He served as U.K. Marketing Manager for Hurco Europe, Ltd. from January 1993 to November 1993 and as a Sales Manager for Hurco Manufacturing Company from September 1989 to December 1992.

Stephen J. Alesia joined the Company in June 1996 and was elected an executive officer in September 1996. Prior to joining the Company, Mr. Alesia was employed for seven years by Arthur Andersen LLP, an international public accounting firm.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent (10%) of the Company's common stock, to file initial reports of ownership and

reports of changes in ownership of common stock and other equity securities of the Company with the Securities and Exchange Commission.

To the Company's knowledge, based solely upon a review of copies of such reports furnished to the Company during and pertaining to its most recent fiscal year, and certain written representations, all Section 16(a) filings applicable to the Company's executive officers, directors and greater than ten percent (10%) beneficial owners were made on a timely basis during the most recent fiscal year.

Item 11. EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth all compensation paid or accrued during each of the last three fiscal years to the Chief Executive Officer and each of the other four executive officers of the Company (the Named Executive Officers) whose salary and bonus exceeded \$100,000 during fiscal 1997.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary (\$)	Annual Compensation		Long-Term Compensation Underlying Option(2) (\$)	All Other Compensation (3) (\$)
			Bonus (\$)	Other Annual Compensation (1)		
Brian D. McLaughlin President and CEO	1997	\$250,000	\$125,000	--	--	\$51,726
	1996	238,133	80,000	--	15,000	3,325
	1995	226,936	75,000	--	10,000	3,234
Roger J. Wolf Sr. VP, Secretary Treasurer and CFO	1997	156,000	60,000	--	--	47,086
	1996	148,500	75,000	--	3,000	2,880
	1995	139,731	45,000	--	15,000	3,063
James D. Fabris Executive Vice President - Operations	1997	140,000	60,000	--	--	23,504
	1996	122,500	50,000	--	10,000	3,199
	1995	107,885	45,000	--	5,000	2,210
David E. Platts Vice President Research&Development	1997	100,000	45,000	--	--	13,153
	1996	93,917	20,000	--	5,000	--
	1995	87,834	15,000	--	10,000	--
Richard Blake V.P. of the Company and President Hurco Machine Tool Products Division	1997	108,550	41,750	--	--	4,633
	1996	87,373	46,311	--	15,000	3,841
	1995	61,932	39,700	--	--	2,699

- (1) Represents cash bonuses earned and paid in the subsequent year.
- (2) Represents options granted under the stock option plan related to the prior year's performance, other than specified below. The Company has not granted any Stock Appreciation Rights (SARs).
- (3) Represents the Company's contribution to defined contribution plans and split dollar life insurance premiums. During fiscal 1997, the Company initiated Split-Dollar Life Insurance Agreements with certain officers of the Company. Under the terms of the agreements, the Company pays all of the premiums on behalf of the officers. The Company will be repaid the premiums from the policies' cash surrender value when the policies are terminated in accordance with the provisions of the agreements.

Named Officer	Defined Contribution Plan Company Match	Company paid Split-Dollar Life Insurance Premiums
Brian D. McLaughlin	\$4,320	\$47,406

Roger J. Wolf	4,320	42,766
James D. Fabris	4,320	19,184
David E. Platts	938	12,215
Richard Blake	4,633	--

Stock Options

The following table sets forth information related to options exercised during fiscal 1997 and options held at fiscal year-end by the Named Executive Officers. The Company does not have any outstanding SARs.

Aggregated Option Exercises in Fiscal 1997 and Year-End Option Values

Name	Shares Acquired on Exercise		Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-the-Money Options at FY-End (\$) (1)	
	(#)	Value Realized (\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Brian D. McLaughlin	--	--	114,999	10,001	\$482,704	\$36,671
Roger J. Wolf	--	--	37,998	12,002	\$86,121	\$22,505
James D. Fabris	--	--	22,300	17,700	\$127,200	\$72,925
David E. Platts	--	--	20,000	10,000	\$115,000	\$40,000
Richard Blake	--	--	5,600	15,400	\$28,899	\$59,596

(1) Value is calculated based on the closing market price of the common stock on October 31, 1997 (\$8.375) less the option exercise price.

Compensation of Directors

Each director who is not a full-time employee of the Company receives a fee of \$1,000 for each meeting of the Board of Directors attended, and each such director also receives \$4,000 per quarter. Directors are also entitled to receive reimbursement for travel and other expenses incurred in attending such meetings. Mr. Niner received annual compensation of \$72,000 for his services as Chairman of the Executive Committee of the Board of Directors.

Employment Contracts

Brian D. McLaughlin entered into an employment contract on December 14, 1987. The contract term is month-to-month. Mr. McLaughlin's salary and bonus arrangements are set annually by the Board of Directors. Other compensation, such as stock option grants, is awarded periodically at the discretion of the Board of Directors. As part of that contract, Mr. McLaughlin is entitled to 12 months' salary if his employment is terminated for any reason other than gross misconduct.

Roger J. Wolf entered into an employment contract on January 8, 1993. The contract term is unspecified. Mr. Wolf's salary and bonus arrangements are set annually by the Board of Directors. Other compensation, such as stock option grants, is awarded periodically at the discretion of the Board of Directors. As part of that contract, Mr. Wolf is entitled to 12 months' salary if his employment is terminated without just cause.

James D. Fabris entered into an employment contract on November 18, 1997. The contract term is unspecified. Mr. Fabris' salary and bonus arrangement are set annually by the Board of Directors. Other compensation, such as stock option grants, is awarded periodically at the discretion of the Board of Directors. As part of the contract, Mr. Fabris is entitled to 12 months' salary if his employment is terminated for any reason other than gross misconduct.

Richard Blake entered into an employment contract on January 1, 1998. The contract term is thirty-six months and shall continue month-to-month thereafter. Mr. Blake's salary and bonus arrangements are set annually by the Board of

Directors. Other compensation, such as stock option grants, is awarded periodically at the discretion of the Board of Directors. As part of the contract, Mr. Blake is entitled to 12 months' salary if his employment is terminated for any reason other than gross misconduct.

Compensation Committee Interlocks and Insider Participation

During fiscal 1997 the members of the Compensation Committee were Hendrik J. Hartong, Jr., O. Curtis Noel and Charles E. Mitchell Rentschler. None of the Committee members is a current or former officer or employee of the Company or any of its subsidiaries. Mr. Hartong is a director of AEI. Mr. Hartong is also a general partner of Brynwood Management, which is the general partner of Brynwood Partners Limited Partnership, which has substantial ownership interest in AEI. AEI provides freight forwarding and shipping services for the Company. The cost of these freight services are negotiated on an arms-length basis and amounted to \$2,554,000 for the fiscal year ended October 31, 1997. None of the Committee members are involved in any other relationships requiring disclosure as an interlocking officer / director.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of January 5, 1998, regarding beneficial ownership of the Company's common stock by each director and Named Executive Officer, by all directors and executive officers as a group, and by certain other beneficial owners of more than 5% of the common stock. Each such person has sole voting and investment power with respect to such securities, except as otherwise noted.

Name and Address	Shares Beneficially Owned	
	Number	Percent
Other Beneficial Owners		
Brynwood Partners Limited Partnership Two Soundview Avenue Greenwich, Connecticut 06830	1,390,001	21.2%
Wellington Management Co. 75 State Street Boston, Massachusetts 02109	646,900 (1)	9.9%
The TCW Group, Inc. 865 South Figueroa Street Los Angeles, California 90017	464,600	7.1%
Fidelity Management & Research Co. One Federal Street Boston, Massachusetts 02109	359,028 (2)	5.5%
Directors and Executive Officers		
Hendrik J. Hartong, Jr.	1,695,492 (3,4)	25.9%
Andrew L. Lewis IV	24,000 (4)	0.4%
Brian D. McLaughlin	151,475 (5,6)	2.3%
E. Keith Moore	48,010 (7)	0.7%
Richard T. Niner	1,707,362 (3,4)	26.0%
O. Curtis Noel	15,000 (4)	0.2%
Charles E. Mitchell Rentschler	40,000 (4,8)	0.6%

Roger J. Wolf	43,390 (9)	0.7%
James D. Fabris	22,800 (10)	0.4%
David E. Plattts	21,700 (11)	0.3%
Richard Blake	5,600 (12)	0.1%
Executive officers and directors as a group (12 persons)	2,107,827 (3,13)	32.1%

- (1) Wellington Management Co. (WMC), a registered investment advisor, is deemed to have beneficial ownership of 646,900 shares of the Company's common stock, which is owned by various advisory clients of WMC. WMC has shared voting power for 371,400 shares and sole voting power for 275,500 shares.
- (2) Fidelity Management and Research Co. has no voting power for any of the shares.
- (3) Includes 1,390,001 shares owned by Brynwood Partners Limited Partnership and 278,001 shares owned by Brynwood Partners II, L.P. Brynwood Management is the general partner of each entity and Mr. Hartong and Mr. Niner are general partners of Brynwood Management and, accordingly, may be deemed to have beneficial ownership of these shares.
- (4) Includes 1,500 shares subject to options that are exercisable within 60 days.
- (5) Includes 114,999 subject to options held by Mr. McLaughlin that are exercisable within 60 days.
- (6) Includes 10,876 shares owned by Mr. McLaughlin's wife and children, as to which he may be deemed to have beneficial ownership.
- (7) Includes 21,000 shares subject to options that are exercisable within 60 days.
- (8) Includes 6,000 shares owned by Mr. Rentschler's wife, as to which he may be deemed to have beneficial ownership.
- (9) Includes 37,998 shares subject to options that are exercisable within 60 days.
- (10) Includes 22,300 shares subject to options that are exercisable within 60 days.
- (11) Includes 20,000 shares subject to options that are exercisable within 60 days.
- (12) Includes 5,600 shares subject to options that are exercisable within 60 days.
- (13) Includes 296,897 shares subject to options that are exercisable within 60 days.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and Air Express International (AEI) are related parties because Brynwood Partners Limited Partnership holds a substantial ownership interest in both companies. Two of the Company's directors, Hendrik J. Hartong, Jr. and Richard T. Niner, are general partners of Brynwood Management, which is the general partner of Brynwood Partners Limited Partnership. AEI provides freight forwarding and shipping services for the Company. The cost of these freight services are negotiated on an arms length basis and amounted to \$2,554,000 during fiscal 1997.

PART IV

Item 14. 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:

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

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Accounts and Reserves.....	49

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, 1997.

(c) Exhibits

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

Schedule II - Valuation and Qualifying Accounts and Reserves
for the years ended October 31, 1997, 1996 and 1995
(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, 1997	\$ 785	\$ 74	\$ --	\$ 101 3	\$ 757
	=====	=====	=====	=====	=====
October 31, 1996	\$ 1,070	\$ (63)	\$ --	\$ 222 1	\$ 785
	=====	=====	=====	=====	=====
October 31, 1995	\$ 1,046	\$ 31	\$ --	\$ 7 2	\$ 1,070
	=====	=====	=====	=====	=====

Accrued warranty expenses for the year ended:

October 31, 1997	\$ 1,425	\$ 1,321	\$ -	\$ 1,294	\$ 1,452
	=====	=====	=====	=====	=====
October 31, 1996	\$ 1,391	\$ 1,544	\$ --	\$ 1,510	\$ 1,425
	=====	=====	=====	=====	=====
October 31, 1995	\$ 1,170	\$ 1,541	\$ --	\$ 1,320	\$ 1,391
	=====	=====	=====	=====	=====

1 Receivable write-offs of \$228,000, net of cash recoveries on accounts previously written off of \$6,000. 2 Receivable write-offs of \$42,000, net of cash recoveries on accounts previously written off of \$35,000. 3 Receivable write-offs of \$106,000, net of cash recoveries on accounts previously written off of \$5,000.

EXHIBITS INDEX

- 3.1 Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1, to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1997.
- 3.2 Amended and Restated By-Laws of the Registrant, incorporated by reference to Exhibit 3.2, to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990.
- 3.3 Amended and Restated By-Laws of the Registrant dated September 12, 1995, incorporated by reference to Exhibit 3.3, to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1996.
- 10.1 The Underlease between Dikappa (Number 220) Limited and Northern & London Investment Trust limited dated December 2, 1982, incorporated by reference to Exhibit 10.13, to its Registration Statement on Form S-1, No.2-82804 dated April 1, 1983.
- 10.2 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 Annual Report on Form 10-K for the year ended October 31, 1993.
- 10.3 Employment Agreement between the Registrant and Roger J. Wolf dated January 8, 1993, incorporated by reference to Exhibit 10.45, to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1993.
- 10.4 Non-qualified Stock Option Agreement between the Registrant and Hendrik J. Hartong, Jr., effective July 8, 1996 incorporated by reference to Exhibit 10.47 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.5 Non-qualified Stock Option Agreement between the Registrant and Andrew L. Lewis IV, effective July 8, 1996 incorporated by reference to Exhibit 10.48 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.

- 10.6 Non-qualified Stock Option Agreement between the Registrant and Richard T. Niner, effective July 8, 1996 incorporated by reference to Exhibit 10.49 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.7 Non-qualified Stock Option Agreement between the Registrant and O. Curtis Noel, effective July 8, 1996 incorporated by reference to Exhibit 10.50 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.8 Non-qualified Stock Option Agreement between the Registrant and Charles E. Mitchell Rentschler, effective July 8, 1996 incorporated by reference to Exhibit 10.51 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.9 1997 Stock Option and Incentive Plan, effective May 29, 1997, incorporated by reference to Exhibit 10.52 in Form 10-Q for the quarter ended July 31, 1997.
- 10.10 Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement, effective September 8, 1997 between the Registrant and NBD Bank, N.A. and NBD Bank.
- 10.11 Second Amended and Restated Senior Note Agreement between the Registrant and Principal Mutual Life Insurance Company effective September 8, 1997.
- 10.12 Letter Agreement (European Facility) dated September 8, 1997, between Registrant's subsidiaries and The First National Bank of Chicago.
- 10.13 Guaranty Agreement dated September 8, 1997, between the Registrant and The First National Bank of Chicago.
- 10.14 Guaranty Agreement dated September 8, 1997, between Autocon Technologies, Inc. and The First National Bank of Chicago.
- 11 Statement re: computation of per share earnings.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Public Accountants - Arthur Andersen LLP.
- 27 Financial Data Schedule (electronic filing only).

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 26th day of January, 1998.

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/ BRIAN D. McLAUGHLIN ----- Brian D. McLaughlin, Director, President and Chief Executive Officer of Hurco Companies, Inc. (Principal Executive Officer)	January 26, 1998
/s/ ROGER J. WOLF ----- Roger J. Wolf Senior Vice-President, Secretary, Treasurer and Chief Financial Officer of Hurco Companies, Inc. (Principal Financial Officer)	January 26, 1998
/s/ STEPHEN J. ALESIA ----- Stephen J. Alesia Corporate Controller of Hurco Companies, Inc. (Principal Accounting Officer)	January 26, 1998
/s/ HENDRIK J. HARTONG, JR. ----- Hendrik J. Hartong, Jr., Director	January 26, 1998
/s/ ANDREW L. LEWIS IV ----- Andrew L. Lewis, IV, Director	January 26, 1998
/s/ E. KEITH MOORE ----- E. Keith Moore, Director	January 26, 1998
/s/ RICHARD T. NINER ----- Richard T. Niner, Director	January 26, 1998
/s/ O. CURTIS NOEL ----- O. Curtis Noel, Director	January 26, 1998
/s/ CHARLES E. M. RENTSCHLER ----- Charles E.M. Rentschler, Director	January 26, 1998

Exhibit 10.10

AMENDED AND RESTATED CREDIT AGREEMENT AND
AMENDMENT TO REIMBURSEMENT AGREEMENT,
effective September 8, 1997
Between the Registrant and NBD Bank, N.A. and NBD Bank

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HURCO COMPANIES, INC.

AMENDED AND RESTATED
CREDIT AGREEMENT
AND
AMENDMENT TO REIMBURSEMENT AGREEMENT
dated as of September 8, 1997

NBD BANK, N.A.

NBD BANK

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.....EXHIBITS

-Exhibit A.....Revolving Credit Note
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-Exhibit D.....Form of Opinion

THIS AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of September __, 1997 (this "Agreement"), is among HURCO COMPANIES, INC., an Indiana corporation (the "Company"), NBD BANK, N.A., a national banking association having its headquarters in Indianapolis, Indiana (the "Bank"), and NBD BANK, a Michigan banking corporation having its headquarters in Detroit, Michigan ("NBD Michigan").

INTRODUCTION

To replace an existing credit facility issued in its favor by NBD

Michigan, an affiliate of the Bank, pursuant to the 1996 Credit Agreement (as defined below), the Company desires to obtain a revolving credit facility, including letters of credit, in the aggregate principal amount of \$22,500,000 in order to provide funds and other financial accommodations for working capital and its other general corporate purposes, and the Bank is willing to establish the credit facility in the Company's favor on the terms set forth below.

The Company further desires to have the Bank assume the Company's term loan presently issued by NBD Michigan under the Term Loan Agreement (as defined below).

Autocon and IMS (each as defined below) have separately provided certain security to NBD Michigan to secure the prompt and complete payment of amounts due under the 1996 Credit Agreement, and desire to guaranty the Company's performance under this Agreement.

Contemporaneously herewith, Hurco Europe and Hurco GmbH (each as defined below), subsidiaries of the Company, are entering into the European Facility (as defined below) with FCNBD (as defined below) to obtain a certain credit facility, the amount of which will be limited by the facilities outstanding hereunder, and the Company and the Guarantors desire to provide a guaranty to FCNBD of this facility.

The Company and NBD Michigan are parties to a Reimbursement Agreement (as defined below), pursuant to which NBD Michigan has issued the IRB L/C (as defined below). The Company desires to amend the Reimbursement Agreement to coordinate its provisions with those of this Agreement, to have Autocon and IMS guaranty its obligations thereunder, and to have NBD Michigan acknowledge such amendments and guaranty. Pursuant to a Participation Agreement of even date herewith (the "Participation Agreement"), the Bank has purchased a 100 percent participation in NBD Michigan's rights and obligations under the Reimbursement Agreement and the IRB L/C.

The Bank is willing to undertake these additional matters, and NBD Michigan is willing to amend the Reimbursement Agreement, all on the terms set forth below.

In consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Certain Definitions. As used herein, the following terms have the following respective meanings:

"Active Subsidiary" means a Subsidiary of the Company which is not an Inactive Subsidiary.

"Actuarial Present Value of Accumulated Plan Benefits" means, with respect to any Plan as of any date, the "Actuarial present value of accumulated plan benefits" of such Plan as defined in Statement of Financial Accounting Standards No. 35, determined pursuant to Generally Accepted Accounting Principles, uniformly applied.

"Advance" means any Loan and any Letter of Credit Advance.

"Affiliate", when used with respect to any person, means any other person which, directly or indirectly, controls or is controlled by or is under common control with such person and, with respect to the Company, includes each officer, director, and person who holds 10% or more of the Company's voting stock. For purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), with respect to any person, means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or by contract or otherwise.

"Applicable Commitment Fee" means the following per annum rate in effect on each Interest Payment Date, based upon the ratio of Consolidated Total Indebtedness to EBITDA, as adjusted on the first day of each fiscal quarter of the Company, based upon such ratio for the four fiscal quarters immediately preceding the fiscal quarter most recently ended (e.g., beginning with the fiscal quarter starting on February 1, the per annum rate shall be

based on the ratio for the four fiscal quarters ending on the prior October 31):

	Ratio	Commitment Fee
(a)	less than or equal to .5 to 1.0	.15%
(b)	greater than .5 to 1.0 and less than or equal to 1.0 to 1.0	.20%
(c)	greater than 1.0 to 1.0 and less than or equal to 2.0 to 1.0	.25%
(d)	greater than 2.0 to 1.0 and less than or equal to 2.5 to 1.0	.3125%
(e)	greater than 2.5 to 1.0	.375%

"Applicable Eurodollar Rate Margin" means the following margin per annum based upon the ratio of Consolidated Total Indebtedness to EBITDA, as adjusted on the first day of each fiscal quarter of the Company, based upon such ratio for the four fiscal quarters immediately preceding the fiscal quarter most recently ended (e.g., beginning with the fiscal quarter starting on February 1, the margin shall be based on the ratio for the four fiscal quarters ending on the prior October 31); provided, that, the Eurodollar Rate shall not be adjusted pursuant to the Applicable Eurodollar Rate Margin for any outstanding Eurodollar Rate Loan during the applicable Eurodollar Interest Period:

	Ratio	Eurodollar Rate Margin
(a)	less than or equal to .5 to 1.0	0.75%
(b)	greater than .5 to 1.0 and less than or equal to 1.0 to 1.0	1.00%
(c)	greater than 1.0 to 1.0 and less than or equal to 1.5 to 1.0	1.125%
(d)	greater than 1.5 to 1.0 and less than or equal to 2.0 to 1.0	1.375%
(e)	greater than 2.0 to 1.0 and less than or equal to 2.5 to 1.0	1.75%
(f)	greater than 2.5 to 1.0	2.0%

"Asset Sale Proceeds" means the proceeds (net of all disposition expenses) of selling or otherwise disposing of assets of the Company or any Subsidiary (other than inventory, machinery, and equipment sold in the ordinary course of business upon customary credit terms and other than sales of the Company's Capital Stock) to the extent that the aggregate book value (disregarding any write-downs of such book value other than ordinary depreciation and amortization) of the assets disposed of in such sales or other dispositions (a) in any single year exceeds 5% of the Consolidated Assets at the end of the prior fiscal year, or (b) in any two successive fiscal years exceeds 10% of the Consolidated Assets at the end of the fiscal year of the prior two fiscal years for which the amount of the Consolidated Assets is greater, less all Asset Sale Proceeds paid under Section 3.1(d) resulting from sales or other dispositions during the first of the two successive fiscal years.

"Autocon" means Autocon Technologies, Inc., an Indiana corporation and wholly-owned subsidiary of the Company.

"Automatic Termination Date" means May 1, 2000.

"Bond Default", as used in the Reimbursement Agreement, means the occurrence of an Event of Default under Section 601(h) of the Trust Indenture or under Section 201(d)(5) of the Trust Indenture, or any corresponding default under the Loan Agreement referred to in the Trust Indenture.

"Business Day" means a day other than a Saturday, Sunday, or other day on which the Bank is not open to the public for carrying on substantially all of its banking functions in Indianapolis, Indiana.

"Capital Expenditures" means capital expenditures of the Company and its Subsidiaries, as defined and classified in accordance with Generally Accepted Accounting Principles, and including, without duplication, any Capital Lease and capitalized software developments costs of the Company and its Subsidiaries, computed on a consolidated basis in accordance with Generally Accepted Accounting Principles.

"Capital Lease" of any person means any lease which, in accordance with Generally Accepted Accounting Principles, is or should be capitalized on the person's books.

"Capital Stock" of any person means any equity securities, any securities exchangeable for or convertible into equity securities, and any warrants, rights, or other options to purchase or otherwise acquire such securities.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations thereunder.

"Commitment" means the commitment of the Bank to make Revolving Credit Loans and Letter of Credit Advances pursuant to Section 2.1, in amounts not exceeding an aggregate principal amount outstanding of \$22,500,000, as such amount may be reduced from time to time pursuant to Section 2.2.

"Consolidated" or "consolidated" means, when used with reference to any financial term in this Agreement, the aggregate for two or more persons of the amounts signified by such term for all such persons determined on a consolidated basis in accordance with Generally Accepted Accounting Principles.

"Consolidated Assets" as of any date means the aggregate book value of the total assets of the Company and its Subsidiaries determined on a consolidated basis in accordance with Generally Accepted Accounting Principles.

"Consolidated Fixed Charges" for any period means the sum of: (a) interest expense (including the interest component of Rentals under Capital Leases and capitalized interest) of the Company and its Subsidiaries for such period, determined in accordance with Generally Accepted Accounting Principles, and (b) Rentals of the Company and its Subsidiaries under all leases other than Capital Leases.

"Consolidated Fixed Charge Net Income" for any period means the consolidated net income and net losses of the Company and its Subsidiaries determined in accordance with Generally Accepted Accounting Principles, but excluding therefrom (a) any extraordinary gain or loss so classified in accordance with Generally Accepted Accounting Principles and (b) the net income or loss of any person (other than a Subsidiary of the Company) in which the Company or any of its Subsidiaries has an ownership interest and, with respect to such net income, only to the extent that it has not been received by the Company or such Subsidiary in the form of dividends or other similar distributions.

"Consolidated Income Available for Fixed Charges" for any period means the sum of Consolidated Fixed Charge Net Income for such period, plus (to the extent deducted in determining Consolidated Fixed Charge Net Income) (a) all provisions for any federal, state, or other income taxes (including without limitation the SBT) made by the Company and its Subsidiaries during such period, (b) interest expense (including the interest component of Rentals under Capital Leases and capitalized interest) of the Company and its Subsidiaries during such period, and (c) Rentals of the Company and its Subsidiaries under all leases other than Capital Leases during such period.

"Consolidated Total Capitalization" means the sum of consolidated Tangible Net Worth of the Company and its Subsidiaries plus Consolidated Total Indebtedness, determined on a consolidated basis in accordance with Generally Accepted Accounting Principles.

"Consolidated Total Indebtedness" means, as of any date, the Indebtedness of the Company and its Subsidiaries, determined on a consolidated basis in accordance with Generally Accepted Accounting Principles which (a) is interest-bearing, and (b), in accordance with Generally Accepted Accounting Principles, should be reflected on a consolidated balance sheet for the Company and its Subsidiaries as of such date.

"Contingent Liabilities" of any person means, as of any date,

all obligations of such person or of others for which such person is contingently liable, as obligor, guarantor, surety, accommodation party, partner or in any other capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of any letters of credit, surety bonds or similar obligations (including, without limitation, bankers acceptances) and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the financial condition of such other person.

"Contractual Obligation" means, as to any person, any provision of any security issued by such person or of any agreement, instrument or other undertaking to which such person is a party or by which it or any of its property is bound.

"Credit Obligations" means all present and future obligations and other liabilities of the Company and its Subsidiaries (without duplication) arising under or included within the Outstanding Facilities, as amended from time to time, including without limitation any interest, premium, fees, expenses, and charges relating thereto and all renewals, extensions, and refundings of the foregoing. The principal amount of the Credit Obligations shall be the aggregate of the outstanding principal amount of all loans outstanding under the Outstanding Facilities plus the face amount of the IRB L/C and the Letters of Credit plus the unreimbursed portions of any amounts drawn under the IRB L/C and the Letters of Credit.

"Cumulative Net Income" means, as of any date, the consolidated net income of the Company and its Subsidiaries (after deduction for income taxes, including without limitation the SBT) for the period commencing on May 1, 1997, through the end of the most recently completed fiscal quarter (but without reduction for any consolidated net loss incurred by the Company and its Subsidiaries for the period from May 1, 1997, through October 31, 1997, or for any fiscal quarter in any fiscal year during such period which, as of the end of such period, has not closed), taken as one accounting period, all as determined in accordance with Generally Accepted Accounting Principles.

"Currency" means any non-Dollar currency in which a foreign branch or Affiliate of the Bank is willing to issue a Letter of Credit Advance under this Agreement or in which FCNBD has made a loan under the European Facility.

"Default" means any event or condition which might become an Event of Default with notice or lapse of time or both.

"Dollar Equivalent" means, with respect to each Advance in Dollars, the amount thereof, and, with respect to each Advance or loan under the European Facility in a Currency, the sum in Dollars resulting from converting the amount of such Advance or loan from the relevant Currency into Dollars at the most favorable spot exchange rate determined by the Bank to be available to it for purchasing that Currency with Dollars at 11:00 a.m. local time for the relevant foreign exchange market on the date such Advance or loan is disbursed, or on such other date as of which the Dollar Equivalent determination is to be made.

"Dollars" and "\$" means the lawful money of the United States of America.

"Domestic Subsidiaries" means all Subsidiaries of the Company which are organized under the laws of one of the states of the United States.

"EBITDA" means, for any period, the sum of (i) net income (without taking into account any extraordinary gains or non-cash extraordinary losses), (ii) interest expense, (iii) depreciation and amortization, and (iv) federal, state and local income taxes (including without limitation the SBT), in each case for the Company and its Subsidiaries, all determined on a consolidated basis in accordance with Generally Accepted Accounting Principles.

"EBITDAR" means, for any period, the sum of EBITDA and Rentals, in each case for the Company and its Subsidiaries, determined on a consolidated basis in accordance with Generally Accepted Accounting Principles.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations thereunder.

"ERISA Affiliate" means, with respect to any person, any trade or business (whether or not incorporated) which, together with such person or any Subsidiary of such person, would be treated as a single employer under Section 414 of the Code and the regulations promulgated thereunder.

"Effective Date" means the effective date specified in the last paragraph of this Agreement.

"Environmental Laws" at any date means all provisions of law, statute, ordinances, rules, regulations, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by the government of the United States of America or any foreign government or by any state, province, municipality or other political subdivision thereof or therein, or by any court, agency, instrumentality, regulatory authority or commission of any of the foregoing concerning the protection of, or regulating the discharge of substances into, the environment.

"Equity Proceeds" means the amount of proceeds (net of reasonable issuance expenses) realized from the sale by the Company or any Subsidiaries of any Capital Stock of the Company or any Subsidiaries other than (a) sales to officers or employees of the Company or its Subsidiaries upon exercising options issued pursuant to the "1990 Stock Option Plan of Hurco Companies, Inc.", or the "Hurco Companies, Inc. 1997 Stock Option and Incentive Plan", and (b) sales by a Subsidiary to the Company or any other Subsidiary.

"Eurodollar Business Day" means, with respect to any Eurodollar Rate Loan, a day which is both a Business Day and a day on which dealings in Dollar deposits are carried out in the London interbank market.

"Eurodollar Interest Period" means, with respect to any Eurodollar Rate Loan, the period commencing on the day such Eurodollar Rate Loan is made or converted to a Eurodollar Rate Loan and ending on the day which is one, two, three, or six months thereafter, as the Company may elect under Section 2.4 or 2.7, and each subsequent period commencing on the last day of the immediately preceding Eurodollar Interest Period and ending on the day which is one, two, three or six months thereafter, as the Company may elect under Section 2.4 or 2.7, provided, however, that (a) any Eurodollar Interest Period which commences on the last Eurodollar Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Eurodollar Business Day of the appropriate subsequent calendar month, (b) each Eurodollar Interest Period which would otherwise end on a day which is not a Eurodollar Business Day shall end on the next succeeding Eurodollar Business Day or, if such next succeeding Eurodollar Business Day falls in the next succeeding calendar month, on the next preceding Eurodollar Business Day, and (c) no Eurodollar Interest Period which would end after the Maturity Date (or the Termination Date with respect to any Revolving Credit Loans) shall be permitted.

"Eurodollar Rate" means, with respect to any Eurodollar Rate Loan and the related Eurodollar Interest Period, the per annum rate that is equal to the sum of:

(a) the Applicable Eurodollar Rate Margin, plus

(b).....the rate per annum obtained by dividing (i) the per annum rate of interest at which deposits in Dollars for such Eurodollar Interest Period and in an aggregate amount comparable to the amount of such Eurodollar Rate Loan are offered to the Bank by other prime banks in the London interbank market at approximately 11:00 a.m. London time on the second Eurodollar Business Day prior to the first day of such Eurodollar Interest Period by (ii) an amount equal to one minus the stated maximum rate (expressed as a decimal) of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) that are specified on the first day of such Eurodollar Interest Period by the Board of Governors of the Federal Reserve System (or any successor agency thereto) for determining the maximum reserve requirement with respect to eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of such Board) maintained by a member bank of such System;

all as conclusively determined by the Bank (absent manifest error), such sum to be rounded up, if necessary, to the nearest whole multiple of one one-hundredth of one percent (1/100 of 1%).

"Eurodollar Rate Loan" means any Loan which bears interest at

the Eurodollar Rate.

"European Facility" means a facility under which FCNBD, in its sole discretion, may make revolving credit loans in favor of Hurco Europe and Hurco GmbH not to exceed \$5,000,000 or its Dollar Equivalent (subject to Section 2.1(b)) pursuant to a letter agreement of even date herewith.

"Event of Default" means any of the events or conditions described in Section 6.1.

"FCNBD" means, collectively, The First National Bank of Chicago, London Branch, and The First National Bank of Chicago, Frankfort Branch, each an Affiliate of the Bank, and any successor thereto.

"Federal Funds Rate" means the per annum rate that is equal to the average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published by the Federal Reserve Bank of New York for such day, or, if such rate is not so published for any day, the average of the quotations for such rates received by the Bank from three federal funds brokers of recognized standing selected by the Bank in its discretion, all as conclusively determined by the Bank, such sum to be rounded up, if necessary, to the nearest whole multiple of one one-hundredth of one percent (1/100 of 1%), which Federal Funds Rate shall change simultaneously with any change in such published or quoted rates.

"Fiscal Year" or "fiscal year" means the fiscal year of the Company, which presently begins on November 1 of each calendar year and ends on October 31 of the following calendar year. Each Fiscal Year may be referred to by reference to the calendar year during which the Fiscal Year ends, and may be divided into four "fiscal quarters".

"Floating Rate" means the per annum rate equal to the greater of (a) the Prime Rate in effect from time to time, and (b) the sum of one percent (1%) per annum plus the Federal Funds Rate in effect from time to time, which Floating Rate shall change simultaneously with any change in the Prime Rate or Federal Funds Rate, as the case may be.

"Floating Rate Loan" means any Loan which bears interest at the Floating Rate.

"Generally Accepted Accounting Principles" means generally accepted accounting principles in the United States of America as in effect from time to time, applied on a basis consistent with that reflected in the financial statements referred to in Section 4.6.

"Guaranty" means the Subsidiary Guaranty of even date herewith executed by the Guarantors in favor of the Bank, NBD Michigan, and FCNBD.

"Guarantors" means Autocon and IMS as signatories to the Guaranty and any other person who guaranties to the Bank, NBD Michigan, and FCNBD the Company's payment and performance of its obligations under this Agreement and the other Loan Documents.

"Hazardous Materials" includes, without limitation, any flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.) and in the regulations adopted and publications promulgated pursuant thereto, or any other federal, state or local government law, ordinance, rule or regulation.

"Hurco Europe" means Hurco Europe Limited, a corporation organized under the laws of England and Wales, and a indirect wholly-owned subsidiary of the Company.

"Hurco Guaranty" means the Hurco Guaranty of even date herewith, executed by the Company in favor of FCNBD, by which the Company has guaranteed to FCNBD the obligations of Hurco Europe and Hurco GmbH under the European Facility.

"Hurco GmbH" means Hurco GmbH Werkzeugmaschinen CIM-Bausteine Vertrieb und Service, a corporation organized under the laws of the Federal Republic of Germany, and a indirect wholly-owned subsidiary of the Company.

"IMS" means IMS Technology, Inc., a Virginia corporation and wholly-owned subsidiary of the Company.

"IRB Bonds" means the \$1,000,000 City of Indianapolis Economic Development Revenue Bonds (Hurco Companies, Inc. Project), Series 1990, and the related Loan Agreement dated as of September 1, 1990, between the City of Indianapolis, Indiana, and the Company.

"IRB L/C" means the Irrevocable Letter of Credit No. 252 issued by NBD Michigan in favor of First of America Bank-Indianapolis, in the face amount of \$1,060,274, pursuant to the Reimbursement Agreement in support of the IRB Bonds, and any letter of credit issued in exchange or replacement therefor.

"Inactive Subsidiary" means a Subsidiary of the Company not actively engaged in business, and which has assets with a book value less than or equal to \$10,000. Schedule 4.4 lists all Inactive Subsidiaries existing on the Effective Date.

"Indebtedness" of any person means, as of any date, without duplication, (a) all obligations of such person for borrowed money, (b) all obligations of such person as lessee under any Capital Lease, (c) all obligations which are secured by any Lien existing on any asset or property of such person, whether or not the obligation secured thereby shall have been assumed by such person (to the extent of such Lien if such obligation is not assumed), (d) all obligations of such person for the unpaid purchase price for goods, property, or services acquired by such person, except for trade accounts payable arising in the ordinary course of business that are not past due, (e) all obligations of such person to purchase goods, property, or services where payment therefor is required, regardless of whether delivery of such goods or property or the performance of such services is ever made or tendered (generally referred to as "take or pay contracts"), (f) all liabilities of such person in respect of Unfunded Benefit Liabilities under any Plan of such person or of any ERISA Affiliate, (g) all obligations of such person in respect of any interest rate or currency swap, rate cap or other similar transaction (valued in an amount equal to the highest termination payment, if any, that would be payable by such person upon termination for any reason on the date of determination), and (h) all obligations of others similar in character to those described in clauses (a) through (g) of this definition for which such person is contingently liable, as guarantor, surety, accommodation party, partner or in any other capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of letters of credit, surety bonds, or similar obligations, and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the financial condition of such other person.

"Intangible Assets" means, for the Company or any of its Subsidiaries, the net book value, calculated in accordance with Generally Accepted Accounting Principles, of all items of the following character which are included in the assets of such person: (i) goodwill, including without limitation the excess of cost over book value of any asset, (ii) organization or experimental expenses, (iii) unamortized debt discount and expense, (iv) patents, trademarks, trade names and copyrights, (v) deferred taxes and deferred charges, (vi) franchises, licenses and permits, and (vii) other assets which are deemed intangible assets under Generally Accepted Accounting Principles.

"Interest Payment Date" means (a) with respect to any Eurodollar Rate Loan, the last day of each Interest Period with respect to such Eurodollar Rate Loan and, in the case of any Interest Period exceeding three months, those days that occur during such Interest Period at intervals of three months after the first day of such Interest Period, and (b) in all other cases, the last Business Day of each March, June, September, and December occurring after the date hereof, commencing with the first such Business Day occurring after the date of this Agreement.

"Interest Period" means any Eurodollar Interest Period.

"Letter of Credit" means a standby or commercial letter of credit, a time draft, a sight draft, a bankers acceptance, or a bank guaranty, each having a stated expiry date or a date upon which the draft must be reimbursed not later than twelve months after the date of issuance and not later

than the fifth Business Day before the Termination Date issued by the Bank for the account of the Company under an application and related documentation acceptable to the Bank requiring, among other things, immediate reimbursement by the Company to the Bank in respect of all drafts or other demand for payment honored thereunder and all expenses paid or incurred by the Bank relative thereto.

"Letter of Credit Advance" means any issuance of a Letter of Credit under Section 2.4 made pursuant to Section 2.1.

"Letter of Credit Documents" is defined in Section 3.3(b).

"Lien" means any pledge, assignment, hypothecation, mortgage, security interest, deposit arrangement, option, conditional sale or title retaining contract, sale and leaseback transaction, financing statement filing, lessor's or lessee's interest under any lease, subordination of any claim or right, or any other type of lien, charge, encumbrance, preferential arrangement, or other claim or right.

"Loan" means any Revolving Credit Loan and the Term Loan. Any Loan or portion thereof may also be denominated as a Floating Rate Loan or a Eurodollar Rate Loan and such Loans are referred to herein as "types" of Loans.

"Loan Documents" means, collectively, this Agreement, the Revolving Credit Note, the Reimbursement Agreement, the Term Loan Agreement, the Term Note, the European Facility, the Hurco Guaranty, the Guaranty, and all agreements, instruments, and documents executed pursuant thereto at any time.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, prospects, or condition (financial or otherwise) of the Company and its Subsidiaries on a consolidated basis, (b) the ability of the Company or any Guarantor to perform its obligations under any Loan Document, or (c) the validity or enforceability of any Loan Document or the rights or remedies of the Bank under any Loan Document.

"Maturity Date" means, with respect to the Term Loan, September 30, 1997.

"Multiemployer Plan" means any "multiemployer plan" as defined in Section 4001(a)(3) of ERISA or Section 414(f) of the Code.

"1996 Credit Agreement" means the Amended and Restated Credit Agreement and Amendment to Term Loan Agreement dated as of January 26, 1996, between the Company and NBD Michigan, as amended.

"NBD Assignment" means the Assignment and Assumption Agreement of even date herewith between NBD Michigan and the Bank.

"Net Assets Available for Benefits" shall mean, with respect to any Plan as of any date, the "Net assets available for benefits" of such Plan as defined in Statement of Financial Accounting Standards No. 35, determined pursuant to Generally Accepted Accounting Principles, uniformly applied.

"Note" means any Revolving Credit Note or any Term Note.

"Outstanding Facilities" means, collectively, the Advances, the Term Loan Agreement, the Term Note, the Reimbursement Agreement, the IRB L/C, the Guaranty, the European Facility, the Hurco Guaranty, and the Letters of Credit, each as existing following the Effective Date.

"Overdue Rate" means (a) in respect of principal of Floating Rate Loans, a rate per annum that is equal to the sum of two percent (2%) per annum plus the Floating Rate, (b) in respect of principal of Eurodollar Rate Loans, a rate per annum that is equal to the sum of two percent (2%) per annum plus the per annum rate in effect thereon until the end of the then-current Interest Period for such Loan and, thereafter, a rate per annum that is equal to the sum of two percent (2%) per annum plus the Floating Rate, and (c) in respect of other amounts payable by the Company hereunder (other than interest), a per annum rate that is equal to the sum of two percent (2%) per annum plus the Floating Rate.

"PBGC" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"PML" means Principal Mutual Life Insurance Company, an Iowa

corporation.

"PML Note Agreement" means the Amended and Restated Note Agreement dated as of March 24, 1994, as amended from time to time, between the Company and PML.

"PML Notes" means the \$12,500,000 11.12% Amended and Restated Senior Notes due December 1, 2000, issued pursuant to the PML Note Agreement, and any notes issued by PML in exchange or replacement therefor.

"Permitted Investments" means any investment in (i) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, (ii) commercial paper rated not less than "P-1" if rated by Moody's Investors Services, Inc., or not less than "A-1" if rated by Standard and Poor's Corporation, or (iii) time deposits or demand deposits with, including certificates of deposit issued by, a financial institution (which may be the Agent or any other financial institution) having a long-term debt rating of at least "A" as assigned by a nationally recognized credit rating agency, provided in each case that such investment matures within 90 days from the date of its acquisition.

"Permitted Liens" means Liens permitted by Section 5.2(e).

"person" shall include an individual, a corporation, an association, a partnership, a trust or estate, a joint stock company, an unincorporated organization, a joint venture, a trade or business (whether or not incorporated), a government (foreign or domestic), and any agency or political subdivision thereof, or any other entity.

"Plan" means, with respect to any person, any pension plan (including a Multiemployer Plan) subject to Title IV of ERISA or to the minimum funding standards of Section 412 of the Code which has been established or maintained by such person, any Subsidiary of such person or any ERISA Affiliate, or by any other person if such person, any Subsidiary of such person or any ERISA Affiliate could have liability with respect to such pension plan.

"Prime Rate" means the per annum rate announced by the Bank from time to time as its "prime rate" (it being acknowledged that the announced rate may not necessarily be the lowest rate charged by the Bank to any of its customers). The Prime Rate shall change simultaneously with any change in the announced rate.

"Pro Rata Share" as of any date means, for the Bank, the percentage obtained by dividing (a) the sum of the outstanding principal amount of the Term Loan, plus the face amount of the IRB L/C, plus the aggregate amount outstanding under the Advances, plus the aggregate amount available under the Commitment, all as of the specified date, by (b) the sum of the amount calculated under subsection (a) above plus the outstanding principal amount of the PML Notes as of the specified date. For PML, as of any date, the term "Pro Rata Share" means the percentage obtained by dividing the outstanding principal amount of the PML Notes as of the date specified by the amount calculated under subsection (b) above.

"Prohibited Transaction" means any transaction involving any Plan which is proscribed by Section 406 of ERISA or Section 4975 of the Code.

"Reimbursement Agreement" means the Reimbursement Agreement dated as of September 1, 1990, as amended, between the Company and NBD Michigan, pursuant to which the IRB L/C was issued.

"Rentals" as of the date of any determination thereof means all fixed payments (including all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the property) payable by the Company or a Subsidiary of the Company, as lessee or sublessee under a lease of real or personal property, but exclusive of any amounts required to be paid by the Company or a Subsidiary of the Company (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes, assessments, amortization and similar charges. Fixed rents under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

"Reportable Event" means a reportable event as described in Section 4043(b) of ERISA including those events as to which the thirty (30) day notice period is waived under Part 2615 of the regulations promulgated by the

PBGC under ERISA.

"Repurchased Shares" is defined in Section 4.7.

"Requirement of Law" means as to any person, the certificate of incorporation and by-laws or other organizational or governing documents of such person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other governmental authority, in each case applicable to or binding upon such person or any of its property to which such person or any of its property is subject.

"Revolving Credit Advance" means any Revolving Credit Loan and any Letter of Credit

Advance.

"Revolving Credit Loan" means any borrowing under Section 2.4 evidenced by the Revolving Credit Note and made pursuant to Section 2.1.

"Revolving Credit Note" means any promissory note of the Company evidencing the Revolving Credit Loans, in substantially the form annexed hereto as Exhibit A, as amended or modified from time to time and together with any promissory note or notes issued in exchange or replacement therefor.

"SBT" means the so-called Single Business Tax imposed by the State of Michigan.

"Subordinated Debt" of any person means, as of any date, that Indebtedness of such person for borrowed money which is expressly subordinate and junior in right and priority of payment to the Advances and other Indebtedness of such person to the Bank in manner and by agreement satisfactory in form and substance to the Bank.

"Subsidiary" of any person means any other person (whether now existing or hereafter organized or acquired) in which (other than directors qualifying shares required by law) at least a majority of the securities or other ownership interests of each class having ordinary voting power or analogous right (other than securities or other ownership interests which have such power or right only by reason of the happening of a contingency), at the time as of which any determination is being made, are owned, beneficially and of record, by such person or by one or more of the other Subsidiaries of such person or by any combination thereof. Unless otherwise specified, reference to "Subsidiary" means a Subsidiary of the Company.

"Tangible Net Worth" of any person means, as of any date, (a) the amount of any capital stock, paid-in capital, and similar equity accounts, plus (or minus in the case of a deficit) the capital surplus and retained earnings of such person and excluding the amount of any foreign currency translation adjustment account shown as a capital account of such person, plus (b) the amount of any Subordinated Debt, less (c) any treasury stock, and less (d) the Intangible Assets of such person.

"Term Loan" means the term loan issued by NBD Michigan to the Company under the Term Loan Agreement and evidenced by the Term Note.

"Term Loan Agreement" means the Term Loan Agreement dated as of September 9, 1991, between the Company and NBD Michigan, as amended from time to time and as further amended hereby.

"Term Note" means the Fourth Amended and Restated NBD Term Loan Note of the Company dated January 26, 1996, issued in favor of NBD Michigan, which evidences the Term Loan, as amended or modified from time to time and together with any promissory note or notes issued in exchange or replacement therefor.

"Termination Date" means the earlier to occur of (a) the Automatic Termination Date and (b) the date on which the Commitment shall be terminated pursuant to Section 2.2 or 6.2.

"Trust Indenture" means the Trust Indenture dated as of September 1, 1990, between the City of Indianapolis, Indiana, and First of America Bank-Indianapolis, as trustee, as amended from time to time, entered into in conjunction with the IRB Bonds.

"Unfunded Benefit Liabilities" means, with respect to any Plan

as of any date, the amount of the unfunded benefit liabilities determined in accordance with Section 4001(a)(18) of ERISA.

1.2 Other Definitions; Rules of Construction. The terms "Bank", "Company", and "Agreement" are defined in the introductory paragraph of this Agreement. Such terms, together with the other terms defined in Section 1.1, include both the singular and the plural forms thereof and shall be construed accordingly. All computations required hereunder and all financial terms used herein shall be made or construed in accordance with Generally Accepted Accounting Principles unless such principles are inconsistent with the express requirements of this Agreement; provided that, if the Company notifies the Bank that the Company wishes to amend any covenant in Article 5 to eliminate the effect of any change in Generally Accepted Accounting Principles in the operation of such covenant (or if the Bank notifies the Company that the Bank wishes to amend Article 5 for such purpose), then the Company's compliance with such covenant shall be determined on the basis of Generally Accepted Accounting Principles in effect immediately before the relevant change in Generally Accepted Accounting Principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and the Bank. Use of the terms "herein", "hereof", and "hereunder" shall be deemed references to this entire Agreement and not to the Section or clause in which the term appears. References to "Sections" and "subsections" shall be to Sections and subsections, respectively, of this Agreement unless otherwise specifically provided.

ARTICLE 2
THE COMMITMENTS AND THE ADVANCES

2.1 Commitment of the Bank.

(a).....Revolving Credit Advances. (i) Subject to the terms of this Agreement, the Bank agrees to make Revolving Credit Loans to the Company pursuant to Section 2.4 and Section 3.3, and to issue Letter of Credit Advances to the Company pursuant to Section 2.4, from time to time from and including the Effective Date to but excluding the Termination Date, not to exceed in aggregate principal amount at any time outstanding the amount determined pursuant to Section 2.1(c).

(ii)...By the NBD Assignment, NBD Michigan has assigned its rights and obligations under the 1996 Credit Agreement and the Term Loan Agreement to the Bank. The Bank agrees that this Agreement consolidates, amends, restates, and supersedes the 1996 Credit Agreement, and the Company acknowledges, accepts, and ratifies the Outstanding Facilities evidenced by this Agreement. All amounts outstanding under the 1996 Credit Agreement on the Effective Date shall constitute Loans under this Agreement, and the Company's obligations to NBD Michigan under the 1996 Credit Agreement are released. Each letter of credit, bankers acceptance, and bank guaranty issued by NBD Michigan for the Company's account which is outstanding under the 1996 Credit Agreement on the Effective Date (other than the IRB L/C) shall be treated for all purposes as Letters of Credit issued by the Bank under this Agreement, notwithstanding that NBD Michigan was and remains the issuer thereunder.

(b).....Term Loan. Subject to the terms of this Agreement and the NBD

Assignment, the Bank further agrees to continue the Term Loan on the Effective Date.

(c).....Limitation on Amount of Revolving Credit Advances. Notwithstanding anything in this Agreement to the contrary, (i) the aggregate principal amount of the Revolving Credit Advances made by the Bank at any time outstanding shall not exceed the amount of the Commitment as of the date any such Advance is made, provided, however, that the aggregate principal amount of Letter of Credit Advances outstanding at any time shall not exceed \$12,000,000; and (ii) the aggregate principal amount of the Revolving Credit Advances, plus the principal amount of loans made to Hurco Europe and Hurco GmbH under the European Facility, outstanding at any time shall not exceed the amount of \$22,500,000.

2.2 Termination and Reduction of Commitment.

(a).....The Company has the right to terminate or reduce the Commitment at any time and from time to time at its option, provided that (i)

the Company shall give notice of such termination or reduction to the Bank specifying the amount and effective date thereof, (ii) each partial reduction of the Commitment shall be in a minimum amount of \$1,000,000 and in an integral multiple of \$500,000, (iii) no such termination or reduction shall be permitted with respect to any portion of the Commitment as to which a request for a Advance pursuant to Section 2.4 is then pending, and (iv) the Commitment may not be terminated if any Advances are then outstanding and may not be reduced below the principal amount of Advances then outstanding. The Commitment or any portion thereof terminated or reduced pursuant to this Section 2.2, whether optional or mandatory, may not be reinstated.

(b).....For purposes of this Agreement, a Letter of Credit Advance (i) shall be deemed outstanding in an amount equal to the sum of the maximum amount available to be drawn under the related Letter of Credit on or after the date of determination and on or before the stated expiry date thereof plus the amount of any draws under such Letter of Credit that have not been reimbursed as provided in Section 3.3, and (ii) shall be deemed outstanding at all times on and before such stated expiry date or such earlier date on which all amounts available to be drawn under such Letter of Credit have been fully drawn, and thereafter until all related reimbursement obligations have been paid pursuant to Section 3.3. As provided in Section 3.3, upon each payment made by the Bank in respect of any draft or other demand for payment under any Letter of Credit, the amount of any Letter of Credit Advance outstanding immediately prior to such payment shall be automatically reduced by the amount of each Revolving Credit Loan deemed advanced in respect of the related reimbursement obligation of the Company.

2.3 Fees.

(a).....The Company agrees to pay to the Bank a commitment fee on the amount of the daily average unused amount of the Commitment which exceeds \$5,000,000, for the period from the Effective Date to but excluding the Termination Date, at a per annum rate equal to the Applicable Commitment Fee in effect on the relevant date on which the fee is payable. Accrued commitment fees shall be payable quarterly in arrears on each Interest Payment Date, commencing on the first such Business Day occurring after the Effective Date, and on the Termination Date.

(b).....The Company agrees to pay to the Bank on or prior to the Effective Date an arrangement fee in the amount of \$62,500.

(c).....The Company agrees to pay to the Bank a fee for any Letter of Credit other than a commercial letter of credit, which fee shall be computed at a rate per annum equal to the Applicable Eurodollar Rate Margin, multiplied by the maximum amount available to be drawn from time to time under the Letter of Credit, for the period from and including the Letter of Credit's issuance date to and including the Letter of Credit's stated expiry date, subject to the Bank's standard minimum fee existing at the time of issuance, and without duplication for any fees previously paid to NBD Michigan in connection with Letters of Credit outstanding under the 1996 Credit Agreement on the Effective Date. This fee shall be payable quarterly in advance, with an initial payment due on or before the issuance date of the Letter of Credit, and then on each Interest Payment Date thereafter. With respect to any Letter of Credit in the form of a commercial letter of credit, the Company agrees to pay to the Bank commercial letter of credit fees at times and in amounts as the Company and the Bank may agree from time to time. Such fees are nonrefundable and the Company shall not be entitled to any rebate of any portion thereof if the Letter of Credit does not remain outstanding through its stated expiry date or for any other reason. The Company further agrees to pay to the Bank, on demand, such other customary administrative fees, charges, and expenses of the Bank in respect of issuing, negotiating, accepting, amending, transferring, and paying each Letter of Credit or otherwise payable pursuant to the application and related documents under which each Letter of Credit is issued.

2.4 Disbursing Advances.

(a) The Company shall notify the Bank of its request for each Advance in substantially the form of Exhibit B not later than 11:00 a.m. Indianapolis time (i) three Eurodollar Business Days prior to the date such Advance is requested to be made if such Advance is to be made as a Eurodollar Rate Loan, (ii) five Business Days prior to the date any Letter of Credit Advance is requested to be made, and (iii) on the Business Day such Advance is requested to be made in all other cases, which notice shall specify whether a Eurodollar Rate Loan or Floating Rate Loan or a Letter of Credit Advance is requested and, in the case of each requested Eurodollar Rate Loan, the

Interest Period to be initially applicable to such Loan, and, in the case of each Letter of Credit Advance, such information as may be necessary for its issuance by the Bank. Subject to the terms of this Agreement, the proceeds of each requested Loan shall be made available to the Company by depositing the proceeds thereof in immediately available funds, in an account maintained and designated by the Company at the Bank's principal office.

(b) All Revolving Credit Loans made under Section 2.4 shall be evidenced by the Revolving Credit Note and the Term Loan shall be evidenced by the Term Note, and all such Loans shall be due and payable and bear interest as provided in Article 3. The Company authorizes the Bank to record on any schedule attached to the Notes, or in its books and records, the date, amount and type of each Loan and the duration of the related Interest Period (if applicable), the amount of each payment or prepayment of principal thereon, and any other applicable information, which schedule or books and records, as the case may be, shall constitute prima facie evidence of the information so recorded, provided, however, that failure of the Bank to record, or any error in recording, any such information shall not relieve the Company of its obligation to repay the outstanding principal amount of the Loans, all accrued interest thereon, and all other amounts payable with respect thereto in accordance with the Notes and this Agreement. Subject to the terms of this Agreement, the Company may borrow Revolving Credit Loans under this Section 2.4 and under Section 3.3, prepay Revolving Credit Loans pursuant to Section 3.1, and reborrow Revolving Credit Loans under this Section 2.4 and under Section 3.3.

(c) Subject to the terms of this Agreement, on the date any Letter of Credit Advance is requested to be made, the Bank shall issue the related Letter of Credit for the account of the Company. Notwithstanding anything herein to the contrary, the Bank may decline to issue any requested Letter of Credit on the basis that the beneficiary, the purpose of issuance, or the terms of drawing are unacceptable to it in its discretion.

2.5 Conditions for First Disbursement. The obligation of the Bank to make the first Advance hereunder is subject to the Company delivering the following documents and the following matters being completed, all in form and substance satisfactory to the Bank:

(a).....Charter Documents. Certificates of recent date of the appropriate authority or official of the Company's and the Guarantors' respective states of incorporation listing all charter documents of the Company and the Guarantors on file in that office and certifying as to the good standing and corporate existence of the Company and the Guarantors, together with copies of such charter documents of the Company and the Guarantors, certified as of a recent date by such authority or official and certified as true and correct as of the Effective Date by a duly authorized officer of the Company and the Guarantors, respectively;

(b).....By-Laws and Corporate Authorizations. The Company's by-laws, together with all authorizing resolutions and evidence of other corporate action taken by the Company to authorize its execution, delivery and performance of this Agreement and the Notes, and the consummation by the Company of the transactions contemplated hereby, certified as true and correct as of the Effective Date by a duly authorized officer of the Company, and the Guarantors' respective by-laws, together with all authorizing resolutions and evidence of other corporate action taken by the Guarantors to authorize their respective execution, delivery and performance of the Guaranty, and the consummation by the Guarantors of the transactions contemplated thereby, certified as true and correct as of the Effective Date by a duly authorized officer of the respective Guarantors;

(c).....Incumbency Certificate. A certificate of incumbency of the Company and each Guarantor containing, and attesting to the genuineness of, the signatures of those officers authorized to act on behalf of the Company and the Guarantors in connection with this Agreement, the Notes, and the Guaranty and their respective consummation of the transactions contemplated thereby, certified as true and correct as of the Effective Date by a duly authorized officer of the Company or the Guarantors, as applicable;

(d).....Notes and Guaranties. The Revolving Credit Note duly executed on behalf of the Company, and the Guaranty duly executed on behalf of each Guarantor;

(e).....Legal Opinions. The favorable written opinion of Baker & Daniels, counsel for

the Company and the Guarantors, in the form attached hereto as Exhibit D;

(f).....Consents, Approvals, Etc. Copies of all governmental and non-governmental consents, approvals, authorizations, declarations, registrations or filings, if any, required on the part of the Company or the Guarantors in connection with the execution, delivery, and performance of the Loan Documents, or the transactions contemplated thereby or as a condition to the legality, validity or enforceability of the Loan Documents, certified as true and correct and in full force and effect as of the Effective Date by a duly authorized officer of the Company or the Guarantors, or, if none are required, a certificate of such officer to that effect;

(g).....Fees. The arrangement fee described in Section 2.3(b);

(h).....European Facility and Hurco Guaranty. A letter agreement, in form and substance satisfactory to the Bank, evidencing the European Facility, duly executed by Hurco Europe and Hurco GmbH, and the Hurco Guaranty duly executed by the Company, together with any documents and certificates required to be delivered thereunder;

(i).....NBD Assignment and Participation Agreement. The NBD Assignment, duly executed by NBD Michigan, FCNBD, and the Bank, and the Participation Agreement, duly executed by NBD Michigan and the Bank;

(j).....PML Documents. The PML Note Agreement duly executed by PML and the Company, and the PML Notes duly executed by the Company; and

(k).....Other. Such other documents, and completing such other matters, as the Bank

may reasonably request.

2.6 Further Conditions for Disbursement. The obligation of the Bank to make any Advance (including the first Advance) is further subject to the following conditions being satisfied:

(a).....The representations and warranties contained in Article 4 shall be true and correct on and as of the date such Advance is made (both before and after such Advance is made) as if such representations and warranties were made on and as of such date;

(b).....No Default or Event of Default shall exist or shall have occurred and be continuing on the date such Advance is made (whether before or after such Advance is made);

(c).....In the case of any Letter of Credit Advance, the Company shall have delivered to the Bank an application for the related Letter of Credit and other related documentation requested by and acceptable to the Bank appropriately completed and duly executed on behalf of the Company.

The Company shall be deemed to have made a representation and warranty to the Bank at the time of the making of, and the continuation or conversion of, each Advance to the effect set forth in clauses (a) and (b) of this Section 2.6. For purposes of this Section 2.6, the representations and warranties contained in Section 4.6 shall be deemed made with respect to both the financial statements referred to therein and the most recent financial statements delivered pursuant to Section 5.1(d) (ii) and (iii).

2.7 Subsequent Elections as to Loans. The Company may elect (a) to continue a Eurodollar Rate Loan, or a portion thereof, as a Eurodollar Rate Loan, or (b) may elect to convert a Eurodollar Rate Loan, or a portion thereof, to a Loan of another type, or (c) elect to convert a Floating Rate Loan, or a portion thereof, to a Eurodollar Rate Loan, in each case by giving notice thereof to the Bank in substantially the form of Exhibit C hereto not later than 11:00 a.m. Indianapolis time three Eurodollar Business Days prior to the date any such continuation of or conversion to a Eurodollar Rate Loan is to be effective and not later than 11:00 a.m. Indianapolis time one Business Day prior to the date such continuation or conversion is to be effective in all other cases, provided that an outstanding Eurodollar Rate Loan may only be converted on the last day of the then-current Interest Period with respect to such Loan, and provided, further, if a continuation of a Loan as, or a conversion of a Loan

to, a Eurodollar Rate Loan is requested, such notice shall also specify the Interest Period to be applicable thereto upon such continuation or conversion. If the Company shall not timely deliver such a notice with respect to any outstanding Eurodollar Rate Loan, the Company shall be deemed to have elected to convert such Eurodollar Rate Loan to a Floating Rate Loan on the last day of the then-current Interest Period with respect to such Loan.

2.8 Limitation of Requests and Elections. Notwithstanding any other provision of this Agreement to the contrary, if, upon receiving a request for a Eurodollar Rate Loan pursuant to Section 2.4, or a request for a continuation of a Eurodollar Rate Loan as a Eurodollar Rate Loan of the then-existing type or a request for a conversion of a Floating Rate Loan to a Eurodollar Rate Loan pursuant to Section 2.7, (a) in the case of any Eurodollar Rate Loan, deposits in Dollars for periods comparable to the Interest Period elected by the Company are not available to the Bank in the London interbank market, or (b) the Eurodollar Rate will not adequately and fairly reflect the cost to the Bank of making, funding, or maintaining the related Eurodollar Rate Loan, or (c) by reason of national or international financial, political, or economic conditions or by reason of any applicable law, treaty, or other international agreement, rule or regulation (whether domestic or foreign) now or hereafter in effect, or the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request, or directive of such authority (whether or not having the force of law), including without limitation exchange controls, it is impracticable, unlawful, or impossible for, or shall limit or impair the ability of, (i) the Bank to make or fund the relevant Loan or to continue such Loan as a Loan of the then-existing type or to convert a Loan to such a Loan, or (ii) the Company to make or the Bank to receive any payment under this Agreement at the place specified for payment hereunder or to freely convert any amount paid into Dollars at market rates of exchange or to transfer any amount paid or so converted to the address of its principal office specified in Section 7.2, then the Company shall not be entitled, so long as such circumstances continue, to request a Loan of the affected type pursuant to Section 2.4 or a continuation of or conversion to a Loan of the affected type pursuant to Section 2.7. In the event that such circumstances no longer exist, the Bank shall again consider requests for Loans of the affected type pursuant to Section 2.4, and for continuations of and conversions to Loans of the affected type pursuant to Section 2.7.

Notwithstanding any other provision of this Agreement to the contrary and in order to give effect to the provisions of Section 3.1(a)(ii), the Company shall make requests for Eurodollar Rate Loans pursuant to Section 2.4, and requests for continuations of and conversions to Eurodollar Rate Loans pursuant to Section 2.7, such that, on each date that any scheduled principal payment is due with respect to the Term Loan pursuant to Section 3.1(a), either Floating Rate Loans, or Eurodollar Rate Loans having an Interest Period ending on such date, or any combination thereof, are outstanding on such date in an aggregate outstanding principal amount not less than the amount of such principal payment.

2.9 Minimum Amounts; Limitation on Number of Loans; Etc. Except for (a) Advances which exhaust the entire remaining amount of the Commitments, and (b) payments required pursuant to Section 3.8, each Eurodollar Rate Loan and each continuation or conversion pursuant to Section 2.7, and each prepayment thereof shall be in a minimum amount of \$1,000,000 and in an integral multiple of \$100,000, and each Floating Rate Loan and each continuation or conversion pursuant to Section 2.7, and each prepayment thereof shall be in a minimum amount of \$100,000 and in an integral multiple of \$10,000. The aggregate number of Eurodollar Rate Loans outstanding at any one time under this Agreement may not exceed six (6). Letter of Credit Advances may be issued in any denomination acceptable to the Bank.

ARTICLE 3 PAYMENTS AND PREPAYMENTS OF ADVANCES

3.1 Principal Payments and Prepayments.

(a).....Unless earlier payment is required under this Agreement, (i) the Company shall pay to the Bank the entire outstanding principal amount of the Revolving Credit Loans on the Termination Date, and (ii) the Company shall pay to the Bank the outstanding principal amount of the Term Loan on the Maturity Date, when the entire outstanding principal amount of the Term Loan shall be due and payable.

(b).....If at any time the principal amounts of the Advances exceed the Commitment, and upon written notice from the Bank of such occurrence, the Company shall immediately pay to the Bank an amount not less than the amount of such excess, to be applied first to the amounts outstanding under the Loans, and then deposited in an interest-bearing cash collateral account to secure amounts outstanding under the Letters of Credit.

(c).....The Company shall pay or cause to be paid when due (i) all regularly scheduled principal payments on the Outstanding Facilities and (ii) all payments of interest and fees (including without limitation letter of credit fees and commitment fees) which are owing under the Outstanding Facilities.

(d).....Within fifteen days after the Company closes the fiscal month in which an asset sale has occurred from which the Company has received Asset Sale Proceeds, the Company shall pay to the Bank an amount not less than the Bank's Pro Rata Share as of the end of such month of the Asset Sale Proceeds, to be applied first to amounts outstanding under the Loans, and then deposited in an interest-bearing cash collateral account to secure amounts outstanding under the Letters of Credit. At that time, the Company may also pay to PML an amount not greater than PML's Pro Rata Share of the Asset Sale Proceeds, to be applied to the amounts outstanding under the PML Notes.

(e).....The Company may at any time and from time to time prepay all or a portion of the Loans, without premium or penalty, provided that the Company shall have notified the Bank not later than 12:00 p.m. Noon Indianapolis time on the Business Day a payment is to be made, and provided, further, (i) the Company may not prepay any portion of any Loan as to which an election for a continuation of or a conversion to a Eurodollar Rate Loan is pending pursuant to Section 2.4, and (ii) unless earlier payment is required under this Agreement, any Eurodollar Rate Loan may only be prepaid on the last day of the then-current Interest Period with respect to such Loan. Upon the giving of such notice, the aggregate principal amount of such Loan or portion thereof so specified in such notice, together with such accrued interest and other amounts, shall become due and payable on the specified prepayment date.

(f).....Prepayments of the Term Loan, whether optional or mandatory, shall be applied to installments of principal of the Term Loan in the inverse order of their maturities, and no partial prepayment of the Term Loan shall reduce the amount or defer the date of the scheduled installments of principal required to be paid thereon.

3.2 Interest Payments. The Company shall pay interest to the Bank on the unpaid principal amount of each Loan, for the period commencing on the date the Loan is made until the Loan is paid in full, on each Interest Payment Date and at maturity (whether at stated maturity, by acceleration, or otherwise), and thereafter on demand, at the following rates per annum:

(a).....During such periods that the Loan is a Floating Rate Loan, the Floating Rate;

(b).....During such periods that the Loan is a Eurodollar Rate Loan, the Eurodollar Rate applicable to the Loan for each related Eurodollar Interest Period.

Notwithstanding the foregoing paragraphs (a) and (b), the Company shall pay interest on demand by the Bank at the Overdue Rate on the outstanding principal amount of any Loan and any other amount payable by the Company hereunder (other than interest) at any time on or after an Event of Default unless otherwise requested in writing by the Bank.

3.3 Letter of Credit Reimbursement Payments.

(a)..... (i) The Company agrees to pay to the Bank, on the day on which the Bank shall honor a draft or other demand for payment presented or made under any Letter of Credit, an amount equal to the amount paid by the Bank in respect of such draft or other demand under such Letter of Credit and all expenses paid or incurred by the Bank relative thereto. Unless the Company shall have made such payment to the Bank on such day, upon each such payment by the Bank, the Bank shall be deemed to have disbursed to the Company, and the Company shall be deemed to have elected to satisfy its reimbursement obligation by, a Revolving Credit Loan bearing interest at the Floating Rate for the account of the Bank in an amount equal to the amount so paid by the Bank in respect of such draft or other demand under such Letter of Credit. Such Revolving Credit Loan shall be disbursed notwithstanding any failure to satisfy

any conditions for disbursement of any Loan set forth in Article 2 and, to the extent of the Revolving Credit Loan so disbursed, the reimbursement obligation of the Company under this Section 3.3 shall be deemed satisfied; provided, however, that nothing in this Section 3.3 shall be deemed to constitute a waiver of any Default or Event of Default caused by failing to satisfy the conditions for disbursement or otherwise.

.....(ii)....If, for any reason (including without limitation as a result of the occurrence of an Event of Default with respect to the Company pursuant to Section 6.1(h)), Floating Rate Loans may not be made by the Bank as described in Section 3.3(a)(i), then the Company agrees that each reimbursement amount not paid pursuant to the first sentence of Section 3.3(a)(i) shall bear interest, payable on demand by the Bank, at the interest rate then applicable to Floating Rate Loans.

(b).....The reimbursement obligation of the Company under this Section 3.3 shall be absolute, unconditional, and irrevocable and shall remain in full force and effect until all obligations of the Company to the Bank hereunder shall have been satisfied, and such obligations of the Company shall not be affected, modified, or impaired upon the happening of any event, including without limitation any of the following, whether or not with notice to, or the consent of, the Company:

(i).....Any lack of validity or enforceability of any Letter of Credit or any documentation relating to any Letter of Credit or to any transaction related in any way to such Letter of Credit (the "Letter of Credit Documents");

(ii).....Any amendment, modification, or waiver of, or any consent, substitution, exchange or release of or failure to perfect any interest in collateral or security with respect to, any of the Letter of Credit Documents;

(iii)....The existence of any claim, setoff, defense, or other right which the Company may have at any time against any beneficiary or any transferee of any Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee may be acting), the Bank or any other person or entity, whether in connection with any of the Letter of Credit Documents, the transactions contemplated herein or therein, or any unrelated transactions;

(iv).....Any draft or other statement or document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v).....Payment by the Bank to the beneficiary under any Letter of Credit against presentation of documents which do not comply with the Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit, so long as such documents substantially comply with the terms of the Letter of Credit;

(vi).....Any failure, omission, delay, or lack on the part of the Bank or any party to any of the Letter of Credit Documents to enforce, assert or exercise any right, power, or remedy conferred upon the Bank or any such party under this Agreement or any of the Letter of Credit Documents, or any other acts or omissions on the part of the Bank or any such party;

(vii) Any other event or circumstance that would, in the absence of this clause, result in the release or discharge by operation of law or otherwise of the Company from performing or observing any obligation, covenant, or agreement contained in this Section.

No setoff, counterclaim, reduction, or diminution of any obligation or any defense of any kind or nature which the Company has or may have against the beneficiary of any Letter of Credit shall be available hereunder to the Company against the Bank. Nothing in this Section shall limit the liability, if any, of the Bank to the Company pursuant to Section 7.5.

3.4 Payment Method.

(a).....All payments to be made by the Company hereunder will be made to the Bank in Dollars and in immediately available, freely transferable, cleared funds not later than 1:00 p.m. Indianapolis time at the principal office of the Bank specified in Section 7.2. Payments received after 1:00 p.m. at the place for payment shall be deemed to be payments made prior to 1:00 p.m. at the place for payment on the next succeeding Business Day. The Company hereby authorizes the Bank to charge its account with the Bank in order to cause timely payment of amounts due hereunder to be made (subject to sufficient funds being available in such account for that purpose).

(b).....At the time of making each such payment, the Company shall, subject to the other terms of this Agreement, specify to the Bank the Loan or other obligation of the Company hereunder to which such payment is to be applied. In the event that the Company fails to so specify the relevant obligation or if an Event of Default shall have occurred and be continuing, the Bank may apply such payments as it may determine in its sole discretion.

3.5 No Setoff or Deduction. All payments of principal of and interest on the Loans and other amounts payable by the Company hereunder shall be made by the Company without setoff or counterclaim, and, subject to the next succeeding sentence, free and clear of, and without deduction or withholding for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments, or other charges of whatever nature, imposed by any governmental authority, or by any department, agency or other political subdivision or taxing authority. If any such taxes, levies, imposts, duties, fees, assessments or other charges are imposed, the Company will pay such additional amounts as may be necessary so that payment of principal of and interest on the Loans and other amounts payable hereunder, after withholding or deduction for or on account thereof, will not be less than any amount provided to be paid hereunder and, in any such case, the Company will furnish to the Bank certified copies of all tax receipts evidencing the payment of such amounts within 45 days after the date any such payment is due pursuant to applicable law.

3.6 Payment on Non-Business Day; Payment Computations. Except as otherwise provided in this Agreement to the contrary, whenever any installment of principal of, or interest on, any Loan or any other amount due hereunder becomes due and payable on a day which is not a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of any installment of principal, interest shall be payable thereon at the rate per annum determined in accordance with this Agreement during such extension. Computations of interest and other amounts due under this Agreement shall be made on the basis of a year of 360 days for the actual number of days elapsed, including the first day but excluding the last day of the relevant period.

3.7 Additional Costs.

(a).....In the event that any applicable law, treaty or other international agreement, rule, or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to the Bank, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive of any such authority (whether or not having the force of law), shall (a) affect the basis of taxation of payments to the Bank of any amounts payable by the Company under this Agreement (other than taxes imposed on the overall net income of the Bank, by the jurisdiction, or by any political subdivision or taxing authority of any such jurisdiction, in which the Bank has its principal office), or (b) shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Bank, or (c) shall impose any other condition with respect to this Agreement, or any of the Commitments, the Notes, or the Loans or any Letter of Credit, and the result of any of the foregoing is to increase the cost to the Bank of making, funding, or maintaining any Eurodollar Rate Loan or any Letter of Credit or to reduce the amount of any sum receivable by the Bank thereon, then the Company shall pay to the Bank, from time to time, upon its request, additional amounts sufficient to compensate the Bank for such increased cost or reduced sum receivable to the extent, in the case of any Eurodollar Rate Loan, the Bank is not compensated therefor in computing the interest rate applicable to such Eurodollar Rate Loan. A statement as to the amount of such increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Company, shall be conclusive and binding for all purposes absent manifest error in computation.

(b).....In the event that any applicable law, treaty, or other international agreement, rule, or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to the Bank, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive of any such authority (whether or not having the force of law), including any risk-based capital guidelines, affects or would affect the amount of capital required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital is increased by or based upon the existence of the Bank's obligations hereunder and such increase has the effect of reducing the rate of return on the Bank's (or such controlling corporation's) capital as a consequence of such obligations hereunder to a level below that which the Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy), then the Company shall pay to the Bank from time to time, upon request by the Bank, additional amounts sufficient to compensate such Bank (or such controlling corporation) for any increase in the amount of capital and reduced rate of return which the Bank reasonably determines to be allocable to the existence of the Bank's obligations hereunder. A statement as to the amount of such compensation, prepared in good faith and in reasonable detail by the Bank and submitted to the Company, shall be conclusive and binding for all purposes absent manifest error in computation. The Bank may, at its option, specify that such amounts be paid by way of an increase in the commitment fees payable by the Company pursuant to Section 2.3(a).

3.8 Illegality and Impossibility. In the event that any applicable law, treaty, or other international agreement, rule, or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to the Bank, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request, or directive of such authority (whether or not having the force of law), including without limitation exchange controls, shall make it unlawful or impossible for the Bank to maintain any Loan under this Agreement, shall make it impracticable, unlawful or impossible for, or shall in any way limit or impair ability of, the Company to make or the Bank to receive any payment under this Agreement at the place specified for payment hereunder, the Company shall, upon receiving notice thereof from the Bank, repay in full the then-outstanding principal amount of each Loan so affected, together with all accrued interest thereon to the date of payment and all amounts owing to the Bank under Section 3.8, (a) on the last day of the then-current Interest Period applicable to the Loan if the Bank may lawfully continue to maintain the Loan to that day, or (b) immediately if the Bank may not continue to maintain the Loan to that day.

3.9 Indemnification. If the Company makes any payment of principal with respect to any Eurodollar Rate Loan on any other date than the last day of an Interest Period applicable thereto (whether pursuant to Section 3.7, Section 6.2, or otherwise), or if the Company fails to borrow any Eurodollar Rate Loan after notice has been given to the Bank in accordance with Section 2.4, or if the Company fails to make any payment of principal or interest in respect of a Eurodollar Rate Loan when due, the Company shall reimburse the Bank on demand for any resulting loss or expense incurred by the Bank, including without limitation any loss incurred in obtaining, liquidating, or employing deposits from third parties, whether or not the Bank shall have funded or committed to fund the Loan. A statement as to the amount of such loss or expense, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Company, shall be conclusive and binding for all purposes absent manifest error in computation. Calculation of all amounts payable to the Bank under this Section 3.9 shall be made as though the Bank shall have actually funded or committed to fund the relevant Eurodollar Rate Loan through the purchase of an underlying deposit in an amount equal to the amount of the Loan in the relevant market and having a maturity comparable to the related Interest Period and through the transfer of such deposit to a domestic office of the Bank in the United States; provided, however, that the Bank may fund any Eurodollar Rate Loan in any manner it sees fit and the foregoing assumption shall be utilized only for the purpose of calculating amounts payable under this Section 3.9.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Bank that:

4.1 Corporate Existence and Power. Each of the Company and its Active Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the state of its jurisdiction of incorporation or organization, and is duly qualified to do business, and is in good standing, in all additional jurisdictions where such qualification is necessary under applicable law. The Company has all requisite corporate power to own or lease the properties used in its business and to carry on its business as now being conducted and as proposed to be conducted, and to execute and deliver this Agreement and the Notes and to engage in the transactions contemplated by this Agreement.

4.2 Corporate Authority. The execution, delivery and performance by the Company of this Agreement and the Notes have been duly authorized by all necessary corporate action and are not in contravention of any law, rule or regulation, or any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority, or of the terms of the Company's charter or by-laws, or of any contract or undertaking to which the Company is a party or by which the Company or any of its property may be bound or affected and will not result in the imposition of any Lien except for Permitted Liens. The execution, delivery and performance by the Guarantors of the Guaranty have been duly authorized by all necessary corporate action and are not in contravention of any law, rule or regulation, or any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority, or of the terms of the Guarantors' charter or by-laws, or of any contract or undertaking to which any Guarantor is a party or by which any Guarantor or any of their respective property may be bound or affected and will not result in the imposition of any Lien except for Permitted Liens.

4.3 Binding Effect. This Agreement is, and the Notes and the Guaranty when delivered hereunder will be, legal, valid and binding obligations of the Company and the Guarantors, respectively, which are signatories thereto, enforceable against each of them in accordance with their respective terms.

4.4 Subsidiaries. Schedule 4.4 hereto correctly sets forth the corporate name, jurisdiction of incorporation, and ownership of each Active Subsidiary, and the corporate name of each Inactive Subsidiary. Each Subsidiary of the Company and each corporation becoming a Subsidiary of the Company after the date hereof is and will be a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation and is and will be duly qualified to do business in each additional jurisdiction where such qualification is or may be necessary under applicable law. Each Subsidiary of the Company has and will have all requisite corporate power to own or lease the properties used in its business and to carry on its business as now being conducted and as proposed to be conducted. All outstanding shares of capital stock of each Subsidiary of the Company have been and will be validly issued and are and will be fully paid and nonassessable and, except as otherwise indicated in Schedule 4.4 hereto or disclosed in writing to the Bank from time to time, are and will be owned, beneficially and of record, by the Company or another Subsidiary of the Company, free and clear of any Liens.

4.5 Litigation. Except as set forth in Schedule 4.5 hereto, there is no action, suit or proceeding pending or, to the best of the Company's knowledge, threatened against or affecting the Company or any of its Subsidiaries before or by any court, governmental authority, or arbitrator, which if adversely decided might have a Material Adverse Effect and, to the best of the Company's knowledge, there is no basis for any such action, suit or proceeding.

4.6 Financial Condition. The consolidated balance sheet of the Company and its Subsidiaries and the related consolidated statements of operations and cash flows and consolidated changes in shareholders equity of the Company and its Subsidiaries for the fiscal year ended October 31, 1996, and reported on by the Company's independent certified public accountants, and the interim consolidated balance sheet and interim consolidated statements of operations and cash flows and consolidated changes in shareholders equity of the Company and its Subsidiaries, as of or for the six-month period ended on April 30, 1997, copies of which have been furnished to the Bank, fairly present, and the financial statements of the Company and its Subsidiaries delivered pursuant to Section 5.1(d) will fairly present, the consolidated financial position of the Company and its Subsidiaries as at the respective dates thereof, and the consolidated results of operations of the Company and its Subsidiaries for the respective periods indicated, all in accordance with Generally Accepted Accounting Principles consistently applied (subject, in the case of any interim statements, to year-end audit adjustments). Except as reflected in the financial statements delivered to the Bank for the period ended April 30, 1997, there has been no event or development which has had or could reasonably be expected to

have a Material Adverse Effect since October 31, 1996. Except as reflected in the financial statements delivered to the Bank for the period ended April 30, 1997, and except for any letters of credit, bankers acceptances, and bankers guaranties issued by the Bank or NBD Michigan since October 31, 1996, there is no material Contingent Liability of the Company or any of its Subsidiaries that is not reflected in such financial statements or in the notes thereto.

4.7 Use of Advances. The Company will use the proceeds of the Advances for its general corporate purposes, and to repurchase shares of its common stock from time to time at prevailing market prices (any shares so purchased, the "Repurchased Shares"). Neither the Company nor any of its Subsidiaries extends or maintains, in the ordinary course of business, credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance will be used for the purpose, whether immediate, incidental, or ultimate, of buying or carrying any such margin stock or maintaining or extending credit to others for such purpose. After applying the proceeds of each Advance, such margin stock will not constitute more than 25% of the value of the assets (either of the Company alone or of the Company and its Subsidiaries on a consolidated basis) that are subject to any provisions of this Agreement that may cause the Advances to be deemed secured, directly or indirectly, by margin stock.

4.8 Consents, Etc. Except for such consents, approvals, authorizations, declarations, registrations or filings delivered by the Company pursuant to Section 2.5(f), if any, each of which is in full force and effect, no consent, approval, or authorization of, or declaration, registration, or filing with, any governmental authority or any nongovernmental person or entity, including without limitation any creditor, lessor or stockholder of the Company or any of its Subsidiaries, is required on the part of the Company or any Guarantor in connection with the execution, delivery, and performance of the Loan Documents, or the transactions contemplated hereby or thereby, or as a condition to the legality, validity, or enforceability of any of the Loan Documents.

4.9 Taxes. The Company and its Subsidiaries have filed all tax returns (foreign and domestic; federal, state, and local) required to be filed and have paid all taxes shown thereon to be due, including interest and penalties, or have established adequate financial reserves on their respective books and records for payment thereof in accordance with Generally Accepted Accounting Principles. Neither the Company nor any of its Subsidiaries knows of any actual or proposed tax assessment or any basis therefor, and no extension of time for the assessment of deficiencies in any tax has been granted by the Company or any such Subsidiary.

4.10 Title to Properties. Except as otherwise disclosed in the latest balance sheet delivered pursuant to Section 4.6 or 5.1(d), the Company or one or more of its Subsidiaries have good and marketable fee simple title to all of the real property, and a valid and indefeasible ownership interest in all of the other properties and assets reflected in said balance sheet or subsequently acquired by the Company or any such Subsidiary. All of such properties and assets are free and clear of any Lien, except for Permitted Liens.

4.11 ERISA. The Company, its Domestic Subsidiaries, their ERISA Affiliates, and their respective Plans are in compliance in all material respects with those provisions of ERISA and of the Code which are applicable with respect to any Plan. No Prohibited Transaction and no Reportable Event has occurred with respect to any such Plan. None of the Company, any of its Domestic Subsidiaries, or any of their ERISA Affiliates is an employer with respect to any Multiemployer Plan. The Company, its Domestic Subsidiaries, and their ERISA Affiliates have met the minimum funding requirements as currently applicable under ERISA and the Code with respect to each of their respective Plans, if any, and have not incurred any liability to the PBGC or any Plan. The execution, delivery, and performance of the Loan Documents do not constitute a Prohibited Transaction. The Actuarial Present Value of Accumulated Plan Benefits does not exceed the Net Assets Available for Benefits with respect to any Plan of the Company, its Domestic Subsidiaries, or their ERISA Affiliates on an on-going basis.

4.12 Disclosure. No report or other information furnished in writing by or on behalf of the Company or any Guarantor or any of their officers or agents to the Bank in connection with the negotiation or administration of this Agreement contains any material misstatement of fact or omits to state any material fact necessary to make the statements contained therein not misleading in light of the circumstances in which they were made. Neither this Agreement or the other Loan Documents, nor any other document, certificate, report, or

statement or other information furnished to the Bank by or on behalf of the Company or any Guarantor in connection with the transactions contemplated herein contains any untrue statement of a material fact or omits to state a material fact in order to make the statements contained herein and therein not misleading in light of the circumstances in which they were made. There is no fact known to the Company or any Guarantor which has, or which in the future may have (so far as the Company can now foresee) a Material Adverse Effect, which has not been set forth in this Agreement or in the other documents, certificates, statements, reports, and other information furnished in writing to the Bank by or on behalf of the Company or any Guarantor in connection with the transactions contemplated hereby.

4.13 Environmental and Safety Matters. The Company and each of its Subsidiaries is in material compliance with all national, state, and local laws, ordinances, and regulations relating to safety and industrial hygiene or to the environmental condition, including without limitation all Environmental Laws in jurisdictions in which the Company or any such Subsidiary owns or operates, or has owned or operated, a facility or site, or arranges or has arranged for disposal or treatment of hazardous substances, solid waste, or other wastes, accepts or has accepted for transport any hazardous substances, solid wastes, or other wastes or holds or has held any interest in real property or otherwise, except where the failure to so comply will not have a Material Adverse Effect. No demand, claim, notice, action, administrative proceeding, investigation, or inquiry, whether brought by any governmental authority, private person or entity, or otherwise, arising under, relating to or in connection with any Environmental Laws is pending or threatened against the Company or any of its Subsidiaries, any real property in which the Company or any of its Subsidiary holds or has held an interest, or any past or present operation of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries (a) is the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic substances, radioactive materials, hazardous wastes, or related materials into the environment, (b) has received any notice of any toxic substances, radioactive materials, hazardous waste, or related materials in or upon any of its properties in violation of any Environmental Laws, (c) knows of any basis for any such investigation, notice, or violation, or (d) owns or operates, or has owned or operated, property which appears on the United States National Priority List or any other governmental listing which identifies sites for remedial clean-up or investigatory actions, except as disclosed on Schedule 4.13 hereto, and as to such matters disclosed on such Schedule, none will have a Material Adverse Effect. No release, threatened release or disposal of hazardous waste, solid waste, or other wastes is occurring or has occurred on, under, or to any real property in which the Company or any of its Subsidiaries holds any interest or performs any of its operations, in violation of any Environmental Law.

4.14 No Default. Neither the Company nor any Subsidiary is in default or has received any written notice of default under or with respect to any of its Contractual Obligations in any respect which could have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

4.15 No Burdensome Restrictions. No Requirement of Law or Contractual Obligation applicable to the Company or any Subsidiary could have a Material Adverse Effect on the financial condition or business of the Company and its Subsidiaries.

ARTICLE 5 COVENANTS

5.1 Affirmative Covenants. The Company covenants and agrees that, until the Termination Date and thereafter until the principal of and accrued interest on the Notes has been paid in full and all other obligations of the Company and the Guarantors under this Agreement and the other Loan Documents have been performed, unless the Bank shall otherwise consent in writing, it shall, and shall cause each of its Active Subsidiaries to:

(a).....Preservation of Corporate Existence, Etc. Do or cause to be done all things necessary to preserve, renew, and keep in full force and effect its legal existence, except to the extent permitted by Section 5.2(f), and its qualification as a foreign corporation in good standing in each jurisdiction in which such qualification is necessary under applicable law, and the rights, licenses, permits (including those required under Environmental Laws), franchises, patents, copyrights, trademarks, and trade names material to conducting its business, and defend all of the foregoing against all claims,

actions, demands, suits, or proceedings at law or in equity or by or before any governmental instrumentality or other agency or regulatory authority.

(b).....Compliance with Laws, Etc. Comply in all material respects with all applicable laws, rules, regulations, and orders of any governmental authority, whether federal, state, local, or foreign (including without limitation ERISA, the Code, and Environmental Laws), in effect from time to time, and pay and discharge promptly when due all taxes, assessments, and governmental charges or levies imposed upon it or upon its income, revenues or property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials, and supplies or otherwise, which, if unpaid, might give rise to Liens upon such properties or any portion thereof, except to the extent that payment of any of the foregoing is then being contested in good faith by appropriate legal proceedings and with respect to which adequate financial reserves have been established on the books and records of the Company or any of its Subsidiaries in accordance with Generally Accepted Accounting Principles.

(c).....Maintenance of Properties; Insurance. Maintain, preserve, and protect all property that is material to the conduct of the business of the Company or any of its Subsidiaries and keep such property in good repair, working order, and condition and from time to time make or cause to be made all needful and proper repairs, renewals, additions, improvements, and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times in accordance with customary and prudent business practices for similar businesses; and maintain in full force and effect insurance with responsible and reputable insurance companies or associations in such amounts, on such terms, and covering such risks, including fire and other risks insured against by extended coverage, as is usually carried by companies engaged in similar businesses and owning similar properties similarly situated, and maintain in full force and effect public liability insurance, insurance against claims for personal injury or death, or property damage occurring in connection with any of its activities or any properties owned, occupied or controlled by it, in such amount as the Company shall reasonably deem necessary, and maintain such other insurance as may be required by law or as may be reasonably requested by the Bank for purposes of assuring compliance with this Section.

(d) Reporting Requirements. Furnish to the Bank the following:

(i).....Promptly and in any event within three calendar days after becoming aware of the occurrence of (A) any Default or Event of Default, (B) the commencement of any material litigation against, by, or affecting the Company or any of its Subsidiaries (not including the patent infringement litigation instituted by the Company or any of its Subsidiaries, unless material counterclaims are brought against the Company or any of its Subsidiaries), and any material developments therein, or (C) entering into any material contract or undertaking that is not entered into in the ordinary course of business other than IMS entering into documents reflecting patent infringement settlements and related patent license agreements, or (D) any development in the business or affairs of the Company or any of its Subsidiaries which has resulted in or which is likely in the reasonable judgment of the Company to result in a Material Adverse Effect, a statement of the Company's chief financial officer setting forth details of each such Default or Event of Default or such litigation, material contract, or undertaking or development and the action which the Company or its Subsidiary, as the case may be, has taken and proposes to take with respect thereto;

.....(ii).....As soon as available and in any event within 60 days after the end of each fiscal quarter of the Company, the consolidated and consolidating balance sheet of the Company and its Subsidiaries as of the end of such quarter, and the related consolidated and consolidating statements of operations and cash flows (except that consolidating balance sheets and statements of operations and retained earnings need not be given for Inactive Subsidiaries or Active Subsidiaries whose only asset is the capital stock of another Subsidiary of the Company), for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding date or period of the preceding fiscal year, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the Company's chief financial officer or principal accounting officer as fairly presenting the consolidated financial position of the Company and its Subsidiaries for the periods contained therein and as having been prepared in accordance with

Generally Accepted Accounting Principles, together with a certificate of such officer demonstrating compliance with the covenants contained in Sections 5.2(a), (b), (c), (g), and (j), and such supporting schedules setting forth such information as the Bank may reasonably request relating to such covenants, and stating whether such officer is aware of any Event of Default or any event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, and, if such an Event of Default or such an event or condition then exists and is continuing, a statement setting forth the nature and status thereof;

.....(iii)....As soon as available and in any event within 110 days after the end of each fiscal year of the Company, a copy of the consolidated and consolidating balance sheet of the Company and its Subsidiaries, each as of the end of such fiscal year, and the related consolidated and consolidating statements of operations and cash flows for such fiscal year and consolidated changes in shareholders equity (except that consolidating balance sheets and statements of operations and retained earnings need not be given for Inactive Subsidiaries or Active Subsidiaries whose only asset is the capital stock of another Subsidiary of the Company), with a customary audit report of independent certified public accountants selected by the Company and reasonably acceptable to the Bank, which report shall be without any qualifications (it being acknowledged that explanatory text highlighting or emphasizing information provided in the financial statements and which is not expressed as a qualification to the report is not to be deemed a qualification), together with (A) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in the course of their review of such financial statements, they have become aware of any Event of Default or any event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, and, if such an Event of Default or such an event or condition then exists and is continuing, a statement setting forth the nature and status thereof and (B) a certificate of the Company's chief financial officer or principal accounting officer as required under Section 5.1(d)(iii);

(iv).....Promptly after the sending or filing thereof, copies of all reports, proxy statements, and financial statements which the Company or any of its Subsidiaries sends to or files with any of their respective security holders or any securities exchange or the Securities and Exchange Commission or any successor agency thereof; and

(v).....Promptly and in any event within 10 calendar days after receiving or becoming aware thereof (A) a copy of any notice of intent to terminate any Plan of the Company, its Subsidiaries, or any ERISA Affiliate filed with the PBGC, (B) a statement of the Company's chief financial officer setting forth the details of any Reportable Event with respect to any such Plan, (C) a copy of any notice that the Company, any of its Subsidiaries, or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any such Plan or to appoint a trustee to administer any such Plan, or (D) a copy of any notice of failure to make a required installment or other payment within the meaning of Section 412(n) of the Code or Section 302(f) of ERISA with respect to any such Plan; and

(vi).....Promptly, such other information respecting the business, properties, operations, or condition, financial or otherwise, of the Company or any of its Subsidiaries as the Bank may from time to time reasonably request.

(e).....Accounting; Access to Records, Books, Etc. Maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in accordance with Generally Accepted Accounting Principles and to comply with the requirements of this Agreement and, at any reasonable time and from time to time, permit the Bank or any agents or representatives thereof to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company and its Subsidiaries, and to discuss the affairs, finances, and accounts of the Company and its Subsidiaries with their respective directors, officers, employees, and independent auditors, and by this provision the Company authorizes such persons to discuss such affairs, finances and accounts with the Bank.

(f).....Further Assurances. Execute and deliver within 30 days after the Bank's request all further instruments and documents and take all further action that may be necessary or desirable, or that the Bank may

reasonably request, in order to give effect to, and to aid in exercising and enforcing the Bank's rights and remedies under, the Loan Documents.

(g).....Additional Guarantors. Promptly have each Subsidiary which has total assets exceeding \$1,000,000 (as shown on the latest balance sheet delivered under subsections (d)(ii) or (iii)) become a Guarantor by executing a document substantially in the form of the Guaranty.

5.2 Negative Covenants. Until the Termination Date and thereafter until payment in full of the principal of and accrued interest on the Notes and the performance of all other obligations of the Company under this Agreement, the Company agrees that, unless the Bank shall otherwise consent in writing it shall not, and shall not permit any of its Subsidiaries to:

(a) Indebtedness Ratio. Create, assume, incur, guarantee or otherwise become liable for, directly or indirectly, any Indebtedness, other than Indebtedness of the Company and its Subsidiaries which, after giving effect thereto and the application of the proceeds thereof, would result in Consolidated Total Indebtedness of the Company and its Subsidiaries then to be outstanding, determined on a consolidated basis in accordance with Generally Accepted Accounting Principles, exceeding 50% of the Consolidated Total Capitalization.

(b).....Fixed Charge Ratio. As of the end of each fiscal quarter, permit the ratio of Consolidated Income Available for Fixed Charges to Consolidated Fixed Charges for the preceding twelve months to be less than 1.25 to 1.0.

(c).....Tangible Net Worth. Permit or suffer consolidated Tangible Net Worth of the Company and its Subsidiaries as of the last day of each fiscal quarter ending after the Effective Date to be less than the sum of (i) \$20,000,000 plus (ii) an amount equal to fifty percent (50%) of Cumulative Net Income of the Company and its Subsidiaries at the end of the fiscal quarter plus (iii) an amount equal to seventy-five percent (75%) of the aggregate Equity Proceeds received by the Company or its Subsidiaries after the Effective Date and on or prior to the end of the fiscal quarter.

(d).....Indebtedness. Create, incur, assume or in any manner become liable in respect of, or suffer to exist, any Indebtedness other than:

(i).....The Outstanding Facilities and the IRB Bonds;

(ii).....The Indebtedness outstanding under the PML Note Agreement and the PML Notes having the same terms as those existing on the Effective Date, but no extension or renewal thereof shall be permitted;

(iii)....Indebtedness (other than Indebtedness (d)(i) and (d)(ii)) in aggregate outstanding principal amount not exceeding 15% of the consolidated Tangible Net Worth of the Company and its Subsidiaries from time to time in the aggregate; and

(iv)....Indebtedness of any Subsidiary of the Company owing to the Company or to any other Subsidiary of the Company.

(e).....Liens. Create, incur or suffer to exist any Lien on any of the assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether now owned or hereafter acquired, of the Company or any of its Subsidiaries, other than:

(i).....Liens for taxes not delinquent or for taxes being contested in good faith by appropriate proceedings and as to which adequate financial reserves have been established on its books and records in accordance with Generally Accepted Accounting Principles;

(ii)....Liens (other than any Lien imposed by ERISA or any Environmental Law) created and maintained in the ordinary course of business which would not have a Material Adverse Effect and which constitute (A) pledges or deposits under worker's compensation laws, unemployment insurance laws or similar legislation,

(B) good faith deposits in connection with bids, tenders, contracts or leases to which the Company or any of its Subsidiaries is a party for a purpose other than borrowing money or obtaining credit, including rent security deposits, (C) liens imposed by law, such as those of carriers, warehousemen and mechanics, if payment of the obligation secured thereby is not yet due, (D) Liens securing taxes, assessments or other governmental charges or levies not yet subject to penalties for nonpayment, (E) pledges or deposits to secure public or statutory obligations of the Company or any of its Subsidiaries, or surety, customs or appeal bonds to which the Company or any of its Subsidiaries is a party, and (F) any Lien created to secure payment of a portion of the purchase price of, or existing at the time of acquisition of, any tangible fixed asset acquired by the Company or any of its Subsidiaries if the outstanding principal amount of the Indebtedness secured by the Lien does not at any time exceed the purchase price for the asset, the aggregate Indebtedness secured by such Liens does not increase by more than \$500,000 during any single fiscal year, and such Lien does not encumber any other asset at any time by the Company or any Subsidiary;

(iii)...Liens affecting real property which constitute minor survey exceptions or defects or irregularities in title, minor encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of such real property, provided that all of the foregoing, in the aggregate, do not at any time materially detract from the value of said properties or materially impair their use in the operation of the businesses of the Company or any of its Subsidiaries;

(iv).....Liens as security for Indebtedness permitted by Section 5.2(d)(iii) which in the aggregate does not exceed five percent (5%) of the consolidated Tangible Net Worth of the Company and its Subsidiaries existing from time to time; and

(v).....The interest or title of a lessor under any lease (including without limitation Capital Leases) otherwise permitted under this Agreement with respect to the property subject to such lease to the extent performance of the obligations of the Company or its Subsidiary thereunder are not delinquent.

(f).....Merger; Acquisitions; Etc. Purchase or otherwise acquire, whether in one or a series of transactions, all or a substantial portion of the business, assets, rights, revenues, or property, real, personal or mixed, tangible or intangible, of any person, or all or a substantial portion of the capital stock of or other ownership interest in any other person; nor merge or consolidate or amalgamate with any other person or take any other action having a similar effect, nor enter into any joint venture or similar arrangement with any other person, provided, however, that this Section shall not prohibit any merger or acquisition if (i) the Company or a Subsidiary of the Company shall be the surviving or continuing corporation thereof, (ii) immediately before and after such merger or acquisition, no Default or Event of Default shall exist or shall have occurred and be continuing and the representations and warranties contained in Article 4 shall be true and correct on and as of the date thereof (both before and after such merger or acquisition is consummated) as if made on the date such merger or acquisition is consummated, and (iii) prior to the consummation of such merger or acquisition, the Company shall have provided to the Bank an opinion of counsel and a certificate of the chief financial officer of the Company (attaching computations to demonstrate compliance with all financial covenants hereunder), each stating that such merger or acquisition complies with this Section and that any other conditions under this Agreement relating to such transaction have been satisfied.

(g).....Disposition of Assets. Sell, lease, or otherwise transfer or dispose of all or a substantial portion of its business, assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether in one or a series of transactions, other than (i) inventory sold in the ordinary course of business upon customary credit terms, (ii) trade-ins of any equipment in conjunction with acquiring replacement equipment, (iii) sales of the Company's Capital Stock, (iv) leases of real property, (v) sales of obsolete or surplus machinery and equipment in the ordinary course of business so long as the purchase price is paid in cash or immediately available funds, if, immediately before and after such transaction, no Default or Event of Default shall exist or shall have occurred and be continuing, and (vi) other sales, leases, transfers, or dispositions so long as (A) no Default or Event of Default shall exist or shall have occurred and be continuing, and (B) all Asset Sale

Proceeds from such sales and dispositions are applied as required under Section 3.1(d).

(h).....Nature of Business. Make any substantial change in the nature of its business from that engaged in on the date of this Agreement or engage in any businesses which are substantially different from the businesses engaged in on the date of this Agreement.

(i).....Dividends and Other Restricted Payments. Make, pay, declare, or authorize any dividend, payment, or other distribution in respect of any class of its capital stock or any dividend, payment, or distribution in connection with the redemption, purchase, retirement, or other acquisition, directly or indirectly, of any shares of its capital stock, or any payment or other distribution to its officers or directors outside the ordinary course of business, to the extent such payments or distributions would cause or result in the occurrence of a Default or Event of Default.

(j).....Capital Expenditures. Acquire or contract to acquire any fixed asset or make any other Capital Expenditure if the aggregate purchase price and other acquisition costs of all such fixed assets acquired and other Capital Expenditures made by the Company and any of its Subsidiaries during any fiscal quarter, together with the Capital Expenditures made during the prior three fiscal quarters, would exceed, on a consolidated basis, an amount equal to the greater of (i) the amount which would allow the ratio of EBITDAR to the sum of Consolidated Fixed Charges plus Capital Expenditures to be not less than 1.25 to 1.0 for the four fiscal quarters immediately preceding the date of the proposed Capital Expenditure and (ii) the consolidated depreciation and amortization expense of the Company and its Subsidiaries for such four fiscal quarter period.

(k).....Investments, Loans, and Advances. Purchase or otherwise acquire any capital stock of or other ownership interest in, or debt securities of or other evidences of Indebtedness of, any other person; nor make any loan or advance of any of its funds or property or make any other extension of credit to, or make any investment or acquire any interest whatsoever in, any other person; nor incur any Contingent Liability; other than (i) extensions of trade credit made in the ordinary course of business on customary credit terms and commission, travel and similar advances made to officers and employees in the ordinary course of business, (ii) Permitted Investments, (iii) those investments, loans, advances, and other transactions not exceeding 15% of the consolidated Tangible Net Worth of the Company and its Subsidiaries from time to time in the aggregate, (iv) related to Letters of Credit issued hereunder, (v) product warranty obligations incurred in the ordinary course of business, (vi) Contingent Liabilities incurred with respect to Indebtedness of the Company or any Subsidiary, and (vii) in connection with Subsidiaries established in connection with a transaction permitted under Section 5.2(f).

(l).....Transactions with Affiliates. Enter into, become a party to, or become liable in respect of, any contract or undertaking with any Affiliate except in the ordinary course of business and on terms not less favorable to the Company or such Subsidiary than those which could be obtained if such contract or undertaking were an arms length transaction with a person other than an Affiliate.

(m).....Sale and Leaseback Transactions. Become or remain liable in any way, whether directly or by assignment or as a guarantor or other contingent obligor, for the obligations of the lessee or user under any lease or contract for the use of any real or personal property if such property is owned on the date of this Agreement or thereafter acquired by the Company or any of its Subsidiaries and has been or is to be sold or transferred to any other person and was, is, or will be used by the Company or any such Subsidiary for substantially the same purpose as such property was used by the Company or such Subsidiary prior to such sale or transfer.

(n).....Negative Pledge Limitation. Enter into any agreement with any person other than the Bank pursuant hereto or PML pursuant to the PML Note Agreement which prohibits or limits the ability of the Company or any Subsidiary to create, incur, assume or suffer to exist any Lien upon any of its assets, rights, revenues, or property, real, personal or mixed, tangible or intangible, whether now owned or hereafter acquired, other than the Repurchased Shares.

(o).....Accounting Changes. Change its fiscal year or make any significant changes (i) in accounting treatment and reporting practices except as permitted by generally accepted accounting principles and disclosed to

the Bank, or (ii) in tax reporting treatment except as permitted by law and disclosed to the Bank.

(p).....Inconsistent Agreements. Enter into any agreement containing any provision which would be violated or breached by this Agreement or any of the transactions contemplated hereby or by performance by the Company or any of its Subsidiaries of its obligations in connection therewith.

ARTICLE 6
DEFAULT

6.1 Events of Default. The occurrence of any one of the following events or conditions shall be deemed an "Event of Default" hereunder unless waived pursuant to Section 8.1:

(a).....Nonpayment. The Company shall fail to pay when due any principal of the Notes, or any reimbursement obligation under Section 3.3 (whether by deemed disbursement of a Revolving Credit Loan or otherwise), or fail to pay any interest on the Notes or any fees or any other amount payable hereunder, which failure continues for a period of three days following written notice thereof to the Company by the Bank; or

(b).....Misrepresentation. Any representation or warranty made by the Company herein or in any other certificate, report, financial statement, or other document furnished by or on behalf of the Company or any of its Subsidiaries in connection with this Agreement shall prove to have been incorrect in any material respect when made or deemed made and such failure continues for more than five days following written notice thereof to the Company; or

(c).....Certain Covenants. The Company shall fail to perform or observe the covenants set forth in Section 5.2(a) through 5.2(p), and such failure continues for more than ten days following written notice thereof to the Company; or

(d).....Other Defaults. The Company or any of its Subsidiaries fails to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document, and any such failure shall remain unremedied for more than thirty days after notice thereof shall have been given to the Company by the Bank; or

(e).....Cross-Default. The Company or any of its Subsidiaries shall fail to pay any part of the principal of, the premium, if any, or the interest on, or any other payment of money due under any of its Indebtedness (other than Indebtedness hereunder but including the European Facility) beyond any period of grace provided with respect thereto, or fails to perform or observe any other term, covenant, or agreement contained in, or if any other event or condition occurs or exists under, any agreement, document or instrument evidencing or securing any such Indebtedness, or under which any such Indebtedness was incurred, issued, or created, beyond any period of grace, if any, provided with respect thereto; or

(f).....Judgments. One or more judgments or orders for the payment of money in an aggregate amount exceeding the Dollar Equivalent of \$100,000 shall be rendered against the Company or any of its Subsidiaries which are not covered by insurance subject to ordinary deductibles, or any other judgment or order (whether or not for the payment of money) shall be rendered against or shall affect the Company or any of its Subsidiaries which causes or could cause a Material Adverse Effect and either (i) such judgment or order shall have remained unsatisfied and the Company or such Subsidiary shall not have taken action necessary to stay enforcement thereof by reason of pending appeal or otherwise, prior to the expiration of the applicable period of limitations for taking such action or, if such action shall have been taken, a final order denying such stay shall have been rendered, or (ii) enforcement proceedings shall have been commenced by any creditor upon any such judgment or order; or

(g).....ERISA. The occurrence of a Reportable Event that results in or could result in liability of the Company or any of its Subsidiaries or their ERISA Affiliates to the PBGC or to any Plan and such Reportable Event is not corrected within thirty (30) days after the occurrence thereof; or the occurrence of any Reportable Event which could constitute grounds for termination of any Plan of the Company or any of its Subsidiaries or

their ERISA Affiliates by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer any such Plan and such Reportable Event is not corrected within thirty (30) days after the occurrence thereof; or the filing by the Company, any of its Subsidiaries, or any of their ERISA Affiliates of a notice of intent to terminate a Plan or the institution of other proceedings to terminate a Plan; or the Company, any of its Subsidiaries, or any of their ERISA Affiliates shall fail to pay when due any liability to the PBGC or to a Plan; or the PBGC shall have instituted proceedings to terminate, or to cause a trustee to be appointed to administer, any Plan of the Company, any of its Subsidiaries, or any of their ERISA Affiliates; or any person engages in a Prohibited Transaction with respect to any Plan which results in or could result in liability of the Company, any of its Subsidiaries, any of their ERISA Affiliates, any Plan of the Company, any of its Subsidiaries, or their ERISA Affiliates or fiduciary of any such Plan; or failure by the Company, any of its Subsidiaries, or any of their ERISA Affiliates to make a required installment or other payment to any Plan within the meaning of Section 302(f) of ERISA or Section 412(n) of the Code that results in or could result in liability of the Company, any of its Subsidiaries, or any of their ERISA Affiliates to the PBGC or any Plan; or the withdrawal of the Company, any of its Subsidiaries, or any of their ERISA Affiliates from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(9a)(2) of ERISA; or the Company, any of its Subsidiaries, or any of their ERISA Affiliates becomes an employer with respect to any Multiemployer Plan without the prior written consent of the Bank; or

(h).....Insolvency, Etc. The Company, any Guarantor, or any of its Active Subsidiaries shall be dissolved or liquidated (or any judgment, order or decree therefor shall be entered), or shall generally not pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or shall institute, or there shall be instituted against the Company, any Guarantor, or any of its Active Subsidiaries any proceeding or case seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency, or reorganization or relief or protection of debtors or seeking the entry of an order for relief, or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its assets, rights, revenues or property, and, if such proceeding is being contested by the Company, the relevant Guarantor, or the Active Subsidiary, as the case may be, in good faith by appropriate proceedings, such proceeding shall remain undismissed or unstayed for a period of 60 days; or the Company, the relevant Guarantor, or the Active Subsidiary shall take any action (corporate or other) to authorize or further any of the actions described above in this subsection; or

(i).....Loan Documents. Any event of default described in any Loan Document shall have occurred and be continuing, or any material provision of any Loan Document shall at any time for any reason cease to be valid and binding and enforceable against any obligor thereunder, or the validity, binding effect, or enforceability thereof shall be contested by any person, or any obligor shall deny that it has any or further liability or obligation thereunder, or any Loan Document shall be terminated or be declared ineffective or inoperative or in any way cease to provide to the Bank the benefits purported to be created thereby.

6.2 Remedies.

(a).....Upon the occurrence and during the continuance of any Event of Default, the Bank may, by notice to the Company, (i) terminate the Commitments or (ii) declare the outstanding principal of, and accrued interest on, the Notes, all unpaid reimbursement obligations in respect of drawings under Letters of Credit, and all other amounts owing under this Agreement to be immediately due and payable, and (iii) demand immediate delivery of cash collateral in respect of all outstanding Letters of Credit, and the Company agrees to deliver such cash collateral upon demand, in an amount equal to the maximum amount that may be available to be drawn at any time prior to the stated expiry of all outstanding Letters of Credit, or any one or more of the foregoing, whereupon the Commitments shall terminate forthwith and all such amounts, including such cash collateral, shall become immediately due and payable, provided that in the case of any event or condition described in Section 6.1(h) with respect to the Company or any Guarantor, the Commitments shall automatically terminate forthwith and all such amounts, including such cash collateral, shall automatically become immediately due and payable without notice; in all cases without demand, presentment, protest, diligence, notice of dishonor, or other formality, all of which are expressly waived. Such cash

collateral delivered in respect of outstanding Letters of Credit shall be deposited in a special cash collateral account to be held by the Bank as collateral security for the payment and performance of the Company's obligations under this Agreement to the Bank.

(b).....In addition to the remedies provided in Section 6.2(a), the Bank and NBD Michigan may exercise and enforce any and all other rights and remedies available to it, whether arising under the Loan Documents or under applicable law, in any manner deemed appropriate by the Bank or NBD Michigan, as appropriate, including suit in equity, action at law, or other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in the Loan Documents or in aid of the exercise of any power granted in the Loan Documents.

(c).....Upon the occurrence and during the continuance of any Event of Default, the Bank and any of its Affiliates may at any time and from time to time, without notice to the Company (any requirement for such notice being expressly waived by the Company) set off and apply against any and all of the obligations of the Company now or hereafter existing under this Agreement, any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank or any of its Affiliates to or for the credit or the account of the Company or any Guarantor and any property of the Company or any Guarantor from time to time in the possession of the Bank or any of its Affiliates, irrespective of whether or not the Bank shall have made any demand hereunder and although such obligations may be contingent and unmatured. The Company grants to the Bank a lien on and security interest in all such deposits, indebtedness, and property as collateral security for the payment and performance of the Company's obligations under this Agreement. The Bank's rights under this Section 6.2(c) are in addition to other rights and remedies (including without limitation other rights of setoff) which it may have.

ARTICLE 6A
AMENDMENTS TO TERM LOAN AGREEMENT
AND REIMBURSEMENT AGREEMENT

6A.1 Administration of Outstanding Facilities. The Company will pay or cause to be paid all amounts required to be paid on the Term Loan Agreement and the Reimbursement Agreement under Article 3 and perform or cause to be performed all other obligations contained in the Outstanding Facilities, except to the extent any such performance would be inconsistent with the requirements of this Agreement. The Term Loan Agreement, the Reimbursement Agreement, and the IRB L/C shall continue to be governed by the documents under which they were originally issued, as amended through the Effective Date and by the NBD Assignment, and as further amended under this Agreement below.

6A.2 Amendments to NBD Term Loan. By the NBD Assignment, the Term Loan has been assigned by NBD Michigan to the Bank. After the Effective Date, the Term Loan Agreement is amended as follows:

(a).....Definitions. All references in the Term Loan Agreement to "the Bank" shall mean the Bank, as defined herein. Section 1.1 of the Term Loan Agreement is amended by amending and restating the following definition, to read as follows: "'New Facility Credit Agreement' shall mean the Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of September __, 1997, among the Borrower, NBD Bank, and the Bank, as such agreement may be amended from time to time."

(b).....Payment Provisions of the Term Loan. The Term Note (as defined in the Term Loan Agreement) shall continue to refer to the Term Note, as assigned by NBD Michigan to the Bank. The Term Loan Agreement is further modified to provide that, notwithstanding any provisions therein to the contrary, on and after the Effective Date (as defined in this Agreement), interest shall accrue on the Term Loan at the per annum rate equal to the Eurodollar Rate or the Floating Rate (each as defined in this Agreement), at the Company's option, and be payable on each Interest Payment Date (as defined in this Agreement).

(c).....Covenants. The first paragraph of Section 5.1 of the Term Loan Agreement is amended and restated to delete references and incorporation therein of the referenced Sections of the Credit Agreement (as defined therein), and to insert in lieu thereof and incorporate by reference the covenants set forth in Section 5.1 and Section 5.2 of this Agreement, including

definitions of defined terms used therein and exhibits referred to therein, except that (i) all cross-references shall refer to the relevant provision or provisions as incorporated therein, (ii) references therein to "hereof", "hereto", "herein", and "Agreement" shall refer to the Term Loan Agreement, and (iii) references in such sections as incorporated therein to the defined term "Event of Default" shall be deemed references to that term as defined in the Term Loan Agreement.

(d).....Events of Default. Section 6.1 of the Term Loan Agreement is amended and restated to delete references and incorporation therein of the referenced Sections of the Credit Agreement (as defined therein) and to insert in lieu thereof and incorporate by reference the Events of Default set forth in Sections 6.1 of this Agreement, including definitions of defined terms used therein and exhibits referred to therein, except that (i) all cross-references shall refer to the relevant provision or provisions as incorporated therein, and (ii) references therein to "hereof", "hereto", "herein", and "Agreement" shall refer to the Term Loan Agreement.

6A.3 Amendments to Reimbursement Agreement. After the Effective Date, the Reimbursement Agreement is amended as follows:

(a).....Repayment of Reimbursement Obligation. Section 1.06(a) of the Reimbursement Agreement is redesignated as Section 1.06, and Section 1.06(b) of the Reimbursement Agreement (improperly designated as Section 6.01(b) in Section 4.3(a) of the 1996 Credit Agreement) is deleted.

(b).....Negative Covenants. The first two sentences of Section 4.02(b) of the Reimbursement Agreement are amended to read as follows: "Permit or suffer the breach of any covenant or agreement contained in Section 5.2 of the Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement among the Company, the Bank, and NBD Bank, N.A., dated as of September __, 1997 (as amended or modified from time to time, the "Credit Agreement"). All such provisions of Section 5.2, including definitions of defined terms used therein and exhibits referred to therein, are incorporated by reference and made a part of this Agreement to the same extent as if set forth fully herein, except that all cross-references shall refer to the relevant provision or provisions as incorporated herein."

ARTICLE 7 MISCELLANEOUS

7.1 Amendments, Etc. No amendment, modification, termination or waiver of any provision of this Agreement nor any consent to any departure therefrom shall be effective unless the same shall be in writing and signed by the Company and the Bank. Any such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

7.2 Notices.

(a).....Except as otherwise provided in Section 7.2(c) hereof, all notices and other communications hereunder shall be in writing and shall be delivered or sent to the Company and the Guarantors at Hurco Companies, Inc., One Technology Way, Indianapolis, Indiana 46268, Attention: Chief Financial Officer, Facsimile No. (317)-328-2811 Facsimile Confirmation No. (317)-293-5309, and to the Bank and NBD Michigan at the respective addresses set forth on the signature pages hereto, or to such other address as may be designated by a party by notice to the other parties hereto. All notices and other communications shall be deemed to have been given at the time of actual delivery thereof to such address, or, unless sooner delivered, (i) if sent by certified or registered mail, postage prepaid, to such address, on the third day after the date of mailing, or (ii) if sent by facsimile transmission, upon confirmation of receipt by telephone at the number specified for confirmation, provided, however, that notices to the Bank and NBD Michigan shall not be effective until received.

(b).....Notices by the Company to the Bank with respect to terminations or reductions of the Commitments pursuant to Section 2.2, requests for Advances pursuant to Section 2.4, requests for continuations or conversions of Loans pursuant to Section 2.7, and notices of prepayment pursuant to Section 3.1 shall be irrevocable and binding on the Company.

(c).....Any notice to be given by the Company to the Bank

pursuant to Sections 2.4, 2.7, or 3.1, and any notice to be given by the Bank or NBD Michigan hereunder, may be given by telephone, and all such notices given by the Company must be immediately confirmed in writing in the manner provided in Section 7.2(a). Any such notice given by telephone shall be deemed effective upon receipt thereof by the party to whom such notice is to be given. The Company shall indemnify and hold harmless the Bank and NBD Michigan from any and all losses, damages, liabilities, and claims arising from the Bank's or NBD Michigan's good faith reliance on any such telephone notice.

7.3 No Waiver By Conduct; Remedies Cumulative. No course of dealing on the part of the Bank or NBD Michigan, nor any delay or failure on the part of the Bank or NBD Michigan in exercising any right, power, or privilege hereunder shall operate as a waiver of such right, power, or privilege or otherwise prejudice the Bank's or NBD Michigan's rights and remedies hereunder; nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege. No right or remedy conferred upon or reserved to the Bank or NBD Michigan under this Agreement or the other Loan Documents is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy granted thereunder or now or hereafter existing under any applicable law. Every right and remedy granted by this Agreement or the other Loan Documents or by applicable law to the Bank or NBD Michigan may be exercised from time to time and as often as may be deemed expedient by the Bank or NBD Michigan and, unless contrary to the express provisions of the Loan Documents, irrespective of the occurrence or continuance of any Default or Event of Default.

7.4 Reliance on and Survival of Various Provisions. All terms, covenants, agreements, representations, and warranties of the Company and the Guarantors made herein or in any certificate, report, financial statement, or other document furnished by or on behalf of the Company or the Guarantors in connection with this Agreement shall be deemed to be material and to have been relied upon by the Bank and NBD Michigan, notwithstanding any investigation heretofore or hereafter made by the Bank or NBD Michigan or on the Bank's or NBD Michigan's behalf, and those covenants and agreements of the Company set forth in Sections 3.7, 3.9, and 7.5 hereof shall survive the repayment in full of the Advances and the termination of the Commitments.

7.5 Expenses; Indemnification.

(a).....The Company agrees to pay, or reimburse the Bank and NBD Michigan for the payment of, on demand, (i) the reasonable fees and expenses of their counsel, including without limitation the fees and expenses of Messrs. Dickinson, Wright, Moon, Van Dusen & Freeman, in connection with the preparation, execution, delivery, and administration of this Agreement and the other Loan Documents, and in connection with advising the Bank and NBD Michigan as to their rights and responsibilities with respect thereto, and in connection with any amendments, waivers, or consents in connection therewith, and (ii) all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing, or recording of this Agreement or any other Loan Document, or the consummation of the transactions contemplated hereby, and any and all liabilities with respect to or resulting from any delay in paying or omitting to pay such taxes or fees, and (iii) all reasonable costs and expenses of the Bank and NBD Michigan (including reasonable fees and expenses of counsel and whether incurred through negotiations, legal proceedings or otherwise) in connection with any Default or Event of Default or the enforcement of, or the exercise or preservation of any rights under, this Agreement or the other Loan Documents or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement, and (iv) all reasonable costs and expenses of the Bank and NBD Michigan (including reasonable fees and expenses of counsel) in connection with any action or proceeding relating to a court order, injunction, or other process or decree restraining or seeking to restrain the Bank from paying any amount under, or otherwise relating in any way to, any Letter of Credit and any and all costs and expenses which any of them may incur relative to any payment under any Letter of Credit.

(b).....The Company indemnifies and agrees to hold harmless the Bank, and its Affiliates, officers, directors, employees, and agents, harmless from and against any and all claims, damages, losses, liabilities, costs or expenses of any kind or nature whatsoever which the Bank or any such person may incur or which may be claimed against any of them by reason of or in connection with any Letter of Credit, and neither the Bank nor any of its Affiliates, officers, directors, employees, or agents shall be liable or responsible for: (i) the use which may be made of any Letter of Credit or for

any acts or omissions of any beneficiary in connection therewith; (ii) the validity, sufficiency, or genuineness of documents or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent, or forged; (iii) payment by the Bank to the beneficiary under any Letter of Credit against presentation of documents which do not comply with the terms of any Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit; (iv) any error, omission, interruption, or delay in transmission, dispatch, or delivery of any message or advice, however transmitted, in connection with any Letter of Credit; or (v) any other event or circumstance whatsoever arising in connection with any Letter of Credit; provided, however, that the Company shall not be required to indemnify the Bank and such other persons, and the Bank shall be liable to the Company to the extent, but only to the extent, of any direct, as opposed to consequential or incidental, damages suffered by the Company which were caused by (A) the Bank's wrongful dishonor of any Letter of Credit after the presentation to it by the beneficiary thereunder of a draft or other demand for payment and other documentation strictly complying with the terms and conditions of such Letter of Credit, or (B) the Bank's payment to the beneficiary under any Letter of Credit against presentation of documents which do not substantially comply with the terms of the Letter of Credit to the extent, but only to the extent, that such payment constitutes gross negligence or willful misconduct of the Bank. It is understood that in making any payment under a Letter of Credit, the Bank will rely on documents presented to it under such Letter of Credit as to any and all matters set forth therein without further investigation and regardless of any notice or information to the contrary, and such reliance and payment against documents presented under a Letter of Credit substantially complying with the terms thereof shall not be deemed gross negligence or willful misconduct of the Bank in connection with such payment. It is further acknowledged and agreed that the Company may have rights against the beneficiary or others in connection with any Letter of Credit with respect to which the Bank is alleged to be liable and it shall be a precondition of the assertion of any liability of the Bank under this Section that the Company shall first have exhausted all remedies in respect of the alleged loss against such beneficiary and any other parties obligated or liable in connection with such Letter of Credit and any related transactions.

(c).....The Company indemnifies and agrees to hold harmless the Bank, and its Affiliates, officers, directors, employees, and agents, from and against any and all claims, damages, losses, liabilities, costs, or expenses of any kind or nature whatsoever (including reasonable attorneys fees and disbursements incurred in connection with any investigative, administrative or judicial proceeding whether or not such person shall be designated as a party thereto) which the Bank or any such person may incur or which may be claimed against any of them by reason of or in connection with entering into this Agreement or the transactions contemplated hereby, including without limitation those arising under Environmental Laws; provided, however, that the Company shall not be required to indemnify the Bank or such other person, to the extent, but only to the extent, that such claim, damage, loss, liability, cost, or expense is attributable to the gross negligence or willful misconduct of the Bank.

(d) In consideration of the execution and delivery of this Agreement by the Bank and NBD Michigan and the extension of the Commitments, the Company hereby indemnifies, exonerates, and holds the Bank and each of its Affiliates, officers, directors, employees, and agents (collectively, the "Indemnified Parties") free and harmless from and against any and all actions, causes of action, suits, losses, costs, liabilities, and damages, and expenses incurred in connection therewith (irrespective of whether any such Indemnified Party is a party to the action for which indemnification hereunder is sought), including reasonable attorneys' fees and disbursements (collectively, the "Indemnified Liabilities"), incurred by the Indemnified Parties or any of them as a result of, or arising out of, or relating to:

- (i).....any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of any Advance;
- (ii)....the entering into and performance of this Agreement and any other agreement or instrument executed in connection herewith by any of the Indemnified Parties (including any action brought by or on behalf of the Company as the result of any determination by the Bank not to fund any Advance);
- (iii)...any investigation, litigation, or proceeding related to any

acquisition or proposed acquisition by the Company or any of its Subsidiaries of any portion of the stock or assets of any person, whether or not the Bank is party thereto;

(iv).....any investigation, litigation, or proceeding related to any environmental cleanup, audit, compliance, or other matter relating to the protection of the environment or the release by the Company or any of its Subsidiaries of any Hazardous Material; or

(v).....the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission, discharging, or releasing from, any real property owned or operated by the Company or any of its Subsidiaries of any Hazardous Material (including any losses, liabilities, damages, injuries, costs, expenses, or claims asserted or arising under any Environmental Law), regardless of whether caused by, or within the control of, the Company or such Subsidiary, except for any such Indemnified Liabilities arising for the account of a particular Indemnified Party by reason of the activities of the Indemnified Party on the property of the Company conducted subsequent to a foreclosure on such property by the Bank or by reason of the relevant Indemnified Party's gross negligence or willful misconduct or breach of this Agreement, and if and to the extent that the foregoing undertaking may be unenforceable for any reason, the Company hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. The Company shall be obligated to indemnify the Indemnified Parties for all Indemnified Liabilities subject to and pursuant to the foregoing provisions, regardless of whether the Company or any of its Subsidiaries had knowledge of the facts and circumstances giving rise to such Indemnified Liability.

7.6 Successors and Assigns.

(a).....This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that the Company may not, without the prior consent of the Bank, assign its rights or obligations hereunder or under the Notes and the Bank shall not be obligated to make any Advance hereunder to any entity other than the Company.

(b).....The Bank may sell to any financial institution or institutions, and such financial institution or institutions may further sell, a participation interest (undivided or divided) in, the Advances and the Bank's rights and benefits under this Agreement and the Notes, and to the extent of that participation interest, such participant or participants shall have the same rights and benefits against the Company under Sections 3.7, 3.9, and 6.2(c) as it or they would have had if such participant or participants were the Bank making the Advances to the Company hereunder, provided, however, that (i) the Bank's obligations under this Agreement shall remain unmodified and fully effective and enforceable against the Bank, (ii) the Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Bank shall remain the holder of its Notes for all purposes of this Agreement, (iv) the Company shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement, and (v) the Bank shall not grant to its participant any rights to consent or withhold consent to any action taken by the Bank under this Agreement.

(c).....From time to time in its sole discretion, the Bank may appoint agents for the purpose of servicing and administering this Agreement and the transactions contemplated hereby and enforcing or exercising any rights or remedies of the Bank provided under this Agreement, the Notes or otherwise. In furtherance of such agency, the Bank may from time to time direct that the Company provide notices, reports, and other documents contemplated by this Agreement (or duplicates thereof) to such agent. The Company consents to the appointment of such agent and agrees to provide all such notices, reports, and other documents and to otherwise deal with such agent acting on behalf of the Bank in the same manner as would be required if dealing with the Bank itself.

7.7 Counterparts. This Agreement 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 Agreement by signing any such counterpart.

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

Company, the Bank, and NBD Michigan further agrees that any legal or equitable action or proceeding with respect to this Agreement, the Notes, or the transactions contemplated hereby shall be brought in any court of the State of Indiana, or in any court of the United States of America sitting in Indiana, and the Company, the Bank, and NBD Michigan each submits to and accepts generally and unconditionally the jurisdiction of those courts with respect to its person and property. The Company irrevocably appoints Roger J. Wolf, whose address in Indiana is c/o Hurco Companies, Inc., One Technology Way, Indianapolis, Indiana 46268, as its agent for service of process and irrevocably consents to the service of process in connection with any such action or proceeding by personal delivery to such agent or to the Company, or by the mailing thereof by registered or certified mail, postage prepaid to the Company at its address for notices pursuant to Section 7.2. The Company shall at all times maintain such an agent in Indiana for such purpose and shall notify the Bank of such agent's address in Indiana within ten days of any change of address. Nothing in this paragraph shall affect the Bank's or NBD Michigan's right to serve process in any other manner permitted by law or limit the Bank's or NBD Michigan's right to bring any such action or proceeding against the Company or its property in the courts of any other jurisdiction. The Company, the Bank, and NBD Michigan each irrevocably waives any objection to the laying of venue of any such action or proceeding in the above described courts.

7.9 Table of Contents and Headings. The table of contents and the headings of the various subdivisions hereof are for the convenience of reference only and shall in no way modify any of the terms or provisions hereof.

7.10 Construction of Certain Provisions. If any provision of this Agreement refers to any action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person, whether or not expressly specified in such provision.

7.11 Integration and Severability. This Agreement and the Notes, together with the other Loan Documents, embody the entire agreement and understanding among the Company, the Bank, and NBD Michigan, and supersede all prior agreements and understandings, relating to the subject matter hereof and thereof. In case any one or more of the obligations of the Company under the Loan Documents shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Company shall not in any way be affected or impaired thereby, and such invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of the obligations of the Company under the Loan Documents in any other jurisdiction.

7.12 Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any such covenant, the fact that it would be permitted by an exception to, or would be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or such condition exists.

7.13 Interest Rate Limitation. Notwithstanding any provisions of this Agreement or the Notes, in no event shall the amount of interest paid or agreed to be paid by the Company exceed an amount computed at the highest rate of interest permissible under applicable law. If, from any circumstances whatsoever, fulfillment of any provision of this Agreement or the Notes at the time performance of such provision shall be due shall involve exceeding the interest rate limitation validly prescribed by law which a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligations to be fulfilled shall be reduced to an amount computed at the highest rate of interest permissible under applicable law. If for any reason whatsoever the Bank shall ever receive as interest an amount which would be deemed unlawful under such applicable law, the amount shall be automatically applied to the payment of principal of the Advances outstanding hereunder (whether or not then due and payable) and not to the payment of interest, or shall be refunded to the Company if such principal and all other obligations of the Company to the Bank have been paid in full.

7.14 Waiver of Jury Trial. The Bank, NBD Michigan, and the Company, after consulting or having had the opportunity to consult with counsel, knowingly, voluntarily and intentionally waive any right any of them may have to a trial by jury in any litigation based upon or arising out of this Agreement or any related instrument or agreement or any of the transactions contemplated by this Agreement or any course of conduct, dealing, statements (whether oral or written) or actions of any of them. Neither the Bank, NBD Michigan, nor the

Company shall seek to consolidate, by counterclaim or otherwise, any such action in which a jury trial has been waived with any other action in which a jury trial cannot be or has not been waived. These provisions shall not be deemed to have been modified in any respect or relinquished by any party hereto except by a written instrument executed by such party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written, which shall be the Effective Date of this Agreement.

HURCO COMPANIES, INC.

By /s/ Roger J. Wolf
Roger J. Wolf
Its: Senior Vice President and
Chief Financial Officer

Address for Notices:..... NBD BANK, N.A.

One Indiana Square..... By /s/ Scott C. Morrison

Indianapolis, Indiana 46266.....
..... Its: Vice President
Attention: Scott C. Morrison
Facsimile No.: (317)-266-6042
Facsimile Confirmation No.: (317)-266-7351

Address for Notices:..... NBD BANK

One Indiana Square..... By_ /s/ Scott C. Morrison

Indianapolis, Indiana 46266.....
..... Its: Vice President
Attention: Scott C. Morrison
Facsimile No.: (317)-266-6042
Facsimile Confirmation No.: (317)-266-7351

Exhibit 10.11

SECOND AMENDED AND RESTATED SENIOR NOTE AGREEMENT
Between the Registrant and Principal Mutual Life Insurance
Company
effective September 8, 1997

::ODMA\PCDOCS\NEWYORK\11036\7

EXECUTION COPY

HURCO COMPANIES, INC.

SECOND AMENDED AND RESTATED

NOTE AGREEMENT

Dated as of September 8, 1997

\$12,500,000 Principal Amount
10.37% Second Amended and Restated Senior Notes
Due December 1, 2000

HURCO COMPANIES, INC.
SECOND AMENDED AND RESTATED
NOTE AGREEMENT

Dated as of September 8, 1997

To the Purchaser Named
in Schedule I Hereto (the "Purchaser")

Ladies and Gentlemen:

HURCO COMPANIES, INC., an Indiana corporation (the "Company"), agrees with the Purchaser as follows:

SECTION 1. SECOND AMENDMENT AND RESTATEMENT AND DESCRIPTION OF NOTES

1.1 Second Amendment and Restatement. The Company and the Purchaser are parties to that certain Note Agreement dated as of December 1, 1990 (the "1990 Agreement") pursuant to which the Company sold to the Purchaser on December 20, 1990 \$12,500,000 aggregate principal amount of its Senior Notes (the "1990 Notes"). The Company and the Purchaser amended and restated the 1990 Agreement pursuant to the Amended and Restated Note Agreement dated March 24, 1994 (the "1994 Agreement") which replaced in its entirety the 1990 Agreement and amended and restated the 1990 Notes pursuant to the 11.12% Amended and Restated Senior Notes dated March 24, 1994 (the "1994 Notes") which replaced in its entirety the 1990 Notes. The Company and the Purchaser have agreed that this Second Amended and Restated Note Agreement (the "Agreement") should replace in its entirety the 1994 Agreement and that from and after the date of the execution and delivery of this Agreement and the satisfaction of the conditions set forth in Section] 4 (the "Closing Date"), the 1994 Agreement shall be of no force or effect except (i) as specifically set forth herein, (ii) that if any material representation or warranty made by the Company hereunder, or made by the Company in any written statement or certificate furnished by the Company in connection with the issuance and sale of the 1990 Notes or the 1994 Notes or furnished by the Company pursuant to the 1990 Agreement or the 1994 Agreement proves incorrect in any material respect as of the date of the issuance or making thereof (a "Prior Misstatement"), the Purchaser shall be entitled to exercise all of its rights and remedies under applicable law with respect to any Prior Misstatement other than the declaration of an Event of Default hereunder, and (iii) that the 1990 Agreement and the 1994 Agreement evidence the terms and conditions under which the Company heretofore has incurred obligations and liabilities to the Purchaser, it being the intent of the parties hereto that from and after the Closing Date, such obligations and liabilities shall be governed by this Agreement and the "Notes" (as defined below). Notwithstanding the provisions of the preceding sentence, in the event that any Prior Misstatement proves to be fraudulent in any material respect, such fraudulent Prior Misstatement shall constitute an Event of Default hereunder as provided in Section 8.1(f)(2). The Purchaser is aware of the adjustments of the amount of inventory of the Company Subsidiaries as described in the Company's Report On Form 10-Q for the period ending July 31, 1993 and the Purchaser acknowledges that such inventory adjustments and the other adjustments of income and financial results caused by such inventory adjustments, to the extent accurate and taken alone, do not reveal a Prior Misstatement. The Company has agreed to execute those certain Second Amended and Restated Notes (the "Notes"), each payable to the Purchaser, which Notes (i) re-evidence all of the indebtedness heretofore outstanding under the 1990 Notes and 1994 Notes, and (ii) do not constitute a payment or a novation of the 1990 Notes or the 1994 Notes.

1.2 Description of Notes. The Notes shall be dated the Closing Date, shall bear interest from such date at the rate of 10.37% per annum prior to maturity, payable monthly on the first day of each calendar month commencing [September] 1, 1997, and at maturity, to bear interest on overdue principal (including any overdue required or optional prepayment), premium, if any, and (to the extent legally enforceable) on any overdue installment of interest at the rate of 12.37% per annum, shall be expressed to mature on December 1, 2000 and to be substantially in the form attached as Exhibit A. Each required prepayment of principal shall be considered to be overdue if it is not paid on its due date. The term "Notes" as used herein shall include each Second Amended and Restated Note delivered pursuant to this Agreement and each Note delivered in substitution or exchange therefor and, where applicable, shall include the singular number as well as the plural. Any reference to the Purchaser in this Agreement shall in all instances be deemed to include any nominee of the Purchaser or any separate account or other person on whose behalf the Purchaser has acquired the Notes and any Person to whom a Note is assigned. Concurrently with execution and delivery to it of the Notes, each of the 1994 Notes shall be marked by Purchaser with the following legend: "This Note has been amended and, as amended, restated by a promissory note executed pursuant to an Second Amended and Restated Note Agreement, dated as of September 8, 1997, executed by Hurco Companies, Inc. and the payee hereof."

SECTION 2. PREPAYMENT OF NOTES

2.1 Required Prepayments. In addition to payment of all outstanding principal of the Notes at maturity and regardless of the amount of

Notes which may be outstanding from time to time, the Company shall make the following prepayments:

(a) The Company shall prepay and there shall become due and payable on the dates set forth below, \$1,785,714.29 of the principal amount of the Notes or such lesser amount as would constitute payment in full on the Notes, with the remaining principal payable on December 1, 2000: December 1, 1997, December 1, 1998, and December 1, 1999. Each such prepayment shall be at a price of 100% of the principal amount prepaid, together with interest accrued thereon to the date of prepayment.

(b) The Company shall prepay and there shall become due and payable not later than fifteen days after receipt thereof, an amount equal to the Purchaser's Pro Rata Share of Asset Sale Proceeds. Pro Rata Share shall be determined as of each date that Asset Sale Proceeds are received by the Company. Such amounts shall be applied in accordance with Section 2.2(e), and a prepayment premium shall be required on each date of prepayment to the extent set forth in Section 2.2(d).

2.2 Optional Prepayments. (a) Upon notice as provided in Section 2.3, the Company may prepay the Notes, in whole or in part, in an amount of not less than \$250,000 or in integral multiples of \$10,000 in excess thereof at the price set forth in Section 2.2(d).

(b) In the event that (i) the Company proposes a merger, acquisition, investment, corporate reorganization or recapitalization (collectively, a "Proposed Transaction") that would result in the failure by the Company to comply with, or the breach by the Company of, any of the covenants or conditions contained in this Agreement and (ii) such anticipated noncompliance or breach is not consented to pursuant to the provisions of Section 9.1, by Noteholders holding 66% in aggregate principal amount of the Notes then outstanding within 30 days after a receipt of a written request (a "Request") by the Company (which Request shall describe in detail the Proposed Transaction and specify the nature of such anticipated noncompliance or breach) to consent to such non-compliance or breach and (iii) the Company nonetheless determines to proceed with the Proposed Transaction, then the Company shall prepay, at the price set forth in Section 2.2(d), upon notice as provided in Section 2.3, within 150 days following receipt by the Purchasers of the Request, the entire principal amount of all Notes held by each nonconsenting Noteholder prior to the Company's consummation of the Proposed Transaction.

(c) In the event of a Change of Control, the Company shall, within ten days after the date of such Change of Control, give written notice to each holder of a Note of the Change of Control, accompanied by a certificate of an authorized officer of the Company specifying the nature of the Change of Control. Such notice shall contain the written, irrevocable offer by the Company to prepay, on a date specified in such notice by the Company which shall be not less than 45 or more than 60 calendar days after the effective date of such Change of Control, the entire principal amount of the Notes held by each holder at a price equal to 100% of the principal amount of the Notes to be prepaid plus interest accrued to the date of prepayment and shall state that notice of acceptance of the Company's offer to prepay under this Section 2.2(c) must be delivered to the Company within 30 calendar days after receipt of the Company's notice. Any holder may revoke its acceptance of the Company's offer by written notice to such effect delivered to the Company not less than five calendar days prior to the date fixed for prepayment.

(d) Each prepayment made pursuant to paragraph (a) or (b) of this Section 2.2 or Section 2.1(b), shall be at a price of (i) 100% of the principal amount to be prepaid, plus interest accrued thereon to the date of prepayment, if the Reinvestment Yield, on the applicable Determination Date, equals or exceeds the interest rate payable on or in respect of the Notes, or (ii) 100% of the principal amount to be prepaid, plus interest accrued thereon to the date of prepayment, plus a premium, if the Reinvestment Yield, on such Determination Date, is less than the interest rate payable on or in respect of the Notes. The premium shall equal (x) the aggregate present value of the amount of principal being prepaid (taking into account the manner of application of such prepayment required by Section 2.2(e) or Section 2.1(b)) and the present value of the amount of interest (exclusive of interest accrued to the date of prepayment) which would have been payable in respect of such principal absent such prepayment, determined by discounting (monthly on the basis of a 360-day year composed of twelve 30-day months) each such amount utilizing an interest factor equal to the Reinvestment Yield, less (y) the principal amount to be prepaid.

(e) Any optional prepayment pursuant to Section 2.1(b), 2.2(a), (b) or (c) of less than all of the Notes outstanding shall be applied, to reduce, pro rata, the prepayments and payment at maturity required by Section 2.1.

(f) Except as provided in Section 2.1 and this Section 2.2, the Notes shall not be prepayable in whole or in part.

2.3 Notice of Prepayments. The Company shall give notice of any optional prepayment of the Notes pursuant to Section 2.2(a) or (b) to each holder of the Notes not less than 30 days nor more than 60 days before the date fixed for prepayment, specifying (i) such date, (ii) the principal amount of the holder's Notes to be prepaid on such date, (iii) the date as of which the premium, if any, will be calculated and (iv) the accrued interest applicable to the prepayment. Notice of prepayment having been so given, the aggregate principal amount of the Notes specified in such notice, together with the premium if any, and accrued interest thereon shall become due and payable on the prepayment date.

The Company also shall give notice to each holder of the Notes by telecopy, telegram, telex or other same-day written communication, as soon as practicable but in any event not later than two business days prior to the prepayment date, of the premium, if any, applicable to such prepayment or any prepayment subject to premium referred to in Section 2.1 and the details of the calculations used to determine the amount of such premium.

2.4 Surrender of Notes on Prepayment or Exchange. Subject to Section 2.5, upon any partial prepayment of a Note pursuant to this Section 2 or partial exchange of a Note pursuant to Section 10.3, such Note may, at the option of the holder thereof, (i) be surrendered to the Company pursuant to Section 10.3 in exchange for a new Note equal to the principal amount remaining unpaid on the surrendered Note, or (ii) be made available to the Company for notation thereon of the portion of the principal so prepaid or exchanged. In case the entire principal amount of any Note is prepaid or exchanged, such Note shall be surrendered to the Company for cancellation and shall not be reissued, and no Note shall be issued in lieu of such Note.

2.5 Direct Payment. Notwithstanding any other provision contained in the Notes or this Agreement, the Company will pay all sums becoming due on each Note held by the Purchaser or any subsequent Institutional Holder by wire transfer of immediately available funds to such account as the Purchaser or such subsequent Institutional Holder shall have designated in Schedule I, or as the Purchaser or such subsequent Institutional Holder may otherwise designate by notice to the Company, in each case without presentment and without notations being made thereon, except that any such Note so paid or prepaid in full shall be surrendered to the Company for cancellation. Any wire transfer shall identify such payment in the manner set forth in Schedule I and shall identify the payment as principal, premium, if any, and/or interest. The Purchaser and any subsequent Institutional Holder of a Note to which this Section 2.5 applies agree that, before selling or otherwise transferring any such Note, the Purchaser or it will make a notation thereon of the aggregate amount of all payments of principal theretofore made and of the date to which interest has been paid.

2.6 Allocation of Payments. Except in the case of a prepayment pursuant to Section 2.2(b) or (c), if less than the entire principal amount of all the Notes outstanding is to be paid, the Company will prorate the aggregate principal amount to be paid among the outstanding Notes in proportion to the unpaid principal.

2.7 Payments Due on Saturdays, Sundays and Holidays. In any case where the date of any required prepayment of the Notes or any interest payment date on the Notes or the date fixed for any other payment of any Note or exchange of any Note is a Saturday, Sunday or a legal holiday or a day on which banking institutions in Des Moines, Iowa are authorized by law to close, then such payment, prepayment or exchange need not be made on such date but may be made on the next succeeding business day which is not a Saturday, Sunday or a legal holiday or a day on which banking institutions in Des Moines, Iowa are authorized by law to close, with the same force and effect as if made on the due date.

SECTION 3. REPRESENTATIONS

3.1 Representations of the Company. As an inducement to, and

as part of the consideration for, the Purchaser's entering into the Agreement, the Company represents and warrants to the Purchaser as follows:

(a) Corporate Organization and Authority. The Company is a corporation duly organized and validly existing under the laws of the State of Indiana, has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted and as presently proposed to be conducted, to enter into and perform the Agreement and to issue the Notes and to amend and restate the 1994 Notes.

(b) Qualification to Do Business. The Company is duly licensed or qualified and in good standing as a foreign corporation authorized to do business in each jurisdiction where the nature of the business transacted by it or the character of its properties owned or leased makes such qualification or licensing necessary, except when the failure to be so qualified or licensed would not have a material adverse effect on its business, properties, operation or condition, financial or otherwise.

(c) Subsidiaries. The Company has no Subsidiaries, as defined in Section 5.1, except those listed in Annex I, which correctly sets forth the jurisdiction of incorporation and the percentage of the outstanding Voting Stock or equivalent interest of each Subsidiary which is owned, of record or beneficially, by the Company and/or one or more Subsidiaries. Each Subsidiary, which is not an Inactive Subsidiary, has been duly organized and is validly existing under the laws of its jurisdiction of incorporation or organization and is duly licensed or qualified and in good standing as a foreign corporation in each other jurisdiction where the nature of the business transacted by it or the character of its properties owned or leased makes such qualification or licensing necessary. Each Subsidiary has full corporate power and authority to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted. The Company and each Subsidiary have good and marketable title to all of the shares they purport to own of the capital stock of each Subsidiary, free and clear in each case of any lien or encumbrance, and all such shares have been duly issued and are fully paid and nonassessable. Each Subsidiary identified on Annex I as an "Inactive Subsidiary" has no assets in excess of \$2,000 in book value and does not now actively engage in any business.

(d) Financial Statements. The consolidated balance sheet of the Company and its Subsidiaries as of October 31, 1996, and the related consolidated statements of earnings, stockholders' equity and cash flows or changes in financial condition, as applicable, for the year ended October 31, 1996, accompanied by the report and opinion of Arthur Andersen, LLP, independent certified public accountants, a copy of which has heretofore been delivered to the Purchaser, was prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise noted therein) and present fairly the consolidated financial condition and consolidated results of operations and cash flows or changes in financial condition, as applicable, of the Company and its Subsidiaries for and as of the end of such year.

(e) No Contingent Liabilities or Adverse Changes. Neither the Company nor any of its Subsidiaries has any contingent liabilities which are material to the Company and its Subsidiaries taken as a whole other than as indicated on the financial statements described in the foregoing paragraph (d) of this Section 3.1, and since October 31, 1996, there have been no changes in the condition, financial or otherwise, of the Company and its Subsidiaries except changes occurring in the ordinary course of business, none of which, individually or in the aggregate, has had a material adverse effect on the business, properties, operations, assets, or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole or on the Company's ability to perform its obligations under this Agreement or the Notes and except for losses in the ordinary course of business which do not result in any Event of Default.

(f) No Pending Litigation or Proceedings. Except as set forth on Schedule 3.1(f), there are no actions, suits or proceedings pending or threatened against or affecting the Company or any of its Subsidiaries, at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which might result, either individually or in the aggregate, in any material adverse change in the business, properties, operations or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole or on the Company's ability to perform its obligations under this Agreement or the Notes.

(g) Compliance with Law. (i) Neither the Company nor any of its Subsidiaries is: (x) in default with respect to any order, writ, injunction or decree of any court to which it is a named party; or (y) in default under any law, rule, regulation, ordinance or order relating to its or their respective businesses, the sanctions and penalties resulting from which defaults described in clauses (x) and (y) might have a material adverse effect on the business, properties, operations, assets or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole, or on the Company's ability to perform its obligations under this Agreement or the Notes.

(ii) Neither the Company nor any Subsidiary nor any Affiliate of the Company is an entity defined as a "designated national" within the meaning of the Foreign Assets Control Regulations, 31 C.F.R. Chapter V, or for any other reason, subject to any restriction or prohibition under, or is in violation of, any federal statute or Presidential Executive Order, or any rules or regulations of any department, agency or administrative body promulgated under any such statute or Order, concerning trade or other relations with any foreign country or any citizen or national thereof or the ownership or operation of any property.

(h) Pension Reform Act of 1974. Neither the amendment and restatement of the 1994 Notes by the Notes nor the consummation of any of the other transactions contemplated by this Agreement is or will constitute a "prohibited transaction" within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Internal Revenue Service has issued a determination that each "employee pension benefit plan," as defined in Section 3 of ERISA (a "Plan"), established, maintained or contributed to by the Company or any Subsidiary (except for any Plan which is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees) is qualified under Section 401(a) and related provisions of the Code and that each related trust or custodial account is exempt from taxation under Section 501(a) of the Code. All Plans of the Company or any Subsidiary comply in all material respects with ERISA and other applicable laws. There exist with respect to the Company or any Subsidiary no "multi-employer plans," as defined in the Multiemployer Pension Plan Amendments Act of 1980, for which a material withdrawal or termination liability may be incurred. There exist with respect to all Plans or trusts established or maintained by the Company or any Subsidiary: (i) no material accumulated funding deficiency within the meaning of ERISA; (ii) no termination of any Plan or trust which would result in any material liability to the Pension Benefit Guaranty Corporation ("PBGC") or any "reportable event," as that term is defined in ERISA, which is likely to constitute grounds for termination of any Plan or trust by the PBGC; and (iii) no "prohibited transaction," as that term is defined in ERISA, which is likely to subject any Plan, trust or party dealing with any such Plan or trust to any material tax or penalty on prohibited transactions imposed by Section 4975 of the Code.

(i) Title to Properties. The Company and each Subsidiary has (i) good title in fee simple or its equivalent under applicable law to all the real property owned by it and (ii) good title to all other Property owned by it, in each case free from all Liens except (x) those securing Indebtedness of the Company or a Subsidiary, which are listed in the attached Annex II and (y) other Liens that would be permitted pursuant to Section 7.4.

(j) Leases. The Company and each Subsidiary enjoy peaceful and undisturbed possession under all leases under which the Company or such Subsidiary is a lessee or is operating. None of such leases contains any provision which might materially and adversely affect the operation or use of the property so leased. All of such leases are valid and subsisting and none of them is in default.

(k) Franchises, Patents, Trademarks and Other Rights. The Company and each Subsidiary have all franchises, permits, licenses and other authority necessary to carry on their businesses as now being conducted and as proposed to be conducted, and none are in default under any of such franchises, permits, licenses or other authority which are material to their businesses, properties, operations or condition, financial or otherwise. The Company and each Subsidiary own or possess all patents, trademarks, service marks, trade names, copyrights, licenses and rights with respect to the foregoing necessary for the present conduct of their businesses, without any known conflict with the rights of others which might result in any material adverse change in their businesses, properties, operations or condition, financial or otherwise.

(l) Status of Notes and Sale of Notes. The Notes have been duly authorized on the part of the Company and, constitute the legal, valid and binding obligations of the Company, enforceable in accordance with their terms, except to the extent that enforcement of the Notes may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general application relating to or affecting the enforcement of the rights of creditors or by equitable principles, regardless of whether enforcement is sought in equity or at law. The issuance of the Notes to amend and restate the 1994 Notes and compliance by the Company with all of the provisions of this Agreement and of the Notes (i) are within the corporate powers of the Company, (ii) have been duly authorized by proper corporate action and (iii) are legal, will not violate any provisions of any law or regulation or order of any court, governmental authority or agency and will not result in any breach of any of the provisions of, or constitute a default under, or result in the creation of any Lien on any property of the Company or any Subsidiary under the provisions of, any charter document, by-law, loan agreement or other agreement or instrument to which the Company or any Subsidiary is a party or by which any of them or their property may be bound.

(m) No Defaults. No event has occurred and no condition exists which, upon the issuance of the Notes to amend and restate the 1994 Notes, would constitute an Event of Default, or with the lapse of time or the giving of notice or both would become an Event of Default, under this Agreement. Neither the Company nor any Subsidiary is in default under any charter document, by-law, loan agreement or other material agreement or material instrument to which it is a party or by which it or its property may be bound except as described in the preceding sentence.

(n) Governmental Consent. Neither the nature of the Company or any of its Subsidiaries, their respective businesses or properties, nor any relationship between the Company or any of its Subsidiaries and any other Person, nor any circumstances in connection with the issuance of the Notes to amend and restate the 1994 Notes is such as to require a consent, approval or authorization of, or withholding of objection on the part of, or filing, registration or qualification with, any governmental authority on the part of the Company in connection with the execution and delivery of this Agreement or the issuance of the Notes to amend and restate the 1994 Notes.

(o) Taxes. Except as set forth on Schedule 3.1(o), all tax returns required to be filed by the Company or any Subsidiary in any jurisdiction have been filed, and all taxes, assessments, fees and other governmental charges upon the Company or any Subsidiary, or upon any of their respective properties, income or franchises, which are due and payable, have been paid timely or within appropriate extension periods or contested in good faith by appropriate proceedings. The Company does not know of any proposed additional tax assessment against it or any Subsidiary for which adequate provision has not been made on its books. The federal income tax liability of the Company and its Subsidiaries has been finally determined by the Internal Revenue Service and satisfied for all taxable years up to and including the taxable year ended [October 31, 1989] and no material controversy in respect of additional taxes due since such date is pending or to the Company's knowledge threatened. The provisions for taxes on the books of the Company and each Subsidiary are adequate for all open years and for the current fiscal period.

(p) Status under Certain Statutes. Neither the Company nor any Subsidiary is: (i) a "public utility company" or a "holding company," or an "affiliate" or a "subsidiary company" of a "holding company," or an "affiliate" of such a "subsidiary company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended, or (ii) a "public utility" as defined in the Federal Power Act, as amended, or (iii) an "investment company" or an "affiliated person" thereof or an "affiliated person" of any such "affiliated person," as such terms are defined in the Investment Company Act of 1940, as amended.

(q) Effect of Other Instruments. Neither the Company nor any Subsidiary is bound by any agreement or instrument or subject to any charter or other corporate restriction which materially and adversely affects the business, properties, operations, or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole or the Company's ability to perform its obligations under this Agreement or the Notes.

(r) Margin Stock. Neither the Company nor any Subsidiary owns or intends to carry or purchase any "margin stock" within the meaning of Regulation G.

(s) Condition of Property. All of the facilities of the Company and each of its Subsidiaries are in sound operating condition and repair except for facilities being repaired in the ordinary course of business or facilities which individually or in the aggregate are not material to the business, properties, operations, or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole.

(t) Books and Records. The Company and each of its Subsidiaries (i) maintain books, records and accounts in reasonable detail which accurately and fairly reflect their respective transactions and business affairs, and (ii) maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are executed in accordance with management's general or specific authorization and to permit preparation of financial statements in accordance with generally accepted accounting principles.

(u) Full Disclosure. Neither the Company's Annual Report on Form 10-K for the year ended October 31, 1996, the Company's Annual Report to Stockholders for the year ended October 31, 1996, the financial statements referred to in paragraph (d) of this Section 3.1, nor this Agreement, nor any other written statement or document furnished by the Company to the Purchaser in connection with the negotiation of this Agreement, taken together, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading in light of the circumstances under which they were made; provided, however, there can be no assurance that projections provided to the Purchaser, although believed by the Company to be reasonable, will in fact be achieved. There is no fact known, or which, with reasonable diligence would be known, by the Company which the Company has not disclosed to the Purchaser in writing which has a material adverse effect on or, so far as the Company can now foresee, will have a material adverse effect on the business, property, operations or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole or the ability of the Company to perform its undertakings under and in respect of this Agreement and the Notes.

(v) Environmental Compliance. The Company and each Subsidiary (i) is in compliance in all material respects with all applicable environmental, transportation, health and safety statutes and regulations, including, without limitation, regulations promulgated under the Resource Conservation and Recovery Act of 1976, 42 U.S.C. ss.ss. 6901 et seq., and (ii) has not acquired, incurred or assumed, directly or indirectly, any material contingent liability in connection with the release or storage of any toxic or hazardous waste or substance into the environment. The Company and its Subsidiaries have not acquired, incurred or assumed, directly or indirectly, any material contingent liability in connection with a release or other discharge of any hazardous, toxic or waste material, including petroleum, on, in, under or into the environment surrounding any property owned, used or leased by any of them.

(w) Stock Issuance. Since October 31, 1996, neither the Company nor any Subsidiary which is not an Inactive Subsidiary has issued any additional shares of capital stock other than capital stock issued by the Company upon exercise of employee stock options.

3.2 Representations of the Purchaser. The Purchaser represents, and in entering into this Agreement the Company understands, that (i) the Purchaser is an Institutional Holder, (ii) the Purchaser is accepting the Notes to amend and restate the 1994 Notes for the purpose of investment for the Purchaser's own account and not with a view to the resale or distribution thereof, and (iii) the Purchaser has no present intention of selling, negotiating or otherwise disposing of the Notes; provided that the disposition of the Purchaser property shall at all times be and remain within the Purchaser's control, subject, however, to compliance with federal securities laws. The Purchaser acknowledges that the Notes have not been registered under the Securities Act or the laws of any state, and the Purchaser understands that the Notes must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. The Purchaser has been advised that the Company does not contemplate registering, and is not legally required to register, the Notes under the Securities Act.

SECTION 4. CLOSING CONDITIONS

This Agreement shall be subject to the following conditions

to be satisfied on or before the Closing Date:

4.1 Representations and Warranties. The representations and warranties of the Company contained in this Agreement or otherwise made in writing in connection herewith shall be true and correct on or as of the Closing Date and the Company shall have delivered to the Purchaser a certificate to such effect, dated the Closing Date and executed by the President or the chief financial officer of the Company.

4.2 Receipt by Purchaser. The Purchaser shall have received (i) from Baker & Daniels of Indianapolis, Indiana, counsel for the Company, their opinion, dated as of such Closing Date, in form and substance satisfactory to the Purchaser and covering substantially the matters set forth or provided in the attached Exhibit B, and (ii) from the Company the Notes duly executed by the Company.

4.3 Events of Default. Except as described in Section 3.1(m), no event shall have occurred and be continuing on the Closing Date which would constitute an Event of Default, as defined in Section 8.1, or with notice or lapse of time or both would become such an Event of Default, and the Company shall have delivered to the Purchaser a certificate to such effect, dated the Closing Date and executed by the President or the chief financial officer of the Company.

4.4 Payment of Fees and Expenses. The Company shall have paid all fees, expenses, costs and charges, including the reasonable fees and expenses of Sidley & Austin, the Purchaser's special counsel, incurred by the Purchaser through the Closing Date and incident to the proceedings in connection with, and transactions contemplated by, this Agreement and the Notes.

4.5 Articles; Good Standing. The Purchaser shall have received the Company's Articles of Incorporation, as amended, modified or supplemented to the Closing Date, certified to be correct and complete by the Secretary of State of Indiana, together with a certification of existence of the Company from such Secretary of State.

4.6 Secretary's Certificate. The Purchaser shall have received a certificate dated the Closing Date of the Secretary of the Company, certifying (i) the names and true signatures of the officers authorized to sign this Agreement and the Notes, (ii) the resolutions of the Board of Directors of the Company approving the transactions contemplated by this Agreement and the Notes, and (iii) the Company's by-laws.

4.7 Proceedings and Documents. All proceedings taken in connection with the transactions contemplated by this Agreement, and all documents necessary to the consummation of such transactions shall be satisfactory in form and substance to the Purchaser and the Purchaser's special counsel, and the Purchaser and the Purchaser's special counsel shall have received copies (executed or certified as may be appropriate) of all legal documents or proceedings which they may reasonably request.

SECTION 5. INTERPRETATION OF AGREEMENT

5.1 Certain Terms Defined. The terms hereinafter set forth when used in this Agreement shall have the following meanings:

Advances - The revolving credit loans made by NBD to the Company under Section 2.4 of the NBD Agreement, the term loan made by NBD Michigan to the Company as evidenced by the Fourth Amended and Restated NBD Term Loan Note of the Company dated January 26, 1996, and the issuance of letters of credit under Section 2.4 of the NBD Agreement.

Affiliate - Any Person (other than a Subsidiary) (i) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Company, (ii) which beneficially owns or holds 5% or more of any class of the Voting Stock of the Company or any Subsidiary or (iii) 5% or more of the Voting Stock (or in the case of a Person which is not a corporation, 5% of the equity interest) of which is beneficially owned or held by the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

Agreement - As defined in Section 1.1.

Asset Sale Proceeds - means the proceeds (net of all disposition expenses) of selling or otherwise disposing of assets of the Company or any Subsidiary (other than inventory, machinery and equipment sold in the ordinary course of business upon customary credit terms and other than sales of the Company's Capital Stock) to the extent that the aggregate book value (disregarding any write-downs of such book value other than ordinary depreciation and amortization) of the assets disposed of in such sales or other dispositions (a) in any single year exceeds 5% of the Consolidated Total Assets at the end of the prior fiscal year, or (b) in any two successive fiscal years exceeds 10% of the Consolidated Total Assets at the end of the fiscal year of the prior two fiscal years for which the amount of the Consolidated Total Assets is greater, less all Asset Sale Proceeds paid under Section 2.1(b) resulting from sales or other dispositions during the first of the two successive fiscal year.

Autocon - Autocon Technologies, Inc.

Autocon Guaranties - The guaranties dated as of March 24, 1994 and executed by Autocon in favor of the Purchaser and NBD, respectively.

Bond Default - The occurrence of an Event of Default under Section 601(h) or Section 201(d)(5) of the Trust Indenture, dated as of September 1, 1990 between The City of Indianapolis, Indiana, and First of America Bank - Indianapolis, or any corresponding default under the "Loan Agreement" referred to therein.

Capital Expenditures - For any period, the aggregate of all expenditures (whether paid in cash or other assets or accrued as a liability) during such period that, in conformity with generally accepted accounting principles, are required to be included in or reflected by the Company's fixed asset account as reflected in the consolidated balance sheet, including, without limitation, any Capitalized Lease and capitalized software developments costs of the Company and its Subsidiaries, computed on a consolidated basis.

Capital Stock - of any person means any equity securities, any securities exchangeable for or convertible into equity securities, and any warrants, rights, or other options to purchase or otherwise acquire such securities.

Capitalized Lease - Any lease the obligation for Rentals with respect to which, in accordance with generally accepted accounting principles, would be required to be capitalized on a balance sheet of the lessee or for which the amount of the asset and liability thereunder, as if so capitalized, would be required to be disclosed in a note to such balance sheet.

Change of Control - The acquisition, through purchase or otherwise (including the agreement to act in concert without more), by any Person or group of Persons acting in concert, directly or indirectly, in one or more transactions, of beneficial ownership or control of securities representing more than 30% of the combined voting power of the Company's Voting Stock, provided, however, that there shall not be a Change of Control in the event that an acquisition is made, directly or indirectly, in one or more transactions, of the beneficial ownership or control of securities representing (a) 50% or more of the combined voting power of the Company's Voting Stock by any Person or group of Persons which is identified as an Executive Officer or Executive Officers of the Company on its then applicable Annual Report on Form 10-K or (b) 30% or more of the combined voting power of the Company's Voting Stock by Brynwood Partners Limited Partnership; provided further, however, that Change of Control shall not be deemed to exist with respect to the acquisitions described in (a) above only if such acquisitions are approved by a majority of the Board of Directors of the Company. For purposes of this definition, "beneficial ownership" shall have the meaning set forth in Rule 13d-3 under the Securities and Exchange Act of 1934.

Closing Date - As defined in Section 1.1.

Code - As defined in Section 3.1(h).

Consolidated Adjusted Net Worth - The consolidated stockholders' equity (including preferred stock other than preferred stock which would be characterized as Indebtedness in accordance with generally accepted accounting principles) of the Company and its Subsidiaries determined in accordance with generally accepted accounting principles after elimination of minority interests, less the sum of all goodwill, trade names, trademarks,

patents, organization expense, unamortized debt discount and expense and other similar intangibles properly classified as intangibles in accordance with generally accepted accounting principles, and excluding the effects of any foreign currency translation adjustment.

Consolidated Current Assets and Consolidated Current Liabilities - As of the date of any determination thereof, such assets and liabilities of the Company and its Subsidiaries as shall be determined on a consolidated basis in accordance with generally accepted accounting principles to constitute current assets and current liabilities, respectively.

Consolidated Fixed Charges - For any period, the sum of: (i) interest expense (including the interest component of Rentals under Capitalized Leases and capitalized interest), of the Company and its Subsidiaries for such period and (ii) Rentals of the Company and its Subsidiaries under all leases other than Capitalized Leases.

Consolidated Income Available for Fixed Charges - For any period, the sum of (i) Consolidated Net Income for such period, plus (to the extent deducted in determining Consolidated Net Income), (ii) all provisions for any federal, state, or other income taxes (including without limitation the SBT) made by the Company and its Subsidiaries during such period and (iii) interest expense (including the interest component of Rentals under Capitalized Leases and capitalized interest) of the Company and its Subsidiaries during such period; and, (iv) Rentals of the Company under all leases other than Capitalized Leases.

Consolidated Net Income - For any period, the net income and net losses of the Company and its Subsidiaries determined in accordance with generally accepted accounting principles, but excluding therefrom (i) any extraordinary gain or loss so classified in accordance with generally accepted accounting principles and (ii) the net income or loss of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest and, with respect to such net income only to the extent that it has not been received by the Company or such Subsidiary in the form of dividends or other similar distributions.

Consolidated Total Assets - The consolidated total assets of the Company and its Subsidiaries determined in accordance with generally accepted accounting principles.

Consolidated Total Capitalization - The sum of Consolidated Adjusted Net Worth and Consolidated Total Indebtedness of the Company and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles.

Consolidated Total Indebtedness - The Indebtedness of the Company and its Subsidiaries, determined on a consolidated basis in accordance with generally accepted accounting principles which (a) is interest-bearing, and (b) in accordance with generally accepted accounting principles, should be reflected on a consolidated balance sheet for the Company and its Subsidiaries as of such date.

Contaminant - Any waste, pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum-derived substance or waste, or any constituent of any such substance or waste.

Determination Date - The day 3 days before the date fixed for a prepayment pursuant to a notice required by Section 2.3 or required to be paid out of Excess Cash Flow or the day 15 days before the date of declaration pursuant to Section 8.2.

EBITDAR - For any period, the sum of Consolidated Income Available for Fixed Charges for such period, plus depreciation and amortization of the Company and its Subsidiaries for such period.

Equity Sale Proceeds - The proceeds (net of reasonable issuance expenses) of any sales by the Company or its Subsidiaries of newly issued equity securities or treasury stock of the Company or any of its Subsidiaries, other than (a) sales to officers or employees of the Company or its Subsidiaries upon exercising options issued pursuant to the "1990 Stock Option Plan of Hurco Companies, Inc.", or the "Hurco Companies, Inc. 1997 Stock Option and Incentive Plan", and (b) sales by a Subsidiary to the Company or any other Subsidiary.

ERISA - As defined in Section 3.1(h).

Event of Default - As defined in Section 8.1.

Exchange Act - The Securities Exchange Act of 1934, as amended, and as it may be further amended from time to time.

Guaranties - All obligations (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) of a Person guaranteeing or in effect, guaranteeing any Indebtedness, dividend or other, obligation, of any other Person in any manner, whether directly or indirectly, including, without limitation, all obligations incurred through an agreement, contingent or otherwise, by such Person: (i) to purchase such Indebtedness or obligation or any property or assets constituting security therefor, (ii) to advance or supply funds (x) for the purchase or payment of such Indebtedness or obligation, (y) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation, (iii) to lease property or to purchase securities or other property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation, or (iv) otherwise to assure the owner of the Indebtedness or obligation against loss in respect thereof. For the purposes of all computations made under this Agreement, a Guaranty in respect of any Indebtedness for borrowed money shall be deemed to be Indebtedness equal to the principal amount of such Indebtedness for borrowed money which has been guaranteed, and a Guaranty in respect of any other obligation or liability or any dividend shall be deemed to be Indebtedness equal to the maximum aggregate amount of such obligation, liability or dividend.

Inactive Subsidiary - As defined in Section 3.1(c).

Indebtedness - (i) All items of borrowings, including Capitalized Leases, which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liability side of a balance sheet as of the date at which Indebtedness is to be determined, (ii) all Guaranties (other than Guaranties of Indebtedness of the Company by a Subsidiary or of a Subsidiary by the Company or of a Subsidiary by a Subsidiary), letters of credit and endorsements (other than of notes, bills and checks presented to banks for collection or deposit in the ordinary course of business), in each case to support Indebtedness of other Persons; and (iii) all items of borrowings secured by any mortgage, pledge or Lien existing on property owned subject to such mortgage, pledge, or Lien, whether or not the borrowings secured thereby shall have been assumed by the Company or any Subsidiary.

Institutional Holder - Any bank, trust company, insurance company, pension fund, mutual fund or other similar financial institution, including, without limiting the foregoing, any "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, which is or becomes a holder of any Note.

Investments - All investments made, in cash or by delivery of property, directly or indirectly, in any Person, whether by acquisition of shares of capital stock, indebtedness or other obligations or securities or by loan, advance, capital contribution or otherwise; provided, however, that "Investments" shall not mean or include routine investments in property to be used or consumed in the ordinary course of business.

IRB L/C - means the Irrevocable Letter of Credit No. 252 issued by NBD Michigan in favor of First of America Bank-Indianapolis, in the face amount of \$1,060,274, and any letter of credit issued in exchange or replacement therefor.

Lien - Any mortgage, pledge, security interest, encumbrance, lien or charge of any kind, including any agreement to grant any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to file any financing statement under the Uniform Commercial Code of any jurisdiction in connection with any of the foregoing.

NBD - NBD Bank, N.A., a national banking association.

NBD Agreement - That certain Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of the Closing Date between the Company, NBD and NBD Bank, as the same may be amended from time to time.

Noteholder - Any holder of a Note.

Notes - As defined in Section 1.1.

Operating Leases - Any lease, the obligation for rentals with respect to which, in accordance with generally accepted accounting principles, would not be required to be capitalized on a balance sheet of the lessee.

PBGC - As defined in Section 3.1(h).

Plan - As defined in Section 3.1(h).

Permitted Investments - Any and all of the following

its Subsidiaries:

(i) Investments in and loans and advances by the Company to a Subsidiary or to a Person which simultaneously as a result of such Investment becomes a Subsidiary;

(ii) Investments in commercial paper maturing in 270 days or less from the date of issuance which, at the time of acquisition, (y) are accorded the highest rating by Standard & Poor's Corporation or Moody's Investors Service, Inc. or (z) are accorded the second highest rating by Standard & Poor's Corporation or Moody's Investors Service, Inc., provided that the aggregate Investments held by the Company and its Subsidiaries pursuant to this subparagraph (ii)(z) shall not at any time exceed \$5,000,000;

(iii) certificates of deposit and banker's acceptances maturing within one year from the date of issuance of United States or Canadian domiciled commercial banks having (x) capital and surplus aggregating at least \$100,000,000 and (y) long-term deposit ratings of "A+" or "A1," respectively, by Standard & Poor's Corporation or Moody's Investors Service, Inc.;

(iv) direct or indirect obligations unconditionally guaranteed by the United States government maturing within one year from the date of issuance;

(v) tax-exempt floating rate option tender bonds maturing in one year or less rated "AA" or better by Standard & Poor's Corporation or Moody's Investors Service, Inc. and secured by letters of credit issued by banks having capital and surplus aggregating at least \$100,000,000;

(vi) promissory notes or equity securities received by the Company in connection with any asset sales permitted under Section 7.7;

Permitted Liens - As defined in Section 7.4.

Person - Any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Prior Misstatement - As defined in Section 1.1.

Pro Rata Share - As of any Date, for the Purchaser, the percentage obtained by dividing (a) the outstanding principal amount of the Notes as of such date by (b) the sum of the outstanding principal amount of Advances under the NBD Agreement plus the amount available under the Commitment under the NBD Agreement plus the face amount of the IRB L/C plus the outstanding principal amount under the Notes.

Property - Any real or personal or tangible or intangible asset.

Reinvestment Yield - The sum of (i) the yield set forth under the heading "This Week" in the weekly statistical release designated H.15(519) (or any successor publication) of the Board of Governors of the Federal Reserve System under the caption "U.S. Government Securities--Treasury Constant Maturities" opposite the maturity corresponding to the Weighted Average

Life to Maturity, rounded to the nearest month, of the principal amount of the Notes to be prepaid, plus (ii) .60 of 1% with respect to Notes to be prepaid pursuant to Section 2.2(a) or Notes the payment of which has been accelerated pursuant to Section 8.2 and (iii) .25 of 1% with respect to Notes to be prepaid pursuant to Section 2.1(b) or Section 2.2(b) or (c). If no maturity exactly corresponding to such rounded Weighted Average Life to Maturity shall appear therein, yields for the two most closely corresponding published maturities (one of which occurs prior and the other subsequent to the Weighted Average Life to Maturity) shall be calculated pursuant to the foregoing sentence and the Reinvestment Yield shall be interpolated from such yields on a straight-line basis (rounding in each of such relevant periods, to the nearest month). For purposes of calculating the Reinvestment Yield, the most recent weekly statistical release published prior to the applicable Determination Date shall be used.

Release - Release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment or into or out of any property, including the movement of Contaminants through or in the air, soil, surface water, groundwater or property.

Rentals - As of the date of any determination thereof, all fixed payments (including all payments which the lessee is Obligated to make to the lessor on termination of the lease or surrender of the property) payable by the Company or a Subsidiary, as lessee or sublessee under a lease of real or personal property, but exclusive of any amounts required to be paid by the Company or a Subsidiary (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes, assessments, amortization and similar charges. Fixed rents under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

Reportable Event - As defined in Section 3.1(h).

Restricted Investments - Any Investment which is not a Permitted Investment.

SBT - means the so-called Single Business Tax imposed by the State of Michigan.

Securities Act - The Securities Act of 1933, as amended, and as it may be further amended from time to time.

Subordinated Indebtedness - Any Indebtedness which is subordinate in right of payment to the Notes.

Subsidiary - Any corporation of which the majority of the outstanding shares of Voting Stock are owned or controlled by the Company.

Voting Stock - Capital stock of any class of a corporation having power under ordinary circumstances to vote for the election of members of the board of directors of such corporation, or persons performing similar functions (whether or not at the time stock of any class shall have or might have special voting powers or rights by reason of the happening of any contingency).

Weighted Average Life to Maturity - As applied to any prepayment of principal of the Notes, at any date, the number of years obtained by dividing (a) the then outstanding principal amount of the Notes to be prepaid, into (b) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity, or other required payment, including payment at final maturity, foregone by such prepayment in the case of a prepayment of the Notes by (ii) the number of years (calculated to the nearest 1/12th) which will elapse between such date and the making of such payment.

Wholly Owned - When applied to a Subsidiary, any Subsidiary 100% of the Voting Stock of which is owned by the Company and/or its Wholly Owned Subsidiaries.

Terms which are defined in other Sections of this Agreement shall have the meanings specified therein.

5.2 Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined

or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with generally accepted accounting principles in force in the United States of America at the time of determination, except where such principles are inconsistent with the requirements of this Agreement.

5.3 Valuation Principles. Except where indicated expressly to the contrary by the use of terms such as "fair value" or "market value," each asset, each liability and each capital item of any Person, and any quantity derivable by a computation involving any of such assets, liabilities or capital items, shall be taken at the net book value thereof for all purposes of this Agreement. "Net book value" with respect to any asset, liability or capital item of any Person shall mean the amount at which the same is recorded or, in accordance with generally accepted accounting principles, should have been recorded in the books of account of such Person, as reduced by any reserves which have been or, in accordance with generally accepted accounting principles, should have been set aside with respect thereto, but in every case (whether or not permitted in accordance with generally accepted accounting principles) without giving effect to any write-up, write-down or write-off (other than any write-down or write-off the entire amount of which was charged to Consolidated Net Income or to a reserve which was a charge to Consolidated Net Income) relating thereto which was made after the date of this Agreement.

5.4 Direct or Indirect Actions. Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

SECTION 6. AFFIRMATIVE COVENANTS

The Company agrees that, for so long as any amount remains unpaid on any Note:

6.1 Corporation Existence. The Company will maintain and preserve, and will cause each Subsidiary to maintain and preserve, its corporate existence and right to carry on its business and use, and cause each Subsidiary to use, its best efforts to maintain, preserve, renew and extend all of its rights, powers, privileges and franchise necessary to the proper conduct of its business; provided, however, that the foregoing shall not prevent any transaction permitted by Section 7.7.

6.2 Insurance. The Company will insure and keep insured at all times all of its properties and all of its Subsidiaries' properties which are of an insurable nature and of the character usually insured by companies operating similar properties, against loss or damage by fire and from other causes customarily insured against by companies engaged in similar businesses in such amounts as are usually insured against by such companies. The Company also will maintain for itself and its Subsidiaries at all times adequate insurance against loss or damage from such hazards and risks to the person and property of others as are usually insured against by companies operating properties similar to the properties of the Company and its Subsidiaries. All such insurance shall be carried with financially sound and reputable insurers rated A:XII or better by A.M. Best Company, Inc. The Company shall furnish to the Purchaser within ten days after the Closing Date a summary of insurance presently in force.

6.3 Taxes, Claims for Labor and Materials. The Company will pay and discharge when due, and will cause each Subsidiary to pay and discharge when due, all taxes, assessments and governmental charges or levies imposed upon it or its property or assets, or upon properties leased by it (but only to the extent required to do so by the applicable lease), prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a Lien upon its property or assets, provided that neither the Company nor any Subsidiary shall be required to pay any such tax, assessment, charge, levy or claim, the payment of which is being contested in good faith and by proper proceedings that will stay the forfeiture or sale of any property and with respect to which adequate reserves are maintained in accordance with generally accepted accounting principles.

6.4 Maintenance of Properties. The Company will maintain, preserve and keep, and will cause each Subsidiary to maintain, preserve and keep, its properties (whether owned in fee or a leasehold interest) in good repair and working order, ordinary wear and tear excepted, and from time to time will make all necessary repairs, replacements, renewals and additions.

6.5 Maintenance of Records. The Company will keep, and will cause each Subsidiary to keep, at all times proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Company or such Subsidiary, in accordance with generally accepted accounting principles consistently applied throughout the period involved (except for such changes as are disclosed in such financial statements or in the notes thereto and concurred in by the independent certified public accountants), and the Company will, and will cause each Subsidiary to, provide reasonable protection against loss or damage to such books of record and account.

6.6 Financial Information and Reports. The Company will furnish to the Purchaser and to any other Institutional Holder (in duplicate if or such other holder so request), the following:

(a) As soon as available and in any event within 50 days after the end of each of the first three quarterly accounting periods of each fiscal year of the Company, a consolidated and a consolidating balance sheet of the Company and its Subsidiaries as of the end of such period and consolidated and consolidating statements of earnings and cash flows of the Company and its Subsidiaries for the periods beginning on the first day of such fiscal year and the first day of such quarterly accounting period and ending on the date of such balance sheet, setting forth in comparative form the corresponding consolidated figures for the corresponding periods of the preceding fiscal year, all in reasonable detail prepared in accordance with generally accepted accounting principles consistently applied throughout the period involved (except for changes disclosed in such financial statements or in the notes thereto and concurred in by the Company's independent certified public accountants) and certified by the chief financial officer or principal accounting officer of the Company (i) outlining the basis of presentation, and (ii) stating that the information presented in such statements presents fairly the financial condition of the Company and its Subsidiaries and the results of operations for the period, subject to customary year-end audit adjustments;

(b) As soon as available and in any event within 110 days after the last day of each fiscal year a consolidated and a consolidating balance sheet of the Company and its Subsidiaries as of the end of such fiscal year and the related consolidated and consolidating statements of earnings, stockholders' equity and cash flows for such fiscal year, in each case setting forth in comparative form figures for the preceding fiscal year, all in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied throughout the period involved (except for changes disclosed in such financial statements or in the notes thereto and concurred in by independent certified public accountants) and accompanied by a report as to the consolidated balance sheet and the related consolidated statements of Arthur Andersen, LLP or any firm of independent public accountants of recognized national standing selected by the Company to the effect that such financial statements have been prepared in conformity with generally accepted accounting principles and present fairly, in all material respects, the financial condition of the Company and its Subsidiaries and that the examination of such financial statements by such accounting firm has been made in accordance with generally accepted auditing standards;

(c) Together with the financial statements delivered pursuant to paragraphs (a) and (b) of this Section 6.6, a certificate of the chief financial officer or principal accounting officer, (i) to the effect that such officer has reexamined the terms and provisions of this Agreement and that at the date of such certificate, during the periods covered by such financial reports and as of the end of such periods, the Company is not, or was not, in default in the fulfillment of any of the terms, covenants, provisions and conditions of this Agreement and that no Event of Default, or event which, with the lapse of time or the giving of notice, or both, would become an Event of Default, is occurring or has occurred as of the date of such certificate, during such periods and as of the end of such periods, or if the signer is aware of any such default, event or Event of Default, he shall disclose in such statement the nature thereof, its period of existence and what action, if any, the Company has taken or proposes to take with respect thereto, and (ii) stating whether the Company is in compliance with Sections 7.1 through 7.15 and setting forth, in sufficient detail, the information and computations required to establish whether or not the Company was in compliance with the requirements of Sections 7.1 through 7.15 during the periods covered by the financial reports then being furnished and as of the end of such periods;

(d) Together with the financial reports delivered pursuant to paragraph (b) of this Section 6.6, a certificate of the independent certified

public accountants (i) stating that in making the examination necessary for expressing an opinion on such financial statements, nothing came to their attention that caused them to believe that there is in existence or has occurred any Event of Default hereunder, or any event (the occurrence of which is ascertainable by accountants in the course of normal audit procedures) which, with the lapse of time or the giving of notice, or both, would become an Event of Default hereunder or, if such accountants shall have obtained knowledge of any such event or Event of Default, describing the nature thereof and the length of time it has existed and (ii) acknowledging that holders of the Notes may rely on their opinion on such financial statements;

(e) Within 15 days after the Company obtains knowledge thereof, notice of any litigation not fully covered by insurance or any governmental proceeding pending against the Company or any Subsidiary in which the damages sought exceed \$500,000 or which might otherwise materially adversely affect the business, property, operations or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole;

(f) As soon as available, copies of each financial statement, notice, report and proxy statement which the Company shall furnish to its stockholders; copies of each registration statement and periodic report which the Company may file with the Securities and Exchange Commission, and any other similar or successor agency of the Federal government administering the Securities Act, the Exchange Act or the Trust Indenture Act of 1939, as amended; copies of each report relating to the Company or its securities which the Company may file with any securities exchange on which any of the Company's securities may be registered; copies of any orders in any material proceedings to which the Company or any of its Subsidiaries is a party, issued by any governmental agency, Federal or state, having jurisdiction over the Company or any of its Subsidiaries; and, except at such times as the Company is a reporting company under Section 13 or 15(d) of the Exchange Act or has complied with the requirements for the exemption from registration under the Exchange Act set forth in Rule 12g-3-2(b), such financial or other information as any holder of the Notes may reasonably determine is required to permit such holder to comply with the requirements of Rule 144A under the Securities Act in connection with the resale by it of the Notes;

(g) As soon as available, a copy of each other report submitted to the Company or any Subsidiary by independent accountants retained by the Company or any Subsidiary in connection with any interim or special audit made by them of the books of the Company or any Subsidiary;

(h) Within ten days after receipt thereof, a copy of any notice that (i) any violation of any federal, state or local environmental law or regulation may have been committed or is about to be committed by the Company, (ii) any administrative or judicial complaint or order has been filed or is about to be filed against the Company alleging violations of any federal, state or local environmental law or regulation or requiring the Company to take any action in connection with any Release of any Contaminant into the indoor or outdoor environment, or (iii) alleging that the Borrower may be liable or responsible for costs associated with a response to or cleanup of a Release of any Contaminant into the indoor or outdoor environment or any damages caused thereby;

(i) Such additional information as the Purchaser or such other Institutional Holder of the Notes may reasonably request concerning the Company and its Subsidiaries.

6.7 Inspection of Properties and Records. The Company will allow, and will cause each Subsidiary to allow, any representative of the Purchaser or any other Institutional Holder, so long as the Purchaser or such other Institutional Holder holds any Note, at the Purchaser's or such Institutional Holder's expense, to visit and inspect any of its properties (other than trade secrets related to technology), to examine its books of record and account and to discuss its affairs, finances and accounts with its officers and its public accountants (and by this provision the Company authorizes such accountants to discuss with the Purchaser or such Institutional Holder its affairs, finances and accounts), all at such reasonable times upon 24 hours notice and as often as the Purchaser or such Institutional Holder may reasonably request. So long as a Default or Event of Default has occurred and is continuing, the Company agrees to pay the costs of any inspections made pursuant to this Section 6.7. Any proprietary or other confidential, competitively sensitive information obtained by the Purchaser or any other Noteholder shall not be disclosed to any Person except (i) in connection with the enforcement of obligations of the Company under the Notes or this Agreement, (ii) in response

to a subpoena or other legal process, (iii) as otherwise required by applicable law or regulation or (iv) in connection with the sale or transfer of the Notes to a subsequent proposed purchaser or transferee.

6.8 ERISA. (a) The Company agrees that all assumptions and methods used to determine the actuarial valuation of employee benefits, both vested and unvested, under any Plan of the Company or any Subsidiary, and each such Plan, whether now existing or adopted after the date hereof, will comply in all material respects with ERISA and other applicable laws.

(b) The Company will not at any time permit any Plan established, maintained or contributed to by it or any Subsidiary or "affiliate" (as defined in Section 407(d)(7) of ERISA) to:

(i) engage in any "prohibited transaction" as such term is defined in Section 4975 of the Code or in Section 406 of ERISA;

(ii) incur any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA, whether or not waived; or

(iii) be terminated under circumstances which are likely to result in the imposition of a lien on the property of the Company or any Subsidiary pursuant to Section 4068 of ERISA, if and to the extent such termination is within the control of the Company;

if the event or condition described in clauses (i), (ii) or (iii) above is likely to subject the Company or any Subsidiary or ERISA affiliate to a liability which, in the aggregate, is material in relation to the business, property, operations, or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole.

(c) Upon the request of the Purchaser or any other Institutional Holder, the Company will furnish a copy of the annual report of each Plan (Form 5500) required to be filed with the Internal Revenue Service. Copies of annual reports shall be delivered no later than 30 days after the later of the date such report has been filed with the Internal Revenue Service or the date the copy is requested.

(d) Promptly upon the occurrence thereof, the Company will give the Purchaser and each other Institutional Holder written notice of (i) a reportable event with respect to any Plan; (ii) the institution of any steps by the Company, any Subsidiary, any ERISA affiliate, the PBGC or any other person to terminate any Plan; (iii) the institution of any steps by the Company, any Subsidiary, or any ERISA affiliate to withdraw from any Plan; (iv) a prohibited transaction in connection with any Plan; (v) any material increase in the contingent liability of the Company or any Subsidiary with respect to any post-retirement welfare liability; or (vi) the taking of any action by the Internal Revenue Service, the Department of Labor or the PBGC with respect to any of the foregoing which, in any of the events specified above, would result in any material liability of the Company or any of its Subsidiaries.

6.9 Compliance with Laws. The Company will comply, and will cause each Subsidiary to comply, with all laws, rules and regulations relating to its or their respective businesses, other than laws, rules and regulations the failure to comply with which or, the sanctions and penalties resulting therefrom, individually or in the aggregate, would not have a material adverse effect on the business, property, operations, or condition, financial or otherwise, of the Company or such Subsidiary, and would not result in the creation of a Lien which, if incurred in the ordinary course of business, would not be permitted by Section 7.4 on any of the property of the Company or any Subsidiary; provided, however, that the Company and its Subsidiaries shall not be required to comply with laws, rules and regulations the validity or applicability of which are being contested in good faith and by appropriate proceedings; provided that the failure to comply with such laws, rules or regulations would not have a material adverse effect on the business, properties, operations, assets or condition, financial or otherwise, of the Company and its Subsidiaries taken as a whole.

6.10 Acquisition of Notes. The Company will forthwith cancel any Notes in any manner or at any time acquired by the Company or any Subsidiary or Affiliate and such Notes shall not be deemed to be outstanding for any of the purposes of this Agreement or the Notes.

6.11 Private Placement Number. The Company consents to the

filing of copies of this Agreement with Standard & Poor's Corporation and the National Association of Insurance Commissioners to obtain a private placement number.

6.12 Fiscal Year. The Company will at all times maintain a fiscal year ending on -----
October 31 of each calendar year.

SECTION 7. NEGATIVE COVENANTS

The Company agrees that, for so long as any amount remains unpaid on any Note:

7.1 Net Worth. The Company will not at any time permit its Consolidated Adjusted Net Worth to be less than (a) \$20,000,000, plus (b) the cumulative amount equal to 50% of its Consolidated Net Income subsequent to April 30, 1997 at the end of the fiscal quarter, plus (c) an amount equal to 75% of the aggregate Equity Sale Proceeds received by the Company or its Subsidiaries after the Closing Date and on or prior to the end of the fiscal quarter.

7.2 Indebtedness. The Company will not, and will not permit any Subsidiary to, create, assume, incur, guarantee or otherwise become liable for, directly or indirectly, any Indebtedness, other than:

(i) Indebtedness Under the Notes;

(ii) The Indebtedness outstanding under the NBD Agreement and Indebtedness secured by IRB L/C;

(iii) Indebtedness (other than Indebtedness permitted under subsections (i) and (ii)) in aggregate outstanding principal amount not exceeding 15% of the Consolidated Adjusted Net Worth of the Company and its Subsidiaries from time to time in the aggregate; and

(iv) Indebtedness of any Subsidiary of the Company owing to the Company or to any other Subsidiary of the Company.

7.3 Fixed Charge Ratio. The Company will not, as of the end of any fiscal quarter, permit the ratio of Consolidated Income Available for Fixed Charges to Consolidated Fixed Charges for the preceding twelve months to be less than 1.25 to 1.0.

7.4 Liens. The Company will not, and will not permit any Subsidiary to, create, assume, or incur, or permit to exist, directly or indirectly, any Lien on its properties or assets, whether now owned or hereafter acquired, except for the following Liens ("Permitted Liens"):

(a) Liens existing on property of the Company or any Subsidiary as of the date of this Agreement that are described in Annex II to this Agreement;

(b) Liens for taxes, assessments or governmental charges not then due and delinquent or the validity of which is being contested in good faith and by proper proceedings that will stop the forfeiture or sale of any property and with respect to which adequate reserves are maintained in accordance with generally accepted accounting principles;

(c) Liens arising in connection with court proceedings, provided the execution of such Liens is effectively stayed and such Liens are contested in good faith;

(d) Liens arising in the ordinary course of business and not incurred in connection with the borrowing of money, including encumbrances in the nature of zoning restrictions, easements, rights and restrictions of record on the use of real property, landlord's and lessor's liens in the ordinary course of business, which do not materially interfere with the conduct of the business of the Company and its Subsidiaries taken as a whole and do not materially affect the value of the Property subject to such Liens;

(e) Liens as security for Indebtedness permitted by Section 7.2 which in the aggregate does not exceed 5% of Consolidated Adjusted Net Worth of the Company existing from time to time;

(f) Liens on Property acquired or constructed by the Company or a Subsidiary and created contemporaneously with or within 120 days of the acquisition or construction of such Property, in each case to secure or provide for all or a portion of the Purchase Price or construction costs of such Property; provided that (x) such Liens do not extend to other Property of the Company or any Subsidiary and (y) the aggregate principal amount of Indebtedness secured by all such Liens does not exceed 100% of the fair market value of the Property subject to such Liens as measured on the date of acquisition or final completion of construction of such Property;

(g) Liens resulting from extensions, renewals, refinancings and refundings of Indebtedness secured by Liens permitted by paragraph (a) above, provided there is no increase in the original principal amount of Indebtedness secured thereby and any new Lien attaches only to the same property theretofore subject to such earlier Lien; and

(h) Liens on equipment granted to lessors under operating leases described in Section 7.13 and under Capitalized Leases.

7.5 Restricted Payments. The Company will not, except as hereinafter provided:

(a) declare or pay any dividends, either in cash or property, on any shares of its capital stock of any class (except dividends or other distributions payable solely in shares of capital stock of the Company);

(b) directly or indirectly, or through any Subsidiary, purchase, redeem or retire any shares of its capital stock or any class or any warrants, rights or options to purchase or acquire any shares of its capital stock (other than in exchange for or out of the net cash proceeds from the substantially concurrent issuance or sale of other shares of capital stock of the Company subsequent to the Closing Date);

(c) make any other payment or distribution, either directly or indirectly or through any Subsidiary, in respect of its capital stock;

(d) make any payment, either directly or indirectly or through any Subsidiary, of principal of any Subordinated Indebtedness other than at the expressed maturity date thereof and scheduled mandatory prepayments or redemptions thereof in accordance with the original terms of such Subordinated Indebtedness; or

(e) make, or permit any Subsidiary to make, any Restricted Investment which in the aggregate would exceed 15% of Consolidated Adjusted Net Worth;

(all such declarations, payments, purchases, redemptions, retirements, distributions and investments being herein collectively called "Restricted Payments") if, after giving effect thereto such Restricted Payment constitutes or would, with the giving of notice or passage of time, constitute an Event of Default.

The Company will not declare any dividend which constitutes a Restricted Payment payable more than 60 days after its date of declaration. Any dividend which complies with the provisions of this Section 7.5 on the date of its declaration shall be deemed to comply on its date of payment, provided that any intervening event giving rise to noncompliance is not the result of a Restricted Payment.

7.6 Merger or Consolidation. The Company will not, and will not permit any Subsidiary to, merge or consolidate with any other Person, except that:

(a) The Company may consolidate with or merge into any Person or permit any other Person to merge into it, provided that immediately after giving effect thereto,

(1) The Company is the successor corporation or, if the Company is not the successor corporation, the successor corporation is a corporation organized under the laws of a state of the United States of America or the District of Columbia and shall expressly assume in writing the Company's obligations under the Notes and this Agreement;

(2) There shall exist no Event of Default or event which, with the passage of time or giving of notice, or both, would constitute an Event of Default; and

(3) The Company or such successor corporation could incur at least \$1.00 of additional Indebtedness;

(b) Any Subsidiary may (i) merge into the Company or another Wholly Owned Subsidiary or (ii) merge into any Person which, as a result of such merger, concurrently becomes a Subsidiary, provided in each such instance that there shall exist no Event of Default or event which, with the passage of time or giving of Notice, or both, would constitute an Event of Default.

7.7 Sale of Assets. The Company will not, and will not permit any Subsidiary to, sell, lease, transfer or otherwise dispose of all or a substantial portion of its business, assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether in one or a series of transactions, other than (i) inventory sold in the ordinary course of business upon customary credit terms, (ii) trade-ins of any equipment in conjunction with acquiring replacement equipment, (iii) sales of the Company's Capital Stock, (iv) leases of real property, (v) sales of obsolete or surplus machinery and equipment in the ordinary course of business so long as the purchase price is paid in cash or immediately available funds, if, immediately before and after such transaction, no Event of Default or event which, with the passage of time or giving of notice, or both, would constitute an Event of Default shall exist or shall have occurred and be continuing, and (vi) other sales, leases, or transfers or dispositions so long as (A) no Event of Default or event which, with the passage of time or giving of notice, or both, would constitute an Event of Default shall exist or shall have occurred and be continuing, and (B) all Asset Sale Proceeds from such sales and dispositions are applied as required under Section 2.2(e).

7.8 Disposition of Stock of Subsidiaries. The Company will not, and will not permit any Subsidiary to, issue, sell or transfer the capital stock of a Subsidiary without the prior written consent of the Purchaser.

7.9 Change in Business.. Neither the Company nor any Subsidiary will engage in any business substantially different from their current businesses.

7.10 Transactions with Affiliates. The Company will not, and will not permit any Subsidiary to, enter into any transaction (including the furnishing of goods or services) with an Affiliate except in the ordinary course of business as presently conducted and on terms and conditions no less favorable to the Company or such Subsidiary than would be obtained in a comparable arm's-length transaction with a person not an Affiliate.

7.11 Consolidated Tax Returns. The Company will not file, or consent to the filing of, any consolidated Federal income tax return with any Person other than a Subsidiary, except to the extent that the Company is required under the Code to do otherwise.

7.12 Capital Expenditures. The Company will not make any Capital Expenditure if the aggregate amount of Capital Expenditures made by the Company and its Subsidiaries during any fiscal quarter, together with the Capital Expenditures made during the prior three fiscal quarters, would exceed, on a consolidated basis, an amount equal to the greater of (i) the amount which would allow the ratio of EBITDAR to the sum of Consolidated Fixed Charges plus Capital Expenditures to be not less than 1.25 to 1.0 for the four fiscal quarters immediately preceding the date of the proposed Capital Expenditure and (ii) the consolidated depreciation and amortization expense of the Company and its Subsidiaries for such four fiscal quarter period.

7.13 Operating Leases. The Company shall not permit its consolidated aggregate payment obligations under operating leases to exceed \$2,600,000 during any consecutive four quarter fiscal period of the Company.

7.14 Negative Pledge Limitation. The Company will not enter into any agreement with any person other than the Purchaser under this Agreement or NBD pursuant to the NBD Agreement which prohibits or limits the ability of the Company or any Subsidiary to create, incur, assume or suffer to exist any Lien upon any of its assets, rights, revenues, or property, real, personal or mixed, tangible or intangible, whether now owned or hereafter acquired.

7.15 Amendment to NBD Agreement. The Company agrees that it

will not enter into any amendment, modification or agreement which would have the effect of increasing the amount of any fee payable under or in connection with the NBD Agreement.

SECTION 8. EVENTS OF DEFAULT AND REMEDIES THEREFOR

8.1 Nature of Events. An "Event of Default" shall exist if any one or more of the

following occurs:

(a) Default in the payment of interest when due on any of the Notes and continuance of such default for a period of five days;

(b) Default in the payment of (i) the principal of any of the Notes or the premium thereon, if any, at maturity, upon acceleration of maturity or at any date fixed for prepayment, or (ii) any other amount payable hereunder not covered by clause (a) or (b) (i), and in each case, continuance of such default for a period of five days;

(c) Default shall occur (1) in the payment of the principal of, premium, or interest on any other Indebtedness of the Company or its Subsidiaries, aggregating in excess of \$500,000 as and when due and payable (whether by lapse of time, declaration, call for redemption or otherwise), excluding a Bond Default, (ii) under any mortgage, agreement or other instrument of the Company or any Subsidiary securing such Indebtedness or under or pursuant to which such Indebtedness aggregating in excess of \$500,000 is issued, (iii) under any leases other than Capitalized Leases of the Company or any Subsidiary, with aggregate Rentals in excess of \$500,000 or (iv) with respect to any combination of the foregoing involving Indebtedness and/or Rentals aggregating in excess of \$500,000 regardless of whether such defaults would be Events of Default hereunder, and (x) any such defaults with respect to the payment of money shall continue, unless waived, beyond the period of grace, if any, allowed with respect thereto and, (y) solely in the case of any default not involving the payment of money, such default shall continue, unless waived, beyond the period of grace, if any, allowed with respect thereto if the effect of such default is to accelerate or to permit the acceleration of such Indebtedness and/or Rentals;

(d) Default in the observance or performance of Section 6.7, 7.1 through 7.15 or 8.7 which is not remedied within ten days following written notice thereof to the Company;

(e) Default in the observance or performance of any other covenant or provision of this Agreement which is not remedied within thirty days following written notice thereof to the Company;

(f) (1) Any representation or warranty made by the Company in this Agreement or made by the Company in any written statement or certificate furnished by the Company in connection with the issuance of the Notes to amend and restate the 1994 Notes or furnished by the Company pursuant to this Agreement, proves incorrect in any material respect as of the date of the issuance or making thereof of; or (2) any Prior Misstatement proves to have been fraudulent in any material respect as of the date of the issuance or making thereof; and in each case such failure continues for more than five days following written notice thereof to the Company;

(g) Any judgments, writs or warrants of attachment or any similar processes individually or in the aggregate in excess of \$1,000,000 shall be entered or filed against the Company or any Subsidiary or against any property or assets of either and either (i) remain unpaid, unvacated, unbonded or unstayed (through appeal or otherwise) prior to the expiration of the applicable period of limitations for taking action necessary to stay enforcement thereof, or if such action shall have been taken, a final order denying such stay shall have been rendered, or (ii) enforcement proceedings shall have been commenced by any creditor upon any such judgment or order;

(h) The Company or any Subsidiary shall incur a "Distress Termination" (as defined in Title IV of ERISA) of any Plan or any trust created thereunder which results in material liability to the PBGC, the PBGC shall institute proceedings to terminate any Plan or any trust created thereunder, or a trustee shall be appointed by a United States District Court pursuant to Section 4042(b) of ERISA to administer any Plan or any trust created thereunder; or

(i) The Company or any Subsidiary shall

(i) generally not pay its debts as they become due or admit in writing its inability to pay its debts generally as they become due;

(ii) file a petition in bankruptcy or for reorganization or for the adoption of an arrangement under the Federal Bankruptcy Code, or any similar applicable bankruptcy or insolvency law, as now or in the future amended (herein collectively called "Bankruptcy Laws"), or an answer or other pleading admitting or failing to deny the material allegations of such a petition or seeking, consenting to or acquiescing in relief provided for under the Bankruptcy Laws, or take action for the purpose of effecting any of the foregoing;

(iii) make an assignment of all or a substantial part of its property for the benefit of its creditors;

(iv) seek or consent to or acquiesce in the appointment of a receiver, liquidator, custodian or trustee of it or for all or a substantial part of its property;

(v) be finally adjudicated a bankrupt or insolvent;

(vi) be subject to a proceeding under any Bankruptcy Laws filed against it, which such proceeding shall remain undismissed or unstayed for a period of 60 days;

(vii) be subject to the entry of a court order, which shall not be vacated, set aside or stayed within 30 days from the date of entry, appointing a receiver, liquidator, custodian or trustee of it or for all or a substantial part of its property, or entering of an order for relief pursuant to an involuntary case, or effecting an arrangement in, bankruptcy or for a reorganization pursuant to the Bankruptcy Laws or for any other judicial modification or alteration of the rights of creditors; or

(viii) be subject to the assumption of custody or sequestration by a court of competent jurisdiction of all or a substantial part of its property, which custody or sequestration shall not be suspended or terminated within 30 days from its inception.

8.2 Remedies on Default. When any Event of Default described in paragraphs (a) through (h) of Section 8.1 has happened and is continuing other than a Forbearance Default, the holder or holders of at least 25% in principal amount of the Notes then outstanding may by notice to the Company declare the entire principal, together with the premium set forth below, and all interest accrued on all Notes to be, and such Notes shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are expressly waived. Notwithstanding the foregoing, when (i) any Event of Default described in paragraphs (a), (b) or (c) of Section 8.1 has happened and is continuing, any holder may by notice to the Company declare the entire principal, together with the premium set forth below, and all interest accrued on the Notes then held by such holder to be, and such Notes shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are expressly waived and (ii) where any Event of Default described in paragraph (i) of Section 8.1 has happened, then all outstanding Notes shall immediately become due and payable without presentment, demand or notice of any kind. Upon the Notes or any of them becoming due and payable as aforesaid, the Company will forthwith pay to the holders of such Notes the entire principal of and interest accrued on such Notes, plus a premium in the event that the Reinvestment Yield shall, on the Determination Date, be less than the interest rate payable on or in respect of the Notes. Such premium shall equal (x) the aggregate present value of the principal so accelerated and the aggregate present value of the interest which would have been payable in respect of such principal absent such accelerated payment, determined by discounting (monthly on the basis of a 360-day year composed of twelve 30-day months) each such amount utilizing an interest factor equal to the Reinvestment Yield, less (y) the principal amount to be prepaid.

8.3 Annulment of Acceleration of Notes. The provisions of Section 8.2 are subject to the condition that if the principal of and accrued interest on the Notes have been declared immediately due and payable by reason

of the occurrence of any Event of Default described in paragraphs (a) through (h), inclusive, of Section 8.1, the holder or holders of 66-2/3% in aggregate principal amount of the Notes then outstanding may, by written instrument filed with the Company, rescind and annul such declaration and the consequences thereof, provided that (i) at the time such declaration is annulled and rescinded no judgment or decree has been entered for the payment of any monies due pursuant to the Notes or this Agreement, (ii) all arrears of interest upon all the Notes and all other sums payable under the Notes and under this Agreement (except any principal, interest or premium on the Notes which has become due and payable solely by reason of such declaration under Section 8.2) shall have been duly paid and (iii) each and every other Event of Default shall have been cured or waived; and provided further, that no such rescission and annulment shall extend to or affect any subsequent default or Event of Default or impair any right consequent thereto.

8.4 Other Remedies. If any Event of Default shall be continuing other than a Forbearance Default, any holder of Notes may enforce its rights by suit in equity, by action at law, or by any other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Agreement or in the Notes or in aid of the exercise of any power granted in this Agreement, and may enforce the payment of any Note held by such holder and any of its other legal or equitable rights.

8.5 Conduct No Waiver: Collection Expenses. No course of dealing on the part of any holder of Notes, nor any delay or failure on the part of any holder of Notes to exercise any of its rights, shall operate as a waiver of such rights or otherwise prejudice such holder's rights, powers and remedies. If the Company fails to pay, when due, the principal of, or the interest on, any Note, or fails to comply with any other provision of this Agreement, the Company will pay to each holder, to the extent permitted by law, on demand, such further amounts as shall be sufficient to cover the cost and expenses, including but not limited to reasonable attorneys fees, incurred by such holders of the Notes in collecting any sums due on the Notes or in otherwise enforcing any of their rights.

8.6 Remedies Cumulative. No right or remedy conferred upon or reserved to any holder of Notes under this Agreement is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy given under this Agreement or now or hereafter existing under any applicable law. Every right and remedy given by this Agreement or by applicable law to any holder of Notes may be exercised from time to time and as often as may be deemed expedient by such holder, as the case may be.

8.7 Notice of Default. With respect to Events of Default or claimed defaults other than a Forbearance Default, the Company will give the following notices:

(a) The Company promptly will furnish to each holder of a Note notice in writing by registered or certified mail, return receipt requested, of the occurrence of an Event of Default or an event which, with the lapse of time or the giving of notice, or both, would become an Event of Default. Such notice shall specify the nature of such default, the period of existence thereof and what action the Company has taken or is taking or proposes to take with respect thereto.

(b) If the holder of any Note or of any other evidence of Indebtedness of the Company or any Subsidiary gives any notice or takes any other action with respect to a claimed default, the Company will forthwith give written notice thereof to each holder of the then outstanding Notes, describing the notice or action and the nature of the claimed default.

SECTION 9. AMENDMENTS, WAIVERS AND CONSENTS

9.1 Matters Subject to Modification. Any term, covenant, agreement or condition of this Agreement may, with the consent of the Company, be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), if the Company shall have obtained the consent in writing of the holder or holders of at least 66-2/3% in aggregate principal amount of outstanding Notes; provided, however, that, without the written consent of the holder or holders of all of the Notes then outstanding, no such waiver, modification, alteration or amendment shall be effective which will (i) change the time of payment (including any required prepayment) of the principal of or the interest on any Note, (ii) reduce the

principal amount thereof or the premium, if any, or reduce the rate of interest thereon, (iii) change any provision of any instrument affecting the preferences between holders of the Notes or between holders of the Notes and other creditors of the Company, or (iv) change any of the provisions of Section 8.1, Section 8.2, Section 8.3 or this Section 9.

For the purpose of determining whether holders of the requisite principal amount of Notes have made or concurred in any waiver, consent, approval, notice or other communication under this Agreement, Notes held in the name of, or owned beneficially by, the Company, any Subsidiary or any Affiliate thereof, shall not be deemed outstanding.

9.2 Solicitation of Holders of Notes. The Company will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement or the Notes unless each holder of the Notes (irrespective of the amount of Notes then owned by it) shall concurrently be informed thereof by the Company and shall be afforded the opportunity of considering the same and shall be supplied by the Company with sufficient information to enable it to make an informed decision with respect thereto. Executed or true and correct copies of any waiver or consent effected pursuant to the provisions of this Section 9 shall be delivered by the Company to each holder of outstanding Notes forthwith following the date on which the same shall have been executed and delivered by the holder or holders of the requisite percentage of outstanding Notes. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any holder of the Notes as consideration for or as an inducement to the entering into by any holder of the Notes of any waiver or amendment of any of the terms and provisions of this Agreement unless such remuneration is concurrently paid, on the same terms, ratably to each holder of the then outstanding Notes.

9.3 Binding Effect. Any such amendment or waiver shall apply equally to all the holders of the Notes and shall be binding upon them, upon each future holder of any Note and upon the Company whether or not such Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right related thereto.

SECTION 10. FORM OF NOTES, REGISTRATION, TRANSFER, EXCHANGE AND REPLACEMENT

10.1 Form of Notes. The Notes initially delivered under this Agreement will be in the form of two fully registered Notes in the form attached as Exhibit A. The Notes are issuable only in fully registered form and in denominations of at least \$100,000 (or the remaining outstanding balance thereof, if less than \$100,000).

10.2 Note Register. The Company shall cause to be kept at its principal office a register (the "Note Register") for the registration and transfer of the Notes. The names and addresses of the holders of Notes, the transfer thereof and the names and addresses of the transferees of the Notes shall be registered in the Note Register. The Company may deem and treat the person in whose name a Note is so registered as the holder and owner thereof for all purposes and shall not be affected by any notice to the contrary, until due presentment of such Note for registration of transfer as provided in this Section 10.

10.3 Issuance of New Notes upon Exchange or Transfer. Upon surrender for exchange or registration of transfer of any Note at the office of the Company designated for notices in accordance with Section 11.2, the Company shall execute and deliver, at its expense, one or more new Notes of any authorized denominations requested by the holder of the surrendered Note, each dated the date to which interest has been paid on the Notes so surrendered (or, if no interest has been paid, the date of such surrendered Note), but in the same aggregate unpaid principal amount as such surrendered Note, and registered in the name of such person or persons as shall be designated in writing by such holder. Every Note surrendered for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or by his attorney duly authorized in writing. The Company may condition its issuance of any new Note in connection with a transfer by any Person on compliance by the transferee of the representations required under Section 3.2, by Institutional Holders on compliance with Section 2.5 and on the payment to the Company of a sum sufficient to cover any stamp tax or other governmental charge imposed in respect of such transfer.

10.4 Replacement of Notes. Upon receipt of evidence satisfactory to the Company of the loss, theft, mutilation or destruction of any Note, and in the case of any such loss, theft or destruction upon delivery of a bond of indemnity in such form and amount as shall be reasonably satisfactory to the Company or in the event of such mutilation upon surrender and cancellation of the Note, the Company, without charge to the holder thereof, will make and deliver a new Note, of like tenor in lieu of such lost, stolen, destroyed or mutilated Note. If any such lost, stolen or destroyed Note is owned by the Purchaser or any other Institutional Holder, then the affidavit of an authorized officer of such owner setting forth the fact of loss, theft or destruction and of its ownership of the Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof, and no further indemnity shall be required as a condition to the execution and delivery of a new Note, other than a written agreement of such owner (in form reasonably satisfactory to the Company) to indemnify the Company.

SECTION 11. MISCELLANEOUS

11.1 Expenses. Whether or not the transactions contemplated herein shall be consummated, the Company agrees to pay directly all reasonable expenses in connection with the preparation, execution and delivery of this Agreement, the Notes, and all other documents delivered in connection herewith, and the transactions contemplated by such documents, including, but not limited to, out-of-pocket expenses, filing fees of Standard & Poor's Corporation in connection with obtaining a private placement number, reasonable charges and disbursements of special counsel, photocopying and printing costs and charges for shipping the Notes, adequately insured, to the Purchaser at its home office or at such other address as the Purchaser may designate, and all similar expenses (including the reasonable fees and expenses of counsel) relating to any amendments, waivers or consents in connection with this Agreement, the Notes and the other documents delivered in connection herewith, including, but not limited to, any such amendments, waivers or consents resulting from any work-out, renegotiation or restructuring relating to the performance by the Company of its obligations under this Agreement, the Notes and the other documents delivered in connection herewith. The Company also agrees that it will pay and save the Purchaser harmless against any and all liability with respect to stamp and other documentary taxes, if any, which may be payable, or which may be determined to be payable in connection with the execution and delivery of this Agreement or the Notes (but not in connection with a transfer of any Notes), whether or not any Notes are then outstanding. The obligations of the Company under this Section 11.1 shall survive the retirement of the Notes.

11.2 Notices. Except as otherwise expressly provided herein, all communications provided for in this Agreement shall be in writing and delivered or sent by registered or certified mail, return receipt requested, or by overnight courier (i) if to the Purchaser, to the address set forth below the Purchaser's name in Annex I, or to such other address as the Purchaser may in writing designate, (ii) if to any other holder of the Notes, to such address as the holder may designate in writing to the Company, and (iii) if to the Company, to Hurco Companies, Inc., One Technology Way, Indianapolis, Indiana 46268, or to such other address as the Company may in writing designate.

11.3 Reproduction of Documents. This Agreement and all documents relating hereto, including, without limitation, (i) consents, waivers and modifications which may hereafter be executed, (ii) documents received by the Purchaser in connection with the execution and delivery of this Agreement (except the Notes themselves), and (iii) financial statements, certificates and other information previously or hereafter furnished to the Purchaser, may be reproduced by the Purchaser by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process, and the Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction which is legible shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Purchaser in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence; provided that nothing herein contained shall preclude the Company from objecting to the admission of any reproduction on the basis that such reproduction is not accurate, has been altered or is otherwise incomplete.

11.4 Successors and Assigns. This Agreement will inure to

the benefit of and be binding upon the parties hereto and their respective successors and assigns.

11.5 Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois. No provision of this Agreement may be waived, changed or modified, or the discharge thereof acknowledged, orally, except by an agreement in writing signed by the party against whom the enforcement of any waiver, change, modification or discharge is sought.

11.6 Headings. The headings of the sections and subsections of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11.7 Counterparts. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute one and the same instrument, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart or reproduction thereof permitted by Section 11.3.

11.8 Reliance on and Survival of Provisions. All covenants, representations and warranties made by the Company herein and in any certificates delivered pursuant to this Agreement, whether or not in connection with a closing, (i) shall be deemed to have been relied upon by the Purchaser, notwithstanding any investigation heretofore or hereafter made by the Purchaser or on the Purchaser's behalf and (ii) shall survive the delivery of this Agreement and the Notes.

11.9 Integration and Severability. This Agreement embodies the entire agreement and understanding between the Purchaser and the Company, and supersedes all prior agreements and understandings relating to the subject matter hereof. In case any one or more of the provisions contained in this Agreement or in any Note, or application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement and in any Note, and any other application thereof, shall not in any way be affected or impaired thereby.

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IN WITNESS WHEREOF, the Company and the Purchaser have caused this Agreement to be executed and delivered by their respective officer or officers thereunto duly authorized.

HURCO COMPANIES, INC.

By: /s/ Roger J. Wolf_____
Title: Senior Vice President
and Chief Financial Officer

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By: /s/ Sarah J. Pitts
Title: Counsel

By: /s/ Austin J. Ramzy
Title: Assistant Director
Investment Securities

Exhibit 10.12

LETTER AGREEMENT (EUROPEAN FACILITY)
dated September 8, 1997

Between the Registrant and The First National Bank of

Chicago

THE FIRST NATIONAL BANK OF CHICAGO,
London Branch
THE FIRST NATIONAL BANK OF CHICAGO,
Frankfurt Branch
90 Long Acre, Covent Garden
London WC2E 9RB
England

September 8, 1997

Hurco Europe Limited
Hurco GmbH Werkzeugmaschinen CIM -
Bausteine Vertrieb und Service

Ladies and Gentlemen:

Concurrently herewith, Hurco Companies, Inc., an Indiana corporation which directly owns 100% of you ("Hurco Companies"), and NBD Bank, N.A., a national banking association ("NBD"), and NBD Bank, a Michigan banking corporation ("NBD Michigan"), have entered into that certain Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement, dated as of even date herewith (as amended, the "Credit Agreement"). This letter sets forth our agreement with respect to the working capital credit facility which The First National Bank of Chicago, London Branch, and The First National Bank of Chicago, Frankfurt Branch (collectively, "FCNBD"), are willing to establish for you (the "Facility"). (References to "you" or "your" in this agreement mean, individually and not collectively, Hurco Europe Limited, a corporation organized and existing under the laws of England and Wales ("Hurco Europe"), and Hurco GmbH Werkzeugmaschinen CIM - Bausteine Vertrieb und Service ("Hurco GmbH")).

1. (a) Subject to the terms hereof, FCNBD agrees to make loans to you in Dollars or any other Currency under the Facility, through its foreign branches in London, England, and Frankfurt, Germany (or such other branch or affiliate as it determines in its sole discretion), during the period ending on the Expiration Date, the aggregate Dollar Equivalent of the principal amounts of which do not exceed \$5,000,000 outstanding at any one time.

(b) In no event shall the aggregate Dollar Equivalent of the principal amounts of the Loans outstanding at any time exceed the lesser of (i) Five Million Dollars (\$5,000,000) and (ii) the difference of (x) Twenty-Two Million Five Hundred Thousand Dollars (\$22,500,000), minus (y) the Dollar Equivalent of all debt owed by Hurco Companies to NBD or its affiliates under the Credit Agreement.

(c) The commitment of NBD to make the Loans is subject to the execution of the Credit Agreement and the condition precedent that no default under Section 11 of this agreement, and no event or condition which might become such a default with notice or lapse of time, or both, shall exist or shall have occurred and be

continuing on the date such Loan is to be made. Hurco Europe and Hurco GmbH shall be deemed to have made a representation to that effect when requesting a Loan. A request for a loan must be made by you, or on your behalf by Hurco Companies, by telephone to the London Branch of FCNBD, to be confirmed in writing mailed the same day and signed by an authorized officer of you or Hurco Companies, as the case may be, at least three Business Days prior to making any Fixed Rate Loan and at least one Business Day prior to making any Floating Rate Loan. Each request shall identify which one of you is the borrower, the Currency of the proposed loan or that the loan is to be in Dollars, the amount of the proposed loan (which must be in a minimum principal amount the Dollar Equivalent of which is acceptable to FCNBD or the relevant foreign branch or affiliate), the type of loan (whether a Fixed Rate Loan or a Floating Rate Loan), the Eurocurrency Interest Period, if applicable, and the date the requested loan is to be made.

(d) Upon the above conditions being satisfied, FCNBD shall make the requested loan in accordance with procedures agreed upon among FCNBD, the borrower, and Hurco Companies. Each loan shall be evidenced by entries upon the books and records of NBD's main office or of FCNBD's foreign branch disbursing the loan. FCNBD shall, and is authorized by you to, endorse on its books and records the date and amount of each loan hereunder, the applicable Currencies (or for Dollar loans, that they are in Dollars), the interest rate and interest period with respect to each loan, and the amount of each principal and interest payment thereon, which books and records shall constitute prima facie evidence thereof; provided, however, that the failure of FCNBD to record, or any error in recording, any such information shall not relieve any borrower of its obligation to repay the outstanding principal amount of the loans to it, all accrued interest thereon, and other amounts payable with respect thereto in accordance with the terms of this Agreement.

(e) Each Fixed Rate Loan shall be due and payable at the end of the Eurocurrency Interest Period relating thereto. Any Loan which is a Fixed Rate Loan shall automatically be converted into a Fixed Rate Loan bearing a Eurocurrency Interest Period of one month at the end of the applicable Eurocurrency Interest Period unless the Loan is properly renewed as a Fixed Rate Loan prior to such time. Each Floating Rate Loan shall be due and payable on the Expiration Date. Upon proper notice given in accordance with the time periods set forth in Paragraph 1(c), any Loan may be converted from a Fixed Rate Loan to a Floating Rate Loan, or vice versa, effective upon the next succeeding Interest Payment Date relating to such Loan (or, with respect to a Fixed Rate Loan having a six-month Eurocurrency Interest Period, at the end of the Eurocurrency Interest Period). The borrower of each loan shall pay interest on the unpaid principal amount of the loan, for the period commencing on the date the loan is made until the loan is paid in full, on each Interest Payment Date, and at maturity (whether at stated maturity, by acceleration or otherwise), and thereafter on demand. All loans not paid in full when due, either at maturity, upon demand, or otherwise, shall bear interest at the Overdue Rate until paid. Hurco Companies may request loans on your behalf in accordance with the terms of this agreement at any time prior to the Expiration Date.

2. (a) All payments of principal of and interest on the loans and other amounts payable by either borrower hereunder shall be made by such borrower without setoff or counterclaim, and free and clear of, and without deduction or withholding for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments, or other charges of whatever nature, imposed by any governmental authority, or by any department, agency, or other political subdivision or taxing authority.

(b) The borrowers agree to pay to FCNBD a facility fee during the term of this Agreement, calculated on a per annum rate equal to fifteen one-hundredths of one percent (.15%) of \$5,000,000. Accrued facility fees shall be payable quarterly in arrears on each Interest Payment Date, commencing on the first such date occurring after the date hereof, and on the Expiration Date.

3. Except as otherwise provided in this agreement to the contrary, whenever any installment of principal of, or interest on, any loan or any other amount due hereunder becomes due and payable on a day which is not a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of any installment of principal, interest shall be payable thereon at the rate per annum determined in accordance with this agreement during such extension. Computations of interest and other amounts due under this agreement shall be made on the basis of a year of 360 days, or, in the case of

any loan in Pounds Sterling, 365 days, for the actual number of days elapsed, including the first day but excluding the last day of the relevant period.

4. In the event that any applicable law, treaty, rule, or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to FCNBD, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by FCNBD with any guideline, request or directive of any such authority (whether or not having the force of law), shall (i) affect the basis of taxation of payments to FCNBD of any amounts payable by any borrower under this agreement (other than taxes imposed on the overall net income of FCNBD by the jurisdiction, or by any political subdivision or taxing authority of any such jurisdiction, in which FCNBD has its principal office), or (ii) shall impose, modify, or deem applicable any reserve, special deposit, or similar requirement against assets of, deposits with or for the account of, or credit extended by FCNBD, or (iii) shall impose any other condition with respect to this agreement or any loan made hereunder, and the result of any of the foregoing is to increase the cost to FCNBD of making, funding, or maintaining any Fixed Rate Loan or to reduce the amount of any sum receivable by FCNBD thereon, then the borrower of the loan shall pay to FCNBD from time to time, upon request by FCNBD, additional amounts sufficient to compensate FCNBD for such increased cost or reduced sum receivable to the extent, in the case of any Fixed Rate Loan, FCNBD is not compensated therefor in the interest rate applicable to such Fixed Rate Loan. Any such additional amounts resulting from the reserve requirements imposed by the Bank of England on a loan made from FCNBD's London Branch shall be calculated in accordance with Schedule One attached hereto. A statement as to the amount of such increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by FCNBD, and submitted by FCNBD to a borrower, shall be presumptively deemed correct.

5. In the event that any applicable law, treaty, rule, or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to FCNBD, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by FCNBD with any guideline, request, or directive of such authority (whether or not having the force of law), including without limitation exchange controls, shall make it unlawful or impossible for FCNBD to maintain any Fixed Rate Loan to you under this agreement, upon receiving notice thereof from FCNBD, the borrower of the loan shall repay in full the then-outstanding principal amount of the affected loan, together with all accrued interest thereon to the date of payment and all amounts owing to FCNBD under Paragraph 6 hereof, (a) on the next Interest Payment Date applicable to the loan if FCNBD may lawfully continue to maintain the loan to such day, or (b) immediately if FCNBD may not continue to maintain the loan to such day.

6. If you make any payment of principal with respect to any Fixed Rate Loan on any date other than the last day of a Eurocurrency Interest Period applicable thereto, or if you fail to borrow any loan after notice has been given to FCNBD in accordance with Paragraph 1 hereof and agreement to make the loan has been reached, or if you fail to make any payment of principal or interest in respect of a loan when due, you shall, in addition to any amounts that may be payable pursuant to Paragraph 4 or 5 hereof, reimburse FCNBD on demand for any resulting loss or expense incurred by FCNBD, including without limitation any loss incurred in obtaining, liquidating, or employing deposits from third parties, whether or not FCNBD shall have funded or committed to fund the loan. A statement as to the amount of such loss or expense, prepared in good faith and in reasonable detail by FCNBD and submitted by FCNBD to you, shall be presumptively deemed correct. Calculation of all amounts payable to FCNBD under this Paragraph shall be made as though FCNBD shall have actually funded or committed to fund the relevant loan through purchasing an underlying deposit in an amount equal to the amount of the loan and having a maturity comparable to the related Eurocurrency Interest Period; provided, however, that FCNBD may fund any loan in any manner it sees fit and the foregoing assumption shall be utilized only for the purpose of calculating amounts payable under this Paragraph.

7. As used herein, the following terms have the respective meanings set forth below:

"Business Day" means, with respect to a Floating Rate Loan, a day other than a Saturday, Sunday, or other day on which the applicable office of FCNBD is not open to the public for carrying on substantially all of its banking functions, and, with respect to a Fixed Rate Loan, means in addition a day on which dealings in Dollar deposits are carried out in the relevant interbank market.

"Contingent Liabilities" of any person means, as of any date, all obligations of such person or of others for which such person is contingently liable, as obligor, guarantor, surety, or in any other capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of any letters of credit, surety bonds, note repurchase obligations, or similar obligations and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the financial condition of such other person.

"Currency" means French Francs, German Marks, Pounds Sterling, or any other freely convertible non-Dollar currency in which a foreign branch of FCNBD is willing to make a loan to you.

"Dollar Equivalent" means with respect to each loan in Dollars, the amount thereof, and with respect to each loan in a Currency, the sum in Dollars resulting from converting the amount of such loan from the relevant Currency into Dollars at the most favorable spot exchange rate determined by FCNBD to be available to it for purchasing that Currency with Dollars at 11:00 a.m. (local time for the relevant foreign exchange market) on the date such loan is disbursed, or on such other date as of which a determination of the Dollar Equivalent is made.

"Dollars" and "\$" means the lawful money of the United States of America.

"Eurocurrency Interest Period" means, with respect to any Fixed Rate Loan, the period commencing on the day each Fixed Rate Loan is made or converted to a Fixed Rate Loan and ending on the date one, two, three, or six months thereafter, as the borrower may elect under Paragraph 1(c), and each subsequent period commencing on the last day of the immediately preceding Eurocurrency Interest Period and ending on the date one, two, three, or six months thereafter, as the borrower may elect, or any other period as FCNBD and the borrowers may agree from time to time, provided, however, that (a) any Eurocurrency Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month, (b) each Eurocurrency Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day, and (c) no Eurocurrency Interest Period which would end after the Expiration Date shall be permitted.

"Eurocurrency Rate" means, with respect to any Fixed Rate Loan and the related Eurocurrency Interest Period, the per annum rate that is equal to the sum of:

(a) the Eurocurrency Rate Margin, plus

(b) if the Fixed Rate Loan is denominated in Dollars, the rate obtained by dividing (i) the per annum rate of interest at which deposits in Dollars for such Eurocurrency Interest Period and in an aggregate amount comparable to the amount of such Fixed Rate Loan are offered to FCNBD by other prime banks in the London or Nassau interbank market, at approximately 11:00 a.m. London or Nassau time, as the case may be, on the second Business Day prior to the first day of such Eurocurrency Interest Period by (ii) an amount equal to one minus the stated maximum rate (expressed as a decimal) of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) that is specified on the first day of such Eurocurrency Interest Period by the Board of Governors of the Federal Reserve System (or any successor agency thereto) for determining the maximum reserve requirement with respect to eurodollar funding (currently referred to as "Eurodollar liabilities" in Regulation D of such Board) maintained by a member bank of such System;

all as conclusively determined by FCNBD, absent manifest error, such sum to be rounded up, if necessary, to the nearest whole multiple of one one-hundredth of one percent (1/100 of 1%).

"Eurocurrency Rate Margin" means, as of any date, the Applicable Eurodollar Rate Margin then in effect under the Credit Agreement.

"Expiration Date" means the earlier to occur of (a) May 1, 2000, and (b) the date on which the Authorization shall be terminated pursuant to Paragraph 12.

"Fixed Rate Loan" means any Loan which bears interest at the Eurocurrency Rate.

"Federal Funds Rate" means the per annum rate that is equal to the average of the rates on overnight federal funds transactions with members of the Federal Reserve system arranged by federal funds brokers, as published by the Federal Reserve Bank of New York for such day, or, if such rate is not so published for any day, the average of the quotations for such rates received by FCNBD from three federal funds brokers of recognized standing selected by FCNBD in its discretion, all as conclusively determined by FCNBD, such sum to be rounded up, of necessary, to the nearest whole multiple of one one-hundredth of one percent (1/100 of 1%), which Federal Funds Rate shall change simultaneously with any change in such published or quoted rates.

"Floating Rate" means the per annum rate equal to the greater of (a) the Prime Rate in effect from time to time, and, (b) if the Floating Rate Loan is denominated in Dollars, the sum of one percent (1%) per annum plus the Federal Funds Rate in effect from time to time. The Floating Rate shall change simultaneously with any change in the Prime Rate or Federal Funds Rate, as the case may be.

"Floating Rate Loan" means any Loan which bears interest at the Floating Rate.

"French Francs" means the lawful money of the French Republic.

"German Marks" means the lawful money of the Federal Republic of Germany.

"Guarantors" means Autocon Technologies, Inc., an Indiana corporation, and IMS Technology, Inc., a Virginia corporation, each a wholly-owned subsidiary of Hurco Companies.

"Guaranty" means the Subsidiary Guaranty dated as of even date herewith, executed by the Guarantors in favor of NBD, NBD Michigan, and FCNBD, as it may be amended from time to time.

"Hurco Guaranty" means the Hurco Guaranty dated as of even date herewith, executed by Hurco Companies in favor of FCNBD, as it may be amended from time to time.

"Interest Payment Date" means, (a) with respect to any Fixed Rate Loan, the last day of each Eurocurrency Interest Period with respect to such loan and, in the case of any Eurocurrency Interest Period exceeding three months, those days that occur during the Eurocurrency Interest Period at intervals of three months after the first day of the Eurocurrency Interest Period, and (b) in all other cases, the last Business Day of each March, June, September, and December, commencing on the first such Business Day occurring after the date hereof.

"Loan" or "loan" means any loan made pursuant to Paragraph 1. Any such Loan or portion thereof may also be denominated as a Floating Rate Loan or a Fixed Rate Loan and such Floating Rate Loans and Fixed Rate Loans are referred to herein as "types" of Loans.

"Overdue Rate" shall mean (a) in respect of principal of Floating Rate Loans, a rate per annum that is equal to the sum of three percent (3%) per annum plus the Floating Rate, (b) in respect of principal of Fixed Rate Loans, a rate per annum that is equal to the sum of three percent (3%) per annum plus the per annum rate in effect thereon until the end of the then current Interest Period for such

Loan and, thereafter, a rate per annum that is equal to the sum of three percent (3%) per annum plus the Floating Rate, and (c) in respect of other amounts payable by the borrower hereunder (other than interest), a per annum rate that is equal to the sum of three percent (3%) per annum plus the Floating Rate.

"Pounds Sterling" means the lawful money of the United Kingdom.

"Prime Rate" means the per annum rate announced by FCNBD from time to time as its "prime rate" or "base rate", as applicable (it being acknowledged that such announced rate may not necessarily be the lowest rate charged by FCNBD to any of its customers), which Prime Rate shall change simultaneously with any change in such announced rate.

8. Each of you represents and warrants that it is a corporation duly organized and existing under the laws of the jurisdiction in which its principal place of business is located, that the execution of this agreement and the transactions contemplated hereby have been fully authorized by it, that the officers executing this agreement and any other documents required to be signed in connection with this agreement have been duly authorized to do so, and that this agreement constitutes the legal, valid and binding obligation of it, enforceable in accordance with its terms.

9. The agreement of FCNBD to consider making a loan to you is subject to completion of the following matters and the receipt by FCNBD of the following documents, all in form and substance satisfactory to FCNBD:

(a) Certificates of incumbency as to the officers authorized to execute this agreement and other documents required by this agreement.

(b) The Hurco Guaranty, duly executed by Hurco Companies in favor of FCNBD, and the Guaranty, duly executed by the Guarantors in favor of NBD, NBD Michigan, and FCNBD.

(c) Such other documents as FCNBD or its counsel may reasonably request.

10. So long as any credit facility is available under this agreement, and until payment in full of the principal of and accrued interest on all indebtedness provided for in this agreement, (a) Hurco GmbH agrees that it will furnish or cause to be furnished to FCNBD and NBD within 120 days after the end of each fiscal year its internally prepared foreign consolidating balance sheet and related statement of income for such fiscal year, certified by its chief financial officer as being accurate in all material respects, and (b) Hurco Europe agrees that it will furnish or cause to be furnished to FCNBD and NBD within 150 days after the end of each fiscal year a copy of its foreign consolidating balance sheet and related statement of income for such fiscal year, with a customary audit report of an auditing firm acceptable to FCNBD and NBD, without qualifications unacceptable to FCNBD or NBD.

11. It shall be a default under this agreement if any of the following shall occur, taking into account, in each instance, any applicable grace period:

(a) Any default occurs in the performance or observance of any term, covenant, condition or agreement contained in this agreement and the same continues for a period of five days after receiving notice from NBD or FCNBD of such default; or

(b) Hurco Companies fails to observe or perform any term, covenant, condition or agreement contained in the Hurco Guaranty, or the Hurco Guaranty shall for any reason become invalid or unenforceable; or

(c) The Guarantors fail to observe or perform any term, covenant, condition or agreement contained in the Guaranty, or the Guaranty shall for any reason become invalid or unenforceable; or

(d) Any Event of Default (as defined in the Credit Agreement) occurs; or

(e) The Commitment (as defined in the Credit Agreement) expires or is terminated; or

(f) There is any failure by you or by Hurco Companies to pay any part of the principal of, the premium, if any, or the interest on, or any other payment of money due under any indebtedness to FCNBD or NBD and such failure continues for a period of three business days following the due date of any such payment.

12. Upon the occurrence of any such default, FCNBD may by notice to you terminate its commitment to make loans hereunder and declare the outstanding principal of and accrued interest on all your indebtedness to FCNBD provided for in this agreement to be immediately due and payable, and FCNBD thereafter shall no longer consider making loans to you hereunder.

13. For the purposes of obtaining judgment in any court, if it becomes necessary to convert into any other currency any Currency due hereunder, then the conversion shall be made at the rate of exchange prevailing on the day before the day on which the judgment is given. For this purpose, "rate of exchange" means the rate at which FCNBD is able on the relevant date to purchase the Currency for such other currency. In the event that there is a change in the rate of exchange prevailing, between the day before the day on which the judgment is given and date of payment, either of you will pay such additional amount (if any) as may be necessary to ensure that the amount paid on such date is the amount in such other currency which when converted at the rate of exchange prevailing for commercial transactions on the date of payment is the amount then due on the relevant loan. Any amount due from either of you under this Paragraph will be due as a separate debt and shall not be affected by judgment being obtained for any other sum due under or in respect of this agreement.

14. This agreement is substituted for the revolving credit facility provided to you under a certain letter loan agreement dated June 17, 1993 (as amended, the "Prior Credit Agreement"), between NBD Michigan and you. NBD Michigan has assigned its rights and obligations under the Prior Credit Agreement to FCNBD. As of the date of this agreement, each loan to you under the Prior Credit Agreement outstanding as of such date shall be deemed a loan to you under this agreement, bearing interest at the interest rate existing on such date under the Prior Credit Agreement for the then-remaining interest period. As of the date of this agreement, all accrued and unpaid interest on any loan made to you under the Prior Credit Agreement outstanding as of such date shall be deemed accrued on such loans deemed made under this agreement. Each such loan and such accrued and unpaid interest deemed outstanding under this agreement pursuant to this Paragraph shall be evidenced by entries upon the books and records of FCNBD or the relevant foreign branch as provided in Paragraph 1 hereof. Each of you consents to amending and restating the Prior Credit Agreement in the form of this agreement, and agrees that as of the date of this agreement, the Prior Credit Agreement is terminated as to you, and you shall have no rights thereunder.

15. This agreement embodies the entire agreement and understanding between the parties, and supersedes all prior agreements and understandings, relating to the subject matter hereof. In case any one or more of your obligations under this agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of your remaining obligations shall not in any way be affected or impaired thereby, and such invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of your obligations under this agreement in any other jurisdiction.

16. You shall pay FCNBD's expenses, including without limitation the fees and expenses (not to exceed such amount as Hurco Companies and FCNBD may agree) of its counsel, Dickinson, Wright, Moon, Van Dusen & Freeman, in connection with preparing, executing, delivering and administering this agreement and consummating the transactions contemplated hereby, and all stamp and other taxes payable in connection herewith.

17. This agreement shall be governed by and construed in accordance with the laws of England and Wales, provided, that the law of the jurisdiction where a loan hereunder is made shall govern with respect to the terms of such loan.

18. This agreement may be executed in counterparts, all of which

taken together shall constitute one agreement. Execution may be effected by facsimile signature.

19. Your covenants and agreements herein shall survive the expiration of the facilities provided hereunder until all loans made hereunder and all obligations arising hereunder have been paid in full.

Should the foregoing be agreeable to you, as it is to us, please indicate your agreement and acceptance by executing and returning the enclosed copy of this letter.

Very truly yours,

THE FIRST NATIONAL BANK OF
CHICAGO, London Branch

By: /s/ Scott C. Morrison

Its: Vice President

THE FIRST NATIONAL BANK OF
CHICAGO, Frankfurt Branch

By: /s/ Scott C. Morrison

Its: Vice President

AGREED AND ACCEPTED:

Dated: September 8, 1997

HURCO EUROPE LIMITED

By: /s/ Roger Wolf

Its: Director

HURCO GMBH WERKZEUGMASCHINEN CIM
- - BAUSTEINE VERTRIEB UND SERVICE

By: Gerhard Kohlbacher

Its: General Manager

Exhibit 10.13

GUARANTY AGREEMENT

dated September 8, 1997

Between the Registrant and The First National Bank of

Chicago

HURCO GUARANTY

THIS HURCO GUARANTY, dated as of September __, 1997, executed by HURCO COMPANIES, INC. (the "Guarantor"), in favor of THE FIRST NATIONAL BANK OF CHICAGO, a national banking association ("FNBC").

WHEREAS, the Company is the indirect parent of Hurco Europe Limited and Hurco GmbH Werkzeugmaschinen CIM - Bausteine Vertrieb und Service (collectively, the "European Subsidiaries"); and

WHEREAS, the European Subsidiaries are party with FNBC to a Letter Agreement as of even date herewith (the "European Facility"), pursuant to which FNBC may lend to the European Subsidiaries amounts not to exceed in the aggregate at any time outstanding the Dollar Equivalent (as defined therein) of \$5,000,000; and

WHEREAS, it is a condition to the effectiveness of the European Facility and to other loan transactions between the Company and affiliates of FNBC that the Company guarantee payment and performance of all obligations of the European Subsidiaries under the European Facility (collectively, the "Obligations") pursuant to this Guaranty Agreement.

NOW, THEREFORE, for valuable consideration, receipt of which is acknowledged, and as further consideration to FNBC to enter into the transactions contemplated by the European Facility (together with this Guaranty and all other documents, agreements, instruments and certificates executed in connection therewith, the "Operative Documents"), the Guarantor agrees with FNBC as follows:

1. Guaranty of Obligations. (a) The Guarantor hereby absolutely and unconditionally, as primary obligor and not merely as surety, (i) guarantees to FNBC the prompt payment of the principal of and any and all accrued and unpaid interest on the Obligations when due, whether by scheduled maturity, acceleration or otherwise, all in accordance with the terms of this Guaranty and the other Operative Documents, including amounts due under any extensions thereof or substitutions therefor, and all other amounts which may be payable by the Company or the Guarantor to FNBC in connection with or pursuant to the Operative Documents, including without limitation default interest, indemnification payments, and all costs and expenses incurred by FNBC in connection with enforcing any obligations of the European Subsidiaries or either of them or the Guarantor hereunder or thereunder, including without limitation the reasonable fees and disbursements of counsel for FNBC, and (ii) guarantees the prompt performance and observance of each term, covenant or agreement contained herein or therein to be performed or observed on the part of the European Subsidiaries or either of them or the Guarantor.

(b) If for any reason any duty, agreement or obligation of the European Subsidiaries or either of them shall not be performed or observed as provided for in the Operative Documents, or if any amount payable under or in connection with the Obligations shall not be paid in full when the same becomes due and payable, the Guarantor undertakes to perform or cause to be performed promptly each of such duties, agreements and obligations and to pay forthwith each such amount to FNBC, regardless of any defense or setoff or counterclaim which the European Subsidiaries or either of them may have or assert, and regardless of any other condition or contingency.

2. Nature of Guaranty. This Guaranty is an absolute and unconditional and irrevocable guaranty of payment and not a guaranty of collection and is wholly independent of and in addition to other rights and remedies of FNBC and is not contingent upon FNBC pursuing any such rights and remedies, such pursuit being hereby waived by the Guarantor. This Guaranty covers all present and future Obligations, whether direct or indirect and absolute or contingent, of whatever nature and however arising or evidenced.

3. Waivers and Other Agreements. The Guarantor hereby unconditionally (a) waives any requirement that FNBC, in the event of any default by the European Subsidiaries or either of them, first make demand upon, or seek to enforce remedies against, the European Subsidiaries or either of them before demanding payment under or seeking to enforce this Guaranty, (b) covenants that this Guaranty will not be discharged except by complete payment and performance of all Obligations of the European Subsidiaries or either of them to FNBC, (c) agrees that this Guaranty shall remain in full force and effect without regard to, and shall not be affected or impaired by, without limitation, any invalidity, irregularity or unenforceability in whole or in part of this Agreement or any other Operative Document, or any limitation on the liability of the European Subsidiaries or either of them thereunder, or any limitation on the method or terms of payment which may now or hereafter be caused or imposed in any manner whatsoever, (d) waives diligence, presentment and protest with respect to, and any notice of default or dishonor in the payment of any amount at any time payable by the European Subsidiaries or either of them under or in connection with the Obligations, and further waives any requirement of notice of acceptance of, or other formality relating to, this Guaranty, and (e) agrees that the amounts guaranteed hereunder shall include any amounts paid by the European Subsidiaries or either of them or the Guarantor to FNBC which may be required to be returned to the payor or to its representative or to a trustee, custodian or receiver for the European Subsidiaries or either of them or the Guarantor.

4. Obligations Absolute. The obligations, covenants, agreements and duties of the Guarantor under this Guaranty shall not be released, affected or impaired by any of the following, whether or not undertaken with notice to or consent of the Guarantor: (a) any assignment or transfer, in whole or in part, of the Obligations, or (b) any waiver by FNBC, or by any other person, of the performance or observance by the European Subsidiaries or either of them of any of the agreements, covenants, terms or conditions contained in the Operative Documents, or (c) any indulgence in or the extension of the time for payment by the European Subsidiaries or either of them of any amounts payable under or in connection with this Agreement or any other Operative Document, or of the time for performance by the European Subsidiaries or either of them of any other obligations under or arising out of the Operative Documents or any related document, or the extension or renewal thereof, or (d) the modification, amendment or waiver from time to time of this Guaranty or any other Operative Document, any such modification, amendment, or waiver being expressly authorized without further notice to or consent of the European Subsidiaries or either of them or the Guarantor, or (e) the voluntary or involuntary liquidation, sale, or other disposition of all or substantially all of the assets of the European Subsidiaries or either of them or any receivership, insolvency, bankruptcy, reorganization, or other similar proceedings affecting the European Subsidiaries or either of them or any of its assets, or (f) the release of any security for the Obligations, or the impairment of or failure to perfect an interest in any such security, or (g) the merger or consolidation of the European Subsidiaries or either of them or the Guarantor with any other person, or (h) the release or discharge of the European Subsidiaries or either of them or the Guarantor from the performance or observance of any agreement, covenant, term or condition contained in the Operative Documents by operation of law, or (j) any other cause whether similar or dissimilar to the foregoing (other than full payment and performance of the Obligations) which would release, affect or impair the obligations, covenants, agreements or duties of the European Subsidiaries or either of them or the Guarantor hereunder or thereunder.

5. Remedies of FNBC. In the event that any of the Obligations is not promptly paid by the European Subsidiaries or either of them when it becomes due, upon demand or otherwise, the holder thereof may require the Guarantor to pay all or any portion of the outstanding principal balance thereof, with interest thereon to date of payment, without regard to any security for or other guaranty of such indebtedness; provided, however, that nothing herein contained shall prevent FNBC from instituting legal proceedings with respect to any of the Obligations with or without making the European Subsidiaries or either of them or the Guarantor a party to the suit or from exercising any other rights available to it, and only the net proceeds therefrom, after deducting all charges and expenses, shall be applied to reduce the amount due on the

Obligations.

6. Subrogation Agreement. If the Guarantor makes a payment in respect of the Obligations, it shall be subrogated to the rights of the payee against the European Subsidiaries with respect to such payment; provided, that the Guarantor hereby waives its rights to any payment by way of subrogation until all the Obligations shall have been paid or performed in full.

7. Representations and Warranties. As of the date hereof and as of the date of each loan or other advance made by FNBC to the European Subsidiaries or either of them, the Guarantor represents and warrants that:

(a) Corporate Existence and Power. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of State of Indiana and is duly qualified to do business in each additional jurisdiction where such qualification is necessary under applicable law and where failure to be so duly qualified would have a material, adverse effect on the financial condition of the Guarantor. The Guarantor has all requisite corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted, and to execute and deliver this Guaranty and to engage in the transactions contemplated by this Guaranty.

(b) Corporate Authority. The execution, delivery and performance by the Guarantor of this Guaranty are within its corporate powers, have been duly authorized by all necessary corporate action and are not in contravention of any law, rule or regulation, or of any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority, or of the terms of the Guarantor's charter or by-laws, or of any contract or undertaking to which the Guarantor is a party or by which it or its property may be bound or affected.

(c) Binding Effect. This Guaranty is the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms.

8. Covenants. The Guarantor agrees that, until all Obligations have been satisfied, unless FNBC shall otherwise consent in writing, it shall preserve and maintain its corporate existence, rights, privileges, licenses, franchises and permits and qualify and remain qualified as a validly existing corporation in good standing in each jurisdiction in which such qualification is necessary under applicable law and where failure to be so qualified would have a material adverse effect on the financial condition of the Guarantor.

9. Remedies. (a) Upon the occurrence and during the continuance of any Event of Default (as defined in any of the Operative Documents), FNBC may, in addition to the remedies provided in the Operative Documents, enforce its rights either by suit in equity, or by action at law, or by other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Guaranty or in aid of the exercise of any power granted in this Guaranty and may enforce payment under this Guaranty and any of its other rights available at law or in equity.

(b) Upon the occurrence and during the continuance of any Event of Default (as defined in any of the Operative Documents), FNBC is hereby authorized at any time and from time to time, without notice to the Guarantor (any requirement for such notice being expressly waived by the Guarantor), to set off and apply against any and all of the obligations of the Guarantor then or thereafter existing under this Guaranty all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by FNBC to or for the credit or the account of the Guarantor and any property of the Guarantor from time to time in FNBC's possession, irrespective of whether or not FNBC shall have made any demand hereunder and although such obligations may be contingent and unmatured. The rights of FNBC under this paragraph are in addition to other rights and remedies (including, without limitation, other rights of setoff) which FNBC may have.

(c) To the extent that it lawfully may, the Guarantor agrees that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of any applicable present or future stay, extension or moratorium law, which may affect observance or performance of the provisions of this Guaranty or any Operative Document; nor will it claim, take or insist upon any benefit or advantage of any present or future law providing for the evaluation or appraisal of any security for its obligations hereunder or the obligations under the Operative Documents prior to any sale or sales thereof which may be made under of by virtue of any instrument governing the same; nor

will it, after any such sale or sales, claim or exercise any right, under any applicable law, to redeem any portion of such security so sold.

10. Severability; Enforceability. If any one or more provisions of this Guaranty should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected, impaired, or prejudiced thereby. If any portion of the obligations of the Guarantor under this Guaranty shall be determined by a court of competent jurisdiction to be invalid, unenforceable or avoidable, the remaining portion of the Guarantor's obligations under this Guaranty shall not in any way be affected, impaired, or prejudiced thereby and shall remain valid and enforceable to the fullest extent permitted by applicable law. If all or any portion of the Guarantor's obligations under this Guaranty would otherwise be determined by a court of competent jurisdiction to be invalid, unenforceable or avoidable under Section 548 of the federal Bankruptcy Code or under a similar applicable law of any jurisdiction, then, notwithstanding any other provisions of the Guaranty to the contrary, the Guarantor's obligation or portion thereof under this Guaranty shall be limited to the greatest of (i) the value of any quantifiable economic benefits accruing to the Guarantor as a result of this Guaranty, (ii) an amount equal to 95% of the excess on the date the relevant liabilities were incurred of the present fair saleable value of the Guarantor's assets over the amount of all the Guarantor's liabilities, contingent or otherwise, and (iii) the maximum amount for which this Guaranty is determined to be enforceable.

11. Amendments, Etc. This Guaranty may be amended from time to time and any provision hereof may be waived by the parties hereto. No such amendment or waiver of any provision of this Guaranty nor consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by FNBC, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

12. Notices. All notices and other communications hereunder shall be in writing and shall be delivered or sent to the Guarantor at One Technology Way, Indianapolis, IN 46268, ATTN: Chief Financial Officer, Facsimile No. (317) 328-2811, and to FNBC at 90 Long Acre, Covent Garden, London WC2E 9RB, ENGLAND, or to such other address as may be designated by the Guarantor or FNBC by notice to the other party hereto. All notices and other communications shall be deemed to have been given at the time of actual delivery thereof to such address, or if sent by certified or registered mail, postage prepaid, to such address, on the third day after the date of mailing, provided, however, that notices to FNBC shall not be effective until received.

13. Conduct No Waiver; Remedies Cumulative. The obligations of the Guarantor under this Guaranty are continuing obligations and a fresh cause of action shall arise in respect of each event of default hereunder. No course of dealing on the part of FNBC, nor any delay or failure on the part of FNBC in exercising any right, power or privilege hereunder shall operate as a waiver of such right, power or privilege or otherwise prejudice FNBC's rights and remedies hereunder; nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege. No right or remedy conferred upon or reserved to FNBC under this Guaranty is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing under any applicable law. Every right and remedy given by this Guaranty or by applicable law to FNBC may be exercised from time to time and as often as may be deemed expedient by FNBC.

14. Reliance on and Survival of Various Provisions. All terms, covenants, agreements, representations and warranties of the Guarantor made herein or in any certificate or other document delivered pursuant hereto shall be deemed to be material and to have been relied upon by FNBC, notwithstanding any investigation heretofore or hereafter made by FNBC or on FNBC's behalf.

15. Successors and Assigns. The rights and remedies of FNBC hereunder shall inure to the benefit of, and the duties and obligations of the Guarantor hereunder shall be binding upon their respective successors and assigns, provided that the Guarantor may not assign its duties and obligations hereunder without FNBC's consent.

16. Governing Law. This Guaranty is a contract made under, and the rights and obligations of the parties hereunder, shall be governed by and construed in accordance with, the laws of the State of Indiana applicable to contracts to be made and to be performed entirely with such State.

17. Definitions; Headings. Terms used but not defined herein and which are defined in the Operative Documents shall have the respective meanings ascribed thereto in the Operative Documents. The headings of the various subdivisions hereof are for convenience of reference only and shall in no way modify any of its terms or provisions hereof.

18. Construction of Certain Provisions. All computations required hereunder and all financial terms used herein shall be made or construed in accordance with generally accepted accounting principles unless such principles are inconsistent with the express requirements of this Guaranty. If any provision of this Guaranty refers to any action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person, whether or not expressly specified in such provision.

19. Waiver of Jury Trial. FNBC and the Guarantor, after consulting or having had the opportunity to consult with counsel, knowingly, voluntarily and intentionally waive any right either of them may have to a trial by jury in any litigation based upon or arising out of this Guaranty or any related instrument or agreement or any of the transactions contemplated by this Guaranty or any course of conduct, dealing, statements (whether oral or written) or actions of either of them. Neither FNBC nor the Guarantor shall seek to consolidate, by counterclaim or otherwise, any such action in which a jury trial has been waived with any other action in which a jury trial cannot be or has not been waived. These provisions shall not be deemed to have been modified in any respect or relinquished by either FNBC or the Guarantor except by a written instrument executed by both of them.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be duly executed and delivered as of the day and year first above written.

HURCO COMPANIES, INC.

By: /s/ Roger J. Wolf

Its: _____

Exhibit 10.14

GUARANTY AGREEMENT
dated September 8, 1997

Between the Autocon Technologies, Inc. and The First National
Bank of Chicago

SUBSIDIARY GUARANTY

THIS SUBSIDIARY GUARANTY, dated as of September 8, 1997 (this "Guaranty"), executed by AUTOCON TECHNOLOGIES, INC., an Indiana corporation, and IMS TECHNOLOGY, INC., a Virginia corporation (collectively, the "Guarantors"), in favor of NBD BANK, N.A., a national banking association ("NBD Indiana") NBD BANK, a Michigan banking corporation ("NBD Michigan") and THE FIRST NATIONAL BANK OF CHICAGO, a national banking association ("FNBC").

WHEREAS, Hurco Companies, Inc. (the "Company"), and NBD Indiana are party to an Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement (the "New Facility") dated as of even date herewith, pursuant to which NBD Indiana may make loans and issue letters of credit in an aggregate amount of up to \$22,500,000 and the debt under which is evidenced by a Promissory Note of even date herewith, executed by the Company (the "New Facility Note"); and

WHEREAS, the Company and NBD Michigan are party to a Term Loan Agreement dated as of September 9, 1991 (as amended to date and by the New Facility, the "NBD Michigan Term Loan Agreement"), pursuant to which NBD Michigan has made a term loan to the Company, which has an outstanding principal amount of \$1,250,000, and the NBD Michigan Term Loan Agreement has been assigned to NBD Indiana by an Assignment and Acceptance dated as of even date herewith (the "Assignment and Acceptance"), and NBD Michigan has assigned to NBD Indiana the Term Note (the "NBD Indiana Term Note") issued by the Company under the NBD Michigan Term Loan Agreement; and

WHEREAS, the Company and NBD Michigan are party to a Reimbursement Agreement dated as of September 1, 1990 (as amended to date and by the New Facility, the "Reimbursement Agreement"), pursuant to which NBD Michigan issued an Irrevocable Letter of Credit (the "IRB L/C"), the face amount of which is \$1,060,274, and NBD Michigan has sold to NBD Indiana a 100% risk participation in the IRB L/C pursuant to a Participation Agreement dated as of even date herewith; and

WHEREAS, the Company and its indirect, wholly-owned subsidiaries, Hurco Europe Limited ("Hurco Europe") and Hurco GmbH Werkzeugmaschinen CIM - Bausteine Vertrieb und Service ("Hurco GmbH", and, together with Hurco Europe, the "European Subsidiaries"), and FNBC are party to a letter agreement as of even date herewith (the "European Facility"), pursuant to which FNBC may lend to the European Subsidiaries amounts not to exceed in the aggregate at any time outstanding the Dollar Equivalent (as defined therein) of \$5,000,000; and

WHEREAS, the Company has guaranteed to FNBC the obligations of the European Subsidiaries under the European Facility pursuant to a Hurco Guaranty dated as of even date herewith (the "Hurco Guaranty" and, together with the NBD Michigan Term Loan Agreement, the NBD Indiana Term Note, the European Facility, the Reimbursement Agreement, the IRB L/C, the New Facility, and the New Facility Note, the "NBD Facilities"); and

WHEREAS, as a condition to the effectiveness of the New Facility, the Assignment and Acceptance, and the Participation Agreement, the Guarantors are required to guarantee payment and performance of all obligations of the Company in respect of the New Facility, the NBD Michigan Term Loan Agreement, the NBD Indiana Term Note, the Reimbursement Agreement, the IRB L/C and the Hurco Guaranty, and all obligations of the European Subsidiaries in respect of the

European Facility (collectively, the "Obligations"), and this Guaranty Agreement will replace the Guaranty Agreement dated as of March 24, 1994, made by Autocon Technologies, Inc.; and

WHEREAS, the Guarantors are each wholly-owned subsidiaries of the Company, and have reviewed the NBD Facilities and the Hurco Guaranty and all other documents, agreements, instruments and certificates executed in connection therewith (all of the foregoing being herein collectively referred to as the "Operative Documents"), and the Guarantors have determined that it is in their interest and to their financial benefit that the parties to the Operative Documents enter into the transactions contemplated thereby.

NOW, THEREFORE, for valuable consideration, the receipt of which is acknowledged, and as further consideration to NBD Indiana, NBD Michigan, and FNBC to enter into the transactions contemplated by the Operative Documents, the Guarantors agree with NBD Indiana, NBD Michigan, and FNBC as follows:

1. Guaranty of Obligations. (a) The Guarantors absolutely and unconditionally, jointly and severally, as primary obligors and not merely as surety, (i) guarantee to NBD Indiana, NBD Michigan, and FNBC, as the case may be, the prompt payment of the principal of and any and all accrued and unpaid interest on the Obligations when due, whether by scheduled maturity, acceleration or otherwise, all in accordance with the terms of this Guaranty and the other Operative Documents, including amounts due under any extensions thereof or substitutions therefor, and all other amounts which may be payable by the Company, the European Subsidiaries, or the Guarantors to NBD Indiana, NBD Michigan, or FNBC, in connection with or pursuant to the Operative Documents, including without limitation default interest, indemnification payments, and all costs and expenses incurred by NBD Indiana, NBD Michigan, and FNBC, or any of them, in connection with enforcing any obligations of the Company, the European Subsidiaries, or the Guarantors hereunder or thereunder, including without limitation the reasonable fees and disbursements of counsel for NBD Indiana, NBD Michigan, and FNBC, or any of them, and (ii) guarantee the prompt performance and observance of each term, covenant, or agreement contained herein or therein to be performed or observed on the part of the Company, the European Subsidiaries, or the Guarantors.

(b) If for any reason any duty, agreement, or obligation of the Company or the European Subsidiaries shall not be performed or observed as provided for in the Operative Documents, or if any amount payable under or in connection with the Obligations shall not be paid in full when the same becomes due and payable, the Guarantors, jointly and severally, undertake to perform or cause to be performed promptly each of such duties, agreements and obligations and to pay forthwith each such amount to NBD Indiana, NBD Michigan, or FNBC, as the case may be, regardless of any defense or setoff or counterclaim which the Company or the European Subsidiaries may have or assert, and regardless of any other condition or contingency.

2. Nature of Guaranty. This Guaranty is an absolute and unconditional and irrevocable guaranty of payment and not a guaranty of collection and is wholly independent of and in addition to other rights and remedies of NBD Indiana, NBD Michigan, and FNBC, and is not contingent upon NBD Indiana, NBD Michigan or FNBC, as the case may be, pursuing any such rights and remedies, such pursuit being waived by the Guarantors. This Guaranty covers all present and future Obligations, whether direct or indirect and absolute or contingent, of whatever nature and however arising or evidenced.

3. Waivers and Other Agreements. The Guarantors unconditionally (a) waive any requirement that NBD Indiana, NBD Michigan, or FNBC, in the event of any default by the Company or the European Subsidiaries, first make demand upon, or seek to enforce remedies against, the Company or the European Subsidiaries, as the case may be, before demanding payment under or seeking to enforce this Guaranty, (b) covenant that this Guaranty will not be discharged except by complete payment and performance of all Obligations of the Company and the European Subsidiaries to NBD Indiana, NBD Michigan, and FNBC, (c) agree that this Guaranty shall remain in full force and effect without regard to, and shall not be affected or impaired by, without limitation, any invalidity, irregularity, or unenforceability in whole or in part of this Agreement or any other Operative Document, or any limitation on the liability of the Company or the European Subsidiaries thereunder, or any limitation on the method or terms of payment which may now or hereafter be caused or imposed in any manner whatsoever, (d) waive diligence, presentment and protest with respect to, and any notice of default or dishonor in the payment of any amount at any time payable by the Company or the European Subsidiaries under or in connection with the Obligations, and further waive any requirement of notice of acceptance of,

or other formality relating to, this Guaranty, and (e) agree that the amounts guaranteed hereunder shall include any amounts paid by the Company, the European Subsidiaries, or the Guarantors to NBD Indiana, NBD Michigan, or FNBC, as the case may be, which may be required to be returned to the payor or to its representative or to a trustee, custodian, or receiver for the Company or the European Subsidiaries or to either or both of the Guarantors.

4. Obligations Absolute. The obligations, covenants, agreements, and duties of the Guarantors under this Guaranty shall not be released, affected or impaired by any of the following, whether or not undertaken with notice to or consent of the Guarantors: (a) any assignment or transfer, in whole or in part, of the Obligations, or (b) any waiver by NBD Indiana, NBD Michigan, or FNBC, or by any other person, of the performance or observance by the Company or the European Subsidiaries of any of the agreements, covenants, terms or conditions contained in the Operative Documents, or (c) any indulgence in or the extension of the time for payment by the Company or the European Subsidiaries of any amounts payable under or in connection with this Agreement or any other Operative Document, or of the time for performance by the Company or the European Subsidiaries of any other obligations under or arising out of the Operative Documents or any related document, or the extension or renewal thereof, or (d) the modification, amendment or waiver from time to time of this Guaranty or any other Operative Document, any such modification, amendment, or waiver being expressly authorized without further notice to or consent of the Company, the European Subsidiaries, or the Guarantors, or (e) the voluntary or involuntary liquidation, sale, or other disposition of all or substantially all of the assets of the Company or the European Subsidiaries or any receivership, insolvency, bankruptcy, reorganization, or other similar proceedings affecting the Company or the European Subsidiaries or any of their assets, or (f) the release of any security for the Obligations, or the impairment of or failure to perfect an interest in any such security, or (g) the merger or consolidation of the Company or any of the European Subsidiaries or the Guarantors with any other person, or (h) the release or discharge of the Company or any of the European Subsidiaries or the Guarantors from the performance or observance of any agreement, covenant, term, or condition contained in the Operative Documents by operation of law, or (i) the disallowance of all or any portion of the claim of NBD Indiana, NBD Michigan, or FNBC, for repayment of any Obligations under Section 502 of Title 11 of the United States Code, or other statute, or (j) any other cause whether similar or dissimilar to the foregoing (other than full payment and performance of the Obligations) which would release, affect or impair the obligations, covenants, agreements, or duties of the Company, the European Subsidiaries or the Guarantor hereunder or thereunder.

5. Remedies of Guaranteed Parties. In the event that any of the Obligations is not promptly paid by the Company or the European Subsidiaries, as the case may be, when it becomes due, upon demand or otherwise, the holder thereof may require the Guarantors or either of them to pay all or any portion of the outstanding principal balance thereof, with interest thereon to date of payment, without regard to any security for or other guaranty of such indebtedness; provided, however, that nothing herein contained shall prevent NBD Indiana, NBD Michigan, or FNBC from instituting legal proceedings with respect to any of the Obligations with or without making the Company, the European Subsidiaries, or the Guarantors a party to the suit or from exercising any other rights available to any of them, and only the net proceeds therefrom, after deducting all charges and expenses, shall be applied to reduce the amount due on the Obligations.

6. Subrogation Agreement. If the Guarantors or either of them make a payment in respect of the Obligations, it or they shall be subrogated to the rights of the payee against the Company or the European Subsidiaries, as the case may be, with respect to such payment; provided, that the Guarantors hereby waive their rights to any payment by way of subrogation until all the Obligations shall have been paid or performed in full.

7. Representations and Warranties. As of the date hereof and as of the date of each loan or other advance made by NBD Indiana, NBD Michigan, or FNBC to the Company or the European Subsidiaries, as the case may be, each of the Guarantors represents and warrants that:

(a) Corporate Existence and Power. It is a corporation duly organized, validly existing, and in good standing under the laws of its state of incorporation and is duly qualified to do business in each additional jurisdiction where such qualification is necessary under applicable law and where failure to be so duly qualified would have a material adverse effect on its financial condition. It has all requisite corporate power to own its

properties and to carry on its business as now being conducted and as proposed to be conducted, and to execute and deliver this Guaranty and to engage in the transactions contemplated by this Guaranty.

(b) Corporate Authority. The execution, delivery, and performance by it of this Guaranty are within its corporate powers, have been duly authorized by all necessary corporate action and are not in contravention of any law, rule or regulation, or of any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority, or of the terms its charter or by-laws, or of any contract or undertaking to which it is a party or by which it or its property may be bound or affected.

(c) Binding Effect. This Guaranty is its legal, valid, and binding obligation, enforceable against it in accordance with its terms.

8. Covenants. Each of the Guarantors agrees that, until all Obligations have been satisfied, unless NBD Indiana, NBD Michigan, and FNBC shall otherwise consent in writing, it shall preserve and maintain its corporate existence, rights, privileges, licenses, franchises and permits and qualify and remain qualified as a validly existing corporation in good standing in each jurisdiction in which such qualification is necessary under applicable law and where failure to be so qualified would have a material adverse effect on its financial condition.

9. Remedies. (a) Upon the occurrence and during the continuance of any Event of Default (as defined in any of the Operative Documents) or its equivalent, NBD Indiana, NBD Michigan, and FNBC may, in addition to the remedies provided in the Operative Documents, enforce their rights either by suit in equity, or by action at law, or by other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Guaranty or in aid of the exercise of any power granted in this Guaranty and may enforce payment under this Guaranty and any of their other rights available at law or in equity.

(b) Upon the occurrence and during the continuance of any Event of Default (as defined in any of the Operative Documents) or its equivalent, NBD Indiana, NBD Michigan, and FNBC are authorized at any time and from time to time, without notice to the Guarantors (any requirement for such notice being expressly waived by the Guarantors), to set off and apply against any and all of the obligations of the Guarantors then or thereafter existing under this Guaranty all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by NBD Indiana, NBD Michigan, or FNBC, as the case may be, to or for the credit or the account of the Guarantors and any property of the Guarantors from time to time in the possession of NBD Indiana, NBD Michigan, or FNBC, irrespective of whether or not they or any of them shall have made any demand hereunder and although such obligations may be contingent and unmatured. The rights of NBD Indiana, NBD Michigan, and FNBC under this paragraph are in addition to other rights and remedies (including, without limitation, other rights of setoff) which NBD Indiana, NBD Michigan, or FNBC may have.

(c) To the extent that they lawfully may, the Guarantors agree that they will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of any applicable present or future stay, extension or moratorium law, which may affect observance or performance of the provisions of this Guaranty or any Operative Document; nor will they claim, take or insist upon any benefit or advantage of any present or future law providing for the evaluation or appraisal of any security for their obligations hereunder or of the Obligations under the Operative Documents prior to any sale or sales thereof which may be made under of by virtue of any instrument governing the same; nor will they, after any such sale or sales, claim or exercise any right, under any applicable law, to redeem any portion of such security so sold.

10. Severability; Enforceability. If any one or more provisions of this Guaranty should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected, impaired, or prejudiced thereby. If any portion of the obligations of the Guarantors under this Guaranty shall be determined by a court of competent jurisdiction to be invalid, unenforceable or avoidable, the remaining portion of the Guarantors' obligations under this Guaranty shall not in any way be affected, impaired, or prejudiced thereby and shall remain valid and enforceable to the fullest extent permitted by applicable law. If all or any portion of either Guarantor's obligations under this Guaranty would otherwise be determined by a court of competent jurisdiction to be

invalid, unenforceable or avoidable under Section 548 of the federal Bankruptcy Code or under a similar applicable law of any jurisdiction, then, notwithstanding any other provisions of the Guaranty to the contrary, the obligation of such Guarantor or portion thereof under this Guaranty shall be limited to the greatest of (i) the value of any quantifiable economic benefits accruing to such Guarantor as a result of this Guaranty, (ii) an amount equal to 95% of the excess on the date the relevant liabilities were incurred of the present fair saleable value of such Guarantor's assets over the amount of all the Guarantor's liabilities, contingent or otherwise, and (iii) the maximum amount for which this Guaranty is determined to be enforceable.

11. Amendments, Etc. This Guaranty may be amended from time to time and any provision hereof may be waived by the parties hereto. No such amendment or waiver of any provision of this Guaranty nor consent to any departure by the Guarantors therefrom shall in any event be effective unless the same shall be in writing and signed by NBD, Indiana, NBD Michigan, and FNBC, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

12. Notices. All notices and other communications hereunder shall be in writing and shall be delivered or sent to the Guarantors at Autocon Technologies, Inc., 38455 Hills Tech Drive, Farmington Hills, MI 48331-5751, Attention: Chief Financial Officer, and at IMS Technology, Inc. at 11350 Random Hills Road, Suite 800, Fairfax, VA 22030 and to the Company and NBD Indiana, NBD Michigan, and FNBC at the respective addresses for notices set forth in the Operative Documents, or to such other address as may be designated by any of the above parties by notice to the other parties hereto. All notices and other communications shall be deemed to have been given at the time of actual delivery thereof to such address, or if sent by certified or registered mail, postage prepaid, to such address, on the third day after the date of mailing, provided, however, that notices to NBD Indiana, NBD Michigan, or FNBC shall not be effective until received.

13. Conduct No Waiver; Remedies Cumulative. The obligations of the Guarantors under this Guaranty are continuing obligations and a fresh cause of action shall arise in respect of each event of default hereunder. No course of dealing on the part of NBD Indiana, NBD Michigan, and FNBC or any of them, nor any delay or failure on the part of NBD Indiana, NBD Michigan, and FNBC or any of them, in exercising any right, power or privilege hereunder shall operate as a waiver of such right, power or privilege or otherwise prejudice their rights and remedies hereunder; nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege. No right or remedy conferred upon or reserved to NBD Indiana, NBD Michigan, and FNBC under this Guaranty is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing under any applicable law. Every right and remedy given by this Guaranty or by applicable law to NBD Indiana, NBD Michigan, and FNBC may be exercised from time to time and as often as may be deemed expedient by NBD Indiana, NBD Michigan, and FNBC or any of them.

14. Reliance on and Survival of Various Provisions. All terms, covenants, agreements, representations and warranties of the Guarantors made herein or in any certificate or other document delivered pursuant hereto shall be deemed to be material and to have been relied upon by NBD Indiana, NBD Michigan, and FNBC, notwithstanding any investigation heretofore or hereafter made by NBD Indiana, NBD Michigan, and FNBC, or any of them or on their behalf.

15. Successors and Assigns. The rights and remedies of NBD Indiana, NBD Michigan, and FNBC hereunder shall inure to the benefit of, and the duties and obligations of the Guarantors hereunder shall be binding upon, their respective successors and assigns, provided that the Guarantors may not assign their duties and obligations hereunder without the consent of NBD Indiana, NBD Michigan, and FNBC.

16. Governing Law. This Guaranty is a contract made under, and the rights and obligations of the parties hereunder, shall be governed by and construed in accordance with, the laws of the State of Indiana applicable to contracts to be made and to be performed entirely with such State.

17. Definitions; Headings. Terms used but not defined herein and which are defined in the Operative Documents shall have the respective meanings ascribed thereto in the Operative Documents. The headings of the various subdivisions hereof are for convenience of reference only and shall in no way modify any of its terms or provisions hereof.

18. Construction of Certain Provisions. All computations required hereunder and all financial terms used herein shall be made or construed in accordance with generally accepted accounting principles unless such principles are inconsistent with the express requirements of this Guaranty. If any provision of this Guaranty refers to any action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person, whether or not expressly specified in such provision.

19. Waiver of Jury Trial. NBD Indiana, NBD Michigan, FNBC, and the Guarantors, after consulting or having had the opportunity to consult with counsel, knowingly, voluntarily, and intentionally waive any right any of them may have to a trial by jury in any litigation based upon or arising out of this Guaranty or any related instrument or agreement or any of the transactions contemplated by this Guaranty or any course of conduct, dealing, statements (whether oral or written) or actions of either of them. Neither NBD Indiana, NBD Michigan, and FNBC on the one hand, nor the Guarantors on the other hand, shall seek to consolidate, by counterclaim or otherwise, any such action in which a jury trial has been waived with any other action in which a jury trial cannot be or has not been waived. These provisions shall not be deemed to have been modified in any respect or relinquished by either NBD Indiana, NBD Michigan, and FNBC on the one hand, or the Guarantors on the other hand, except by a written instrument executed by all of them.

IN WITNESS WHEREOF, the Guarantors have caused this Guaranty to be duly executed and delivered as of the day and year first above written.

AUTOCON TECHNOLOGIES, INC.

By: /s/ Roger J. Wolf
Its: Treasurer

IMS TECHNOLOGY, INC.

By: /s/ Roger J. Wolf
Its: Vice President

Exhibit 11

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

Exhibit 11

STATEMENT RE: COMPUTATION OF
PER SHARE EARNINGS

	Year Ended October 31,					
	1997		1996		1995	
	Fully		Fully		Fully	
(in thousands, except per share amount)	Primary	Diluted	Primary	Diluted	Primary	Diluted
Net income (loss).....	\$13,804	\$13,804	\$4,264	\$4,264	\$ 204	\$204
Weighted average common shares outstanding	6,536	6,536	5,786	5,786	5,418	5,418
Assumed issuances under stock option plans (1)	168	240	121	121	118	164
	6,704	6,776	5,907	5,907	5,536	5,582
Earnings (loss) per common share.....	\$2.06	\$2.04	\$.72	\$.72	\$.04	\$.04

(1) No assumed issuances under stock option plans were made in 1994 because such issuances would have been anti-dilutive.

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Exhibit 21

SUBSIDIARIES OF HURCO COMPANIES, INC.

Name	Jurisdiction of Incorporation
Autocon Technologies, Inc.	Indiana
IMS Technologies, Inc.	Virginia
Hurco GmbH	Federal Republic of Germany
Hurco S.A.R.L.	France
Hurco Europe Limited	United Kingdom
Hurco (S.E. Asia) Pte Ltd.	Singapore

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen LLP

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Hurco Companies, Inc.
Indianapolis, Indiana

As independent public accountants, we hereby consent to the incorporation of our report dated December 5, 1997 included in this Form 10-K, into the Company's previously filed Registration Statement File No. 2-71597.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana
January 23, 1998

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<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL REPORT FORM 10-K FOR THE PERIOD OCTOBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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