

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- X Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required] for the fiscal year ended October 31, 2001 or Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] for the transition period from _____ to _____.

Commission File No. 0-9143

HURCO COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Indiana

35-1150732

(State or other jurisdiction of incorporation or organization)

I.R.S. Employer Identification Number

One Technology Way
Indianapolis, Indiana

46268

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code

(317) 293-5309

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock,
No Par Value

(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for at least the past 90 days. Yes X No

The aggregate market value of the Registrant's voting stock held by non-affiliates as of December 3, 2001 was \$12,556,481.

The number of shares of the Registrant's common stock outstanding as of December 3, 2001 was 5,580,658.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders (Part III).

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

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an industrial automation systems company. We design and produce interactive, personal computer (PC) based, computer control systems and software and computerized machine systems for sale through a worldwide sales, service and distribution network. Our proprietary computer control systems and software products are sold primarily as an integral component of our computerized machine tool systems. We also sell certain computer control models to machine system end-users and other machine system manufacturers who integrate them with their own products.

We pioneered the application of microprocessor technology and conversational programming software for application on machine tool system computer controls

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

Our executive offices and principal design, engineering, and manufacturing management operations are headquartered in Indianapolis, Indiana. Sales, application engineering and service offices are located in Indianapolis, Indiana; Farmington Hills, High Wycombe, England; Munich, Germany; Paris, France; Milan, Italy and Singapore. Distribution facilities are located in Long Beach, California and Venlo, the Netherlands; a manufacturing facility is located in Taichung, Taiwan.

Our strategy is to design, develop, produce and market a comprehensive line of interactive computer controls, software and computerized machine systems using our proprietary technology designed to enhance the user's productivity through ease of operation and higher levels of machine performance (speed, accuracy and surface finish quality). We market these systems to the worldwide metal parts manufacturing market. We use an open systems software architecture that permits our computer control systems and software to be used with standard PC hardware and have emphasized an operator friendly design that employs both interactive conversational and graphical programming software. We have a well-established global contract manufacturing network that supplies the computerized machine systems to our selling divisions.

Products

Our principal products consist primarily of computerized machine tool systems (milling machines, machining centers and metal bending machines) into which our proprietary software and computer control systems have been fully integrated. We also produce computer control systems and related software for both metal cutting and metal bending machine applications that are sold primarily as retrofit control systems. In addition, we produce and distribute software options, control upgrades, hardware accessories and replacement parts and provide operator training and support services to our customers.

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

(Dollars in thousands)	Year Ended October 31,					
	2001		2000		1999	
	-----	-----	-----	-----	-----	-----
Computerized Machine Systems.....	\$73,286	(79.4%)	\$71,708	(74.5%)	\$63,793	(72.3%)
Computer Control						
Systems and Software*.....	5,716	(6.2%)	9,605	(10.0%)	10,623	(12.0%)
Service Parts.....	9,516	(10.3%)	10,649	(11.1%)	9,574	(10.9%)
Service Fees.....	3,749	(4.1%)	4,242	(4.4%)	4,248	(4.8%)
	-----	-----	-----	-----	-----	-----
	\$92,267	(100.0%)	\$96,204	(100.0%)	\$88,238	(100.0%)
	=====	=====	=====	=====	=====	=====

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

Computerized Machine Systems

Ultimax(R) - Metal Cutting Applications

We design and market computerized machine tool systems which are equipped with a fully integrated interactive Ultimax(R) computer control system. Our patented Ultimax(R) twin screen "conversational" computer control system is sold solely as a fully integrated feature of a Hurco computerized machine system. This computer control system enables a machine operator to create complex two-dimensional part programs directly from blue prints or CAD. Machine operators with little or no programming experience can successfully program parts and begin machining operations in a short time with minimal special

training. Since the initial introduction of the Ultimax(R) computer control, we have added enhancements related to operator programming productivity, CAD compatibility, data processing throughput and motion control speed and accuracy. Our latest Ultimax(R) programming stations use a Pentium* processor featuring an operator console with liquid crystal display screens and incorporate personal computer (PC) platform components. This upgradeable computer control product offers improved performance while ensuring access to the most cost effective computing hardware and software technology available.

Our current line of Ultimax(R) metal cutting machine systems is a complete family of products including milling machines with an x-axis travel of 30 and 40 inches and computerized machining centers with an x-axis travel of 24, 30, 40, 50 and 64 inches. These products provide different levels of performance features for different market applications and range in price from \$25,000 to \$165,000.

Dynapath(TM) - Metal Cutting Applications

Our Dynapath(TM) product line includes two computerized milling machines and two turning machines featuring our fully integrated Delta(TM) computer control systems. These products are designed for and marketed to the entry level market segment. They provide different levels of performance features for different market applications and range in price from \$20,000 to \$40,000.

Autobend(R) - Metal Bending Applications

We offer a line of up-acting computerized press brake machines for metal bending applications that incorporate our Autobend(R) computer control system as well as high performance down-acting computerized press brake systems with technologically advanced features, for high-accuracy performance and improved productivity which incorporates a third-party computer control system. In addition, we sell American and European style precision-ground tooling products which are sold either in conjunction with a computerized press brake system or directly to end-users of such equipment. These products are sold in the North American market by independent distributors and, in certain territories, by our direct sales personnel. The products provide different levels of performance features for different market applications and range in price from \$30,000 to \$300,000.

* Pentium is a registered trademark of the Intel Corporation

Computer Control Systems and Software

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

o Delta(TM) Series

Our Delta(TM) series computer control systems, which feature Pentium* microprocessor-based electronics incorporating industry standard computer components, are designed for the entry level segment of the worldwide parts manufacturing industry, and are used on milling machines, machining centers, turning centers and punching equipment. The Delta(TM) computer control 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(TM) computer control system is designed and configured as a general-purpose product, which offers flexibility, reliability and ease of integration with a wide variety of machine designs. The Delta(TM) computer control system is sold either as an integrated component of our Dynapath(TM) machine system or through retro-fitters to end-users of a wide range of entry level machine systems.

o Autobend(R)

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

on our up-acting press brake machine systems.

o CAM and Software Products

In addition to our computer control product lines, we offer metal cutting and forming software products for programming two and three-dimensional parts. These products are marketed to users of Ultimax(R) computer control systems. The primary products in this line are WinMax(R), a Windows** based off-line programming system, and a data file transfer (DXF) software option. The DXF software option eliminates manual data entry of part features by transferring AutoCAD(TM) drawing files directly into an Ultimax(R) computer control or the off-line programming system software, substantially increasing operator productivity. We have augmented our Autobend(R) product line with a computer-aided manufacturing (CAM) software product, Autobend PC(R), that enables the user to create and manipulate computer control compatible metal bending programs on a personal computer.

UltiPro(TM) is a high performance machining software option for our Pentium*-based Ultimax(R) computer control platform. The UltiPro(TM) software

* Pentium is a registered trademark of the Intel Corporation

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

enables a customer to increase machine throughput by upgrading computer control system performance with a high speed Pentium* CPU and advanced motion control software. UltiNet(TM) is a networking software option for the Ultimax(R) computer control used by our customers to transfer part design and manufacturing information to computerized machine systems at high speeds and to network computerized machine systems within a customer's manufacturing facility.

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

Parts and Service

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

Marketing and Distribution

We sell our products through approximately 258 independent agents and distributors in 39 countries throughout North America, Europe and Asia. We also have our own direct sales personnel in the United States, China, England, France, Germany, Italy and Singapore, the world's principal computerized machine tool system consuming countries. During fiscal 2001, no distributor accounted for more than 5% of our sales and service fees. Approximately 80% of the worldwide demand for computerized machine tool systems and computer control systems comes from outside the U.S. In fiscal 2001, approximately 64% of our revenues were from overseas customers.

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

Our computerized machine tool systems, along with related software options and accessories, are sold primarily to end-users. We sell certain computer control systems to original equipment manufacturers of new machine tools who integrate them with their own products prior to the sale of those products to their own customers, to retrofitters of used machine tools who integrate them with those machines as part of the retrofitting operation and to end-users who have an installed base of machine tools, either with or without related computer control systems. During fiscal 2001, no single end-user of our products accounted for

more than 5% of our total sales and service fees.

We believe that advances in industrial technology and the related demand for process improvements as well as capacity expansion drive the demand for computerized machine systems and computer control systems.

Factors affecting demand include:

- o the need to continuously improve productivity and shorten cycle time,
- o an aging installed base of machine tools that will require replacement with more advanced and efficient technology,
- o the rate of industrial development in emerging countries in Asia and Eastern Europe, and
- o the declining supply of skilled machinists,

However, the demand for computerized machine tool systems 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, and therefore, can be volatile. By marketing and distributing our products on a worldwide basis, we seek to reduce the potential impact on our total sales and service fees of adverse changes in economic conditions in any particular geographic region.

Competition

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

In the United States and European metal cutting markets, major competitors include Haas Automation, Inc., Cincinnati Machine, Deckel, Maho Gildemeister Group (DMG), Bridgeport Machines, Inc. and Fadal Engineering along with a large number of foreign manufacturers including Okuma Machinery Works Ltd., Mori Seiki Co., Ltd., Masak and Matsuura Machinery Corporation. The largest competitors with respect to our computerized press brake systems for metal bending applications include Amada America, Inc. and Trumpf.

Manufacturing

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

Our computerized metal cutting machine systems are manufactured to our specifications by contractors in Taiwan, including our wholly owned subsidiary, Hurco Manufacturing Limited, which we established in fiscal 2000. This subsidiary has increased our overall capacity and reduced our dependence on other Taiwan contract manufacturers. We also have a 24% ownership interest in another primary contract manufacturer in Taiwan. We have worked closely with our contract manufacturers to increase their production capacity to meet the rising demand for our machine tool products and believe that such capacity is sufficient to meet our current and projected demand. We are continuing to consider additional contract manufacturing resources that will increase our capacity; however, any significant reduction in capacity or performance capability of our principal manufacturing contractors would have a material adverse effect on our operations.

We also have a contract manufacturing agreement for computer control systems with a Taiwanese-based company in which we have a 35% ownership interest. This company is manufacturing most of our computer control systems to our specifications and supplies certain proprietary and standard components for use in our domestic production. We believe that alternative sources for standard and proprietary components are available.

Backlog

Our backlog consists of firm orders received from customers and distributors but not shipped. Backlog was \$9.1 million, \$10.2 million and \$8.5 million as of October 31, 2001, 2000, and 1999, respectively.

Intellectual Property

We consider certain features of our products to be proprietary. We own, directly or through a subsidiary, a number of patents that are significant to our business. Our subsidiary, IMS Technology, Inc. (IMS), owns domestic and foreign patents covering the machining method practiced when a machine tool is integrated with an interactive computer control (these patents are collectively referred to as the "Interactive Machining Patents"). We also hold a non-exclusive license covering features of the automatic tool changer offered with certain of our computer control machining centers. We also own a patent on an object-oriented, open architecture methodology for computer control software, as well as a patent for a manually operated apparatus for removal and insertion of a machining tool from the machine.

Since 1995, IMS has actively pursued a program to stop infringement and license the use of its interactive machining patents. During the past five fiscal years, IMS has entered into agreements with approximately 40 computer control users under which it has granted non-exclusive licenses of those patents. We recorded license fee income of \$700,000, \$5.4 million and \$300,000, net of legal fees and expenses, in fiscal 2001, 2000, and 1999 respectively. In addition, IMS has received a royalty-free non-exclusive license under six patents owned by two of the licensees. There are only a limited number of remaining computer control users that IMS has identified as potential licensees and we do not anticipate that future license fee income will be significant.

Research and Development

Research and development expenditures for new products and significant product improvements, included as period operating expenses, were \$3.5 million, \$3.2 million and \$2.5 million in fiscal 2001, 2000, and 1999, respectively. In addition, we recorded expenditures of \$665,000 in 2001, \$706,000 in 2000 and \$1.0 million in 1999 related to software development projects that were capitalized.

Employees

We had approximately 250 employees at the end of fiscal 2001, none of whom are covered by a collective-bargaining agreement or represented by a union. We have experienced no employee-generated work stoppages or disruptions and we consider our employee relations to be satisfactory.

Geographic Areas

Financial information about geographic areas is set forth in Note 14 to the Consolidated Financial Statements.

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

Item 2. PROPERTIES

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

Location	Square Footage	Principal Uses
Indianapolis, Indiana	165,000(1)	Corporate headquarters, design and engineering, product testing, computer control assembly, sales, application engineering and customer service
Farmington Hills, Michigan	37,500(2)	Sales, application engineering and customer service
Long Beach, California	3,000	Warehouse and distribution
High Wycombe, England	45,000(3)	Sales, application engineering and customer service
Paris, France	2,800	Sales, application engineering and customer service
Munich, Germany customer service	17,100	Sales, application engineering and

Milan, Italy	4,850	Sales, application engineering and customer service
Singapore	3,000	Sales, application engineering and customer service
Taichung, Taiwan	26,600	Manufacturing

-
- (1) Approximately 45,000 square feet is available for sublet.
 - (2) Approximately 24,000 square feet is under sublease through July 2002, the expiration date of the current lease.
 - (3) Approximately 24,000 square feet have been sublet to a subtenant since 1995. The current lease expires in March 2002 at which time we expect to lease a new facility under acceptable terms near the location of our current facility.

We own the Indianapolis facility and lease all other facilities. The leases have terms expiring at various dates ranging from March 2002 to March 2006. We believe that all of our facilities are well maintained and are adequate for our needs now and in the foreseeable future. We do not believe that we would experience any difficulty in replacing any of the present facilities if any of our leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

We are involved in various lawsuits arising in the normal course of business. We believe that none of these suits is likely to have a material adverse effect on our consolidated financial position or results of operations.

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

None

Executive Officers of the Registrant

The following information sets forth as of December 31, 2001, the name of each executive officer, his age, tenure as an officer, principal occupation and business experience for the last five years:

Name	Age	Position(s) with the Company
Michael Doar	46	Chairman of the Board and Chief Executive Officer
James D. Fabris	50	President and Chief Operating Officer
Roger J. Wolf	61	Senior Vice President, Secretary, Treasurer and Chief Financial Officer
Bernard C. Faulkner	50	President - Hurco North America
David E. Platts	49	Vice President, Technology and Business Development
Stephen J. Alesia	35	Corporate Controller, Assistant Secretary

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

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

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

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

Bernard C. Faulkner joined Hurco in March 2000 and was elected an executive officer in May 2000. Prior to joining Hurco, Mr. Faulkner was Vice President and General Manager for the Industrial Products division of Flair Corporation. Mr. Faulkner was employed by the Flair Corporation for four years.

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

PART II

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

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

Fiscal Quarter Ended:	2001		2000	
	High	Low	High	Low
January 31.....	\$3.875	\$3.250	\$4.125	\$3.000
April 30.....	4.188	3.150	5.875	3.188
July 31.....	3.660	2.150	4.750	3.625
October 31.....	2.990	2.080	4.813	3.375

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

There were 436 holders of record of our common stock as of December 3, 2001.

Item 6. SELECTED FINANCIAL DATA

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

Statement of Operations Data:	Year Ended October 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share amounts)				
Sales and service fees.....	\$ 92,267	\$ 96,204	\$ 88,238	\$ 93,422	\$ 95,729
Gross profit.....	\$ 23,262	\$ 25,377	\$ 24,174	\$ 27,939	\$ 27,773
Selling, general and administrative expenses.....	\$ 24,040	\$ 23,538	\$ 21,259	\$ 21,786	\$ 21,047
Restructuring charge (credit).....	\$ 143	\$ 300	\$ (103)	\$ 1,162	\$ --
Operating income (loss).....	\$ (921)	\$ 1,539	\$ 3,018	\$ 4,991	\$ 6,726
Interest expense.....	\$ 790	\$ 939	\$ 1,293	\$ 876	\$ 1,938
License fee income and litigation settlement fees, net.....	\$ 723	\$ 5,365	\$ 304	\$ 6,974	\$ 10,095
Net income (loss).....	\$ (1,597)	\$ 5,035	\$ 1,802	\$ 9,254	\$ 13,804
Earnings (loss) per common share-diluted.....	\$ (.28)	\$.84	\$.30	\$ 1.39	\$ 2.06
Weighted average common shares outstanding-diluted.....	5,670	6,020	6,061	6,670	6,704

Balance Sheet Data:	As of October 31,				
	2001	2000	1999	1998	1997
	(Dollars in thousands)				
Current assets.....	\$ 49,510	\$ 49,195	\$ 52,856	\$ 55,143	\$ 42,222
Current liabilities.....	\$ 18,217	\$ 23,124	\$ 19,580	\$ 25,794	\$ 19,370
Working capital	\$ 31,293	\$ 26,071	\$ 33,276	\$ 29,349	\$ 22,852
Current ratio.....	2.7	2.1	2.7	2.1	2.2
Total assets.....	\$ 66,217	\$ 65,024	\$ 69,632	\$ 71,696	\$ 58,748
Long-term obligations.....	\$ 12,532	\$ 3,009	\$ 13,904	\$ 8,162	\$ 9,602
Total debt.....	\$ 12,000	\$ 3,736	\$ 14,172	\$ 8,358	\$ 10,043
Shareholders' equity.....	\$ 35,468	\$ 38,891	\$ 36,148	\$ 37,740	\$ 29,776

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

The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto appearing elsewhere herein. Certain statements made in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, changes in general economic and business conditions that affect market demand for computer control systems, machine tools and software products, changes in manufacturing markets, planned inventory reductions, innovations by competitors, quality and delivery performance by our contract manufacturers and governmental actions and initiatives including import and export restrictions and tariffs.

Results of Operations

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

	Percentage of Revenues			Year-to-Year % Change Increase (Decrease)	
	2001 -----	2000 -----	1999 -----	01 vs. 00 -----	00 vs. 99 -----
Sales and service fees.....	100.0%	100.0%	100.0%	(4.1%)	9.0%
Gross profit.....	25.2%	26.4%	27.4%	(8.3%)	5.0%
Selling, general and administrative expenses.....	26.1%	24.5%	24.1%	2.1%	10.7%
Operating income (loss).....	(1.0%)	1.6%	3.4%	N.A.	(49%)
License fee income, net.....	0.8%	5.6%	0.3%	(87%)	1665%
Interest expense.....	0.9%	0.9%	1.5%	(16%)	(27%)
Net income (loss).....	(1.7%)	5.2%	2.0%	N.A.	179%

Fiscal 2001 Compared With Fiscal 2000

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

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

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

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

New order bookings for fiscal 2001 were \$89.4 million, compared to \$100.7 million for the prior year period, a decrease of 11.3%. Orders were \$28.1 million in the first quarter of fiscal 2001 but declined to \$21.1 million, \$19.2

and \$21.0 million second, third and fourth quarter, respectively. The decline in orders from the first quarter is the result of weak economic conditions in most industrial market sectors in the U.S. along with a softening in the German economy. The decline in orders was most pronounced in the United States where computerized machine system orders declined 30.4% in dollars. This was partially offset by a 19% increase in computerized machine system orders in Europe, measured in constant dollars. We have experienced a further decline in orders in the first quarter of fiscal 2002 reflecting the recessionary environment in our primary markets. Backlog was \$9.1 million at October 31, 2001, compared to \$10.2 million at October 31, 2000.

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

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

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

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

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

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

Fiscal 2000 Compared With Fiscal 1999

Net income for the fiscal year ended October 31, 2000 was \$5.0 million, or \$.84 per share, on a diluted basis, compared to \$1.8 million, or \$.30 per share, for the preceding year. Fiscal 2000 net income was due almost entirely to the receipt in the fourth quarter of proceeds from a settlement of a long-standing patent infringement claim.

Operating results for fiscal 2000, however, compared unfavorably to those for the prior year, due to the substantial adverse impact of converting foreign sales and costs, particularly those denominated in Euros, to U.S. dollars for financial reporting purposes. Had exchange rates in fiscal 2000 remained the same as the average rate in effect during fiscal 1999, income before taxes for fiscal 2000 would have increased by approximately \$3.5 million.

Sales and service fees were \$96.2 million for fiscal 2000, an increase of 9.0% from the \$88.2 million reported for fiscal 1999. At constant exchange rates net sales and service fees would have been approximately \$102.2 million for the fiscal year, an increase of 15.6% compared to the prior year.

The increase in sales and service fees was primarily driven by an increase in sales of computerized machine systems. Sales of computerized machine systems totaled \$71.7 million in fiscal 2000 compared to \$63.8 million in fiscal 1999, a 12.4% increase. Domestic sales of computerized machine systems in fiscal 2000 increased by \$4.3 million, or 20.4%, due primarily to a 25% increase in units

shipped. Shipments of computerized machine systems in Europe also increased by 15.5%. Shipments of computerized machine systems in Southeast Asia also benefited from significantly improved market conditions.

International sales, including export sales from the United States, approximated 57.5% of consolidated sales and service fees for fiscal 2000 compared to 58.4% for fiscal 1999.

New order bookings for fiscal 2000 were \$100.7 million compared to \$89.9 million for fiscal 1999, an increase of 12%. Orders for computerized machine systems increased \$11.2 million reflecting a 30% increase in unit orders. Unit orders for machine systems in the U.S. increased 40% over fiscal 1999 as a result of a very strong fourth quarter, which reflected favorable acceptance of our new products introduced at the biennial International Manufacturing Technology Show (IMTS) in September 2000, along with improved market conditions. Outside of the United States, orders for machine systems increased 23% due principally to increased market penetration in continental Europe and Southeast Asia. Orders in Southeast Asia also benefited from significantly improved market conditions. Backlog was \$10.2 million at October 31, 2000, compared to \$8.5 million at the end of fiscal 1999.

Gross profit margin, as a percentage of sales, declined in fiscal 2000 to 26.4% from 27.4% in fiscal 1999, due primarily to the unfavorable effects of the stronger U.S. dollar particularly in relationship to the Euro. The unfavorable effect was most pronounced in the fourth fiscal quarter.

Operating expenses increased to \$23.5 million in fiscal 2000 from \$21.3 million in fiscal 1999, due primarily to product development costs associated with the our new line of computerized machine systems as well as costs associated with expanded sales and marketing activities. The increased operating expenses, combined with the adverse margin impact of the strong U.S. dollar, resulted in a decrease in operating profit from \$3.0 million in fiscal 1999 to \$1.5 million in fiscal 2000.

In the fourth quarter of fiscal 2000, we recorded a restructuring charge of \$300,000 for severance costs related to the termination of employees at our subsidiary, Autocon Technologies, Inc. in connection with the completion of the consolidation of this operation into our North American sales and service business. Fourteen employees received notice that their position would be eliminated in fiscal 2001.

Interest expense for fiscal 2000 declined by \$354,000, or 27.4%, from the level in fiscal 1999, primarily due to the significant reduction in our outstanding borrowings.

Other expense was \$359,000 in fiscal 2000 compared to other income of \$25,000 in fiscal 1999. The increase is primarily the result of realized and unrealized currency losses associated with accounts receivable denominated in foreign currencies, primarily those linked to the Euro, which for the most part, were not hedged during fiscal 2000.

The provision for income taxes of \$571,000 in fiscal 2000 is primarily related to the earnings of a foreign subsidiary as well as to the settlement of a previously disclosed German tax issue for approximately \$275,000.

Domestic net operating loss carryforwards were substantially utilized in fiscal 2000. We would have recorded an additional tax provision of approximately \$1.9 million in fiscal 2000 without the benefit of net operating loss carryforwards. Note 6 to the Consolidated Financial Statements contains more information with respect to our net operating loss carryforwards.

EURO Currency

Many of the countries in which we sell our products and services are Member States of the Economic and Monetary Union (EMU). Beginning January 1, 1999, Member States of the EMU were permitted to begin trading in either their local currencies or the Euro, the official currency of EMU participating Member States. Effective January 1, 2002, the Euro replaced the national currencies of the participating Member States. We have not incurred and do not anticipate incurring any material adverse effects on our operations related to the Euro.

Foreign Currency Risk Management

We manage our foreign currency exposure through the use of foreign currency forward exchange contracts. We enter into foreign currency forward exchange

contracts periodically to hedge certain forecasted inter-company sales and forecasted inter-company and third-party purchases denominated in foreign currencies (primarily the Pound Sterling, Euro and New Taiwan Dollar). We also enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. We do not speculate in the financial markets and, therefore, do not enter into these contracts for trading purposes. We also moderate our currency risk related to significant purchase commitments with certain foreign vendors through price adjustment agreements that provide for a sharing of, or otherwise limit, the risk of currency fluctuations on the costs of purchased products. Note 1 to the Consolidated Financial Statements has more information on this subject.

Liquidity and Capital Resources

At October 31, 2001, we had cash and cash equivalents of \$3.5 million compared to \$3.4 million at October 31, 2000. Cash used for operations totaled \$3.5 million in fiscal 2001, compared to cash provided by operations of \$12.9 million in fiscal 2000. Cash flow from operations in fiscal 2000 was enhanced by license fee receipts of approximately \$5.4 million, net of related legal fees and expenses.

Working capital, excluding short-term debt, was \$31.5 million at October 31, 2001, compared to \$28.1 million at October 31, 2000. The increase in working capital is attributable to an increase in inventory of \$4.0 million and a decrease in accounts payable of \$3.5 million offset by a \$3.1 million decrease in accounts receivable. The increase in inventory related primarily to increased units of finished product available for sale, because shipments during the year to customers in the U.S. and Southeast Asia markets were below planned levels. We have adjusted our production schedules, which began to take effect in the fourth fiscal quarter of 2001. Accordingly, we expect a reduction in inventory and operating working capital during fiscal 2002.

Capital investments during the year consisted of expenditures for software development projects and purchases of equipment. Investments also included \$672,000 for a secured loan to a software company as more fully described in Note 17. During fiscal 2001, we repurchased 391,101 shares of our common stock for \$1.7 million. We funded these expenditures and our other cash needs with borrowings under our bank credit facility.

Effective October 31, 2001, we entered into an amended and restated credit agreement, maturing December 31, 2002. The restated credit agreement provides for increased interest rates during the second half of fiscal 2002 of one to one and one half percentage points more than those called for by the prior credit agreement, as well as a facility fee of up to \$150,000 if we have not reduced the commitment by \$7.5 million at May 1, 2002 or replaced the facility by August 1, 2002. The restated credit agreement provides the bank lender with a security interest in substantially all of our domestic assets and 67% of the common stock of our U.S. holding companies which own our foreign subsidiaries. Also, as discussed in Note 4, we are in discussion with other lenders for long-term replacement credit facilities, and while we believe that we will be able to obtain replacement facilities in fiscal 2002 under acceptable terms, no such assurance can be given.

The financial covenants included in the restated credit agreement require us to maintain a specified working capital base, meet quarterly net worth and EBITDA (earnings before interest, taxes, depreciation, and amortization) requirements and impose a maximum leverage ratio and restrict our capital expenditures.

Total debt at October 31, 2001 was \$12.0 million, representing 25% of total capitalization, compared to \$3.7 million, or 9% of total capitalization, at October 31, 2000. We were in compliance with all loan covenants, and had an additional credit availability of \$9.2 million at October 31, 2001.

Based on our business plan for fiscal 2002, which include planned reductions of operating expenses and working capital, we believe that cash flow generated from operations and borrowings available to us under our restated credit agreement will be sufficient to meet our anticipated cash requirements in fiscal 2002. Although, we believe that the assumptions underlying our 2002 business plan are reasonable there are risks related to further declines in market demand and reduced sales in the U.S. and Europe, adverse currency movements, realization of anticipated cost reductions and cash realized from planned inventory reductions, that could cause our actual results to differ from our business plan. During the first quarter of fiscal 2002, order rates have deteriorated further, both in the U.S. and Europe. Should these below plan order rates continue into our

second fiscal quarter, we are prepared to take additional cost cutting actions. Although we anticipate continued operating losses in our first fiscal quarter, we expect to reduce outstanding borrowings at January 31, 2002 compared to October 31, 2001, due to planned working capital reductions.

On January 8, 2002, our German subsidiary obtained a 3.0 million Euro working capital credit facility that is available through December 31, 2002. As a result, our domestic credit facility was reduced by \$2.7 million to \$19.8 million.

New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. (SAB) 101, "Revenue Recognition." This bulletin summarizes the SEC's views in applying generally accepted accounting principles to revenue recognition. We adopted SAB 101 in Fiscal 2001 and the impact on our financial statements was immaterial.

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

In August 2001, the Financial Accounting Standards Board issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), which is effective for the fiscal year beginning November 1, 2002. FAS 144 establishes a single model to account for impairment of assets to be held or disposed, incorporating guidelines for accounting and disclosure of discontinued operations. We believe the impact on our financial statements will be immaterial.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Risk

Our earnings are effected by changes in interest expense on our outstanding debt, all of which is subject to floating rates, either LIBOR or prime. If interest rates on our outstanding borrowings during each of the last two fiscal years were to have increased by one percentage point (1%) (or 100 basis points) over the actual rates that we paid in that year, our interest expense would have increased by approximately \$110,000 in fiscal 2001 and approximately \$90,000 in fiscal 2000. See Note 4 of the Consolidated Financial Statements for a discussion of the interest rates under our restated credit agreement. At October 31, 2001, outstanding borrowings under our bank credit facilities were \$11.2 million and our total indebtedness was \$12.0 million.

Foreign Currency Exchange Risk

In fiscal 2001, approximately 64.3% of our sales and service fees, including export sales, were derived from foreign markets. All of our computerized machine systems and computer control systems, as well as certain proprietary service parts, are sourced by our U.S.-based engineering and manufacturing division and re-invoiced to our foreign sales and service subsidiaries, primarily in their functional currencies.

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

We enter into foreign currency forward exchange from time to time to hedge the cash flow risk related to forecasted inter-company sales, and forecasted inter-company and third party purchases denominated in, or based on, foreign currencies. We also enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. We do not speculate in the financial

markets and, therefore, do not enter into these contracts for trading purposes.

Forward contracts for the sale or purchase of foreign currencies as of October 31, 2001 which are designated as cash flow hedges under SFAS No. 133 were as follows:

Forward Contracts -----	Notional Amount in Foreign Currency -----	Weighted Avg. Forward Rate ----	Contract Amount at Forward Rates in U.S. Dollars -----		Maturity Dates -----
			Contract Date ----	October 31, 2001 -----	
Sale Contracts:					
Euro	3,500,000	\$.8924	\$3,123,400	\$3,144,023	Nov 2001-Jan 2002
Sterling	400,000	\$1.4521	\$580,840	\$578,870	Nov 2001-Jan 2002
Purchase Contracts:					
New Taiwan Dollar	45,000,000	34.25*	\$1,314,000	\$1,304,310	Nov 2001-Jan 2002

* NT Dollars per U.S. dollars

Forward contracts for the sale of foreign currencies as of October 31, 2001 which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies were as follows:

Forward Contracts -----	Notional Amount in Foreign Currency -----	Weighted Avg. Forward Rate ----	Contract Amount at Forward Rates in U.S. Dollars -----		Maturity Dates -----
			Contract Date ----	October 31, 2001 -----	
Sale Contracts:					
Euro	9,105,196	\$.9034	\$8,225,634	\$8,187,658	Nov - Dec 2001
Singapore Dollar	2,415,675	\$.5557	\$1,342,391	\$1,326,977	Nov 2001 -Jan 2002

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, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended October 31, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hurco Companies, Inc. and subsidiaries as of October 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in

the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States.

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

ARTHUR ANDERSEN LLP

Indianapolis, Indiana,
January 15, 2002.

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended October 31,		
	2001	2000	1999
	-----	-----	-----
	(Dollars in thousands, except per share amounts)		
Sales and service fees.....	\$ 92,267	\$96,204	\$ 88,238
Cost of sales and service	69,005	70,827	64,064
	-----	-----	-----
Gross profit.....	23,262	25,377	24,174
Selling, general and administrative expenses.....	24,040	23,538	21,259
Restructuring charge (credit) (Note 15).....	143	300	(103)
	-----	-----	-----
Operating income (loss).....	(921)	1,539	3,018
License fee income and litigation settlement fees, net (Note 10 and 12).....	723	5,365	304
Interest expense.....	790	939	1,293
Earnings from equity investments.....	383	36	192
Other expense, net.....	215	395	167
	-----	-----	-----
Income (loss) before income taxes.....	(820)	5,606	2,054
Provision for income taxes (Note 6).....	777	571	252
	-----	-----	-----
Net income (loss)	\$ (1,597)	\$ 5,035	\$ 1,802
	=====	=====	=====
Earnings (loss) per common share - basic.....	\$ (.28)	\$.85	\$.30
	=====	=====	=====
Weighted average common shares outstanding - basic.....	5,670	5,952	5,980
	=====	=====	=====
Earnings (loss) per common share - diluted.....	\$ (.28)	\$.84	\$.30
	=====	=====	=====
Weighted average common shares outstanding - diluted.....	5,670	6,020	6,061
	=====	=====	=====

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

HURCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

As of October 31,
2001 2000
----- -----

(Dollars in thousands, except per share amounts)

Current assets:		
Cash and cash equivalents.....	\$ 3,523	\$ 3,384
Accounts receivable, less allowance for doubtful accounts of \$907 in 2001 and \$741 in 2000.....	14,436	17,842
Inventories	30,319	26,176
Other.....	1,232	1,793
	-----	-----
Total current assets.....	49,510	49,195
Property and equipment:		
Land.....	761	761
Building.....	7,187	7,162
Machinery and equipment.....	11,410	11,000
Leasehold improvements.....	1,059	992
	-----	-----
	20,417	19,915
Less accumulated depreciation and amortization.....	(11,653)	(11,122)
	-----	-----
	8,764	8,793
Software development costs, less accumulated amortization.....	3,066	3,326
Investments and other assets.....	4,877	3,710
	-----	-----
	\$ 66,217	\$ 65,024

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 7,601	\$ 10,896
Accounts payable-related parties.....	2,335	2,697
Accrued expenses and other.....	7,289	6,714
Accrued warranty expenses.....	792	831
Current portion of long-term debt.....	200	1,986
	-----	-----
Total current liabilities.....	18,217	23,124
Non-current liabilities:		
Long-term debt	11,800	1,750
Deferred credits and other	732	1,259
	-----	-----
	12,532	3,009
Commitments and contingencies (Notes 10 and 11)		
Shareholders' equity:		
Preferred stock: no par value per share; 1,000,000 shares authorized; no shares issued.....	--	--
Common stock: no par value; \$.10 stated value per share; 12,500,000 shares authorized; 5,580,658 and 5,955,359 shares issued and outstanding in 2001 and 2000, respectively.....	558	596
Additional paid-in capital.....	44,714	46,347
Accumulated deficit.....	(1,910)	(313)
Accumulated other comprehensive income.....	(7,894)	(7,739)
	-----	-----
Total shareholders' equity.....	35,468	38,891
	-----	-----
	\$ 66,217	\$ 65,024

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

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended October 31,			
(Dollars in thousands)	2001	2000	1999
	----	----	----
Cash flows from operating activities:			
Net income	\$ (1,597)	\$ 5,035	\$ 1,802
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Provision for doubtful accounts.....	547	185	231
Equity in income of affiliates.....	(383)	(36)	(192)
Depreciation and amortization.....	2,196	2,519	2,428
Restructuring charge (credit)	(195)	300	(103)
Change in assets/liabilities			
(Increase) decrease in accounts receivable.....	3,113	(2,286)	743
(Increase) decrease in inventories.....	(4,018)	2,717	801
Increase (decrease) in accounts payable.....	(3,521)	2,917	(4,825)
Increase (decrease) in accrued expenses.....	558	1,023	(928)
Other.....	(182)	476	(784)
	-----	-----	-----
Net cash provided by (used for) operating activities.....	(3,482)	12,850	(827)
Cash flows from investing activities:			
Proceeds from sale of equipment.....	38	36	69
Purchase of property and equipment.....	(1,253)	(1,193)	(1,176)
Software development costs.....	(665)	(706)	(981)
Other investments.....	(829)	(138)	(288)
	-----	-----	-----
Net cash (used for) investing activities.....	(2,709)	(2,001)	(2,376)
Cash flows from financing activities:			
Advances on bank credit facilities.....	44,300	28,500	61,920
Repayments of bank credit facilities.....	(34,050)	(37,150)	(54,320)
Repayments of term debt.....	(1,986)	(1,786)	(1,786)
Proceeds from exercise of common stock options.....	35	8	18
Repurchase of common stock.....	(1,706)	--	(2,379)
	-----	-----	-----
Net cash provided by (used for) financing activities.....	6,593	(10,428)	3,453
Effect of exchange rate changes on cash.....	(263)	(532)	(31)
	-----	-----	-----
Net increase (decrease) in cash.....	139	(111)	219

Cash and cash equivalents at beginning of year.....	3,384	3,495	3,276
Cash and cash equivalents at end of year.....	\$3,523	\$3,384	\$3,495

Supplemental disclosures:

Cash paid for:			
Interest.....	\$ 682	\$ 834	\$ 1,016
Income taxes.....	\$ 501	\$ 739	\$ 1,003

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

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

(Dollars in thousands)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
	Shares Issued & Outstanding	Amount				
Balances, October 31, 1998.....	6,340,111	\$ 634	\$ 48,662	\$ (7,150)	\$ (4,406)	\$37,740
Net income.....	--	--	--	1,802	--	1,802
Translation of foreign currency financial statements.....	--	--	--	--	(1,033)	(1,033)
Comprehensive Income.....						769
Exercise of common stock options.....	7,500	1	17	--	--	18
Repurchase of common stock.....	(395,752)	(40)	(2,339)	--	--	(2,379)
Balances, October 31, 1999.....	5,951,859	\$ 595	\$46,340	\$ (5,348)	\$ (5,439)	\$36,148
Net income.....	--	--	--	5,035	--	5,035
Translation of foreign currency financial statements.....	--	--	--	--	(2,300)	(2,300)
Comprehensive Income.....						2,735
Exercise of common stock options.....	3,500	1	7	--	--	8
Balances, October 31, 2000.....	5,955,359	\$ 596	\$46,347	\$ (313)	\$ (7,739)	\$38,891
Net income (loss).....	--	--	--	(1,597)	--	(1,597)
Translation of foreign currency financial statements.....	--	--	--	--	315	315
Unrealized loss of derivative instruments.....	--	--	--	--	(470)	(470)
Comprehensive Income.....						(1,752)
Exercise of common stock options.....	16,400	1	34	--	--	35
Repurchase of common stock.....	(391,101)	(39)	(1,667)	--	--	(1,706)
Balances, October 31, 2001.....	5,580,658	\$ 558	\$ 44,714	\$ (1,910)	\$ (7,894)	\$35,468

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

HURCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation. The consolidated financial statements include the accounts of Hurco Companies, Inc. (an Indiana corporation) and our wholly owned and controlled subsidiaries. We have a 35% and 24% ownership interest in two affiliates accounted for using the equity method. Our combined investments are approximately \$1.6 million and are included in Other Assets on the accompanying Consolidated Balance Sheets. Intercompany accounts and transactions have been eliminated.

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

Translation of Foreign Currencies. All balance sheet accounts of non-U.S. subsidiaries are translated at the exchange rate as of the end of the year. Income and expenses are translated at the average exchange rates during the year. Foreign currency translation adjustments of \$7.4 million are included in Accumulated Other Comprehensive Income in shareholders' equity. Foreign currency transaction gains and losses are recorded as income or expense as incurred.

Hedging. On November 1, 2000, we adopted Statement of Financial Accounting

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

We enter into foreign currency forward exchange contracts periodically to hedge certain forecasted inter-company sales and forecasted inter-company and third-party purchases denominated in foreign currencies (primarily the Pound Sterling, Euro and New Taiwan Dollar). The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments, and are recorded in the Consolidated Balance Sheet at fair value in Other Current Assets and Accrued Liabilities and Other. Gains and losses resulting from changes in the fair value of these hedge contracts are deferred in Accumulated Other Comprehensive Income and recognized as an adjustment to the related sale or purchase transaction in the period that the transaction occurs. Net losses on cash flow hedge contracts which we reclassified from Other Comprehensive Income to Cost of Sales in the fiscal year ended October 31, 2001 were \$261,000.

At October 31, 2001 we had \$470,000 of unrealized losses related to cash flow hedges deferred in Other Comprehensive Income, which we expect to recognize in Cost of Sales within the next twelve months. Cash flow hedge contracts mature at various dates through January 2002.

We also enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. These derivative instruments are not designated as hedges under SFAS 133 and as a result, changes in fair value are reported currently as Other Income (Expense) in the Consolidated Statement of Operations consistent with the transaction gain or (loss) on the related foreign

HURCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

denominated receivable or payable. Such net transaction gains and (losses) were (\$50,000), (\$638,000) and (\$48,000) for the years ended October 31, 2001, 2000, and 1999, respectively.

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

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

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

Revenue Recognition. We recognize revenue at the time of shipment because title and risk of loss passes to the customer at that time and payment terms are fixed. Our computerized machine systems are general-purpose computer control machine tools that are typically used in stand-alone operations. We do not utilize contractual customer acceptance arrangements in connection with any sales transactions. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications as listed in our sales literature.

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

specifications. We consider the machine installation process inconsequential and perfunctory.

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

License Fee Income, Net. From time to time, our wholly owned subsidiary, IMS Technology, Inc. (IMS) enters into agreements for the licensing of its interactive computer control patents. License fees received or receivable under a fully paid-up license, for which there are no future performance requirements or contingencies and litigation settlement fees, are recognized in income, net of legal fees and expenses, if any, at the time the related agreement is executed. License fees received in periodic installments that are contingent upon the continuing validity of a licensed patent were recognized in income, net of legal fees and expenses, if any, over the life of the licensed patent, which expired in October 2001. As a result, we have no deferred license fee income at October 31, 2001.

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. Research and development expenses totaled \$3.5 million, \$3.2 million and \$2.5 million in fiscal 2001, 2000, and 1999, respectively.

HURCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Costs incurred to develop computer software products and significant enhancements to software features of existing products to be sold or otherwise marketed are capitalized, after technological feasibility is established. Software development costs are amortized to Cost of Sales on a straight-line basis over the estimated product life of the related software, which ranges from three to five years. We capitalized \$665,000 in 2001, \$706,000 in 2000 and \$1.0 million in 1999 related to software development projects. Amortization expense was \$925,000, \$1.3 million and \$1.3 million for the years ended October 31, 2001, 2000, and 1999, respectively.

Earnings Per Share. Earnings per share of common stock are based on the weighted average number of common shares outstanding, which, for diluted purposes, includes the effects of outstanding stock options computed using the treasury method. For the year ended October 31, 2001, no effect was given to outstanding options because of their antidilutive effect.

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

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

2. BUSINESS OPERATIONS

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

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

sales operations in the United States, England, France, Germany, Italy and Singapore.

Credit Risk. We sell products to customers located throughout the world. We perform ongoing credit evaluations of customers and generally do not require collateral. Allowances are maintained for potential credit losses, and such losses have been within our 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.

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

Reliance on Contract Manufacturers. We contract with manufacturing contractors located in Taiwan and Europe for the manufacture and assembly of computerized machine tool systems, based on our designs and/or specifications. Any interruption from these sources would restrict the availability of our computerized machine tool systems and would affect operating results adversely.

3. INVENTORIES

Inventories as of October 31, 2001 and 2000 are summarized below (in thousands):

	2001	2000
	-----	-----
Purchased parts and sub-assemblies.....	\$ 7,853	\$ 9,837
Work-in-process.....	1,256	1,339
Finished goods.....	21,210	15,000
	-----	-----
	\$ 30,319	\$ 26,176
	=====	=====

4. DEBT AGREEMENTS

Long-term debt as of October 31, 2001 and 2000, consisted of (in thousands):

	2001	2000
	-----	-----
Bank revolving credit facility.....	\$ 11,200	\$ 950
Senior Notes.....	--	1,786
Economic Development Revenue Bonds, Series 1990.....	800	1,000
	-----	-----
	12,000	3,736
Less current portion.....	200	1,986
	-----	-----
	\$ 11,800	\$ 1,750
	=====	=====

As of October 31, 2001, long-term debt was payable as follows (in thousands):

Fiscal 2002.....	\$	200
Fiscal 2003.....		11,400
Fiscal 2004.....		200
Fiscal 2005.....		200

		\$12,000

As of October 31, 2001 and 2000, we had \$2.1 million and \$8.5 million, respectively, of outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of October 31, 2001, we had unutilized credit facilities of \$9.2 million available for either direct borrowings or commercial letters of credit.

Interest on the bank credit facility was payable at rates ranging from 3.5% to 5.5% at October 31, 2001 and 9.5% at October 21, 2000.

Effective October 31, 2001, our bank credit agreement was amended and restated. The restated credit agreement provides for a secured, revolving credit facility expiring December 31, 2002, and permits borrowings, at any one time outstanding, of up to \$22.5 million (inclusive of outstanding letters of credit of up to

\$15.0 million) through May 1, 2002 and \$20.0 million thereafter. Of such borrowings, up to \$5.0 million U.S. dollar equivalent may be drawn on designated European currencies. Interest on all outstanding borrowings is payable at Libor, plus an applicable Eurodollar rate margin, or at our option, prime rate plus a specified margin, as follows:

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

	Libor margin ----- -----	Prime margin ----- -----
November 1, 2001 - April 30, 2002	2.0%	--
May 1, 2002 - July 31, 2002	3.0%	1.0%
August 1, 2002 - December 31, 2002	3.5%	1.5%

The restated credit agreement requires us to maintain a specified working capital borrowing base and meet quarterly minimum net worth requirements, minimum quarterly EBITDA (earnings before interest, taxes, depreciation, and amortization) requirements and imposes a maximum leverage ratio and restricts capital expenditures and investments, all in relation to our business plan. The net worth covenant requires that tangible net worth, exclusive of Accumulated Other Comprehensive Income, be not less than \$35.9 million at October 31, 2001, which decreases quarterly to \$32.3 million at October 31, 2002. As of October 31, 2001, we were in compliance with all loan covenants. The restated credit agreement provides the bank lender with a security interest in substantially all domestic assets and 67% of the common stock of our U.S. holding companies which own our foreign subsidiaries.

The restated credit agreement requires a \$50,000 facility fee payable May 1, 2002, if the commitment is not reduced to \$15.0 million and a \$100,000 facility fee payable August 1, 2002, if we have not obtained a new financing agreement. The restated credit agreement also provides for an anticipated third party European working capital facility not to exceed 3.0 million Euro and permits refinancing of our corporate headquarters facility for up to \$5.0 million, accompanied by an equivalent reduction in the revolving credit facility. We are involved in discussions with other lenders with respect to such refinancing, as well as with respect to a total replacement of our bank credit agreement; however, there can be no assurance that replacement facilities, with acceptable terms, will be obtained.

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

At October 31, 2001, our ability to repurchase shares of our common stock and pay cash dividends were restricted under the restated credit agreement.

At October 31, 2000, we had outstanding approximately \$1.8 million of unsecured Senior Notes, bearing an interest rate of 10.37%. The final installment of \$1.8 million was paid December 1, 2000.

The Economic Development Revenue Bonds are payable in four remaining equal annual installments due on September 1, 2002 thru 2005 and are secured by a letter of credit issued by a bank. Interest rates on the bonds adjust weekly and, as of October 31, 2001 and 2000, interest was accruing at a rate of 2.40% and 4.65%, respectively.

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

5. FINANCIAL INSTRUMENTS

The carrying amounts for trade receivables and payables approximate their fair values. At October 31, 2001, the carrying amounts and fair values of our

financial instruments, which includes bank revolving credit facilities, senior notes and Economic Development Revenue Bonds are not materially different. The fair value of long-term debt, including the current portion, is estimated based on quoted market prices for similar issues or on current rates offered to us for debt of the similar terms and maturities.

We also have financial instruments in the form of foreign currency forward exchange contracts as described in Note 1 to the Consolidated Financial Statements. The U.S. dollar equivalent notional amount of these contracts was \$14.6 million and the contract amount at forward rates was \$14.5 million at October 31, 2001. 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 risk of counterparty non-performance nor the economic consequences of counterparty non-performance associated with these contracts are considered material.

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

6. INCOME TAXES

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. Deferred income taxes also reflect the value of net operating losses and an offsetting valuation allowance. Our total deferred tax assets and corresponding valuation allowance at October 31, 2001 and 2000, consisted of the following (in thousands):

	October 31,	
	2001	2000
Tax effects of future tax deductible items related to:		
Accrued inventory reserves.....	\$ 758	\$ 890
Accrued warranty expenses.....	211	226
Deferred compensation	359	365
Other accrued expenses.....	669	830
	1,997	2,311
Tax effects of future taxable differences related to:		
Accelerated tax deduction and other tax over book deductions related to property, equipment and software.....	(1,422)	(1,552)
Other.....	(669)	(672)
	(2,091)	(2,224)
Net tax effects of temporary differences.....	(94)	87
Tax effects of carryforward benefits:		
U.S. federal net operating loss carryforwards, expiring 2021.....	1,182	--
Foreign tax benefit carryforwards, expiring 2002-2005.....	296	--
Foreign tax benefit carryforwards, with no expiration.....	852	1,561
U.S. federal general business tax credits, expiring 2004-2012.....	828	548
U.S. Alternative Minimum Tax Credit with no expiration.....	426	508
	3,584	2,617
Tax effects of temporary differences and carryforwards.....	3,490	2,704
Less valuation allowance.....	(3,064)	(2,196)
Net deferred tax asset.....	\$ 426	\$ 508

Except as indicated above, our carryforwards expire at specific future dates and utilization of certain carryforwards is limited to specific amounts each year and further limitations may be imposed if an "ownership change" would occur. Realization is entirely dependent upon generating sufficient future earnings in specific tax jurisdictions prior to the expiration of the loss carryforwards. Due to the uncertain nature of their ultimate realization based upon past performance and expiration dates, we have established a full valuation allowance against carryforward benefits. Alternative minimum tax credits may be carried

forward indefinitely and as a result, are not provided with a valuation allowance. While the need for this valuation allowance is subject to periodic review, if the allowance is reduced, the tax benefits of the carryforwards will be recorded in future operations as a reduction of our income tax expense.

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

Income (loss) before income taxes (in thousands):	Year Ended October 31,		
	2001	2000	1999
	-----	-----	-----
Domestic.....	\$ (2,980)	\$ 5,459	\$ 1,848
Foreign.....	2,160	147	206
	-----	-----	-----
	\$ (820)	\$ 5,606	\$ 2,054
	=====	=====	=====
Differences between the effective tax rate and U.S. federal income tax rate were (in thousands):			
Tax at U.S. statutory rate.....	\$ (287)	\$ 1,962	\$ 719
Federal Tax.....	95	--	--
Foreign withholding taxes.....	--	19	4
German tax settlement (Note 10).....	--	275	--
Effect of tax rates of international jurisdictions in excess of U.S. statutory rates.....	155	39	209
State income taxes.....	--	46	41
Effect of losses without current year benefit.....	1,043	--	--
Utilization of net operating loss carryforwards.....	(229)	(1,770)	(721)
	-----	-----	-----
Provision for income taxes.....	\$ 777	\$ 571	\$ 252
	=====	=====	=====

Foreign withholding taxes are the result of foreign dividends received during fiscal 2000 and 1999. Our provision for income taxes in fiscal 2001, 2000 and 1999 represents taxes currently payable.

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

7. EMPLOYEE BENEFITS

We have defined contribution plans that include a majority of our employees worldwide, under which our contributions are discretionary. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save throughout their employment. Our contributions to the plans are based on employee contributions or compensation. Our contributions totaled \$344,811, \$321,422, and \$331,605 for the years ended October 31, 2001, 2000 and 1999, respectively.

We also have split-dollar life insurance agreements with our executive officers. Under the terms of the agreements, we pay all of the premiums on behalf of the officers. We will be repaid the premiums from the policies' cash surrender 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, we adopted the 1997 Stock Option and Incentive Plan (the 1997 Plan) which allows us to grant awards of options to purchase shares of our common stock, stock appreciation rights, restricted shares and performance shares. The 1997 Plan was amended in fiscal 2000 to increase the maximum number of shares of common stock that may be issued from 500,000 to 750,000 and to increase the maximum number of shares of common stock that may be granted to any individual during the term of the 1997 Plan from 100,000 to 200,000 shares. Options granted under the 1997 Plan are exercisable for a period up to ten years after date of grant and vest in equal annual installments as specified by the Compensation Committee of our Board of Directors at the time of grant. The option price of options intended to qualify as incentive stock options may not be less than 100% of the fair market value of a share of common stock on the date of grant. As of October 31, 2001, options to purchase 475,000 shares had been granted under the 1997 Plan.

In 1990, we adopted the 1990 Stock Option Plan (the 1990 Plan) which allowed us to grant options to purchase shares of our common stock and related stock appreciation rights and limited rights to officers and our key employees. Under the provisions of the 1990 Plan, the maximum number of shares of common stock which 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, 2001, 2000 and 1999 and the related activity for the year is as follows:

	Shares under option	Weighted average exercise price per share
Balance October 31, 1998	394,080	\$4.54
Granted	305,500	5.68
Cancelled	(20,400)	4.91
Expired	-	-
Exercised	(7,500)	2.42
Balance October 31, 1999	671,680	\$5.07
Granted	180,600	3.76
Cancelled	(22,120)	6.15
Expired	-	-
Exercised	(3,500)	2.13
Balance October 31, 2000	826,660	\$4.77
Granted	57,000	3.67
Cancelled	(82,000)	5.23
Expired	(20,000)	7.15
Exercised	(16,400)	2.14
Balance October 31, 2001	765,260	4.63

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

Stock options outstanding and exercisable on October 31, 2001 are as follows:

Range of exercise prices per share	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life in years
Outstanding			
\$2.125-5.125	453,760	\$3.58	5.4
5.813-8.250	311,500	6.16	6.2
\$2.125-8.250	765,260	\$4.63	5.7
Exercisable			
\$2.125-5.125	272,947	\$3.47	-
5.813-8.250	154,200	6.40	-
\$2.125-8.250	427,147	\$4.53	-

We apply Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB25), and related interpretations in accounting for the plans, and, therefore, no compensation expense has been recognized for stock options issued under the plans. For companies electing to continue the use of APB25, SFAS No. 123 "Accounting for Stock-Based Compensation", requires pro forma disclosures determined through the use of an option-pricing model as if the provisions of SFAS No. 123 had been adopted.

The weighted average fair value at date of grant for options granted during fiscal 2001, 2000, and 1999 was \$2.07, \$2.72, and \$3.85 per share, respectively. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	2001	2000	1999
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	56.00%	56.33%	55.09%
Risk-free interest rate	5.18%	6.20%	4.69%
Expected term in years	10	10	10

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

	2001	2000	1999
Net income (loss) (in thousands)	(\$1,928)	\$4,726	\$1,484
Earnings (loss) per share:			
Basic	(\$.34)	\$.79	\$.25
Diluted	(\$.34)	\$.79	\$.24

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

As of October 31, 2001, there were outstanding non-qualified options that had been granted outside of the 1990 and 1997 plans to current and former outside members of the Board of Directors to purchase 50,000 and 75,000 shares at \$5.13 and \$5.81 per share, respectively. These shares are exercisable as of October 31, 2001. The options expire at various dates between 2002 and 2004.

9. RELATED PARTY TRANSACTIONS

We own approximately 24% of one of our Taiwanese-based contract manufacturers. This investment of \$538,000 is accounted for using the equity method and is included in Other Assets on the Consolidated Balance Sheet. Purchases of product from this contract manufacturer are negotiated on an arms length basis and totaled \$12.2 million, \$8.6 million and \$7.8 million for the years ended October 31, 2001, 2000 and 1999, respectively. Trade payables to this contract manufacturer were \$2.2 million at October 31, 2001 and 2000.

As of October 31, 2000, we own 35% of Hurco Automation, Ltd. (HAL), a Taiwan based company. HAL's scope of activities includes the design, manufacture, sales and distribution of industrial automation products, software systems and related components, including control systems and components manufactured under contract for sale exclusively to us. We are accounting for this investment using the equity method. The investment of \$1.1 million at October 31, 2001 is included in Other Assets on the Consolidated Balance Sheet. Purchases of product from this supplier are negotiated on an arms length basis and amounted to \$1.5 million, \$4.2 million and \$3.6 million in 2001, 2000 and 1999, respectively. Trade payables to HAL were \$200,000 and \$542,000 at October 31, 2001 and 2000, respectively. Trade receivables from HAL were \$173,000 and \$461,000 at October 31, 2001 and 2000, respectively.

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

(\$000)	2001	2000	1999
Net Sales	\$42,691	\$33,850	\$22,732
Gross Profit	7,305	6,303	4,466
Operating Income	2,047	2,179	1,091
Net Income	1,609	1,005	542
Current Assets	\$14,345	\$16,025	\$11,977
Non-current Assets	1,535	1,490	1,778
Current Liabilities	11,335	14,249	9,043

10. LITIGATION AND CONTINGENCIES

Hurco and its subsidiary IMS Technology, Inc. (IMS) have been parties to a number of legal proceedings which involved alleged infringement of a United

States interactive machining patent (the Patent) owned by IMS. All actions have been settled through licensing arrangements or litigation settlements. On August 8, 2000, Hurco and IMS agreed to a settlement with Haas Automation Inc. and Gene Haas (Haas). Under the settlement, IMS licensed the Patent to Haas and Haas made a one-time payment to IMS. We reported license fee income and litigation settlement fees, net of expenses, of approximately \$5.4 million in the fourth quarter of fiscal 2000 primarily resulting from this settlement.

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

A German tax examiner had contested our transfer of net operating losses between two of our German subsidiaries that merged in fiscal 1996. The contingent tax liability resulting from this issue was approximately \$1.4 million. In the fourth quarter of fiscal 2000, this matter was settled and paid for approximately \$275,000

We are involved in various claims and lawsuits arising in the normal course of business. We believe that none of these claims are likely to have a material adverse effect on our consolidated financial position or results of operations.

11. OPERATING LEASES

We lease facilities and vehicles under operating leases that expire at various dates through 2006. Future payments, exclusive of amounts reflected in the balance sheet, required under operating leases as of October 31, 2001, are summarized as follows (in thousands):

2002.....	\$1,431
2003.....	814
2004.....	432
2005.....	200
2006.....	38

Total.....	\$ 2,915
	=====

Rent expense for the years ended October 31, 2001, 2000, and 1999 was \$1.6 million, \$1.7 million and \$1.7 million, respectively.

12. LICENSE FEE INCOME AND LITIGATION SETTLEMENT FEES, NET

License fee income and litigation settlement fees, net for fiscal 2001, 2000 and 1999 were attributable to agreements entered into by IMS, pursuant to which IMS granted fully paid-up licenses of its interactive patents in exchange for cash and other consideration. License fee payments received that were contingent upon the continued validity of the patent were deferred and recognized over the life of the patent which expired in October 2001. As a result, we have no deferred license fee income at October 31, 2001.

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

13. QUARTERLY HIGHLIGHTS (Unaudited)

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

2000 (In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales and service fees.....	\$ 24,524	\$ 24,197	\$ 22,676	\$ 24,807
Gross profit.....	6,721	6,732	6,115	5,809
Gross profit margin percentage.....	27.4%	27.8%	27.0%	23.4%(b)
Restructuring charge (Note 15).....	--	--	--	300
Selling, general and administrative expenses.....	5,820	5,623	5,768	6,327(c)
Operating income (loss).....	901	1,109	347	(818)
Net income	459	602	407	3,567(d)
Earnings per common share - basic.....	\$.08	\$.10	\$.07	\$.60
Earnings per common share - diluted.....	\$.08	\$.10	\$.07	\$.59

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

- (a) Includes \$550,000 of fourth quarter adjustments related to write down of product development assets no longer being used, increased provisions for un-collectable accounts, reserves for termination of a European sales agent, vacating a leased facility and a health insurance claim.
- (b) Gross profit margin was negatively impacted in the fourth quarter of fiscal 2000 because of a decrease in the Euro exchange rate. The Euro averaged \$.978 for the first three quarters but declined to an average of \$.873 in the fourth quarter. The fourth quarter margin was also negatively impacted by an accrual for \$300,000 assessment received in November 2000 from the United States Customs Department for duties due related to imports during the period 1994-1997.
- (c) Selling, general and administrative expenses increased in the fourth quarter primarily due to expenses related to our participation in the bi-annual International Machine and Technology Show (IMTS) that occurred in September 2000.
- (d) As disclosed in the MD&A and footnote 10, net income was favorably impacted in the fourth quarter by license fee income.

14. SEGMENT INFORMATION

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

Substantially all of our machine systems and control systems are manufactured to our specifications by contract manufacturing companies in Taiwan and Europe. Our executive offices and principal design, engineering, and manufacturing management operations are headquartered in Indianapolis, Indiana. We sell our products through approximately 258 independent agents and distributors in 39 countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in the United States, England, France, Germany, Italy and Singapore, which are considered to be among the world's principal computerized machine system consuming countries. During fiscal 2001, no customer accounted for more than 5% of our sales and service fees.

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

Year Ended October 31,	2001	2000	1999
	-----	-----	-----
Computerized Machine Systems.....	\$ 73,286	\$71,708	\$63,793
Computer Control Systems and Software*.....	5,716	9,605	10,623
Service Parts.....	9,516	10,649	9,574
Services Fees.....	3,749	4,242	4,248
	-----	-----	-----
	\$92,267	\$96,204	\$88,238
	=====	=====	=====

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

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

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

	Year Ended October 31,		
	2001	2000	1999
United States.....	\$ 32,935	\$40,920	\$36,730
Germany.....	28,452	23,654	25,388
United Kingdom.....	8,814	10,128	9,567
Other Europe.....	17,847	12,932	12,087
Total Europe.....	55,113	46,714	47,042
Asia and Other.....	4,219	8,570	4,466
Total Foreign.....	59,332	55,284	51,508
	\$ 92,267	\$96,204	\$88,238

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

	October 31,	
	2001	2000
United States.....	\$ 14,725	\$ 14,257
Foreign Countries.....	1,556	1,064
	\$ 16,281	\$15,321

15. RESTRUCTURING CHARGE

At October 31, 1998, we had a reserve for anticipated costs associated with the restructuring of a subsidiary to convert its operations from manufacturing computer controls to sales and service of computerized machine systems. The components of the reserve were excess building capacity and an equipment lease related to equipment that will no longer be utilized. In fiscal 1999, the excess building space was sublet and the reserve was adjusted to reflect the terms of the sublease. The remainder of the excess building capacity reserve was for the final year of the lease, which had not been sublet.

In the fourth quarter of fiscal 2000, we recorded a charge of \$300,000 for severance costs related to the termination of employees at this subsidiary in connection with the completion of the consolidation of this operation into our North American sales and service business. Fourteen employees received notice on October 31, 2000 that their positions were being eliminated in fiscal 2001. All employee severance related to the October 31, 2000 reserve has been paid with the exception of one employee who is being paid through May 2002.

Restructuring expense in fiscal 2001 included a reversal of a of \$328,000 reserve for sub-letting the final year of the excess building space and finding alternative uses for a previously reserved asset. Also, in fiscal 2001, a provision of \$471,000 was recorded for severance costs related to a domestic cost reduction program in which 59 positions were eliminated. Forty-two of the employees were paid severance in fiscal 2001 while the remaining 15 employees will be paid in fiscal 2002.

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

Description	Balance 10/31/98	Provision (Credit)	Charges to Accrual	Balance 10/31/99
Excess Building Capacity	\$ 500	(\$ 103)	(\$ 111)	\$ 286
Equipment Leases	101	--	(24)	77
Severance Costs	90	--	(90)	--
	\$ 691	(\$ 103)	(\$ 225)	\$ 363

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

Description	Balance 10/31/00	Provision (Credit)	Charges to Accrual	Balance 10/31/01
Excess Building Capacity	\$ 286	(\$ 286)	--	--
Equipment Leases	54	(42)	(12)	--
Severance Costs	300	471	(637)	133
	-----	-----	-----	-----
	\$ 640	\$143	(\$ 649)	\$ 133
	=====	=====	=====	=====

16. STOCK REPURCHASE

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

17. SOFTWARE DEVELOPMENT AGREEMENTS AND LOAN AGREEMENT

During fiscal 2001, we entered into agreements with a private software company to fund development costs related to the integration of patented, open architecture technology into our computer control products. We agreed to fund an aggregate of \$405,000, over a fifteen-month period ending in July 2002 of which \$180,000 was paid and recorded as a research and development expense in fiscal 2001. We also agreed to fund a secured term loan payable in installments through February 2002, of \$1.0 million which is due April 1, 2003. In addition, the company granted us warrants to purchase an equity interest, which are exercisable on or before December 31, 2002, and 2003. As of October 31, 2001, our combined investment in the secured loan and warrants is \$672,000, and is reflected in Investments and Other Assets in the accompanying consolidated balance sheet.

HURCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

We have an agreement with another private software company to fund software development costs related to an advanced computer control technology. The agreement term is February 1, 2001 through March 31, 2002 and requires us to fund \$400,000 of development costs, of which \$300,000 was paid and recorded as a research and development expense in fiscal 2001. At the completion of this agreement, we have the option to enter into a new development agreement, buy core technology owned by the software company for \$1.9 million or pay twelve installments of \$16,666 for future services.

18. NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. (SAB) 101, "Revenue Recognition." This bulletin summarizes the SEC's views in applying generally accepted accounting principles to revenue recognition. We adopted SAB 101 in Fiscal 2001 and the impact on our financial statements was immaterial.

In June 2001, the Financial Accounting Standards Board issued statement No. 141, Business Combinations (FAS 141) and statement No. 142, Goodwill and Other Intangible Assets (FAS 142). FAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. Under FAS 142, amortization of goodwill will cease and the goodwill carrying values will be tested periodically for impairment. We are required to adopt FAS 142 effective November 1, 2002 for goodwill and intangible assets acquired prior to July 1, 2001. Good will and intangible assets acquired after

June 30, 2001 will be subject immediately to the goodwill non-amortization and intangible provisions of this statement. The impact on our financial statements will be immaterial.

In August 2001, the Financial Accounting Standards Board issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), which is effective for the fiscal year beginning November 1, 2002. FAS 144 establishes a single model to account for impairment of assets to be held or disposed, incorporating guidelines for accounting and disclosure of discontinued operations. We believe the impact on our financial statements will be immaterial.

19. SUBSEQUENT EVENTS

On November 14, 2001, Brian McLaughlin resigned as President and Chief Executive Officer. We will record a provision for separation costs of approximately \$325,000 in the first quarter of Fiscal 2002 related to his resignation.

On January 8, 2002, our German subsidiary obtained a 3.0 million Euro unsecured working capital credit facility that is available through December 31, 2002. As a result, our credit facility was reduced by \$2.7 million to \$19.8 million.

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

Not applicable.

PART III

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

The information required this item is hereby incorporated by reference from our definitive proxy statement for our 2002 annual meeting of shareholders except that the information required by Item 10 regarding Executive Officers is included herein under a separate caption at the end of Part I.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2002 annual meeting of shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2002 annual meeting of shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2002 annual meeting of shareholders.

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:

	Page
Reports of Independent Accountants.....	20
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Consolidated Balance Sheets - as of October 31, 2001 and 2000.....	22
Consolidated Statements of Cash Flows - years ended October 31, 2001, 2000, and 1999.....	23
Consolidated Statements of Changes in Shareholders' Equity - years ended October 31, 2001, 2000, and 1999.....	24
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2. Financial Statement Schedules.

The following financial statement schedule is included in this Item.

Schedule II - Valuation and Qualifying Accounts and Reserves.....	43
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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, 2001.

(c) Exhibits

Exhibits are filed with this Form 10-K or incorporated herein by reference as listed on pages 44 and 45.

Schedule II - Valuation and Qualifying Accounts and Reserves
for the years ended October 31, 2001, 2000, and 1999
(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, 2001	\$ 741	\$ 547	\$ --	\$ 3811	\$ 907
October 31, 2000	\$ 687	\$ 185	\$ --	\$ 1312	\$ 741
October 31, 1999	\$ 769	\$ 231	\$ --	\$ 3133	\$ 687
Accrued warranty expenses for the year ended:					
October 31, 2001	\$ 831	\$ 661	\$ --	\$ 700	\$ 792
October 31, 2000	\$ 968	\$ 430	\$ --	\$ 567	\$ 831
October 31, 1999	\$ 1,060	\$ 533	\$ --	\$ 625	\$ 968

- 1 Receivable write-offs of \$384,000, net of cash recoveries on accounts previously written off of \$4,000.
- 2 Receivable write-offs of \$140,000, net of cash recoveries on accounts previously written off of \$9,000.
- 3 Receivable write-offs of \$337,000, net of cash recoveries on accounts previously written off of \$24,000.

EXHIBITS INDEX

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

- 10.1 The Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated October 31, 2001 between the Registrant and Bank One, Indiana, N.A.

- 10.2 Fourth Amendment to European Facility dated October 31, 2001 between the Registrant and Bank One, N.A.
- 3.2 Amended and Restated By-Laws of the Registrant dated November 14, 2001.
- 11 Statement re: computation of per share earnings
- 21 Subsidiaries of the Registrant
- 23 Consent of Arthur Andersen LLP

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

-
- 3.1 Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-Q for the quarter ended January 31, 2000.
 - 10.3 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 the Registrant's Registration Statement on Form S-1, No.2-82804 dated April 1, 1983.
 - 10.4* Non-qualified Stock Option Agreement between the Registrant and O. Curtis Noel effective, March 3, 1993, incorporated by reference to Exhibit 10.44 to the Registrant's Report on Form 10-K for the year ended October 31, 1993.
 - 10.5* Employment Agreement between the Registrant and Roger J. Wolf dated January 8, 1993, incorporated by reference to Exhibit 10.45 to the Registrant's Report on Form 10-K for the year ended October 31, 1993.
 - 10.6* Form of Director Non-qualified Stock Option Agreement between the Registrant and Richard T. Niner, O.Curtis Noel and Charles E. Mitchell Rentschler, incorporated by reference as Exhibit 10.2 to the Registrant's Form 10-K for the year ended October 31, 1999.
 - 10.7* 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.
 - 10.8* 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.
 - 10.9* 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.
 - 10.10* Amended 1997 Stock Option and Incentive Plan, incorporated by reference as Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended July 31, 2000.
 - 10.11 Employment agreement between the Registrant and James D. Fabris dated November 18, 1997, incorporated by reference as Exhibit 10.15 to the Registrant's Report on Form 10-Q for the quarter ended January 31, 1998.
 - 10.12 Sublease between Autocon Technologies, Inc. and Robert Bosch Corporation dated April 30, 1999, incorporated by reference as Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended April 30, 1999.
 - 10.13* Employment agreement between the Registrant and Bernard C. Faulkner dated February 4, 2000, incorporated by reference as Exhibit 10.1 to the Registrant's Report of Form 10-Q for the quarter ended April 30, 2000.
 - 10.14 Third amendment to European facility between the Registrant and The First National Bank of Chicago dated August 17, 1999, incorporated by

reference as Exhibit 10.2 to the Registrant's Report on Form 10-K for the year ended October 31, 1999.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 28th day of January, 2002.

HURCO COMPANIES, INC.

By: /s/ ROGER J. WOLF

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

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

Signature and Title(s)	Date
/s/ Michael Doar ----- Michael Doar, Director, Chief Executive Officer of Hurco Companies, Inc. (Principal Executive Officer)	January 28, 2002
/s/ ROGER J. WOLF ----- Roger J. Wolf Senior Vice-President, Secretary, Treasurer and Chief Financial Officer of Hurco Companies, Inc. (Principal Financial Officer)	January 28, 2002
/s/ STEPHEN J. ALESIA ----- Stephen J. Alesia Corporate Controller of Hurco Companies, Inc. (Principal Accounting Officer)	January 28, 2002
/s/ ROBERT W. CRUICKSHANK ----- Robert W. Cruickshank, Director	January 28, 2002
/s/ MICHAEL DOAR ----- Michael Doar, Director	January 28, 2002

/s/ RICHARD T. NINER

January 28, 2002

Richard T. Niner, Director

/s/ O. CURTIS NOEL

January 28, 2002

O. Curtis Noel, Director

/s/ CHARLES E. M. RENTSCHLER

January 28, 2002

Charles E. M. Rentschler, Director

/s/ GERALD V. ROCH

January 28, 2002

Gerald V. Roch, Director

Exhibit 11

COMPUTATION OF PER SHARE EARNINGS

Exhibit 11

Statement Re: Computation of Per Share Earnings

	Three Months Ended October 31,				Twelve Months Ended October 31,			
	2001		2000		2001		2000	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
(in thousands, except per share amount)								
Net income (loss)	(\$1,158)	(\$1,158)	\$ 3,567	\$ 3,567	(\$ 1,597)	(\$ 1,597)	\$ 5,035	\$ 5,035
Weighted average shares								
outstanding	5,581	5,581	5,954	5,954	5,670	5,670	5,952	5,952
Assumed issuances under								
stock options plans	--	--	--	62	--	--	--	67
	5,581	5,581	5,954	6,016	5,670	5,670	5,952	6,020
Earnings (loss) per common share	(\$.21)	(\$.21)	\$ 0.60	\$ 0.59	(\$.28)	(\$.28)	\$ 0.85	\$ 0.84

SUBSIDIARIES OF THE REGISTRANT

Exhibit 21

SUBSIDIARIES OF HURCO COMPANIES, INC.

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

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen LLP

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement File No. 333-48204. It should be noted that we have not audited any financial statements of the Company subsequent to October 31, 2001 or performed any audit procedures subsequent to the date of our report.

ARTHUR ANDERSEN LLP

Indianapolis, Indiana,
January 28, 2002.

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AND

AMENDMENT TO REIMBURSEMENT AGREEMENT

DATED AS OF OCTOBER 31, 2001

BETWEEN

HURCO COMPANIES, INC.

AND

BANK ONE, INDIANA, NA

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SCHEDULES

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EXHIBITS

- Exhibit A - Form of Note
- Exhibit B - Borrowing Base Certificate
- Exhibit C - Compliance Certificate
- Exhibit D - Form of Mortgage
- Exhibit E - Form of Pledge and Security Agreement
- Exhibit F - Confirmation of Guaranty
- Exhibit G - Confirmation of Hurco Guaranty
- Exhibit H - Hurco Fiscal Year 2002 Outlook
- Exhibit I - Wire Transfer Instructions
- Exhibit J - Form of Opinion

SECOND AMENDED AND RESTATED CREDIT AGREEMENT
AND
AMENDMENT TO REIMBURSEMENT AGREEMENT

This Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement, dated as of October 31, 2001, is between Hurco Companies, Inc., an Indiana corporation, and Bank One, Indiana, NA, a national banking association having its principal office in Indianapolis, Indiana. The

parties hereto agree as follows:

INTRODUCTION

A. Hurco Companies, Inc. (defined below as the Borrower) and the Bank are parties to that certain Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of September 8, 1997, as amended by the First Amendment to Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of September 29, 1998, the Second Amendment to Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of December 19, 1998 and the Third Amendment to Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of August 17, 1999 (as amended, the "Existing Credit Agreement"), pursuant to which the Bank has provided to the Borrower (or certain of the Borrower's Subsidiaries as further described therein) a \$25,000,000 revolving credit facility, including letters of credit (the "Existing Revolving Credit"), all for the purposes and on the terms therein set forth.

B. Pursuant to a Letter Agreement dated as of August 17, 1999, as amended, among Hurco Europe, Hurco GmbH, Hurco B.V., Hurco S.A.R.L. (each as defined below), Bank One, NA, London Branch (formerly known as The First National Bank of Chicago, London Branch) and Bank One, NA, Frankfurt Branch (formerly known as The First National Bank of Chicago, Frankfurt Branch), Bank One, NA, London Branch and Bank One, NA, Frankfurt Branch have extended a credit facility in the amount of \$5,000,000 to Hurco Europe, Hurco GmbH, Hurco B.V. and Hurco S.A.R.L. (the "European Facility").

C. The Borrower and Bank One, Michigan (formerly known as NBD Bank, Michigan) are parties to a Reimbursement Agreement (as defined below), pursuant to which Bank One, Michigan has issued the IRB L/C (as defined below). The Borrower wishes to amend the Reimbursement Agreement to coordinate its provisions with those of this Agreement. Pursuant to a Participation Agreement dated as of September 8, 1997 (the "Participation Agreement"), the Bank purchased a 100% participation in Bank One, Michigan's rights and obligations under the Reimbursement Agreement and the IRB L/C.

D. The Borrower desires to replace the Existing Revolving Credit and refinance the indebtedness outstanding thereunder, to be used for working capital and general corporate purposes, to modify the terms of the Existing Credit Agreement in certain other respects, and therefor to amend and restate the Existing Credit Agreement, and the Bank is willing to do so on the terms herein set forth.

E. In connection with amending and restating the Existing Credit Agreement, the European Facility will also be amended and extended, the amount of which will be limited by the facilities outstanding hereunder.

The Bank is willing to undertake these additional matters and 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 I

DEFINITIONS

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

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

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (i) acquires any going business or all or substantially all of the assets of any firm, corporation or limited liability company, or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the

most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding ownership interests of a partnership or limited liability company.

"Advance" means a borrowing hereunder, (i) made by the Bank on the same Borrowing Date, or (ii) converted or continued by the Bank on the same date of conversion or continuation, consisting, in either case, of the aggregate amount of the several Credit Extensions of the same Type and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agreement" means this Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement, as it may be amended or modified and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in Section 5.4.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of the Federal Funds Effective Rate for such day plus 1% per annum.

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

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

Eurodollar Advances: 1.0%
Floating Rate Advances: 0.0%

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

Date	Eurodollar Advances	Floating Rate Advances
From and including November 1, 2001 through April 30, 2002	2.0% per annum	0% per annum
From and including May 1, 2002 through July 31, 2002	3.0% per annum	1.0% per annum
From and including August 1, 2002 and thereafter	3.5% per annum	1.5% per annum

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means any of the Chief Executive Officer, Chief Financial Officer, Executive Vice President, or Corporate Controller of the Borrower, acting singly.

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

"Bank" means Bank One, Indiana, NA, a national banking association having its principal office in Indianapolis, Indiana, any of its Lending Installations listed on Schedule 2 attached hereto, and any of their respective successors and assigns.

"Bond Default", as used in the Reimbursement Agreement, means the

occurrence of an Event of Default under Section 610(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.

"Borrower" means Hurco Companies, Inc., an Indiana corporation, and its successors and assigns.

"Borrowing Base" means, as of any date, an amount equal to the sum, without duplication, of:

- (i) 90% of the book value of cash on deposit with the Bank or Bank One, Michigan, on the date of calculating the Borrowing Base, plus
- (ii) 55% of the book value of Eligible Finished Goods Inventory as of such date, plus
- (iii) 40% of the book value of Eligible Inventory as of such date, plus
- (iv) 80% of the book value of Eligible Receivables as of such date, plus
- (v) So long as the Eligible Real Estate is subject to the Mortgage, the appraised value of Eligible Real Estate, not to exceed \$4,000,000, plus
- (vi) 40% of the book value of Eligible Foreign Finished Goods Inventory as of such date, plus
- (vii) 40% of the book value of Eligible Foreign Receivables as of such date.

Notwithstanding the foregoing, assets which are subject to any Permitted Lien described in subsections (vii), (viii), or (ix) of Section 6.15 shall not be included in calculating the Borrowing Base.

"Borrowing Base Certificate" for any date means an appropriately completed report as of such date in substantially the form of Exhibit B, certified as true and correct by an Authorized Officer.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in Section 2.8.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago and New York for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in Dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities and interbank wire transfers can be made on the Fedwire system.

"Business Plan" means the Fiscal Year 2002 Outlook prepared by the Borrower and attached as Exhibit H.

"Capital Expenditures" means, without duplication, any expenditures for any purchase or other acquisition of any asset which would be classified as a fixed or capital asset on a consolidated balance sheet of the Borrower and its Subsidiaries prepared in accordance with Agreement Accounting Principles.

"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" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a

liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Equivalent Investments" means (i) short-term obligations of, or fully guaranteed by, the United States of America, (ii) commercial paper rated A-1 or better by S&P or P-1 or better by Moody's, (iii) demand deposit accounts maintained in the ordinary course of business, (iv) certificates of deposit issued by and time deposits with commercial banks (whether domestic or foreign) having capital and surplus in excess of \$100,000,000, and (v) deposits in the Commodities Futures Account maintained by the Borrower with Prudential Securities, Inc.; provided in each case that the same provides for payment of both principal and interest (and not principal alone or interest alone) and is not subject to any contingency (other than the passage of time or notice) regarding the payment of principal or interest.

"CIMPlus Option" means the option held by the Borrower to purchase core technology and all license agreements related to such core technology from CIMPlus, Inc. for an amount not to exceed \$1,850,000, including but not limited to, all software, formulas, patents, and intellectual property owned by CIMPlus, Inc. and all enhancements created by CIMPlus, Inc. pursuant to a certain development agreement.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Collateral" means the "Collateral" under and as defined in the Collateral Documents.

"Collateral Documents" means, collectively, the Pledge Agreements, the Mortgage, the Guaranty, the Hurco Guaranty, the Confirmation of Guaranty substantially in the form of Exhibit F, the Confirmation of Hurco Guaranty substantially in the form of Exhibit G, and all other agreements granting a Lien in favor of the Bank securing the Secured Obligations, as any of the foregoing may be amended or modified from time to time, including any and all other security agreements, mortgages and pledge agreements delivered hereafter.

"Collateral Shortfall Amount" is defined in Section 8.1.

"Commitment" means, the obligation of the Bank to make Loans to, and issue Facility LCs upon the application of, the Borrower in an aggregate amount not exceeding \$22,500,000, reduced by (i) \$2,500,000 from and including May 1, 2002 and thereafter, and (ii) the amount as required pursuant to Section 2.5(d) and Section 2.5(e).

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

"Consolidated Capital Expenditures" means, with reference to any period, the Capital Expenditures of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated EBITDA" means Consolidated Net Income determined in accordance with Agreement Accounting Principles plus, to the extent deducted in determining Consolidated Net Income, (i) Consolidated Interest Expense, (ii) expense for taxes, (iii) depreciation, (iv) amortization, (v) extraordinary losses incurred other than in the ordinary course of business, (vi) severance costs, (vii) non-cash asset write downs, (viii) non-cash loss on equity interest of Affiliates, minus, to the extent included in Consolidated Net Income, extraordinary gains realized other than in the ordinary course of business (including without limitation non-cash gains on equity interest of Affiliates recorded after July 31, 2001), all calculated for the Borrower and its Subsidiaries on a consolidated basis.

"Consolidated Interest Expense" means, with reference to any period, the interest expense of the Borrower and its Subsidiaries (including the interest component of Rentals under Capitalized Leases and capitalized interest) calculated on a consolidated basis for such period.

"Consolidated Net Income" means, with reference to any period, the net income (or loss) of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated Tangible Net Worth" means, as of any date, (a) the amount

of any Capital Stock, paid-in-capital, and similar equity accounts of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, plus (or minus in the case of a deficit) the capital surplus and retained earnings of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time and excluding the amount of "Other Comprehensive Income" of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, plus (b) the amount of any Subordinated Debt of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, less (c) any treasury stock of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time, and less (d) the Intangible Assets of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time.

"Consolidated Total Capitalization" means at any time the sum of Consolidated Total Indebtedness and Consolidated Tangible Net Worth, each calculated at such time.

"Consolidated Total Indebtedness" means, as of any date, the Indebtedness of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with Agreement Accounting Principles, which, without duplication, either (a) is interest-bearing and, in accordance with Agreement Accounting Principles, should be reflected on a consolidated balance sheet of the Borrower and its Subsidiaries as of such date or (b) consists of Letters of Credit, valued at the undrawn face amount thereof.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract or the obligations of any such Person as general partner of a partnership with respect to the liabilities of the partnership.

"Conversion/Continuation Notice" is defined in Section 2.9.

"Controlled Group" means all members of a controlled group of corporations or other business entities and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Credit Extension" means the making of an Advance or the issuance of a Facility LC hereunder.

"Credit Extension Date" means the Borrowing Date for an Advance or the issuance date for a Facility LC.

"Credit Obligations" means all present and future obligations and other liabilities of the Borrower 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 any 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 undrawn face amount of the IRB L/C and the Facility LCs plus, the unreimbursed portions of any amounts drawn under the IRB L/C.

"Default" means an event described in Article VII.

"Dollars" and "\$" shall mean the lawful currency of the United States of America.

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

"Effective Date" means the date on which the Borrower satisfies the conditions set forth in Section 4.1.

"Eligible Finished Goods Inventory" means, as of any date, all inventory that is located within or is in transit to the United States (which shall not be deemed to include any territories of the United States) and that

constitutes finished goods included in the consolidated financial statements of the Borrower and its Subsidiaries, determined in accordance with Agreement Accounting Principles.

"Eligible Foreign Finished Goods Inventory" means, as of any date, all inventory that constitutes finished goods included in the consolidated financial statements of the Borrower and its Subsidiaries, determined in accordance with Agreement Accounting Principles, that is not Eligible Finished Goods Inventory.

"Eligible Foreign Receivables" means, as of any date, all accounts receivable that are payable by any person located outside of the United States (which shall not be deemed to include any territories of the United States) and Canada and included in the consolidated financial statements of the Borrower and its Subsidiaries, before reserves for bad debts, all determined in accordance with Agreement Accounting Principles, other than any such accounts receivable which are more than 90 days past due or are due from any Affiliate or Subsidiary of the Borrower.

"Eligible Inventory" means, as of any date, all inventory, including without limitation raw materials and work in process but excluding finished goods, included in the consolidated financial statements of the Borrower and its Subsidiaries, determined in accordance with Agreement Accounting Principles.

"Eligible Real Estate" shall mean, as of any date, that real property owned by the Borrower or any Subsidiary in which the Bank holds a first priority perfected lien pursuant to the Mortgage.

"Eligible Receivables" means, as of any date, all accounts receivable included in the consolidated financial statements of the Borrower and its Subsidiaries, before reserves for bad debts, all determined in accordance with Agreement Accounting Principles, other than any such accounts receivable which are more than 90 days past due, are due from any Affiliate or Subsidiary of the Borrower, or are payable by any person located outside the United States (which shall not be deemed to include any territories of the United States) and Canada.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to (i) the protection of the environment, (ii) the effect of the environment on human health, (iii) emissions, discharges or releases of pollutants, contaminants, hazardous substances or wastes into surface water, ground water or land, or (iv) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, hazardous substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"Equivalent Amount" of any currency with respect to any amount of Dollars at any date shall mean the equivalent in such currency of such amount of Dollars, calculated on the basis of the arithmetical mean of the buy and sell spot rates of exchange of the Bank for such other currency at 11:00 a.m., London time, on the date on or as of which such amount is to be determined.

"Eurodollar Advance" means an Advance which, except as otherwise provided in Section 2.11, bears interest at the applicable Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (i) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the Applicable Margin.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the applicable British Bankers' Association Interest Settlement Rate for deposits in Dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, provided that, (i) if Reuters Screen FRBD is not available to the Bank for any reason, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the applicable British Bankers' Association Interest Settlement Rate for deposits Dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days

prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, and (ii) if no such British Bankers' Association Interest Settlement Rate is available to the Bank, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Bank to be the rate at which the Bank or one of its Affiliate banks offers to place deposits in Dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, in the approximate amount of the relevant Eurodollar Advances and having a maturity equal to such Interest Period.

"European Facility" is defined in the Introduction to this Agreement.

"European Subsidiaries" means, collectively, Hurco Europe, Hurco GmbH, Hurco B.V., and Hurco S.A.R.L.

"Excluded Taxes" means, in the case of the Bank or applicable Lending Installation, taxes imposed on its overall net income, and franchise taxes imposed on it, by (i) the jurisdiction under the laws of which the Bank is incorporated or organized or (ii) the jurisdiction in which the Bank's principal executive office or the Bank's applicable Lending Installation is located.

"Exhibit" refers to an exhibit to this Agreement, unless another document is specifically referenced.

"Existing Credit Agreement" is defined in the Introduction to this Agreement.

"Existing Revolving Credit" is defined in the Introduction to this Agreement.

"Facility LC" is defined in Section 2.18.1.

"Facility LC Application" is defined in Section 2.18.3.

"Facility LC Collateral Account" is defined in Section 2.18.8.

"Facility Termination Date" means December 31, 2002.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 a.m. (Chicago time) on such day on such transactions received by the Bank from three Federal funds brokers of recognized standing selected by the Bank in its sole discretion.

"Floating Rate" means, for any day, a rate per annum equal to (i) the Alternate Base Rate for such day plus (ii) the Applicable Margin, in each case changing when and as the Alternate Base Rate changes.

"Floating Rate Advance" means an Advance which, except as otherwise provided in Section 2.11, bears interest at the Floating Rate.

"Foreign Subsidiaries" means all Subsidiaries of the Borrower which are organized under the laws of any jurisdiction other than one of the states of the United States.

"Guarantors" means Autocon and IMS as signatories to the Guaranty and any other Person who guaranties to the Bank the Borrower's payment and performance of its obligations under this Agreement and the other Loan Documents, including without limitation each other Subsidiary which becomes a party to the Guaranty after the date of this Agreement and their respective successors and assigns.

"Guaranty" means that certain Guaranty dated as of September 8, 1997 executed by the Guarantors in favor of the Bank, as it may be amended, modified or confirmed and in effect from time to time.

"Hurco B.V." means Hurco B.V., a limited liability company organized under the laws of the Netherlands, and an indirect wholly-owned subsidiary of the Borrower.

"Hurco Deferred Compensation Plan" means the unfunded plan adopted by the Borrower for the purpose of providing deferred compensation for a select group of management personnel or other employees of the Borrower, as evidenced by the CORPORATE plan for Retirement Select Plan and Basic Plan Document effective as of July 1, 1996, as amended, and the related Hurco Deferred Compensation Plan Trust Agreement.

"Hurco Deferred Compensation Plan Trust Agreement" means the Trust Agreement dated as of April 11, 1996, between the Borrower and Fidelity Management Trust Company, as amended.

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

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

"Hurco Guaranty" means the Hurco Guaranty dated as of September 8, 1997, executed by the Borrower in favor of the Bank, by which the Borrower has guaranteed to the Bank the obligations of the European Subsidiaries under the European Facility, as it may be amended, modified or confirmed and in effect from time to time.

"Hurco S.A.R.L." means Hurco S.A.R.L., a limited liability company organized under the laws of France, and an indirect wholly-owned subsidiary of the Borrower.

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

"Inactive Subsidiary" means a Subsidiary of the Borrower 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 a Person means, without duplication, such Person's (i) obligations for borrowed money (including without limitation, with respect to the Borrower, all Reimbursement Obligations, all Credit Obligations and all Rate Management Transactions), (ii) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) obligations of such Person to purchase securities or other Property arising out of or in connection with the sale of the same or substantially similar securities or Property, (vi) Capitalized Lease Obligations, (vii) 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"), (viii) all liabilities of such person in respect of Unfunded Liabilities under any Plan of such Person or of any ERISA Affiliate and (ix) any other obligation for borrowed money or other financial accommodation which in accordance with Agreement Accounting Principles would be shown as a liability on the consolidated balance sheet of such Person, including without limitation all obligations of others similar in character to those described in clauses (i) through (viii) 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 Borrower or any of its Subsidiaries, the net book value, calculated in accordance with Agreement Accounting

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

"Intellectual Property" is defined in Section 5.26.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on the day which corresponds numerically to such date one, two, three or six months thereafter, provided, however, that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade) or contribution of capital by such Person; stocks, bonds, mutual funds, partnership interests, notes, debentures or other securities owned by such Person; any deposit accounts and certificate of deposit owned by such Person; and structured notes, derivative financial instruments and other similar instruments or contracts owned by such Person.

"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 Borrower.

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

"LC Fee" is defined in Section 2.18.4.

"LC Obligations" means, at any time, the sum, without duplication, of (i) the aggregate undrawn stated amount under all Facility LCs outstanding at such time plus (ii) the aggregate unpaid amount at such time of all Reimbursement Obligations.

"LC Payment Date" is defined in Section 2.18.5.

"Lending Installation" means, with respect to the Bank, the office, branch, subsidiary or affiliate of the Bank listed on Schedule 2 or otherwise selected by the Bank pursuant to Section 2.16.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement).

"Loan" means the Bank's loan made pursuant to Article II (or any conversion or continuation thereof).

"Loan Documents" means this Agreement, the Facility LC Applications, any Notes issued pursuant to Section 2.15, the Reimbursement Agreement, the European Facility, the Collateral Documents, the Guaranty, the Hurco Guaranty,

the Mortgage, and all other agreements and documents executed or delivered in connection with any of the foregoing at any time, as each may be amended or modified from time to time.

"Long Term Mortgage Financing" means a long term mortgage loan of the Borrower from a third party lender secured by the Borrower's headquarters in the maximum principal amount of \$5,000,000.

"MDS" means Manufacturing Data Systems Inc.

"MDS Loan Agreement" means the Loan Agreement between the Borrower and MDS dated as of March 29, 2001, pursuant to which the Borrower extends credit to MDS in the principal amount of \$1,000,000.

"Material Adverse Effect" means a material adverse effect on (i) the business, Property, condition (financial or otherwise), results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole, (ii) the ability of the Borrower or any Subsidiary to perform its obligations under the Loan Documents to which it is a party, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Bank thereunder.

"Modify" and "Modification" are defined in Section 2.18.1.

"Moody's" means Moody's Investors Service, Inc.

"Mortgage" means a mortgage, deed of trust or similar document granting a Lien on real estate entered into by the Borrower, any Subsidiary or any Guarantor for the benefit of the Bank pursuant to this Agreement, substantially in the form of Exhibit D, as amended or modified from time to time.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"Net Cash Proceeds" means, without duplication (a) in connection with any sale or other disposition of any asset or any settlement by, or receipt of payment in respect of, any property insurance claim or condemnation award, the cash proceeds (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or otherwise, but only as and when received) of such sale, settlement or payment, net of reasonable and documented attorneys' fees, accountants' fees, investment banking fees, amounts required to be applied to the repayment of Indebtedness secured by a Lien expressly permitted hereunder on any asset which is the subject of such sale, insurance claim or condemnation award (other than any Lien in favor of the Bank) and other customary fees actually incurred in connection therewith and net of taxes paid or reasonably estimated to be payable as a result thereof and (b) in connection with any issuance or sale of any equity securities or debt securities or instruments or the incurrence of loans, the cash proceeds received from such issuance or incurrence, net of investment banking fees, reasonable and documented attorneys' fees, accountants' fees, underwriting discounts and commissions and other reasonable and customary fees and expenses actually incurred in connection therewith.

"New Hurco GmbH Facility" means a credit facility of Hurco GmbH and/or Hurco B.V. in a maximum principal Equivalent Amount of \$5,000,000 obtained from a third party lender after the Effective Date, which may be secured by assets of Hurco GmbH and/or Hurco B.V. without further consent from the Bank and an unsecured guaranty of payment of the Borrower and any of its Subsidiaries.

"Note" is defined in Section 2.15 and includes any and all notes executed pursuant to this Agreement, each in the form of Exhibit A.

"Obligations" means all Reimbursement Obligations, Credit Obligations, and all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Bank or any indemnified party arising under the Loan Documents.

"Operating Lease" of a Person means any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"Other Taxes" is defined in Section 3.5(ii).

"Outstanding Credit Exposure" means, as to the Bank at any time, the sum of (i) the aggregate principal amount of its Advances outstanding at such time, plus (ii) an amount equal to the LC Obligations at such time.

"Outstanding Facilities" means, collectively and without duplication, the Advances, the Reimbursement Agreement, the IRB L/C, the European Facility, and the Facility LCs, each as existing following the Effective Date.

"Participants" is defined in Section 11.2.1.

"Participation Agreement" is defined in the Introduction to this Agreement.

"Payment Date" means the last day of each quarter.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Liens" means Liens permitted by Section 6.15.

"Person" means any natural person, corporation, firm, joint venture, partnership, limited liability company, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Borrower or any member of the Controlled Group may have any liability.

"Pledge Agreements" means, collectively, the Pledge and Security Agreements dated of even date herewith executed by the Borrower and the Guarantors in favor of the Bank substantially in the form of Exhibit E.

"Pledgor" means, collectively, the Borrower and the Guarantors.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by the Bank or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Rate Management Transaction" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into between the Borrower and any Person which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Rate Management Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all Rate Management Transactions, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Management Transactions.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other

regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Reimbursement Agreement" means the Reimbursement Agreement dated as of September 1, 1990, as amended, between the Borrower and Bank One, Michigan (formerly known as NBD Michigan), pursuant to which the IRB L/C was issued.

"Reimbursement Obligations" means, at any time, the aggregate of all obligations of the Borrower then outstanding under Section 2.18 to reimburse the Bank for amounts paid by the Bank in respect of any one or more drawings under Facility LCs.

"Rentals" of a Person means the aggregate fixed amounts payable by such Person under any Operating Lease.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Reports" is defined in Section 9.6.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurodollar liabilities.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

"Sale and Leaseback Transaction" means any sale or other transfer of Property by any Person with the intent to lease such Property as lessee.

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

"Schedule" refers to a specific schedule to this Agreement, unless another document is specifically referenced.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Secured Obligations" means, collectively, (i) the Obligations and (ii) all Rate Management Obligations owing to the Bank or any of its Affiliates.

"Single Employer Plan" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

"Subordinated Indebtedness" of a Person means any Indebtedness of such Person the payment of which is subordinated to payment of the Secured Obligations to the written satisfaction of the Bank.

"Subsidiary" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Substantial Portion" means, with respect to the Property of the Borrower and its Subsidiaries, Property which (i) represents more than 10% of the consolidated assets of the Borrower and its Subsidiaries as would be shown in the consolidated financial statements of the Borrower and its Subsidiaries as

at the beginning of the twelve-month period ending with the month in which such determination is made, or (ii) is responsible for more than 10% of the consolidated net sales or of the Consolidated Net Income of the Borrower and its Subsidiaries as reflected in the financial statements referred to in clause (i) above.

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing, but excluding Excluded Taxes and Other Taxes.

"Transferee" is defined in Section 11.3.

"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.

"Type" means, with respect to any Advance, its nature as a Floating Rate Advance or a Eurodollar Advance.

"Unfunded Liabilities" means the amount (if any) by which the present value of all vested and unvested accrued benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Wholly-Owned Subsidiary" of a Person means (i) any Subsidiary all of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (ii) any partnership, limited liability company, association, joint venture or similar business organization 100% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled.

1.2 Other Definitions; Rules of Construction. The foregoing definitions 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 Agreement Accounting Principles unless such principles are inconsistent with the express requirements of this Agreement; provided that, if the Borrower notifies the Bank that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in Agreement Accounting Principles in the operation of such covenant (or if the Bank notifies the Borrower that the Bank wishes to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of Agreement Accounting Principles in effect immediately before the relevant change in Agreement Accounting Principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower 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 II

THE CREDITS

2.1. Commitment. (a) From and including the Effective Date and prior to the Facility Termination Date, the Bank agrees, on the terms set forth in this Agreement, to (i) make Advances to the Borrower and (ii) issue Facility LCs upon the request of the Borrower not to exceed in the aggregate principal amount at any time outstanding the lesser of (A) the amount of the Borrowing Base as of the close of business on the last day of the month next preceding the date any such Advance is made and (B) the amount of the Commitment as of the date any such Advance is made, provided, however, that the aggregate principal amount of Facility LCs outstanding at any time shall not exceed \$15,000,000. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow at any time prior to the Facility Termination Date. The Commitment to extend credit hereunder shall expire on the Facility Termination Date. The Bank will issue Facility LCs hereunder on the terms and conditions set forth in Section 2.18.

(b) The Bank agrees that this Agreement consolidates, amends, restates, and supersedes the Existing Credit Agreement, and the Borrower acknowledges, accepts, and ratifies the Outstanding Facilities evidenced by this Agreement. All amounts outstanding under the Existing Credit Agreement on the Effective Date shall constitute Advances under Section 2.1(a), with each existing Eurodollar Advance remaining outstanding under its existing Interest Period. Each letter of credit, bankers acceptance, and bank guaranty issued by the Bank for the Borrower's account which is outstanding under the Existing Credit Agreement on the Effective Date (other than the IRB L/C) shall be treated for all purposes as Facility LCs issued by the Bank under this Agreement.

2.2. Required Payments; Termination. (a) The Outstanding Credit Exposure and all other unpaid Obligations shall be paid in full by the Borrower on the Facility Termination Date.

(b) The Borrower 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 amendment fees, letter of credit fees, and facility fees) which are owing under the Outstanding Facilities.

2.3. Reserved.

2.4. Types of Advances. The Advances may be Floating Rate Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with Sections 2.8 and 2.9.

2.5. Fees; Reductions in Commitment.

(a) Amendment Fee. The Borrower agrees to pay to the Bank on or prior to the Effective Date an amendment fee in the amount of \$22,500 or one-thousandth of one percent (0.001%) of the Bank's Commitment Amount.

(b) Facility Fee. The Borrower agrees to pay to the Bank a facility fee equal to (A) on May 1, 2002, \$50,000 and (B) on August 1, 2002, \$100,000, provided that, (i) if all Obligations are repaid and the Commitment is terminated on or before May 1, 2002, the entire facility fee in the amount of \$150,000 shall be forgiven, (ii) if the Commitment is reduced to not more than \$15,000,000 and no Default or Unmatured Default has occurred and is then existing, the facility fee in the amount of \$50,000 due on May 1, 2002 shall be forgiven, and (iii) if all Obligations are repaid and the Commitment is terminated on or before August 1, 2002, the facility fee in the amount of \$100,000 due on August 1, 2002 shall be forgiven, and provided further, if a Default occurs, the entire facility fee not previously paid shall be earned as of the Default occurring and be payable by the Borrower to the Bank in accordance with subsections (A) and (B) above.

(c) LC Fees. Without duplication for fees previously paid on Letters of Credit issued under the Existing Credit Agreement and outstanding on the Effective Date, the Borrower shall pay to the Bank (i) with respect to each standby Facility LC, a letter of credit fee at a per annum rate equal to the Applicable Margin for Eurodollar Advances in effect from time to time on the average daily undrawn stated amount under such standby Facility LC, subject to the Bank's standard minimum fee existing at the time of issuance, such fee to be payable in advance on each Payment Date, and (ii) with respect to each commercial Facility LC, a one-time letter of credit fee at times and in amounts as the Borrower and the Bank may agree from time to time (each such fee described in this sentence, an "LC Fee"). The Borrower shall also pay to the Bank at the time each Facility LC is issued documentary and processing charges in connection with the issuance or Modification of and draws under Facility LCs in accordance with the Bank's standard schedule for such charges as in effect from time to time.

(d) Optional Reductions in Commitment. From time to time, the Borrower may permanently reduce the Commitment in a minimum amount of \$1,000,000 and in integral multiples of \$500,000, upon written notice to the Bank, which notice shall specify the amount of any such reduction, provided, however, that the amount of the Commitment may not be reduced below the Outstanding Credit Exposure.

(e) Mandatory Prepayments/Reductions in Commitment. Notwithstanding anything in this Agreement to the contrary:

(i) In addition to all other payments required hereunder, if at any time the aggregate Outstanding Credit Exposure exceeds the lesser of the Borrowing Base or the Commitment, and upon written notice from the Bank of such occurrence, the Borrower shall immediately repay Advances in an aggregate principal amount sufficient to eliminate any such excess, to be applied first to amounts outstanding under the Loan, and then to the Facility LC Collateral Account.

(ii) In addition to all other payments required hereunder, if at any time the aggregate principal amount of the Outstanding Credit Exposure plus the Equivalent Amount of loans made to the European Subsidiaries under the European Facility outstanding at any one time exceeds the Commitment, upon written notice from the Bank of such occurrence, the Borrower shall immediately repay Advances in aggregate principal amount sufficient to eliminate any such excess, to be applied first to amounts outstanding under the Loan, and then to the Facility LC Collateral Account.

(iii) The Commitment shall be reduced by the Equivalent Amount of the New Hurco GmbH Facility when the New Hurco GmbH Facility is initially closed.

(iv) The Commitment shall be reduced by the amount of the Long Term Mortgage Financing when the Long Term Mortgage Financing is initially closed.

(v) In addition to all other payments required hereunder, the Borrower shall prepay the Loan by an amount equal to 100% of all of the Net Cash Proceeds from any sale or other disposition or transfer of any assets (other than the sale of inventory in the ordinary course of business) exceeding \$10,000 in any single transaction and exceeding \$100,000 in the aggregate in any fiscal year beginning after October 31, 2001. Such mandatory prepayments shall be applied first to amounts outstanding under the Loan, and then to the Facility LC Collateral Account. The Commitment shall be reduced by the amount of such payment(s) of proceeds to the Bank pursuant to this Section 2.5(e)(v), but not to an amount less than an amount equal to the undrawn face amount of all Facility LCs then outstanding. If the Commitment may not be fully reduced following any such payment due to Facility LCs remaining outstanding and a Facility LC shall later expire undrawn or the Bank is reimbursed following any drawing under any Facility LC, the Commitment shall be further reduced to reflect the full reduction required under the previous sentence.

(vi) In addition to all other payments required hereunder, the Borrower shall prepay the Loan by an amount equal to 100% of the Net Cash Proceeds from the issuance or other sale of any Capital Stock of the Borrower or any of its Subsidiaries from and after October 31, 2001. Such mandatory prepayments shall be applied first to amounts outstanding under the Loan, and then to the Facility LC Collateral Account.. The Commitment shall be reduced by the amount of such payment(s) of proceeds to the Bank pursuant to this Section 2.5(e)(vi), but not to an amount less than an amount equal to the undrawn face amount of all Facility LCs then outstanding. If the Commitment may not be fully reduced following any such payment due to Facility LCs remaining outstanding and a Facility LC shall later expire undrawn or the Bank is reimbursed following any drawing under any Facility LC, the Commitment shall be further reduced to reflect the full reduction required under the previous sentence.

2.6. Minimum Amount of Each Advance. Each Eurodollar Advance shall be in the minimum amount of \$1,000,000 and in multiples of \$100,000 if in excess thereof, and each Floating Rate Advance shall be in the minimum amount of \$100,000 and in multiples of \$10,000 if in excess thereof, provided, however, that any Floating Rate Advance may be in the amount of the Available Commitment.

2.7. Optional Principal Payments. The Borrower may from time to time pay, without penalty or premium, all outstanding Floating Rate Advances, or, in a minimum aggregate amount of \$100,000 or any integral multiple of \$10,000 in excess thereof, any portion of the outstanding Floating Rate Advances. The Borrower may from time to time pay, subject to the payment of any funding indemnification amounts required by Section 3.4 but without penalty or premium, all outstanding Eurodollar Advances, or, in a minimum aggregate amount of \$1,000,000 or any integral multiple of \$100,000 in excess thereof, any portion of the outstanding Eurodollar Advances.

2.8. Method of Selecting Types and Interest Periods for New Advances. The Borrower shall select the Type of Advance and, in the case of each

Eurodollar Advance, the Interest Period applicable thereto from time to time. The Borrower shall give the Bank irrevocable notice (a "Borrowing Notice") not later than Noon (Chicago time) on the Borrowing Date of each Floating Rate Advance and three Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

- (i) the Borrowing Date, which shall be a Business Day, of such Advance,
- (ii) the aggregate amount of such Advance,
- (iii) the Type of Advance selected, and
- (iv) in the case of each Eurodollar Advance, the Interest Period applicable thereto.

2.9. Conversion and Continuation of Outstanding Advances. Floating Rate Advances shall continue as Floating Rate Advances unless and until such Floating Rate Advances are converted into Eurodollar Advances pursuant to this Section 2.9 or are repaid in accordance with Section 2.7. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into a Floating Rate Advance unless (x) such Eurodollar Advance is or was repaid in accordance with Section 2.7 or (y) the Borrower shall have given the Bank a Conversion/Continuation Notice (as defined below) requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of Section 2.6, the Borrower may elect from time to time to convert all or any part of a Floating Rate Advance into a Eurodollar Advance. The Borrower shall give the Bank irrevocable notice (a "Conversion/Continuation Notice") of each conversion of a Floating Rate Advance into a Eurodollar Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) at least three Business Days prior to the date of the requested conversion or continuation, specifying:

- (i) the requested date, which shall be a Business Day, of such conversion or continuation,
- (ii) the aggregate amount and Type of the Advance which is to be converted or continued, and,
- (iii) the amount of such Advance which is to be converted into or continued as a Eurodollar Advance and the duration of the Interest Period applicable thereto.

2.10. Changes in Interest Rate, etc. Each Floating Rate Advance shall bear interest on the outstanding principal amount thereof, for each day from and including the date such Advance is made or is converted from a Eurodollar Advance into a Floating Rate Advance pursuant to Section 2.9, to but excluding the date it is paid or is converted into a Eurodollar Advance pursuant to Section 2.9 hereof, at a rate per annum equal to the Floating Rate for such day. Changes in the rate of interest on that portion of any Advance maintained as a Floating Rate Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest on the outstanding principal amount thereof from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the interest rate determined by the Bank as applicable to such Eurodollar Advance based upon the Borrower's selections under Sections 2.8 and 2.9 and otherwise in accordance with the terms hereof. No Interest Period may end after the Facility Termination Date.

2.11. Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.8 or 2.9, during the continuance of a Default or Unmatured Default the Bank may, at its option, by notice to the Borrower, declare that no Advance may be made as, converted into or continued as a Eurodollar Advance. During the continuance of a Default the Bank may, at its option, by notice to the Borrower, declare that (i) each Eurodollar Advance shall bear interest for the remainder of the applicable Interest Period at the rate otherwise applicable to such Interest Period plus 2% per annum, (ii) each Floating Rate Advance shall bear interest at a rate per annum equal to the Floating Rate in effect from time to time plus 2% per annum and (iii) the LC Fee shall be increased by 2% per annum, provided that, during the continuance of a Default under Section 7.6 or 7.7, the interest rates set forth in clauses (i) and (ii) above and the increase in the LC Fee set forth in clause (iii) above

shall be applicable to all Credit Extensions without any election or action on the part of the Bank.

2.12. Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Bank at the Bank's address specified pursuant to Article XII, or at any other Lending Installation of the Bank specified in writing by the Bank to the Borrower, by noon (Chicago time) on the date when due and shall (except in the case of Reimbursement Obligations for which the Bank has not been fully indemnified, or as otherwise specifically required hereunder) be applied by the Bank as it may determine in its sole discretion. The Bank is authorized to charge any account of the Borrower maintained with the Bank or any of its Affiliates for each payment of principal, interest, Reimbursement Obligations and fees as it becomes due hereunder.

2.13. Noteless Agreement; Evidence of Indebtedness. (i) The Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to the Bank resulting from each Advance made by the Bank from time to time, including the amounts of principal and interest payable and paid to the Bank from time to time hereunder.

(ii) The Bank shall also maintain accounts in which it will record (a) the amount of each Advance made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to the Bank hereunder, (c) the original stated amount of each Facility LC and the amount of LC Obligations outstanding at any time, and (d) the amount of any sum received by the Bank hereunder from the Borrower.

(iii) The entries maintained in the accounts maintained pursuant to paragraphs (i) and (ii) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Bank to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(iv) The Bank may request that its Loan be evidenced by a promissory note (a "Note"). In such event, the Borrower shall prepare, execute and deliver to the Bank a Note payable to the order of the Bank in a form supplied by the Bank. Thereafter, the Advances evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 11.3) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 11.3, except to the extent that the Bank or assignee subsequently returns any such Note for cancellation and requests that the Loan once again be evidenced as described in paragraphs (i) and (ii) above.

2.14. Telephonic Notices. The Borrower authorizes the Bank to extend, convert or continue Advances, effect selections of Types of Advances and to transfer funds based on telephonic notices made by any person or persons the Bank in good faith believes to be acting on behalf of the Borrower, it being understood that the foregoing authorization is specifically intended to allow Borrowing Notices and Conversion/Continuation Notices to be given telephonically. The Borrower agrees to deliver promptly to the Bank a written confirmation, if such confirmation is requested by the Bank, of each telephonic notice signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Bank, the records of the Bank shall govern absent manifest error.

2.15. Interest Payment Dates; Interest and Fee Basis. Interest accrued on each Floating Rate Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof and at maturity. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and LC Fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (local time) at the place of payment. If any payment of principal or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.16. Lending Installations. The Bank may book its Loans and the Facility LCs at the appropriate Lending Installation listed on Schedule 2 or such other Lending Installation designated by the Bank in accordance with the final sentence of this Section 2.16. All terms of this Agreement shall apply to any such Lending Installation and the Loan, Facility LCs, and any Note issued hereunder shall be deemed held by the Bank for the benefit of any such Lending Installation. The Bank may, by written notice to the Borrower, designate replacement or additional Lending Installations through which Advances will be made by it or Facility LCs will be issued by it and for whose account Loan payments or payments with respect to Facility LCs are to be made.

2.17. Reserved.

2.18. Facility LCs.

2.18.1. Issuance. The Bank agrees, on the terms set forth in this Agreement, to issue standby and commercial letters of credit (each, a "Facility LC") and to renew, extend, increase, decrease or otherwise modify each Facility LC ("Modify," and each such action a "Modification"), from time to time from and including the date of this Agreement and prior to the Facility Termination Date upon the request of the Borrower; provided that immediately after each such Facility LC is issued or Modified, (i) the aggregate amount of the outstanding LC Obligations shall not exceed \$15,000,000 and (ii) the Outstanding Credit Exposure shall not exceed the Commitment. No Facility LC shall have an expiry date later than the earlier of (x) the fifth Business Day prior to the Facility Termination Date and (y) one year after its issuance.

2.18.2. Notice. Subject to Section 2.18.1, the Borrower shall give the Bank notice prior to 10:00 a.m. (Chicago time) at least five Business Days prior to the proposed date of issuance or Modification of each Facility LC, specifying the beneficiary, the proposed date of issuance (or Modification) and the expiry date of such Facility LC, and describing the proposed terms of such Facility LC and the nature of the transactions proposed to be supported thereby. The issuance or Modification by the Bank of any Facility LC shall, in addition to the conditions precedent set forth in Article IV (the satisfaction of which the Bank shall have no duty to ascertain), be subject to the conditions precedent that such Facility LC shall be satisfactory to the Bank and that the Borrower shall have executed and delivered such application agreement and/or such other instruments and agreements relating to such Facility LC as the Bank shall have reasonably requested (each, a "Facility LC Application"). In the event of any conflict between the terms of this Agreement and the terms of any Facility LC Application, the terms of this Agreement shall control.

2.18.3. Administration; Reimbursement by the Bank . Upon receipt from the beneficiary of any Facility LC of any demand for payment under such Facility LC, the Bank shall promptly notify the Borrower as to the amount to be paid by the Bank as a result of such demand and the proposed payment date (the "LC Payment Date"). The responsibility of the Bank to the Borrower shall be only to determine that the documents (including each demand for payment) delivered under each Facility LC in connection with such presentment shall be in conformity in all material respects with such Facility LC. The Bank shall endeavor to exercise the same care in the issuance and administration of the Facility LCs as it does with respect to letters of credit in which no participations are granted.

2.18.4. Reimbursement by the Borrower. The Borrower shall be irrevocably and unconditionally obligated to reimburse the Bank on or before the applicable LC Payment Date for any amounts to be paid by the Bank upon any drawing under any Facility LC, without presentment, demand, protest or other formalities of any kind; provided that the Borrower shall not be precluded from asserting any claim for direct (but not consequential) damages suffered by the Borrower to the extent, but only to the extent, caused by (i) the willful misconduct or gross negligence of the Bank in determining whether a request presented under any Facility LC issued by it complied with the terms of such Facility LC or (ii) the Bank's failure to pay under any Facility LC issued by it

after the presentation to it of a request strictly complying with the terms and conditions of such Facility LC. All such amounts paid by the Bank and remaining unpaid by the Borrower shall bear interest, payable on demand, for each day until paid at a rate per annum equal to (x) the rate applicable to Floating Rate Advances for such day if such day falls on or before the applicable LC Payment Date and (y) the sum of 2% plus the rate applicable to Floating Rate Advances for such day if such day falls after such LC Payment Date. Subject to the terms of this Agreement (including without limitation the submission of a Borrowing Notice in compliance with Section 2.8 and the satisfaction of the applicable conditions precedent set forth in Article IV), the Borrower may request an Advance hereunder for the purpose of satisfying any Reimbursement Obligation.

2.18.5. Obligations Absolute. The Borrower's obligations under this Section 2.18 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which the Borrower may have or have had against the Bank or any beneficiary of a Facility LC. The Borrower further agrees with the Bank that the Bank shall not be responsible for, and the Borrower's Reimbursement Obligation in respect of any Facility LC shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among the Borrower, any of its Affiliates, the beneficiary of any Facility LC or any financing institution or other party to whom any Facility LC may be transferred or any claims or defenses whatsoever of the Borrower or of any of its Affiliates against the beneficiary of any Facility LC or any such transferee. The Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Facility LC. The Borrower agrees that any action taken or omitted by the Bank under or in connection with each Facility LC and the related drafts and documents, if done without gross negligence or willful misconduct, shall be binding upon the Borrower and shall not put the Bank under any liability to the Borrower. Nothing in this Section 2.18.5 is intended to limit the right of the Borrower to make a claim against the Bank for damages as contemplated by the proviso to the first sentence of Section 2.18.4.

2.18.6. Actions of the Bank. The Bank shall be entitled to rely, and shall be fully protected in relying, upon any Facility LC, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Bank. The Bank shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first have received such advice as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

2.18.7. Indemnification. The Borrower indemnifies and holds harmless the Bank, and its directors, officers, agents and employees from and against any and all claims and damages, losses, liabilities, costs or expenses which the Bank may incur (or which may be claimed against the Bank by any Person whatsoever) by reason of or in connection with the issuance, execution and delivery or transfer of or payment or failure to pay under any Facility LC or any actual or proposed use of any Facility LC, including, without limitation, any claims, damages, losses, liabilities, costs or expenses which the Bank may incur by reason of or in connection with, by reason of or on account of the Bank issuing any Facility LC which specifies that the term "Beneficiary" included therein includes any successor by operation of law of the named Beneficiary, but which Facility LC does not require that any drawing by any such successor Beneficiary be accompanied by a copy of a legal document, satisfactory to the Bank, evidencing the appointment of such successor Beneficiary; provided that the Borrower shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the

extent, caused by (x) the willful misconduct or gross negligence of the Bank in determining whether a request presented under any Facility LC complied with the terms of such Facility LC or (y) the Bank's failure to pay under any Facility LC after the presentation to it of a request strictly complying with the terms and conditions of such Facility LC. Nothing in this Section 2.18.7 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

2.18.8. Facility LC Collateral Account. The Borrower agrees that it will, upon the request of the Bank and until the final expiration date of any Facility LC and thereafter as long as any amount is payable to the Bank in respect of any Facility LC, maintain a special collateral account pursuant to arrangements satisfactory to the Bank (the "Facility LC Collateral Account") at the Bank's office at the address specified pursuant to Article XII, in the name of such Borrower but under the sole dominion and control of the Bank and in which such Borrower shall have no interest other than as set forth in Section 8.1. The Borrower pledges, assigns and grants to the Bank, a security interest in all of the Borrower's right, title and interest in and to all funds which may from time to time be on deposit in the Facility LC Collateral Account to secure the prompt and complete payment and performance of the Obligations. The Bank will invest any funds on deposit from time to time in the Facility LC Collateral Account in certificates of deposit of the Bank having a maturity not exceeding 30 days. Nothing in this Section 2.18.8 shall either obligate the Bank to require the Borrower to deposit any funds in the Facility LC Collateral Account or limit the right of the Bank to release any funds held in the Facility LC Collateral Account in each case other than as required by Section 8.1.

2.19 Borrowing Base Adjustments. The Borrower agrees that if at any time any trade account receivable, any inventory, or any real property of the Borrower fails to constitute Eligible Finished Goods Inventory, Eligible Foreign Finished Goods Inventory, Eligible Receivables, Eligible Foreign Receivables, Eligible Inventory or Eligible Real Estate, as the case may be, for any reason, the Bank may, at any time and notwithstanding any prior classification of eligibility, classify such asset as ineligible and exclude the same from the computation of the Borrowing Base without in any way impairing the rights of the Bank in and to the same under the Collateral Documents.

2.20 Security and Collateral. To secure the payment when due of any Note and the other Obligations to the Bank, the Borrower and the Guarantors shall each execute and deliver, or cause to be executed and delivered, to the Bank on or before December 1, 2001, Collateral Documents granting the following:

(a) Security interests in all present and future accounts, inventory, equipment, general intangibles, investment property, deposit accounts, fixtures, and all other personal property of the Borrower other than property held in the trust existing pursuant to the Hurco Deferred Compensation Plan Trust Agreement in connection with the Hurco Deferred Compensation Plan.

(b) A mortgage lien on the following real property of the Borrower: the Borrower's Indianapolis, Indiana headquarters, located at One Technology Way, Indianapolis, Indiana 46268.

(c) Pledges of 100% of the Capital Stock of all Domestic Subsidiaries (excluding Inactive Subsidiaries), including without limitation a pledge of 100% of the Capital Stock of Hurco International, Inc., Hurco International Holdings, Inc. and IMS.

(d) Guarantees of the Guarantors under the Guaranty and of the Borrower under the Hurco Guaranty, and a Confirmation of the Guaranty substantially in the form of Exhibit F and a Confirmation of the Hurco Guaranty substantially in the form of Exhibit G.

(e) Security interests in all present and future accounts, inventory, equipment, general intangibles, investment property, deposit accounts, fixtures, and all other personal property of the Guarantors.

(f) All other security and collateral described in the Collateral Documents.

ARTICLE III

YIELD PROTECTION; TAXES

3.1. Yield Protection. 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 Borrower 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, the Commitment, any Note, or the Loan, or any Facility LC, and the result of any of the foregoing is to increase the cost to the Bank of making, funding, or maintaining any Eurodollar Advance or any Facility LC or to reduce the amount of any sum receivable by the Bank thereon, then the Borrower 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 Advance, the Bank is not compensated therefor in computing the interest rate applicable to such Eurodollar Advance. 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 Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

3.2. Changes in Capital Adequacy Regulations. 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 Borrower 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 Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

3.3. Availability of Types of Advances. 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 Eurodollar Advance under this Agreement, shall make it impracticable, unlawful or impossible for, or shall in any way limit or impair ability of, the Borrower to make or the Bank to receive any payment under this Agreement at the place specified for payment hereunder, the Borrower shall, upon receiving notice thereof from the Bank, repay in full the then-outstanding principal amount of each Eurodollar Advance so affected, together with all accrued interest thereon to the date of payment and all amounts owing to the Bank under Section 3.4, (a) on the last day of the then-current Interest Period applicable to the Eurodollar Advance if the Bank may lawfully continue to maintain the Eurodollar Advance to that day, or (b) immediately if the Bank may not continue to maintain the Eurodollar Advance to

that day.

3.4. Funding Indemnification. If the Borrower makes any payment of principal with respect to any Eurodollar Advance on any other date than the last day of an Interest Period applicable thereto (whether pursuant to Section 2.2, Section 2.5, Section 2.7, Section 8.1, or otherwise), or if the Borrower fails to borrow any Eurodollar Advance after notice has been given to the Bank in accordance with Section 2.8, or if the Borrower fails to make any payment of principal or interest in respect of a Eurodollar Advance when due, the Borrower 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 Eurodollar Advance. 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 Borrower, shall be conclusive and binding for all purposes absent manifest error in computation. Calculation of all amounts payable to the Bank under this Section 3.4 shall be made as though the Bank shall have actually funded or committed to fund the relevant Eurodollar Advance through the purchase of an underlying deposit in an amount equal to the amount of the Eurodollar Advance 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 Advance in any manner it sees fit and the foregoing assumption shall be utilized only for the purpose of calculating amounts payable under this Section 3.4.

3.5. Taxes. (i) All payments of principal of and interest on the Loan and other amounts payable by the Borrower hereunder shall be made by the Borrower 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 Taxes. If any Taxes are imposed, the Borrower will pay such additional amounts as may be necessary so that payment of principal of and interest on the Loan 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 Borrower 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.

(ii) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or Facility LC Application or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note or Facility LC Application ("Other Taxes").

(iii) The Borrower indemnifies the Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 3.5) paid by the Bank and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date the Bank makes demand therefor pursuant to Section 3.6.

3.6. Bank Statements; Survival of Indemnity. To the extent reasonably possible, the Bank shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to the Bank under Sections 3.1, 3.2 and 3.5 or to avoid the unavailability of Eurodollar Advances under Section 3.3, so long as such designation is not, in the judgment of the Bank, disadvantageous to it. The Bank shall deliver a written statement to the Borrower as to the amount due, if any, under Section 3.1, 3.2, 3.4 or 3.5. Such written statement shall set forth in reasonable detail the calculations upon which the Bank determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advances shall be calculated as though the Bank funded its Eurodollar Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Credit Extension, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of the Bank shall be payable on demand after receipt by the Borrower of such written statement. The obligations of the Borrower under Sections 3.1, 3.2, 3.4, and 3.5 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. Initial Credit Extension. The Bank shall not be required to make the initial Credit Extension hereunder unless the Borrower has furnished to the Bank and completed the following matters, all in form and substance satisfactory to the Bank:

- (i) Copies of the articles or certificate of incorporation of the Borrower and the Guarantors, together with all amendments, and a certificate of good standing or existence for the Borrower and each Guarantor, each certified by the appropriate governmental officer in its jurisdiction of incorporation.
- (ii) Copies, certified by the Secretary or Assistant Secretary of the Borrower and the Guarantors, of each of their respective by-laws and of each of their respective Board of Directors' resolutions and of resolutions or actions of any other body authorizing the execution of the Loan Documents to which the Borrower and the Guarantors are a party.
- (iii) An incumbency certificate, executed by the Secretary or Assistant Secretary of the Borrower and the Guarantors, which shall identify by name and title and bear the signatures of the Authorized Officers and any other officers of the Borrower and the Guarantors authorized to sign the Loan Documents to which the Borrower and the Guarantors are a party, upon which certificate the Bank shall be entitled to rely until informed of any change in writing by the Borrower or the Guarantors, as the case may be.
- (iv) A certificate, signed by the chief financial officer of the Borrower, stating that on the initial Credit Extension Date no Default or Unmatured Default has occurred and is continuing.
- (v) A written opinion of the Borrower's and the Guarantors' counsel, addressed to the Bank in substantially the form of Exhibit J.
- (vi) Any Notes requested by the Bank pursuant to Section 2.15 payable to the order of the Bank.
- (vii) Written money transfer instructions, in substantially the form of Exhibit I, addressed to the Bank and signed by an Authorized Officer, together with such other related money transfer authorizations as the Bank may have reasonably requested.
- (viii) If the initial Credit Extension will be the issuance of a Facility LC, a properly completed Facility LC Application.
- (ix) The Confirmation of Guaranty in the form of Exhibit F and the Confirmation of Hurco Guaranty in the form of Exhibit G, the Mortgage, the Pledge Agreements and any other Collateral Documents required by the Bank duly executed on behalf of the Borrower or the Guarantors, as the case may be.
- (x) The insurance certificate described in Section 5.19.
- (xi) A duly completed Borrowing Base Certificate as of the close of the fiscal month which precedes its delivery date.
- (xii) Copies of all governmental and non-governmental consents, approvals, authorizations, declarations, registrations or filings, if any, required on the part of the Borrower 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 Borrower or the Guarantors, or, if none are required, a certificate of such officer to that effect.

- (xiii) The fees described in Section 2.5.
 - (xiv) A letter agreement, in form and substance satisfactory to the Bank, evidencing an amendment to the European Facility, duly executed by the European Subsidiaries, together with any documents and certificates required to be delivered thereunder.
 - (xv) Such other documents as the Bank or its counsel may have reasonably requested.
- 4.2. Each Credit Extension. The Bank shall not be required to make any Credit Extension unless on the applicable Credit Extension Date:
- (i) There exists no Default or Unmatured Default.
 - (ii) The representations and warranties contained in Article V are true and correct as of such Credit Extension Date except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on and as of such earlier date.
 - (iii) All legal matters incident to the making of such Credit Extension shall be satisfactory to the Bank and its counsel.
 - (iv) The Bank shall have received a Borrowing Notice or, in the case of any issuance of a Facility LC, a properly completed Facility LC Application and such other documentation in connection therewith as requested by the Bank.

Each Borrowing Notice or request for issuance of a Facility LC with respect to each such Credit Extension shall constitute a representation and warranty by the Borrower that the conditions contained in Sections 4.2(i) and (ii) have been satisfied. The Bank may require a duly completed compliance certificate in substantially the form of Exhibit C as a condition to making a Credit Extension.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Bank that:

5.1. Existence and Standing. Each of the Borrower and its Active Subsidiaries is a corporation duly and properly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted. The Borrower 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.

5.2. Authorization and Validity. The Borrower and each Guarantor, as the case may be, has the power and authority and legal right to execute and deliver the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by the Borrower and each of the Guarantors, as the case may be, of the Loan Documents to which it is a party and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings, and the Loan Documents to which the Borrower and each of the Guarantors is a party, as the case may be, constitute legal, valid and binding obligations of the Borrower and each of the Guarantors, as the case may be, enforceable against the Borrower or each Guarantor, as the case may be, in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. No Conflict; Government Consent. Neither the execution and delivery by the Borrower or the Guarantors of the Loan Documents to which it is

a party, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower or any of its Subsidiaries or (ii) the Borrower's or any Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which the Borrower or any of its Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder, or result in, or require, the creation or imposition of any Lien in, of or on the Property of the Borrower or a Subsidiary pursuant to the terms of any such indenture, instrument or agreement. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by the Borrower or any of its Subsidiaries, is required to be obtained by the Borrower or any of its Subsidiaries in connection with the execution and delivery of the Loan Documents, the borrowings under this Agreement, the payment and performance by the Borrower of the Obligations or the legality, validity, binding effect or enforceability of any of the Loan Documents.

5.4. Financial Statements. The July 31, 2001, consolidated financial statements of the Borrower and its Subsidiaries heretofore delivered to the Bank were prepared in accordance with generally accepted accounting principles in effect on the date such statements were prepared and fairly present the consolidated financial condition and operations of the Borrower and its Subsidiaries at such date and the consolidated results of their operations for the period then ended.

5.5. Material Adverse Change. Since July 31, 2001, there has been no change in the business, Property, prospects, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

5.6. Taxes. The Borrower and its Subsidiaries have filed all United States federal tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles and as to which no Lien exists. No tax liens have been filed and no claims are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of any taxes or other governmental charges are adequate.

5.7. Litigation and Contingent Obligations. Except as set forth on Schedule 5.7, there is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect or which seeks to prevent, enjoin or delay the making of any Credit Extensions. Other than any liability incident to any litigation, arbitration or proceeding which (i) could not reasonably be expected to have a Material Adverse Effect or (ii) is set forth on Schedule 5.7, the Borrower has no material contingent obligations not provided for or disclosed in the financial statements referred to in Section 5.4.

5.8. Subsidiaries. Schedule 4.4 contains an accurate list of all Subsidiaries of the Borrower as of the date of this Agreement, setting forth their respective jurisdictions of organization and the percentage of their respective Capital Stock or other ownership interests owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of Capital Stock or other ownership interests of such Subsidiaries have been (to the extent such concepts are relevant with respect to such ownership interests) duly authorized and issued and are fully paid and non-assessable. Each Subsidiary of the Borrower 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.

5.9. ERISA. There are no Unfunded Liabilities of any Single Employer Plans. Neither the Borrower nor any other member of the Controlled Group has incurred, or is reasonably expected to incur, any withdrawal liability to Multiemployer Plans. Each Plan complies in all material respects with all applicable requirements of law and regulations, no Reportable Event has occurred

with respect to any Plan, neither the Borrower nor any other member of the Controlled Group has withdrawn from any Plan or initiated steps to do so, and no steps have been taken to reorganize or terminate any Plan.

5.10. Accuracy of Information. No information, exhibit or report furnished by the Borrower or any of its Subsidiaries to the Bank in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading.

5.11. Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

5.12. Material Agreements. Neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in (i) any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect or (ii) any agreement or instrument evidencing or governing Indebtedness.

5.13. Compliance With Laws. The Borrower and its Subsidiaries have complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property.

5.14. Ownership of Properties. On the date of this Agreement, the Borrower and its Subsidiaries will have good title, free of all Liens other than those permitted by Section 6.15, to all of the Property and assets reflected in the Borrower's most recent consolidated financial statements provided to the Bank as owned by the Borrower and its Subsidiaries.

5.15. Plan Assets; Prohibited Transactions. The Borrower is not an entity deemed to hold "plan assets" within the meaning of 29 C.F.R. ss. 2510.3-101 of an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA or any plan (within the meaning of Section 4975 of the Code), and neither the execution of this Agreement nor the making of Credit Extensions hereunder gives rise to a prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code.

5.16. Environmental Matters. In the ordinary course of its business, the officers of the Borrower consider the effect of Environmental Laws on the business of the Borrower and its Subsidiaries, in the course of which they identify and evaluate potential risks and liabilities accruing to the Borrower due to Environmental Laws. On the basis of this consideration, the Borrower and each of its Subsidiaries has concluded that Environmental Laws cannot reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received any notice to the effect that its operations are not in material compliance with any of the requirements of applicable Environmental Laws or are the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which non-compliance or remedial action could reasonably be expected to have a Material Adverse Effect.

5.17. Investment Company Act. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

5.18. Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

5.19. Insurance. The certificate signed by the President or Chief Financial Officer of the Borrower, that attests to the existence and adequacy of, and summarizes, the property and casualty insurance program carried by the Borrower with respect to itself and its Subsidiaries and that has been furnished by the Borrower to the Bank, is complete and accurate. This summary includes the

insurer's or insurers' name(s), policy number(s), expiration date(s), amount(s) of coverage, type(s) of coverage, exclusion(s), and deductibles. This summary also includes similar information, and describes any reserves, relating to any self-insurance program that is in effect.

5.20 Borrowing Base. All accounts receivable, inventory, and fixed assets of the Borrower represented or reported by the Borrower to be, or are otherwise included in, Eligible Finished Goods Inventory, Eligible Foreign Finished Goods Inventory, Eligible Foreign Receivables, Eligible Receivables, Eligible Inventory and Eligible Real Estate comply in all respects as of the date reported with the requirements therefor set forth in the definition thereof, and the computation of the Borrowing Base set forth in each Borrowing Base Certificate is true and correct.

5.21 Disclosure. No report or other information furnished in writing or on behalf of the Borrower or any Guarantor 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 or any 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 Notes, the Collateral Documents nor any other document, certificate, or report or statement or other information furnished to the Bank by or on behalf of the Borrower or any Guarantor in connection with the transactions contemplated by this Agreement 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. Except as reflected in the Business Plan, there is no fact known to the Borrower or any Guarantor which materially and adversely affects, or which in the future may (so far as the Borrower or any Guarantor can now foresee) materially and adversely affect, the business, properties, operations or condition, financial or otherwise, of the Borrower, any Guarantor or any of their respective Subsidiaries, 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 Borrower or any Guarantor in connection with the transactions contemplated by this Agreement.

5.22 Intellectual Property. Set forth on Schedule 5.22 is a complete and accurate list of all patents, trademarks, trade names, service marks and copyrights, and all applications therefor and licenses thereof, of the Borrower and each of its Subsidiaries showing the jurisdiction in which registered, the registration number and the date of registration. The Borrower and each of its Subsidiaries owns, or is licensed to use, all trademarks, trade names, service marks, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted (the "Intellectual Property") except for those the failure to own or license which could not reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 5.22, no claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, nor does the Borrower or any of its Subsidiaries know of any valid basis for any such claim, the use of such Intellectual Property by the Borrower and each of its Subsidiaries does not infringe on the rights of any Person, and, to the knowledge of the Borrower, no Intellectual Property has been infringed, misappropriated or diluted by any other Person except for such claims, infringements, misappropriation and dilutions that, in the aggregate, could not have a Material Adverse Effect.

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Bank shall otherwise consent in writing:

6.1. Financial Reporting. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, and furnish to the Bank:

- (i) Within 110 days after the close of each of its fiscal years, an unqualified audit report certified by independent certified public accountants acceptable to the Bank, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (except that consolidated 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 Borrower and consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period, related profit and loss and reconciliation of surplus statements, and a statement of cash flows, accompanied by (a) any management letter prepared by said accountants, (b) a certificate of said accountants that, in the course of their examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof, and (d) a certificate of the Borrower's chief financial officer or principal accounting officer as required under Section 6.1(d) (ii).

- (ii) Within 30 days after the close of each monthly period, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating profit and loss and reconciliation of surplus statements and a statement of cash flows for the period from the beginning of such fiscal year to the end of such month (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 Borrower), all certified by its chief financial officer or principal accounting officer as fairly presenting the consolidated financial position of the Borrower and its Subsidiaries for the periods contained therein and as having been prepared in accordance with Agreement Accounting Principles, together with a certificate of such officer demonstrating compliance with all financial covenants contained in this Agreement, including without limitation Section 6.13 and Section 6.20 hereof, 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 Default or any event or

condition which, with notice or lapse of time, or both, would constitute a Default, and, if such 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 possible and in any event within 10 days after the Borrower knows that any Reportable Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Reportable Event and the action which the Borrower proposes to take with respect thereto.
- (iv) As soon as possible and in any event within 10 days after receipt by the Borrower, a copy of (a) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment, and (b) any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by the Borrower or any of its Subsidiaries.
- (v) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.
- (vi) Promptly upon the filing thereof, notice regarding the filing of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission.

- (vii) As soon as available and in any event within 15 Business Days after the end of each month, a Borrowing Base Certificate, prepared for the Borrower as of the close of business on the last day of each month, together with supporting schedules, in form set forth on Exhibit B, each certified as true and correct by a duly authorized officer of the Borrower.
- (viii) Such other information (including non-financial information) as the Bank may from time to time reasonably request.

6.2. Use of Proceeds. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Credit Extension for general corporate purposes. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances to purchase or carry any "margin stock" (as defined in Regulation U).

6.3. Notice of Default. The Borrower will, and will cause each Subsidiary to, give prompt notice in writing to the Bank of the occurrence of any Default or Unmatured Default and of any other development, financial or otherwise, which could reasonably be expected to have a Material Adverse Effect.

6.4. Conduct of Business. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and do all things necessary to remain duly incorporated or organized, validly existing and (to the extent such concept applies to such entity) in good standing as a domestic corporation, partnership or limited liability company in its jurisdiction of incorporation or organization, as the case may be, and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

6.5. Taxes. The Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with Agreement Accounting Principles.

6.6. Insurance. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to the Bank upon request full information as to the insurance carried.

6.7. Compliance with Laws. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject including, without limitation, all Environmental Laws.

6.8. Maintenance of Properties. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. Inspection. The Borrower will, and will cause each Subsidiary to, permit the Bank, by its representatives and agents, to inspect any of the Property, books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Bank may designate.

6.10. Dividends. The Borrower will not, nor will it permit any Subsidiary to, declare or pay any dividends or make any distributions on its Capital Stock (other than dividends payable in its own Capital Stock) or redeem, repurchase or otherwise acquire or retire any of its Capital Stock at any time outstanding, provided, however, that (i) any Subsidiary may declare and pay dividends or make distributions to the Borrower or to a Wholly-Owned Subsidiary, and (ii) after the MDS Loan Agreement has been paid in full and cancelled without any amount owed thereunder having been converted to equity in MDS, the

Borrower may redeem, repurchase, or otherwise acquire or retire shares of its Capital Stock, at a purchase price equivalent to the shares' then-current fair market value, in an amount not to exceed \$1,000,000 in the aggregate.

6.11. Indebtedness. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

- (i) The Loan, the other Outstanding Facilities, and the Reimbursement Obligations.
- (ii) Indebtedness arising under Rate Management Transactions.
- (iii) The IRB Bonds.
- (iv) Indebtedness of any Subsidiary owing to the Borrower or to any other Subsidiary and Indebtedness of the Borrower owing to any Subsidiary.
- (v) The New Hurco GmbH Facility, the Long Term Mortgage Financing, and an unsecured guaranty of payment of the New Hurco GmbH Facility from the Borrower or any Subsidiary.
- (vi) Product warranty obligations incurred in the ordinary course of business.
- (vii) Indebtedness (other than the Indebtedness permitted under subsections (i) through (vi) above) which in the aggregate do not exceed five percent (5%) of the Consolidated Tangible Net Worth existing from time to time.

6.12. Merger. The Borrower will not, nor will it permit any Subsidiary to, merge or consolidate with or into any other Person, except that a Subsidiary may merge into the Borrower or a Wholly-Owned Subsidiary.

6.13. Sale of Assets. The Borrower will not, nor will it permit any Subsidiary to, lease, sell or otherwise dispose of its Property (other than cash) to any other Person, except:

- (i) Sales and leases of inventory in the ordinary course of business, and licensing of software, patents, and other assets in the ordinary course of business.
- (ii) Leases, sales or other dispositions of its Property that, together with all other Property of the Borrower and its Subsidiaries previously leased, sold or disposed of (other than inventory in the ordinary course of business) as permitted by this Section during the twelve-month period ending with the month in which any such lease, sale or other disposition occurs, do not constitute a Substantial Portion of the Property of the Borrower and its Subsidiaries, so long as the proceeds are applied as required by Section 2.5(e)(v).
- (iii) Sales of the Borrower's Capital Stock, so long as the proceeds are applied as required by Section 2.5(e)(vi).

6.14. Investments and Acquisitions. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Investments (excluding loans and advances to, and other Investments in, Subsidiaries permitted by Section 6.11), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except:

- (i) Cash Equivalent Investments and Investments under the Hurco Deferred Compensation Plan made pursuant to the Hurco Deferred Compensation Plan Trust Agreement.
- (ii) Existing Investments in Subsidiaries and other Investments in existence on the date hereof and described in Schedule 1.
- (iii) Advances not to exceed \$1,000,000 in principal amount to MDS pursuant to the MDS Loan Agreement, provided that, if the Borrower is in compliance with Article VI and all other provisions of this Agreement, the Borrower may convert some or all of the amounts outstanding under the MDS Loan Agreement to

equity in MDS at a conversion price not to exceed \$0.75 per share of the MDS Preferred Class C stock (as may be equitably adjusted from time to time for any stock splits or other conversions of such stock).

- (iv) The exercise of the CIMPlus Option, provided that (a) the Borrower is in compliance with Article VI and all other provisions of this Agreement, (b) the Borrower shall have provided to the Bank an opinion of counsel and a certificate of the chief financial officer of the Borrower (attaching computations to demonstrate compliance with all financial covenants hereunder), each stating that the exercise of the CIMPlus Option complies with this Section and that any other conditions under this Agreement relating to such transaction have been satisfied, (c) the grantor of the CIMPlus Option does not extend its expiration for at least 12 months, and (d) Consolidated EBITDA as of the proposed exercise date is equal to or greater than that shown in the Business Plan as of such date.

6.15. Liens. The Borrower will not, nor will it permit any Subsidiary to, create, incur, or suffer to exist any Lien in, of or on the Property of the Borrower or any of its Subsidiaries, except:

- (i) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with Agreement Accounting Principles shall have been set aside on its books.
- (ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due.
- (iii) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation.
- (iv) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or its Subsidiaries.
- (v) Liens in favor of the Bank granted pursuant to any Collateral Document.
- (vi) The interest or title of a lessor under any lease (including without limitation Capitalized Leases) otherwise permitted under this Agreement with respect to the property subject to such lease.
- (vii) Liens on the assets of Hurco GmbH to secure the New Hurco GmbH Facility.
- (viii) A mortgage lien on the Borrower's headquarters to secure the Long Term Mortgage Financing.
- (ix) Liens (other than the Liens permitted under subsections (i) through (viii) above) as security for Indebtedness permitted by Section 6.11(vii) on Property of the Borrower or any Subsidiary, the book value less applicable depreciation and amortization of which in the aggregate does not exceed five percent (5%) of the Consolidated Tangible Net Worth existing from time to time.

6.16. Affiliates. The Borrower will not, and will not permit any Subsidiary to, enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's

business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction.

6.17. Sale and Leaseback Transactions. The Borrower will not, nor will it permit any Subsidiary to, enter into or suffer to exist any Sale and Leaseback Transaction.

6.18. Contingent Obligations. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (i) by endorsement of instruments for deposit or collection in the ordinary course of business, (ii) the Reimbursement Obligations, (iii) the Credit Obligations, (iv) the Guaranty and the Hurco Guaranty, (v) the guaranty of the New Hurco GmbH Facility by the Borrower or any Subsidiary, and (vi) to the extent permitted by Sections 6.11(iv) and 6.11(vii).

6.19. Reserved.

6.20. Financial Covenants.

6.20.1. Minimum Consolidated EBITDA. The Borrower will not permit Consolidated EBITDA, determined as of the end of the twelve (12) consecutive months then ending, to be less than: (i) on October 31, 2001, \$2,000,000, (ii) on January 31, 2002, negative \$620,000, (iii) on April 30, 2002, negative \$2,750,000, (iv) on July 31, 2002, negative \$2,335,000 and (vii) on October 31, 2002, negative \$1,475,000.

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

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

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

6.22. Collateral Documents. The Borrower will, and will cause each Guarantor to, promptly (i) execute and deliver additional Collateral Documents, within 10 days after request therefor by the Bank, sufficient to grant to the Bank liens and security interests, securing the Secured Obligations, in any present or after acquired Collateral (including without limitation pledging the Capital Stock of any Domestic Subsidiary which ceases to be an Inactive Subsidiary after the date hereof), and (ii) cause each Person becoming a Domestic Subsidiary from time to time after the date hereof (other than an Inactive Subsidiary) to execute and deliver to the Bank, within 10 days after such Person becomes such a Subsidiary, a Guaranty and other Collateral Documents, together with other related documents described in Article IV sufficient to grant to the Bank liens and security interests in all Collateral securing the Secured Obligations. The Borrower shall notify the Bank, within 10 days after the occurrence thereof, of the acquisition of any Collateral that is not subject to the existing Collateral Documents, any Person becoming a Subsidiary and any other event or condition, other than the passage of time, that may require additional action of any nature in order to preserve the effectiveness and perfected status of the liens and security interests of the Bank with respect to all Collateral pursuant to the Collateral Documents, including without limitation delivering the originals of all promissory notes

and other instruments to the Bank and delivering the originals of all stock certificates or other certificates evidencing any Capital Stock which is Collateral at any time.

6.23. Further Assurances. The Borrower will, and will cause each Guarantor to, execute and deliver within 30 days after request therefor by the Bank, all further instruments and documents and take all further action that may be necessary or desirable, or that the Bank may request, in order to give effect to, and to aid in the exercise and enforcement of the rights and remedies of the Bank under, this Agreement, the Notes and the Collateral Documents, including without limitation causing each lessor of real property to the Borrower, any Guarantor or any of their respective Subsidiaries to execute and deliver to the Bank, prior to or upon the commencement of any tenancy, an agreement in form and substance acceptable to the Bank duly executed on behalf of such lessor waiving any distraint, lien and similar rights with respect to any property subject to the Collateral Documents and agreeing to permit the Bank to enter such premises

in connection therewith. In addition, each of the Borrower and each Guarantor agrees to deliver to the Bank from time to time upon the acquisition or creation of any Subsidiary not listed in Schedule 4.4 hereto, supplements to Schedule 4.4 such that such Schedule, together with such supplements, shall at all times accurately reflect the information provided for thereon. Each of the Borrower and each Guarantor further agrees to deliver to the Bank, on or before each anniversary date of the Effective Date, a certificate of the chief financial officer of the Borrower or each Guarantor, as the case may be, stating that such officer has reviewed the Collateral Documents and that each party thereto is in compliance with the terms thereof. The Borrower and each Guarantor shall take, or cause to be taken, all action necessary to permit such an opinion to be rendered, including filing such financing statements and continuation statements and executing and delivering such supplements to the Collateral Documents and other instruments as may be necessary or desirable in connection with such opinion.

6.24. Accounting Changes. Until the Facility Termination Date and thereafter until payment in full of accrued interest on the Notes and the performance of all other Obligations, the Borrower agrees that, unless the Bank shall otherwise consent in writing it shall not, and shall not permit any of its Subsidiaries to, change their respective fiscal years or make any significant changes (i) in accounting treatment and reporting practices except as permitted by Agreement Accounting Principles and disclosed to the Bank, or (ii) in tax reporting treatment except as permitted by law and disclosed to the Bank.

6.25. Inconsistent Agreements. Until the Facility Termination Date and thereafter until payment in full of accrued interest on the Notes and the performance of all other Obligations, the Borrower agrees that, unless the Bank shall otherwise consent in writing it shall not, and shall not permit any of its Subsidiaries to, 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 Borrower or any of its Subsidiaries of the obligations in connection therewith.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Bank under or in connection with this Agreement, any Credit Extension, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be materially false on the date as of which made or deemed made and such failure continues for more than five days following written notice thereof to the Borrower.

7.2. Nonpayment of principal of any Credit Obligation when due, nonpayment of any Reimbursement Obligation when due, or nonpayment of interest upon any Credit Extension or of any amendment fee, LC Fee, facility fee or other obligations under any of the Loan Documents when due, which nonpayment continues for a period of three days following written notice thereof to the Borrower by the Bank.

7.3. The breach by the Borrower of any of the terms or provisions of Section 6.10 through Section 6.25, and such breach continues for more than ten days following written notice thereof to the Borrower.

7.4. The breach by the Borrower (other than a breach which constitutes a Default under another Section of this Article VII) of any of the terms or provisions of this Agreement which is not remedied within thirty days after written notice from the Bank.

7.5. Failure of the Borrower or any of its Active Subsidiaries or any Guarantor or any Pledgor to pay when due any Indebtedness (other than Indebtedness hereunder but including the European Facility); or the default by the Borrower or any of its Subsidiaries or any Guarantor or any Pledgor in the performance (beyond the applicable grace period with respect thereto, if any) of any term, provision or condition contained in any agreement under which any such Indebtedness was created or is governed, including without limitation any Bond Default or any other event shall occur or condition exist, the effect of which default or event is to cause, or to permit the holder or holders of such Indebtedness to cause, such Indebtedness to become due prior to its stated maturity; or any Indebtedness of the Borrower or any of its Subsidiaries or any Guarantor or any Pledgor shall be declared to be due and payable or required to be prepaid or repurchased (other than by a regularly scheduled payment) prior to the stated maturity thereof; or the Borrower or any of its Subsidiaries or any Guarantor or any Pledgor shall not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.6. The Borrower or any of its Subsidiaries or any Guarantor or any Pledgor shall (i) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (ii) make an assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (iv) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (v) take any corporate or partnership action to authorize or effect any of the foregoing actions set forth in this Section 7.6 or (vi) fail to contest in good faith any appointment or proceeding described in Section 7.7.

7.7. Without the application, approval or consent of the Borrower or any of its Active Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Subsidiaries or any Substantial Portion of its Property, or a proceeding described in Section 7.6(iv) shall be instituted against the Borrower or any of its Active Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 30 consecutive days.

7.8. Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of, all or any portion of the Property of the Borrower and its Active Subsidiaries which, when taken together with all other Property of the Borrower and its Active Subsidiaries so condemned, seized, appropriated, or taken custody or control of, during the twelve-month period ending with the month in which any such action occurs, constitutes a Substantial Portion.

7.9. The Borrower or any of its Subsidiaries shall fail within 30 days to pay, bond or otherwise discharge one or more (i) judgments or orders for the payment of money in excess of \$100,000 (or the equivalent thereof in currencies other than U.S. Dollars) in the aggregate, or (ii) nonmonetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgment(s), in any such case, is/are not stayed on appeal or otherwise being appropriately contested in good faith.

7.10. There are any Unfunded Liabilities of any Single Employer Plans or any Reportable Event shall occur in connection with any Plan.

7.11. The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that it has incurred withdrawal liability to such Multiemployer Plan.

7.12. The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower and the other members of the Controlled Group (taken as a whole) to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years of each such Multiemployer Plan immediately preceding the plan year in which the reorganization or termination occurs.

7.13. The Borrower or any of its Subsidiaries shall (i) be the subject of any proceeding or, to its knowledge, investigation pertaining to the release by the Borrower, any of its Subsidiaries or any other Person of any toxic or hazardous waste or substance into the environment, or (ii) violate any Environmental Law, which, in the case of an event described in clause (i) or clause (ii), could reasonably be expected to have a Material Adverse Effect.

7.14. The occurrence of any "default", as defined in any Loan Document (other than this Agreement) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement), which default or breach continues beyond any period of grace therein provided.

7.15. Nonpayment by the Borrower or any Subsidiary of any Rate Management Obligation when due or the breach by the Borrower or any Subsidiary of any term, provision or condition contained in any Rate Management Transaction.

7.16. Any Guaranty shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of any Guaranty, or any Guarantor shall fail to comply with any of the terms or provisions of any Guaranty to which it is a party, or any Guarantor shall deny that it has any further liability under any Guaranty to which it is a party, or shall give notice to such effect.

7.17. Any Collateral Document shall fail to create a valid security interest in the property identified therein as collateral to be covered thereby, except as permitted by the terms of the Collateral Documents, and, to the extent such failure is curable, the Borrower fails to execute an amendment to such Collateral Document to remedy such failure within ten days after written request from the Bank and submission to the Borrower of such amendment; or any Collateral Document shall fail to remain in full force and effect (other than by reason of any release or termination thereof to which the Bank has agreed) and, to the extent such failure is curable, the Borrower fails to execute and deliver to the Bank such documents as are reasonably required by the Bank to reinstate or replace such Collateral Document within ten days after written request by the Bank. The Borrower's violation of this Section 7.17 shall not constitute an Unmatured Default, provided however, the Bank may declare a Default following any violation of this Section 7.17.

7.18. The representations and warranties set forth in Section 5.15 shall at any time not be true and correct.

ARTICLE VIIIA

AMENDMENT TO REIMBURSEMENT AGREEMENT

7A.1. Administration of Outstanding Facilities. The Borrower will pay or cause to be paid all amounts required to be paid on 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 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 as further amended under this Agreement below.

7A.2. Amendments to Reimbursement Agreement. After the Effective Date, the Reimbursement Agreement is amended as follows:

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 Article VI of the Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement among the Company and Bank One, Indiana, NA, dated as of October 31, 2001 (as amended or modified from time to time, the "Credit Agreement"). All such provisions of Article VI, 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 VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1. Acceleration; Facility LC Collateral Account. (i) If any Default described in Section 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Bank to make Advances hereunder and the obligation and power of the Bank to issue Facility LCs shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Bank and the Borrower will be and become thereby unconditionally obligated, without any further notice, act or demand, to pay to the Bank an amount in immediately available funds, which funds shall be held in the Facility LC Collateral Account, equal to the difference of (x) the amount of LC Obligations at such time, less (y) the amount on deposit in the Facility LC Collateral Account at such time which is free and clear of all rights and claims of third parties and has not been applied against the Obligations (such difference, the "Collateral Shortfall Amount"). If any other Default occurs, the Bank may (a) terminate or suspend its obligations to make Advances hereunder and its obligation and power to issue Facility LCs, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower expressly waives, and (b) upon notice to the Borrower and in addition to the continuing right to demand payment of all amounts payable under this Agreement, make demand on the Borrower to pay, and the Borrower will, forthwith upon such demand and without any further notice or act, pay to the Bank the Collateral Shortfall Amount, which funds shall be deposited in the Facility LC Account.

(ii) If at any time while any Default is continuing, the Bank determines that the Collateral Shortfall Amount at such time is greater than zero, the Bank may make demand on the Borrower to pay, and the Borrower will, forthwith upon such demand and without any further notice or act, pay to the Bank the Collateral Shortfall Amount, which funds shall be deposited in the Facility LC Collateral Account.

(iii) The Bank may at any time or from time to time after funds are deposited in the Facility LC Collateral Account, apply such funds to the payment of the Obligations and any other amounts as shall from time to time have become due and payable by the Borrower to the Bank under the Loan Documents.

(iv) At any time while any Default is continuing, neither the Borrower nor any Person claiming on behalf of or through the Borrower shall have any right to withdraw any of the funds held in the Facility LC Collateral Account. After all of the Obligations have been indefeasibly paid in full and the Commitment has been terminated, any funds remaining in the Facility LC Collateral Account shall be returned by the Bank to the Borrower or paid to whomever may be legally entitled thereto at such time.

8.2. Amendments. The Bank and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Borrower hereunder or waiving any Default hereunder.

8.3. Preservation of Rights. No delay or omission of the Bank to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Credit Extension notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Credit

Extension shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Bank, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Bank until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1. Survival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive the making of the Credit Extensions herein contemplated.

9.2. Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, the Bank shall not be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.4. Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower and the Bank and supersede all prior agreements and understandings among the Borrower and the Bank relating to the subject matter thereof.

9.5. Benefits of this Agreement. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.6. Expenses; Indemnification. (i) The Borrower shall reimburse the Bank for any costs, internal charges and out-of-pocket expenses (including reasonable attorneys' fees and reasonable time charges of attorneys for the Bank, which attorneys may be employees of the Bank) paid or incurred by the Bank in connection with the preparation, negotiation, execution, delivery, distribution (including, without limitation, via the internet), review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Bank for any costs, internal charges and out-of-pocket expenses (including reasonable attorneys' fees and reasonable time charges of attorneys for the Bank, which attorneys may be employees of the Bank) paid or incurred by the Bank in connection with the collection and enforcement of the Loan Documents. Expenses being reimbursed by the Borrower under this Section include, without limitation, the cost and expense of obtaining an appraisal of each parcel of real property or interest in real property described in the Mortgage, which appraisal shall be in conformity with the applicable requirements of any law or any governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, including, without limitation, the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended, reformed or otherwise modified from time to time, and any rules promulgated to implement such provisions and costs and expenses incurred in connection with the Reports described in the following sentence. The Borrower acknowledges that from time to time the Bank may prepare (but shall have no obligation or duty to prepare) certain audit reports (the "Reports") pertaining to the Borrower's assets for internal use by the Bank from information furnished to it by or on behalf of the Borrower, after the Bank has exercised its rights of inspection pursuant to this Agreement.

(ii) The Borrower further agrees to indemnify the Bank, its affiliates, and each of its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Bank or any Affiliate is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Credit Extension hereunder except to the extent that they are determined in a final non-appealable judgment by a

court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section 9.6 shall survive the termination of this Agreement.

9.7. Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles, except that any calculation or determination which is to be made on a consolidated basis shall be made for the Borrower and all its Subsidiaries, including those Subsidiaries, if any, which are unconsolidated on the Borrower's audited financial statements.

9.8. Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.9. Nonliability of the Bank. The relationship between the Borrower on the one hand and the Bank on the other hand shall be solely that of borrower and lender. The Bank shall not have any fiduciary responsibilities to the Borrower. The Bank does not undertake any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower agrees that the Bank shall not have liability to the Borrower (whether sounding in tort, contract or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. The Bank shall not have any liability with respect to, and the Borrower waives, releases and agrees not to sue for, any special, indirect, consequential or punitive damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

9.10. Confidentiality. The Bank agrees to hold any confidential information which it may receive from the Borrower pursuant to this Agreement in confidence, except for disclosure (i) to its Affiliates, (ii) to legal counsel, accountants, and other professional advisors to such Affiliate or to a transferee, (iii) to regulatory officials, (iv) to any Person as requested pursuant to or as required by law, regulation, or legal process, (v) to any Person in connection with any legal proceeding to which such Affiliate is a party, (vi) to such Affiliate's direct or indirect contractual counterparties in swap agreements or to legal counsel, accountants and other professional advisors to such counterparties, and (vii) permitted by Section 11.4.

9.11. Disclosure. The Borrower acknowledges and agrees that the Bank and/or its Affiliates from time to time may hold investments in, make other loans to or have other relationships with the Borrower and its Affiliates.

9.12. 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.

9.13. 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 if such action is taken or such condition exists.

9.14. 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 Borrower 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 Borrower if such principal and all other obligations of the Borrower to the Bank have been paid in full.

ARTICLE X

SETOFF

In addition to, and without limitation of, any rights of the Bank under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by the Bank or any Affiliate of the Bank to or for the credit or account of the Borrower may be offset and applied toward the payment of the Secured Obligations owing to the Bank, whether or not the Secured Obligations, or any part thereof, shall then be due.

ARTICLE XI

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

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

11.2. Participations.

11.2.1. Permitted Participants; Effect. The Bank may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Outstanding Credit Exposure of the Bank, any Note held by the Bank, any Commitment of the Bank or any other interest of the Bank under the Loan Documents. In the event of any such sale by the Bank of participating interests to a Participant, the Bank's obligations under the Loan Documents shall remain unchanged, the Bank shall remain solely responsible to the Borrower for the performance of such obligations, the Bank shall remain the owner of its Outstanding Credit Exposure and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if the Bank had not sold such participating interests, and the Borrower shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under the Loan Documents.

11.2.2. Voting Rights. Unless otherwise agreed between the Bank and any Participant, the Bank shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents.

11.2.3. Benefit of Setoff. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Article 10 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as the Bank under the Loan Documents, provided that the Bank shall retain the right of setoff provided in Article 10 with respect to the amount of participating interests sold to each Participant. The Bank agrees to share with each Participant, and each Participant, by exercising the right of setoff provided in Article 10, agrees to share with the Bank, any amount received pursuant to the exercise of its right of setoff, such amounts

to be shared in accordance with their respective pro rata shares of the Commitment or, if the Commitment is no longer available, in accordance with their respective pro rata shares of the Outstanding Credit Exposure.

11.3. Dissemination of Information. The Borrower authorizes the Bank to disclose to any Participant or any other Person acquiring an interest in the Loan Documents by operation of law or otherwise (each a "Transferee") and any prospective Transferee any and all information in the Bank's possession concerning the creditworthiness of the Borrower and its Subsidiaries, including without limitation any information contained in any Reports; provided that each Transferee and prospective Transferee agrees to be bound by Section 9.10 of this Agreement.

ARTICLE XII

NOTICES

12.1. Notices. Except as otherwise permitted by Section 2.8 with respect to borrowing notices, all notices, requests and other communications to any party hereunder shall be in writing (including electronic transmission, facsimile transmission or similar writing) and shall be given to such party: in the case of the Borrower or the Bank, at its address or facsimile number set forth on the signature pages hereof, or in the case of any future party, at such other address or facsimile number as such future party may hereafter specify for the purpose by notice to the Bank and the Borrower in accordance with the provisions of this Section 12.1. Each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, or (iii) if given by any other means, when delivered (or, in the case of electronic transmission, received) at the address specified in this Section; provided that notices to the Bank under Article II shall not be effective until received.

12.2. Change of Address. The Borrower and the Bank may each change the address for service of notice upon it by a notice in writing to the other party hereto.

ARTICLE XIII

COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and either party hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower and the Bank and the Borrower has notified the Bank by facsimile transmission or telephone that it has taken such action.

ARTICLE XIV

CHOICE OF LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL

14.1. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF INDIANA, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

14.2. CONSENT TO JURISDICTION. THE BORROWER IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR INDIANA STATE COURT SITTING IN INDIANAPOLIS, INDIANA, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE BANK TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE BANK OR

ANY AFFILIATE OF THE BANK INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN INDIANAPOLIS, INDIANA.

14.3. WAIVER OF JURY TRIAL. THE BORROWER AND THE BANK WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

[The balance of this page is intentionally left blank.]

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

HURCO COMPANIES, INC.

By: /s/ Roger J. Wolf

Roger J. Wolf
Title: Senior Vice President and CFO
One Technology Way
Indianapolis, Indiana 46268
Attention: CFO
Telephone: (317) 293-5309
FAX: (317) 328-2811

BANK ONE, INDIANA, NA

By: /s/ Joanna W. Anderson

Title: Corporate Banking Officer

One Bank One Plaza
Chicago, Illinois 60670
Attention: Joanna Anderson
Telephone: (312) 732-6456
FAX: (312) 732-1775

BANK ONE, NA, London Branch
(formerly known as The First National Bank of Chicago, London Branch)
BANK ONE, NA, Frankfurt Branch
(formerly known as The First National Bank of Chicago, Frankfurt Branch)
90 Long Acre, Convent Garden
London WC2E 9RB
England

Dated as of October 31, 2001

Hurco Europe Limited
Hurco GmbH Werkzeugmaschinen
CIM-Bausteine Vertrieb und Service
Hurco B.V.
Hurco S.a.r.L.

Re: Fourth Amendment to European Facility

Ladies and Gentlemen:

This letter amends the letter agreement with you dated September 8, 1997 (as amended, the "European Facility"), and is being entered into in conjunction with the Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement of even date herewith with your parent, Hurco Companies, Inc. (the "Credit Agreement").

- (a) The first paragraph of the European Facility is amended and restated to read as follows:

Concurrently herewith, Hurco Companies, Inc., an Indiana corporation which directly or indirectly owns 100% of you ("Hurco Companies"), and Bank One, Indiana, National Association, a national banking association (successor in interest by merger to NBD Bank, N.A.) ("Bank One, Indiana") have entered into that certain Second 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 Bank One, NA, London Branch (formerly known as The First National Bank of Chicago, London Branch), and Bank One, NA, Frankfurt Branch (formerly known as The First National Bank of Chicago, Frankfurt Branch) (collectively, "Bank One"), are willing to establish for you (the "Facility"). (References to "you" and "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"), Hurco GmbH Werkzeugmaschinen CIM - Bausteine Vertrieb und Service ("Hurco GmbH"), Hurco B.V. ("Hurco BV"), a limited liability company organized under the laws of the Netherlands, and Hurco S.A.R.L. ("Hurco S.a.r.L."), a limited liability company organized under the laws of France.

- (b) Section 1(b) of the European Facility is amended and restated to read as follows:

- (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) the Commitment (as defined in the Credit Agreement) minus (y) the Outstanding Credit Exposure (as defined in the Credit Agreement.

- (c) The definition of "Eurocurrency Rate Margin" contained in Section 7 of the European Facility is amended and restated to read as follows:

"Eurocurrency Rate Margin" means, as of any date, the Applicable Margin which is applicable to Eurodollar Advances then in effect under the Credit Agreement.

- (d) The definition of "Expiration Date" contained in Section 7 of the European Facility is amended and restated to read as follows:

"Expiration Date" means the earlier to occur of (a) December 31, 2002, and (b) the date on which the Authorization shall be terminated pursuant to Paragraph 12.

- (e) The definition of "Floating Rate" contained in Section 7 of the European Facility is amended and restated to read as follows:

"Floating Rate" means, for any day, a rate per annum equal to (i) the Alternate Base Rate (as defined in the Credit Agreement) for such day plus (ii) the Applicable Margin (as defined in the Credit Agreement), in each case changing when and as the Alternative Base Rate changes.

- (f) All references in the European Facility to "FCNBD" are replaced with "Bank One."

- (g) All references in the European Facility to "Bank One, Michigan" are replaced with "Bank One, Indiana."

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, whereupon the European Facility shall be amended as herein provided, and references to the European Facility shall be to the European Facility as so amended. Except as amended hereby, the European Facility shall remain in full force and effect.

Very truly yours,

BANK ONE, NA, London Branch

By: _____

Its: Vice President

BANK ONE, NA, Frankfurt Branch

By: _____

Its: Vice President

Agreed and accepted:

HURCO EUROPE LIMITED

By: /s/ Roger J. Wolf

Roger J. Wolf

Its: Director

Dated as of October 31, 2001

HURCO GmbH WERKZEUGMASCHINEN
CIM-BAUSTEINE VERTRIEB UND
SERVICE

By: /s/ Gerhard Kohlbacher

Gerhard Kohlbacher

Its: General Manager

Dated as of October 31, 2001

HURCO B. V.

By: /s/ Roger J. Wolf

Roger J. Wolf

Its: Managing Director

And : /s/ Gerhard Kohlbacher

Gerhard Kohlbacher
Its: Managing Director

Dated as of October 31, 2001

HURCO S.a.r.L.

By: /s/ Gerhard Kohlbacher

Gerhard Kohlbacher
Its: General Manager

Dated as of October 31, 2001

AMENDED AND RESTATED

BY-LAWS

OF

HURCO COMPANIES, INC.

AS AMENDED THROUGH NOVEMBER 14, 2001

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BY-LAWS

OF

HURCO COMPANIES, INC.

ARTICLE I Identification

Section 1. Name . The name of the Corporation is HURCO COMPANIES, INC. (hereinafter referred to as the "Corporation").

Section 2. Registered Office and Registered Agent . The street address of the Registered Office of the Corporation is One Technology Way, Indianapolis, Indiana 46268; and the name of its Registered Agent located at such office is Roger J. Wolf.

Section 3. Principal Office. The address of the Principal Office of the Corporation is One Technology Way, Indianapolis, Indiana 46268. The Principal Office of the Corporation shall be the principal executive offices of the Corporation, and such Principal Office may be changed from time to time by the Board of Directors in the manner provided by law and need not be the same as the Registered Office of the Corporation.

Section 4. Other Offices. The Corporation may also have offices at such other places or locations, within or without the State of Indiana, as the Board of Directors may determine or the business of the Corporation may require.

Section 5. Seal . The Corporation need not use a seal. If one is used, it shall be circular in form and mounted upon a metal die suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "HURCO COMPANIES, INC." and about the lower periphery thereof the word "Indiana". In the center of the seal shall appear the word "Seal". The seal may be altered by the Board of Directors at its pleasure and may be used by causing it or a facsimile thereof to be impressed, affixed, printed or otherwise reproduced.

Section 6. Fiscal Year . The fiscal year of the Corporation shall begin at the beginning of the first day of November in each year and end at the close of the last day of October next succeeding.

ARTICLE II Shareholders

Section 1. Place of Meeting . All meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may be determined by the President or Board of Directors and specified in the notices or waivers of notice thereof or proxies to represent shareholders at such meetings.

Section 2. Annual Meetings . An annual meeting of shareholders shall be held each year on such date and at such time as may be determined by the President or Board of Directors. The failure to hold an annual meeting at the designated time shall not affect the validity of any corporate action. Any and all business of any nature or character may be transacted, and action may be taken thereon, at any annual meeting, except as otherwise provided by law or by these By-laws.

Section 3. Special Meetings . A special meeting of shareholders shall be held: (a) on call of the Board of Directors or the President; or (b) if the holders of a majority of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting sign, date and deliver to the Secretary one (1) or more written demands for the meeting describing the purpose or purposes for which it is to be held. At any special meeting of the shareholders, only business within the purpose or purposes described in the notice of the meeting may be conducted.

Section 4. Notice of Meeting .
Written or printed notice stating the date, time and place of a meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record of the Corporation entitled to vote at the meeting, at such address as appears upon the records of the Corporation, no fewer than ten (10) days nor more than sixty (60) days, before the meeting date. If mailed, such notice shall be effective when mailed if correctly addressed to the shareholder's address shown in the Corporation's current record of shareholders.

Section 5. Waiver of Notice .
A shareholder may waive any notice required by law, the Articles of Incorporation or these By-laws before or after the date and time stated in the notice. The waiver by the shareholder entitled to the notice must be in writing and be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. A shareholder's attendance at a meeting, in person or by proxy: (a) waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; and (b) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

Section 6. Voting at Meetings .
(a).....Voting Rights . At each meeting of the shareholders, each outstanding share, regardless of class, is entitled to one (1) vote on each matter voted on at such meeting, except to the extent cumulative voting is allowed by the Articles of Incorporation. Only shares are entitled to vote.

(b).....Record Date . The record date for purposes of determining shareholders entitled to vote at any meeting shall be ten (10) days prior to the date of such meeting or such different date not more than seventy (70) days prior to such meeting as may be fixed by the Board of Directors.

(c).....Proxies .

(1) A shareholder may vote the shareholder's

shares in person or by proxy.

(2) A shareholder may appoint a proxy to vote or otherwise act for the shareholder by executing in writing an appointment form, either personally or by the shareholder's attorney-in-fact. For purposes of this Section, a proxy appointed by telegram, telex, telecopy or other document transmitted electronically for or by a shareholder shall be deemed "executed in writing" by the shareholder.

(3) An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes. An appointment is valid for eleven (11) months, unless a longer period is expressly provided in the appointment form.

(4) An appointment of a proxy is revocable by the shareholder, unless the appointment form conspicuously states that is irrevocable and the appointment is coupled with an interest.

(d).....Quorum . At all meetings of shareholders, a majority of the votes entitled to be cast on a particular matter constitutes a quorum on that matter. If a quorum exists, action on a matter (other than the election of directors) is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or law require a greater number of affirmative votes.

(e).....Adjournments . Any meeting of shareholders, including both annual and special meetings and any adjournments thereof, may be adjourned to a different date, time or place. Notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment, even though less than a quorum is present. At any such adjourned meeting at which a quorum is present, in person or by proxy, any business may be transacted which might have been transacted at the meeting as originally notified or called.

Section 7. List of Shareholders .

(a).....After a record date has been fixed for a meeting of shareholders, the Secretary shall prepare or cause to be prepared an alphabetical list of the names of the shareholders of the Corporation who are entitled to vote at such meeting. The list shall show the address of and number of shares held by each shareholder.

(b).....The shareholders' list must be available for inspection by any shareholder entitled to vote at the meeting, beginning five (5) business days before the date of the meeting for which the list was prepared and continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held. Subject to the restrictions of applicable law, a shareholder, or the shareholder's agent or attorney authorized in writing, is entitled on written demand to inspect and to copy the list during regular business hours and at the shareholder's expense, during the period it is available for inspection.

(c).....The Corporation shall make the shareholders' list available at the meeting, and any shareholder, or the shareholder's agent or attorney authorized in writing, is entitled to inspect the list at any time during the meeting or any adjournment.

Section 8. Notice of Shareholder Business . At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have the legal right and authority to make the proposal for consideration at the meeting and the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days prior to the meeting; provided, however, that in the event that less than 70 days'

notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the shareholder(s) proposing such business, (c) the class and shares of number of the Corporation's capital stock which are beneficially owned by such shareholder(s), and (d) any material interest of such shareholder(s) in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 8. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 8, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. At any special meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

Section 9. Notice of Shareholder Nominees . Only persons who are nominated in accordance with the procedures set forth in this Section 9 shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors may be made at a meeting of shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 9. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholders to be timely must be so received not later than the close of business on the 10th day following the date on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of such person; (ii) the principal occupation or employment of such person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such shareholder. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section 9. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not so declared in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III Directors

Section 1. Duties . The business, property and affairs of the Corporation shall be managed and controlled by the Board of Directors and, subject to such restrictions, if any, as may be imposed by law, the Articles of Incorporation or by these By-laws, the Board of Directors may, and are fully authorized to, do all such lawful acts and things as may be done by the Corporation which are not directed or required to be exercised or done by the shareholders. Directors need not be residents of the State of Indiana or shareholders of the Corporation.

Section 2. Number of Directors .

The Board of Directors shall consist of six (6) members. The number of directors may be increased or decreased from time to time by amendment to the By-laws of the Corporation, provided that no decrease shall have the effect of shortening the term of an incumbent director.

Section 3. Election and Term .

Except as otherwise provided in Section 5 of this Article, the directors shall be elected each year at the annual meeting of the shareholders, or at any special meeting of the shareholders. Each such director shall hold office, unless he is removed in accordance with the provisions of these By-laws or he resigns or dies or becomes so incapacitated he can no longer perform any of his duties as a director, for the term for which he is elected and until his successor shall have been elected and qualified. Each director shall qualify by accepting his election to office either expressly or by acting as a director. The shareholders or directors may remove any director, with or without cause, and elect a successor at a meeting called expressly for such purpose.

Section 4. Resignation .

Any director may resign at any time by delivering written notice to the Board of Directors, the President, or the Secretary of the Corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 5. Vacancies .

Vacancies occurring in the membership of the Board of Directors caused by resignation, death or other incapacity, or increase in the number of directors shall be filled by a majority vote of the remaining members of the Board, and each director so elected shall serve until the next meeting of the shareholders, or until a successor shall have been duly elected and qualified.

Section 6. Annual Meetings. The Board of Directors shall meet annually, without notice, immediately following, and at the same place as, the annual meeting of the shareholders.

Section 7. Regular Meetings .

Regular meetings shall be held at such times and places, either within or without the State of Indiana, as may be determined by the Chairman of the Board, the President or the Board of Directors.

Section 8. Special Meetings. Special meetings of the Board of Directors may be called by the President or by two (2) or more members of the Board of Directors, at any place within or without the State of Indiana, upon twenty-four (24) hours' notice, specifying the time, place and general purposes of the meeting, given to each director personally, by telephone, telegraph, teletype, or other form of wire or wireless communication; or notice may be given by mail if mailed at least three (3) days before such meeting.

Section 9. Notice .

The Secretary or an Assistant Secretary shall give notice of each special meeting, and of the date, time and place of the particular meeting, in person or by mail, or by telephone, telegraph, teletype, or other form of wire or wireless communication, and in the event of the absence of the Secretary or an Assistant Secretary or the failure, inability, refusal or omission on the part of the Secretary or an Assistant Secretary so to do, any other officer of the Corporation may give said notice.

Section 10. Waiver of Notice .

A director may waive any notice required by law, the Articles of Incorporation, or these By-laws before or after the date and time stated in the notice. Except as otherwise provided in this Section, the waiver by the director must be in writing, signed by the director entitled to the notice, and included in the minutes or filed with the corporate records. A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting (or promptly upon the director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section 11. Business to be Transacted .

Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or any waiver of notice of such meeting. Any and all

business of any nature or character whatsoever may be transacted and action may be taken thereon at any meeting, regular or special, of the Board of Directors.

Section 12. Quorum -- Adjournment if Quorum is Not Present . A majority of the number of directors fixed by, or in the manner provided in, the Articles of Incorporation or these By-laws shall constitute a quorum for the transaction of any and all business, unless a greater number is required by law or Articles of Incorporation or these By-laws. At any meeting, regular or special, of the Board of Directors, if there be less than a quorum present, a majority of those present, or if only one director be present, then such director, may adjourn the meeting from time to time without notice until the transaction of any and all business submitted or proposed to be submitted to such meeting or any adjournment thereof shall have been completed. In the event of such adjournment, written, telegraphic or telephonic announcement of the time and place at which the meeting will reconvene must be provided to all directors. The act of the majority of the directors present at any meeting of the Board of Directors at which a quorum is present shall constitute the act of the Board of Directors, unless the act of a greater number is required by law or the Articles of Incorporation or these By-laws.

Section 13. Presumption of Assent .

A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent or abstention shall be entered in the minutes of the meeting or unless he shall file his written dissent or abstention to such action with the presiding officer of the meeting before the adjournment thereof or to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent or abstain shall not apply to a director who voted in favor of such action.

Section 14. Action by Written Consent .

Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if the action is taken by all the members of the Board of Directors or committee, as the case may be. The action must be evidenced by one or more written consents describing the action taken, signed by each director or committee member, and included in the minutes or filed with the corporate records reflecting the action taken. Such action is effective when the last director or committee member signs the consent, unless the consent specifies a different prior or subsequent effective date. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be described as such in any document or instrument.

Section 15. Committees .

The Board of Directors, by resolution adopted by a majority of the Board of Directors, may designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in such resolution or in the Articles of Incorporation or in these By-laws of the Corporation, shall have and may exercise such authority of the Board of Directors as shall be expressly delegated by the Board from time to time; except that no such committee shall have the authority of the Board of Directors in reference to (a) amending the Articles of Incorporation; (b) approving a plan of merger even if the plan does not require shareholder approval; (c) authorizing dividends or distributions, except a committee may authorize or approve a reacquisition of shares, if done according to a formula or method prescribed by the Board of Directors; (d) approving or proposing to shareholders action that requires shareholder approval; (e) amending, altering or repealing the By-laws of the Corporation or adopting new By-laws for the Corporation; (f) filling vacancies in the Board of Directors or in any of its committees; or (g) electing or removing officers or members of any such committee. A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to change the number and members of any such committee, to fill vacancies and to discharge any such committee. The designation of such committee and the delegation thereto of authority shall not alone constitute compliance by the Board of Directors, or any member thereof, with the standard of conduct imposed upon it or him by the Indiana Business Corporation Law, as the same may, from time to time, be amended.

Section 16. Meeting by Telephone or Similar Communication Equipment . Any or all directors may participate in and hold a regular or special meeting of the Board of Directors or any committee thereof by, or

through the use of, any means of conference telephone or other similar communications equipment by which all directors participating in the meeting may simultaneously hear each other during the meeting. Participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a director participates in the meeting for the express purpose of objecting to holding the meeting or transacting business at the meeting on the ground that the meeting is not lawfully called or convened.

ARTICLE IV Officers

Section 1. Principal Officers .

The officers of the Corporation shall be chosen by the Board of Directors and shall consist of a Chairman of the Board, a President, a Treasurer and a Secretary. There may also be one or more Vice Presidents, a Controller, and such other officers or assistant officers as the Board shall from time to time create and so elect. Any two (2) or more offices may be held by the same person.

Section 2. Election and Terms .

Each officer shall be elected by the Board of Directors at the annual meeting thereof and shall hold office until the next annual meeting of the Board or until his or her successor shall have been elected and qualified or until his or her death, resignation or removal. The election of an officer shall not of itself create contract rights.

Section 3. Resignation and Removal .

An officer may resign at any time by delivering notice to the Board of Directors, its Chairman, or the Secretary of the Corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. If an officer's resignation is made effective at a later date and the Corporation accepts the future effective date, the Board of Directors may fill the pending vacancy before the effective date, if the Board of Directors provides that the successor does not take office until the effective date. The acceptance of a resignation shall not be necessary to make it effective, unless expressly provided in the resignation. An officer's resignation does not affect the Corporation's contract rights, if any, with the officer. Any officer may be removed at any time, with or without cause, by vote of a majority of the whole Board. Such removal shall not affect the contract rights, if any, of the officer so removed.

Section 4. Vacancies .

Whenever any vacancy shall occur in any office by death, resignation, increase in the number of officers of the Corporation, or otherwise, the same shall be filled by the Board of Directors, and the officer so elected shall hold office until the next annual meeting of the Board or until his or her successor shall have been elected and qualified.

Section 5. Powers and Duties of Officers .

The officers so chosen shall perform the duties and exercise the powers expressly conferred or provided for in these By-laws, as well as the usual duties and powers incident to such office, respectively, and such other duties and powers as may be assigned to them by the Board of Directors or by the President.

Section 6. Chairman of the Board .

The Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall have charge of and supervision and authority over all of the affairs, business and operations of the Corporation in the ordinary course of its business, with all such duties, powers and authority with respect to such affairs, business and operations as may be reasonably incident to such responsibilities. He shall have general supervision of and direct all officers, agents and employees of the Corporation and shall see that all orders and resolutions of the Board are carried into effect. He shall have the authority to sign all deeds, bonds, mortgages, contracts, notes and other instruments on behalf of the Corporation (except in cases where the signing and execution thereof shall be expressly delegated by the Board or by these By-laws, or by law to some other officer or agent of the Corporation). He shall preside at meetings of the shareholders and of the Board of Directors. He shall also perform such other duties and have such additional authority and powers as are incident to his office or as may be delegated to him from time to time by the Board of Directors."

Section 7. The President .

The President shall be the Chief Operating Officer of the Corporation and shall supervise the day-to-day operations of the Corporation subject to the supervision of the Chairman of the Board and the Board of Directors. He shall have the authority to sign all deeds, mortgages, bonds, contracts, notes and other instruments on behalf of the Corporation (except in cases where the signing and execution thereof shall be expressly delegated by the Board or by these By-laws or by law to some other officer or agent of the Corporation). In the absence of the Chairman of the Board, he shall preside at meetings of the shareholders. He shall also perform such other duties and have such additional authority and powers as are incident to his office or as may be delegated to him from time to time by the Chairman of the Board or the Board of Directors.

Section 8. Vice Presidents .

The Vice Presidents shall assist the President and shall perform such duties as may be assigned to them by the Board of Directors or the President. Unless otherwise provided by the Board, in the absence or disability of the President, the Vice President (or, if there be more than one, the Vice President first named as such by the Board of Directors at its most recent meeting at which Vice Presidents were elected) shall execute the powers and perform the duties of the President. Any action taken by a Vice President in the performance of the duties of the President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken.

Section 9. Secretary .

The Secretary (a) shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the shareholders in books provided for that purpose; (b) shall attend to the giving and serving of all notices; (c) when required, may sign with the President or a Vice President in the name of the Corporation, and may attest the signature of any other officers of the Corporation to all contracts, conveyances, transfers, assignments, encumbrances, authorizations and all other instruments, documents and papers, of any and every description whatsoever, of or executed for or on behalf of the Corporation and affix the seal of the Corporation thereto; (d) may sign with the President or a Vice President all certificates for shares of the capital stock of the Corporation and affix the corporate seal of the Corporation thereto; (e) shall have charge of and maintain and keep or supervise and control the maintenance and keeping of the stock certificate books, transfer books and stock

ledgers and such other books and papers as the Board of Directors may authorize, direct or provide for, all of which shall at all reasonable times be open to the inspection of any director, upon request, at the office of the Corporation during business hours; (f) shall, in general, perform all the duties incident to the office of Secretary; and (g) shall have such other powers and duties as may be conferred upon or assigned to him by the Board of Directors.

Section 10. Treasurer .

The Treasurer shall have custody of all the funds and securities of the Corporation which come into his hands. When necessary or proper, he may endorse on behalf of the Corporation, for collection, checks, notes and other obligations, and shall deposit the same to the credit of the Corporation in such banks or depositories as shall be selected or designated by or in the manner prescribed by the Board of Directors. He may sign all receipts and vouchers for payments made to the Corporation, either alone or jointly with such officer as may be designated by the Board of Directors. Whenever required by the Board of Directors, he shall render a statement of his cash account. He shall enter or cause to be entered, punctually and regularly, on the books of the Corporation, to be kept by him or under his supervision or direction for that purpose, full and accurate accounts of all moneys received and paid out by, for or on account of the Corporation. He shall at all reasonable times exhibit his books and accounts and other financial records to any director of the Corporation during business hours. He shall have such other powers and duties as may be conferred upon or assigned to him by the Board of Directors. The Treasurer shall perform all acts incident to the position of Treasurer, subject always to the control of the Board of Directors. He shall, if required by the Board of Directors, give such bond for the faithful discharge of his duties in such form and amount as the Board of Directors may require.

Section 11. The Controller .

The Controller shall be the chief accounting officer of the Corporation and in such capacity shall keep full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements, and other financial transactions of the Corporation and its subsidiaries in books belonging to the Corporation; shall cause audits of such books and records to be made at regular intervals as required by law and in accordance with guidelines established by

the Audit Committee of the Board of Directors; shall see that all expenditures are made in accordance with procedures duly established, from time to time by the Corporation; shall prepare financial statements for the Corporation and its subsidiaries at regular intervals as required by law or at the request of the Board of Directors, the Chairman, the President or the Vice President, Finance; and, in general shall perform all the duties ordinarily connected with the office of Controller and such other duties as, from time to time, may be assigned to him by the Board of Directors, the Chairman, the President or the Vice President, Finance.

Section 12. Assistant Secretaries .

The Assistant Secretaries shall assist the Secretary in the performance of his or her duties. In the absence of the Secretary, any Assistant Secretary shall exercise the powers and perform the duties of the Secretary. The Assistant Secretaries shall exercise such other powers and perform such other duties as may from time to time be assigned to them by the Board, the President, or the Secretary.

Section 13. Assistant Treasurers .

The Assistant Treasurers shall assist the Treasurer in the performance of his or her duties. Any Assistant Treasurer shall, in the absence or disability of the Treasurer, exercise the powers and perform the duties of the Treasurer. The Assistant Treasurers shall exercise such other duties as may from time to time be assigned to them by the Board, the President, or the Treasurer.

Section 14. Delegation of Authority .

In case of the absence of any officer of the Corporation, or for any reason that the Board may deem sufficient, a majority of the entire Board may transfer or delegate the powers or duties of any officer to any other officer or officers for such length of time as the Board may determine.

Section 15. Securities of Other Corporations .

The President or any Vice President or Secretary or Treasurer of the Corporation shall have power and authority to transfer, endorse for transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

ARTICLE V Directors' Services, Limitation of Liability and
Reliance on Corporate Records, and Interest of Directors
in Contracts

Section 1. Services .

No director of this Corporation who is not an officer or employee of this Corporation shall be required to devote his time or any particular portion of his time or render services or any particular services exclusively to this Corporation. Every director of this Corporation shall be entirely free to engage, participate and invest in any and all such businesses, enterprises and activities, either similar or dissimilar to the business, enterprise and activities of this Corporation, without breach of duty to this Corporation or to its shareholders and without accountability or liability to this Corporation or to its shareholders.

Every director of this Corporation shall be entirely free to act for, serve and represent any other corporation, any entity or any person, in any capacity, and be or become a director or officer, or both, of any other corporation or any entity, irrespective of whether or not the business, purposes, enterprises and activities, or any of them thereof, be similar or dissimilar to the business, purposes, enterprises and activities, or any of them, of this Corporation, without breach of duty to this Corporation or to its shareholders and without accountability or liability of any character or description to this Corporation or to its shareholders.

Section 2. General Limitation of Liability .

A director shall, based on facts then known to the director, discharge the duties as a director, including the director's duties as a member of a committee, in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the director reasonably believes to be in the best interests of

the Corporation. A director is not liable to the Corporation for any action taken as a director, or any failure to take any action, unless: (a) the director has breached or failed to perform the duties of the director's office in accordance with the standard of care set forth above; and (b) the breach or failure to perform constitutes willful misconduct or recklessness.

Section 3. Reliance on Corporate Records and Other Information.

Any person acting as a director of the Corporation shall be fully protected, and shall be deemed to have complied with the standard of care set forth in Section 2 of this Article, in relying in good faith upon any information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by (a) one or more officers or employees of the Corporation whom such person reasonably believes to be reliable and competent in the matters presented; (b) legal counsel, public accountants, or other persons as to matters such person reasonably believes are within the person's professional or expert competence; or (c) a committee of the Board of Directors of which such person is not a member, if such person reasonably believes the committee merits confidence; provided, however, that such person shall not be considered to be acting in good faith if such person has knowledge concerning the matter in question that would cause such reliance to be unwarranted.

Section 4. Interest of Directors in Contracts .

Any contract or other transaction between the Corporation and (a) any director, or (b) any corporation, unincorporated association, business trust, estate, partnership, trust, joint venture, individual or other legal entity (1) in which any director has a material financial interest or is a general partner, or (2) of which any director is a director, officer, or trustee, shall be valid for all purposes, if the material facts of the contract or transaction and the director's interest were disclosed or known to the Board of Directors, a committee of the Board of Directors with authority to act thereon, or the shareholders entitled to vote thereon, and the Board of Directors, such committee or such shareholders authorized, approved or ratified the contract or transaction. Such a contract or transaction is authorized, approved or ratified:

(i) by the Board of Directors or such committee, if it receives the affirmative vote of a majority of the directors who have no interest in the contract or transaction, notwithstanding the fact that such majority may not constitute a quorum or a majority of the directors present at the meeting, and notwithstanding the presence or vote of any director who does have such an interest; provided, however, that no such contract or transaction may be authorized, approved or ratified by a single director; and

(ii) by such shareholders, if it receives the vote of a majority of the shares entitled to be counted, in which vote shares owned by or voted under the control of any director who, or of any corporation, unincorporated association, business trust, estate, partnership, trust, joint venture, individual or other legal entity that, has an interest in the contract or transaction may be counted; provided, however, that a majority of such shares, whether or not present, shall constitute a quorum for the purpose of authorizing, approving or ratifying such a contract or transaction. This Section shall not be construed to require authorization, ratification or approval by the shareholder of any such contract or transaction, or to invalidate any such contract or transaction that is fair to the Corporation or would otherwise be valid under the common and statutory law applicable thereto.

ARTICLE VI Indemnification

Section 1. Indemnification Against Underlying Liability .

The Corporation shall, to the fullest extent to which it is empowered to do so by the Corporation Law, or any other applicable law, as from time to time in effect, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or who, while serving as such director, officer, employee or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (collectively, "Agent") against expenses (including attorneys' fees), judgments, fines, penalties, court costs and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not

opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Agent did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. If several claims, issues or matters are involved, an Agent may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

Section 2. Successful Defense. To the extent that an Agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 of this Article VI, or in defense of any claim, issue or matter therein, the Corporation shall indemnify such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 3. Determination of Conduct . Subject to any rights under any contract between the Corporation and any Agent, any indemnification against underlying liability provided for in Section 1 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Agent is proper in the circumstances because he has met the applicable standard of conduct set forth in said Section. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors not at the time parties to such action, suit or proceeding; (2) if such an independent quorum cannot be obtained, by majority vote of a committee duly designated by the full Board of Directors (in which designation directors who are parties may participate), consisting solely of one or more directors not at the time parties to the action, suit or proceeding; (3) by special legal counsel (A) selected by the independent quorum of the Board of Directors (or the independent committee thereof if no such quorum can be obtained), or (B) if no such independent quorum or committee thereof can be obtained, selected by majority vote of the full Board of Directors (in which selection directors who are parties may participate); or (4) by the shareholders, but shares owned by or voted under the control of directors who are at the time parties to such action, suit or proceeding may not be voted on the determination. Notwithstanding the foregoing, an Agent shall be able to contest any determination that the Agent has not met the applicable standard of conduct by petitioning a court of appropriate jurisdiction.

Section 4. Definition of Good Faith . For purposes of any determination under Section 1 of this Article VI, a person shall be deemed to have acted in good faith and to have otherwise met the applicable standard of conduct set forth in Section 1 if his action is based on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by (1) one or more officers or employees of the Corporation or another enterprise whom he reasonably believes to be reliable and competent in the matters presented; (2) legal counsel, public accountants, appraisers or other persons as to matters he reasonably believes are within the person's professional or expert competence; or (3) a committee of the Board of Directors of the Corporation or another enterprise of which the person is not a member if he reasonably believes the committee merits confidence. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standards of conduct set forth in Section 1 of this Article VI.

Section 5. Payment of Expenses in Advance . Expenses incurred in connection with any civil, criminal, administrative or investigative action, suit or proceeding by an Agent who may be entitled to indemnification pursuant to Section 1 of this Article VI shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of a written affirmation by the Agent of his good faith belief that he has met the applicable standard of conduct set forth in Section 1 of this Article VI and upon receipt of a written undertaking by or on behalf of the Agent to repay such amount if it is ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VI. Notwithstanding the foregoing, such expenses shall not be advanced if the Corporation conducts the determination of conduct procedure referred to in Section 3 of this Article VI and it is determined from the facts then known that the Agent will be precluded from indemnification against underlying liability because he has failed to meet

the applicable standard of conduct set forth in Section 1 of this Article VI. The full Board of Directors (including directors who are parties) may authorize the Corporation to implement the determination of conduct procedure, but such procedure is not required for the advancement of expenses. The full Board of Directors (including directors who are parties) may authorize the Corporation to assume the Agent's defense where appropriate, rather than to advance expenses for such defense.

Section 6. Indemnity Not Exclusive .

The indemnification against underlying liability, and advancement of expenses provided by, or granted pursuant to, this Article VI shall not be deemed exclusive of, and shall be subject to, any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Corporation's Articles of Incorporation, these Bylaws, any resolution of the Board of Directors or shareholders, any other authorization, whenever adopted, after notice, by a majority vote of all voting shares then outstanding, or any contract, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be an Agent, and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 7. Vested Right to Indemnification . The right of any individual to indemnification under this Article shall vest at the time of occurrence or performance of any event, act or omission giving rise to any action, suit or proceeding of the nature referred to in Section 1 of this Article VI and, once vested, shall not later be impaired as a result of any amendment, repeal, alteration or other modification of any or all of these provisions. Notwithstanding the foregoing, the indemnification afforded under this Article shall be applicable to all alleged prior acts or omissions of any individual seeking indemnification hereunder, regardless of the fact that such alleged acts or omissions may have occurred prior to the adoption of this Article. To the extent such prior acts or omissions cannot be deemed to be covered by this Article VI, the right of any individual to indemnification shall be governed by the indemnification provisions in effect at the time of such prior acts or omissions.

Section 8. Insurance .

The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was an Agent of the Corporation against any liability asserted against him or incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

Section 9. Additional Definitions . For purposes of this Article VI references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries. A person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VI.

Section 10. Payments a Business Expense .

Any payments made to any indemnified party under this Article or under any other right to indemnification shall be deemed to be an ordinary and necessary business expense of the Corporation, and payment thereof shall not subject any person responsible for the payment, or the Board of Directors, to any action for corporate waste or to any similar action.

ARTICLE VII Shares

Section 1. Share Certificates .

The certificate for shares of the Corporation shall be in such form as shall be approved by the Board of Directors. Each share certificate shall state on its face the name and state of organization of the Corporation, the name of the person to whom the certificate is issued, and the number and class of shares the certificate represents. Share certificates shall be

consecutively numbered and shall be entered in the books of the Corporation as they are issued. Every certificate for shares of the Corporation shall be signed (either manually or in facsimile) by, or in the name of, the Corporation by the President or a Vice President and either the Secretary or an Assistant Secretary of the Corporation, with the seal of the Corporation, if any, or a facsimile thereof impressed or printed thereon. If the person who signed (either manually or in facsimile) a share certificate no longer holds office when the certificate is issued, the certificate is nevertheless valid.

Section 2. Transfer of Shares .

Except as otherwise provided by law, transfers of shares of the capital stock of the Corporation, whether part paid or fully paid, shall be made only on the books of the Corporation by the owner thereof in person or by duly authorized attorney, on payment of all taxes thereon and surrender for cancellation of the certificate or certificates for such shares (except as hereinafter provided in the case of loss, destruction or mutilation of certificate) properly endorsed by the holder thereof or accompanied by the proper evidence of succession, assignment or authority to transfer, and delivered to the Secretary or an Assistant Secretary. All such transfers shall be made in accordance with the relevant provisions of Indiana Codess.ss.26-1-8-101 et seq.

Section 3. Transfer Agent .

The Board of Directors shall have power to appoint one or more transfer agents and registrars for the transfer and registration of certificates of stock of the Corporation, and may require that such certificates shall be countersigned and registered by one or more of such transfer agents and registrars.

Section 4. Registered Holders .

The Corporation shall be entitled to treat the person in whose name any share of stock or any warrant, right or option is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share, warrant, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided otherwise by the laws of the State of Indiana, the Articles of Incorporation of the Corporation or these By-laws. In no event shall any transferee of shares of the Corporation become a shareholder of the Corporation until express notice of the transfer shall have been received by the Corporation.

Section 5. Lost, Destroyed and Mutilated Certificates .

The holder of any share certificate of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of the certificate, and the Board may, in its discretion, cause to be issued to such holder of shares a new certificate or certificates of shares of capital stock, upon the surrender of the mutilated certificate, or, in case of loss or destruction, upon the furnishing of an affidavit or satisfactory proof of such loss or destruction. The Board may, in its discretion, require the owner of the lost or destroyed certificate or such owner's legal representative to give the Corporation a bond in such sum and in such form, and with such surety or sureties as it may direct, to indemnify the Corporation, its transfer agents and registrars, if any, against any claim that may be made against them or any of them with respect to the certificate or certificates alleged to have been lost or destroyed, but the Board may, in its discretion, refuse to issue a new certificate or new certificates, save upon the order of a court having jurisdiction in such matters.

Section 6. Consideration for Shares .

The Corporation may issue shares for such consideration received or to be received as the Board of Directors determines to be adequate. That determination by the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid and nonassessable. When the Corporation receives the consideration for which the Board of Directors authorized the issuance of shares, the shares issued therefor are fully paid and nonassessable.

Section 7. Payment for Shares .

The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the Corporation, including cash, promissory notes, services performed, contracts for services to be performed, or other securities of the Corporation. If shares are authorized to be issued for promissory notes or for promises to render services in the future, the Corporation must report in writing to the

shareholders the number of shares authorized to be so issued before or with the notice of the next shareholders' meeting.

Section 8. Distributions to Shareholders .

The Board of Directors may authorize and the Corporation may make distributions to the shareholders subject to any restrictions set forth in the Articles of Incorporation of the Corporation and any limitations in the Indiana Business Corporation Law, as amended.

Section 9. Regulations .

The Board of Directors shall have power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of the Corporation.

ARTICLE VIII Corporate Books and Reports

Section 1. Place of Keeping Corporate Books and Records .

Except as expressly provided otherwise in this Article, the books of account, records, documents and papers of the Corporation shall be kept at any place or places, within or without the State of Indiana, as directed by the Board of Directors. In the absence of a direction, the books of account, records, documents and papers shall be kept at the principal office of the Corporation.

Section 2. Place of Keeping Certain Corporate Books and Records.

The Corporation shall keep a copy of the following records at its principal office:

(1).....Its Articles or restated Articles of Incorporation and all amendments to them currently in effect;

(2).....Its By-laws or restated By-laws and all amendments to them currently in effect;

(3).....Resolutions adopted by the Board of Directors with respect to one or more classes or series of shares and fixing their relative rights, preferences and limitations, if shares issued pursuant to those resolutions are outstanding;

(4).....The minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting, for the past three (3) years;

(5).....All written communications to shareholders generally within the past three (3) years, including financial statements furnished to shareholders;

(6).....A list of the names and business addresses of its current directors and officers; and

(7).....The Corporation's most recent annual report.

Section 3. Permanent Records . The Corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors in place of the Board of Directors on behalf of the Corporation. The Corporation shall also maintain appropriate accounting records.

Section 4. Shareholder Records . The Corporation shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each.

Section 5. Shareholder Rights of Inspection .

The records designated in Section 2 of this Article may be inspected and copied by shareholders of record, during regular business hours at the Corporation's principal office, provided that the shareholder gives the Corporation written notice of the shareholder's demand at least five (5) business days before the date on which the shareholder wishes to inspect and copy. A shareholder's agent or attorney, if authorized in writing, has the same inspection and copying rights as the shareholder represented. The Corporation may impose a reasonable charge, covering the costs of labor and material, for copies of any documents provided to the shareholder.

Section 6. Additional Rights of Inspection .
Shareholder rights enumerated in Section 5 of this Article may also apply to the following corporate records, provided that the notice requirements of Section 5 are met, the shareholder's demand is made in good faith and for a proper purpose, the shareholder describes with reasonable particularity the shareholder's purpose and the records the shareholder desires to inspect, and the records are directly connected with the shareholder's purpose: excerpts from minutes of any meeting of the Board of Directors, records of any action of a committee of the Board of Directors while acting in place of the Board of Directors on behalf of the Corporation, minutes of any meeting of the shareholders, and records of action taken by the shareholders or Board of Directors without a meeting, to the extent not subject to inspection under Section 5 of this Article, as well as accounting records of the Corporation and the record of shareholders. Such inspection and copying is to be done during regular business hours at a reasonable location specified by the Corporation. The Corporation may impose a reasonable charge, covering the costs of labor and material, for copies of any documents provided to the shareholder.

ARTICLE IX Miscellaneous

Section 1. Notice and Waiver of Notice .
Subject to the specific and express notice requirements set forth in other provisions of these By-laws, the Articles of Incorporation, and the Indiana Business Corporation Law, as the same may, from time to time, be amended, notice may be communicated to any shareholder or director in person, by telephone, telegraph, teletype, or other form of wire or wireless communication, or by mail. If the foregoing forms of personal notice are deemed to be impracticable, notice may be communicated in a newspaper of general circulation in the area where published or by radio, television, or other form of public broadcast communication. Subject to Section 4 of ARTICLE II of these By-laws, written notice is effective at the earliest of the following: (a) when received; (b) if correctly addressed to the address listed in the most current records of the Corporation, five days after its mailing, as evidenced by the postmark or private carrier receipt; or (c) if sent by registered or certified United States mail, return receipt requested, on the date shown on the return receipt which is signed by or on behalf of the addressee. Oral notice is effective when communicated. A written waiver of notice, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

Section 2. Depositories .
Funds of the Corporation not otherwise employed shall be deposited in such banks or other depositories as the Board of Directors, the President or the Treasurer may select or approve.

Section 3. Signing of Checks, Notes, etc.
In addition to and cumulative of, but in no way limiting or restricting, any other provision of these By-laws which confers any authority relative thereto, all checks, drafts and other orders for the payment of money out of funds of the Corporation and all notes and other evidence of indebtedness of the Corporation may be signed on behalf of the Corporation, in such manner, and by such officer or person as shall be determined or designated by the Board of Directors; provided, however, that if, when, after and as authorized or provided for by the Board of Directors, the signature of any such officer or person may be a facsimile or engraved or printed, and shall have the same force and effect and bind the Corporation as though such officer or person had signed the same personally; and, in the event of the death, disability, removal or resignation of any such officer or person, if the Board of Directors shall so determine or provide, as though and with the same effect as if such death, disability, removal or resignation had not occurred.

Section 4. Gender and Number .
Wherever used or appearing in these By-laws, pronouns of the masculine gender shall include the female gender and the neuter gender, and the singular shall include the plural wherever appropriate.

Section 5. Laws .
Wherever used or appearing in these By-laws, the words "law" or "laws" shall mean and refer to laws of the State of Indiana, to the extent only that such are expressly applicable, except where otherwise expressly stated or the context requires that such words not be so limited.

Section 6. Headings .

The headings of the Articles and Sections of these By-laws are inserted for convenience of reference only and shall not be deemed to be a part thereof or used in the construction or interpretation thereof.

ARTICLE X Amendments

These By-laws may, from time to time, be added to, changed, altered, amended or repealed or new By-laws may be made or adopted by a majority vote of the whole Board of Directors at any meeting of the Board of Directors, if the notice or waiver of notice of such meeting shall have stated that the By-laws are to be amended, altered or repealed at such meeting, or if all directors at the time are present at such meeting, have waived notice of such meeting, or have consented to such action in writing.

ARTICLE XI The Indiana Business Corporation Law

The provisions of the Indiana Business Corporation Law, as the same may, from time to time, be amended, applicable to any of the matters not herein specifically covered by these By-laws, are hereby incorporated by reference in and made a part of these By-laws.