

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended July 31, 1996  
Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 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 46268  
INDIANAPOLIS, INDIANA (Zip code)  
(Address of principal executive offices)

Registrant's telephone number, including area code (317) 293-5309  
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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 the past 90 days:

Yes X No

The number of shares of the Registrant's common stock outstanding as of August 31, 1996 was 6,514,471.

HURCO COMPANIES, INC.  
July 1996 Form 10-Q Quarterly Report

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PART I - FINANCIAL INFORMATION

- Item 1. Financial Statements

HURCO COMPANIES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS  
(In thousands, except per-share data)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1996	1995	1996	1995
	-----			
	(unaudited)			
SALES AND SERVICE FEES.....	\$ 23,039	\$ 22,764	\$ 72,358	\$ 62,323
Cost of sales and service.....	16,051	16,778	51,664	46,290
	-----	-----	-----	-----
GROSS PROFIT.....	6,988	5,986	20,694	16,033
Selling, general and administrative expenses.....	5,223	4,558	15,635	13,420
	-----	-----	-----	-----

OPERATING INCOME .....	1,765	1,428	5,059	2,613
Interest expense.....	712	980	2,631	2,858
Other, net.....	46	20	(209)	39
	-----	-----	-----	-----
Income (loss) before income taxes	1,007	428	2,637	(284)
Income tax expense .....	50	--	83	--
	-----	-----	-----	-----
NET INCOME (LOSS).....	\$ 957	\$ 428	\$ 2,554	\$ (284)
	=====	=====	=====	=====
EARNINGS (LOSS)				
PER COMMON SHARE.....	\$ .16	\$ .08	\$ .45	\$ (.05)
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON				
SHARES OUTSTANDING.....	5,920	5,518	5,679	5,417
	=====	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

HURCO COMPANIES, INC.  
CONSOLIDATED BALANCE SHEET  
(Dollars in thousands)

	July 31, 1996 (unaudited)	October 31, 1995 (audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 1,410	\$ 2,072
Accounts receivable.....	14,884	17,809
Inventories.....	25,829	25,238
Other.....	855	1,237
	-----	-----
Total current assets.....	42,978	46,356
	-----	-----
PROPERTY AND EQUIPMENT.....	9,892	10,629
SOFTWARE DEVELOPMENT COSTS, LESS AMORTIZATION.....	3,774	3,513
OTHER ASSETS .....	1,217	923
	-----	-----
	\$ 57,861	\$ 61,421
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 10,646	\$ 10,570
Accrued expenses.....	8,304	9,552
Current portion of long-term debt.....	3,050	6,357
	-----	-----
Total current liabilities.....	22,000	26,479
	-----	-----
NON-CURRENT LIABILITIES		
Long-term debt .....	20,609	27,242
Other long-term obligations.....	623	217
	-----	-----
	21,232	27,459
	-----	-----
SHAREHOLDERS' EQUITY:		
Preferred stock: \$100 par value per share; 40,000 shares authorized; no shares issued.....	--	--
Common stock: no par value; \$.10 stated value per share; 7,500,000 shares authorized; 6,514,471		

and 5,425,302 shares issued, respectively.....	652	543
Additional paid-in capital.....	50,286	45,573
Accumulated deficit.....	(31,889)	(34,472)
Foreign currency translation adjustment.....	(4,420)	(4,161)
	-----	-----
Total shareholders' equity.....	14,629	7,483
	-----	-----
	\$ 57,861	\$ 61,421
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

HURCO COMPANIES, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Dollars in thousands)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1996	1995	1996 (unaudited)	1995
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss).....	\$ 957	\$ 428	\$ 2,554	\$ (284)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization.....	517	586	2,075	1,900
(Increase) decrease in accounts receivable.....	1,617	(326)	2,683	(1,129)
(Increase) decrease in inventories.....	(1,174)	442	(745)	365
Increase (decrease) in accounts payable.....	1,144	563	99	506
Increase (decrease) in accrued expenses.....	116	273	(1,129)	(676)
Other.....	(231)	172	216	526
	-----	-----	-----	-----
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	2,946	2,138	5,753	1,208
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of equipment.....	1	35	33	35
Purchase of property and equipment.....	(138)	(210)	(391)	(442)
Software development costs.....	(397)	(545)	(1,065)	(1,029)
Other.....	(8)	107	66	(34)
	-----	-----	-----	-----
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(542)	(613)	(1,357)	(1,470)
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Advances on bank credit facilities.....	7,820	10,864	37,885	49,136
Repayments on bank credit facilities.....	(11,482)	(12,055)	(42,632)	(48,441)
Repayments of term debt.....	(3,140)	(78)	(5,090)	(242)
Proceeds from issuance of common stock and common stock under options.....	4,830	--	4,830	11
	-----	-----	-----	-----
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES.....	(1,972)	(1,269)	(5,007)	464
	-----	-----	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	26	(30)	(51)	(148)
	-----	-----	-----	-----
NET INCREASE (DECREASE) IN CASH.....	458	226	(662)	54
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	952	929	2,072	1,101
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 1,410	\$ 1,155	\$ 1,410	\$ 1,155
	=====	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The condensed financial statements as of July 31, 1996 and 1995 and for the three-month and nine-month periods then ended are unaudited but include all adjustments which the Company considers necessary for a fair presentation of financial position at those dates and its results of operations and cash flows for those periods. Those condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 1995.

2. HEDGING

The U.S. dollar equivalent notional amount of the Company's outstanding foreign currency forward exchange contracts, which are entered into solely for risk hedging purposes, was approximately \$8.4 million, as of July 31, 1996 and \$18.9 million as of October 31, 1995. Deferred gains and losses related to hedging activities were not significant as of July 31, 1996. Contracts outstanding at July 31, 1996 mature at various times through November 26, 1996.

3. EARNINGS PER SHARE

Earnings per share of common stock are based on the weighted average number of common shares outstanding, which includes, under the treasury method, outstanding stock options and warrants. Such common stock equivalents totaled 161,000 and 141,000 shares for the three and nine months ended July 31, 1996. Fully diluted earnings per share are the same as primary earnings per share for these periods. No effect has been given to options outstanding under the Company's Stock Option Plan for the comparable periods ended July 31, 1995 as no dilution would result from their exercise.

4. ACCOUNTS RECEIVABLE

The allowance for doubtful accounts was \$957,000 as of July 31, 1996, and \$1,070,000 as of October 31, 1995.

5. INVENTORIES

Inventories, priced at the lower of cost (first-in, first-out method) or market are summarized below (in thousands):

	July 31, 1996	October 31, 1995
	-----	-----
Purchased parts and sub-assemblies	\$ 13,248	\$ 15,681
Work-in-Process	2,107	3,523
Finished Goods	10,474	6,034
	-----	-----
	\$ 25,829	\$ 25,238
	=====	=====

6. SUBSEQUENT EVENT

In August, 1996, the Company's wholly owned subsidiary, IMS Technology, Inc. (IMS), entered into an agreement for the licensing of its interactive machining patents. Over the term of the license, which extends through 2001, IMS will receive approximately \$1.2 million, net of legal fees and expenses, of which \$325,000 is expected to be reflected in income in the fourth quarter of fiscal 1996. The licensees were not defendants in the IMS patent infringement litigation discussed elsewhere in this report.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements made in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the machine tool industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will among other

things, affect demand for CNC control systems, machine tools and software products; changes in manufacturing markets; innovations by competitors; and governmental actions and initiatives.

## RESULTS OF OPERATIONS

Three Months Ended July 31, 1996 Compared to Three Months Ended July 31, 1995

Consolidated sales in the third quarter of fiscal 1996 were only slightly higher than in the same period of 1995. European sales increased by approximately 11% but were offset by a decrease of approximately 5% in domestic sales.

European sales measured in local currencies increased 18% over the 1995 third quarter, reflecting increased market penetration by the Company's new "Advantage Series" machine tool line, which was introduced in Europe in the latter part of fiscal 1995, and increased availability of products for shipment. The increase was offset, however, by unfavorable foreign exchange effect when translating sales made in European currencies to U.S. dollars for financial reporting purposes, reducing the net increase to 11%. International sales increased to approximately 46% of total consolidated sales for the 1996 third fiscal quarter compared to 43% for the same period in fiscal 1995.

The decline in domestic sales was the result of a softening of demand, fewer large models in the product mix, the effects of the Company's transition to new product models, and expected delay in orders in anticipation of the bi-annual International Manufacturing Technology Show (IMTS) which takes place in September.

Gross profit increased \$1.0 million, or 16.7%, in the third quarter of 1996 over the corresponding period in 1995 due primarily to an increase in the gross profit margin. Gross profit margin, as a percentage of sales, increased to 30.3% during the fiscal 1996 third quarter compared to 26.3% during the same period in fiscal 1995, reflecting an increased percentage of higher-margin European sales in the total sales mix and an increased percentage of higher-margin model sales in the domestic sales mix.

Selling, general and administrative (SG&A) expenses for the third quarter of fiscal 1996 increased approximately \$655,000, or 14.6%, over the corresponding 1995 period, principally due to increased selling expenses associated with increased unit volume, planned product introduction and promotion costs and normal annual compensation adjustments.

Operating income increased \$337,000, or 23.6%, over the third quarter of fiscal 1995, due to improved gross profit margin.

Interest expense for the third quarter of fiscal 1996 decreased approximately \$268,000, 27.3%, from the amount reported for the corresponding period in fiscal 1995. The decrease is due principally to a reduction of approximately \$8.4 million in the average borrowings outstanding when compared to the third quarter of fiscal 1995, along with reduced interest rates on the Company's floating rate bank borrowings. Proceeds from the Company's rights offering, received late in the third quarter of fiscal 1996, did not materially affect interest expense or average borrowings outstanding for the period.

Income tax expense of \$50,000 has been provided for the third quarter of fiscal 1996 related to earnings of a foreign subsidiary. The income tax liability incurred in the United States and certain other tax jurisdictions was offset by the reversal of valuation allowance reserves against the Company's net operating loss carryforwards.

World-wide new order bookings were \$23.9 million in the most recent fiscal quarter, a decrease of \$638,000, or 4%, from the third quarter of fiscal 1995, and approximately the same as the preceding fiscal quarter. While international orders increased slightly over the prior-year level, domestic orders declined. The decline in domestic orders related to both control products and machine tools and is attributable principally to the short-term impact of changes being implemented in the Company's sales and distribution organization, a transition to new product models and some normal delays in orders in anticipation of IMTS. However, two new machine tool models, along with a new lower cost version of the Company's Ultimax CNC control, both of which broaden the Company's market base, were introduced late in the third fiscal quarter of 1996 resulting in a substantial increase in domestic machine tool orders in the month of July and the largest single order month for machine tools in the U.S. market since the introduction of the "Advantage Series" product line in September, 1994. As a result of the above, backlog was \$10.9 million compared to \$10.2 million at the

end of the preceding quarter and \$16.1 million at the end of the preceding fiscal year.

The Company manages its foreign currency exposure through the use of foreign currency forward exchange contracts. The Company does not speculate in the financial markets and, therefore, does not enter into those contracts for trading purposes. The Company also moderates its currency risk related to significant purchase commitments with certain foreign vendors through price adjustment agreements that provide for a sharing of, or otherwise limit, the potential adverse effect of currency fluctuations on the costs of purchased products. These programs achieved management's objectives for the period.

Nine Months Ended July 31, 1996 Compared to Nine Months Ended July 31, 1995

Consolidated sales for the first nine months of fiscal 1996 increased \$10.0 million, or 16%, over the corresponding period of fiscal 1995.

European sales increased \$7.5 million, or 34.3%, due principally to increased market penetration of the "Advantage Series" machine tool line, as well as increased availability of products for shipment.

Domestic sales increased \$2.2 million, or 5.7%, due primarily to increased shipments of machine tool products and related parts and service fees during the first and second quarters. Increased availability of products for shipment enabled the Company to reduce its backlog of orders in the United States and increase its shipments of current machine tool products despite reduced domestic order rates. Sales of CNC systems and software during the first nine months of fiscal 1996 increased only slightly over the same period in 1995. Increased shipments of Delta Series control systems for metal cutting machine tools, primarily to original equipment manufacturers, were offset by decreased shipments of Autobend products to the metal fabrication equipment market, reflecting a decline in demand in that market.

Gross profit for the first nine months of fiscal 1996 increased \$4.7 million, or 29%, over the corresponding period of fiscal 1995 due to increased sales and an increase in gross profit margin. Gross profit margin, as a percentage of sales, increased to 28.6% in the 1996 period from 25.7% in the 1995 period primarily due to increased percentages of higher-margin European sales and higher-margin "Advantage Series" machine tools in the total worldwide sales mix.

Selling, general and administration (SG&A) expenses for the first nine months of fiscal 1996 increased \$2.2 million, or 17%, over the corresponding 1995 period, principally due to increased selling expenses associated with increased unit volume, planned product introduction and promotion costs and normal annual compensation adjustments.

Operating income in the first nine months of fiscal 1996 increased almost two times to \$5.1 million from the \$2.6 million reported for the first nine months of fiscal 1995, because of higher sales and the improved gross profit margin.

Interest expense for the first nine months of fiscal 1996 included a \$240,000 amortization, in the first fiscal quarter, of non-recurring contingent fees to the Company's lenders based on fiscal 1995 operating results. Excluding this charge, interest expense for the first nine months of fiscal 1996 was \$467,000 less than in the first nine months of fiscal 1995 due to reduced interest rates and a reduction in average outstanding borrowings.

Other income for the nine months ended July 31, 1996 included \$324,000 of income, net of legal fees, related to a patent license issued in January 1996.

## LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1996, the Company had cash and cash equivalents of \$1.4 million compared to \$2.1 million at October 31, 1995. Cash flow from operations for the fiscal quarter ended July 31, 1996 was \$3.1 million, compared to \$2.1 million for the same period in fiscal 1995, primarily due to increased net income and reduced working capital requirements. Outstanding indebtedness was reduced by \$6.8 million in the quarter. For the immediately preceding six months, cash of \$2.8 million was provided by operations, resulting in net cash flow from operations of \$5.9 million for the nine months ended July 31, 1996.

Working capital was \$21.0 million at July 31, 1996, compared to \$19.9 million at October 31, 1995. The ratio of current assets to current liabilities was 1.95 to 1 at July 31, 1996, compared to 1.75 to 1 at October 31, 1995. As of July 31, 1996, the Company had unutilized credit facilities of \$7.6 million available for either direct borrowings or commercial letters of credit.

Under the terms of the Company's agreements with its lenders, which were amended and restated effective January 26, 1996, \$3.1 million of term loan payments are due and payable over the next 12 months. These installment obligations are in addition to the \$3.1 million of indebtedness prepaid in July 1996 as noted below.

On July 3, 1996 the Company issued and sold 1,085,300 shares of common stock at a price of \$4.63 per share pursuant to a subscription rights offering. The net proceeds of approximately \$4.8 million were used to prepay \$3.1 million of installments of the Company's outstanding indebtedness to its senior lenders that were due on July 31, 1996. Of the amount prepaid, \$1.4 million consisted of bank debt bearing interest at a variable rate and \$1.7 million represented an installment payment on the Company's 11.12% Senior Notes. The balance of the net proceeds was used to reduce outstanding revolving credit borrowings. Since the beginning of fiscal 1996, total indebtedness has been reduced by nearly \$10.0 million, or approximately 30%.

Management believes that the cash flow from operations and available borrowings under the Company's bank credit facilities will be sufficient to enable the Company to meet its anticipated cash requirements, including scheduled debt amortization payments for the next twelve months.

## PART II - OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

As previously reported, IMS, a wholly-owned subsidiary of the Company is a party to various pending legal proceedings with respect to its interactive machining patent.

There are presently three separate actions pending in the U.S. District Court for the Northern District of Illinois involving the patent. Two of the actions were brought by IMS against manufacturers of CNC systems and their customers and end-users alleging infringement of the IMS patent. The third action was commenced by Mitsubishi Electric Corporation and Mitsubishi Electric Industrial Controls (Mitsubishi) and seeks a declaratory judgment against IMS and the Company that the IMS patent is invalid.

On June 20, 1996, Fanuc, Ltd., (Fanuc) a supplier of CNC systems, which had intervened in one of the IMS infringement actions, filed an answer and counter-claim denying that it and its customers had infringed any claim of the IMS patent.

On August 21, 1996, Mitsubishi's motions to stay and enjoin IMS from proceeding with any infringement suits regarding the IMS patent against Mitsubishi's customers were denied.

Pretrial proceedings in all three actions are being coordinated under local court rules. Each of the actions remains in a preliminary stage.



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

At the Company's Annual Meeting of Shareholders held on May 23, 1996, the following individuals were elected to the Board of Directors by a plurality of the votes cast at the meeting:

	Affirmative Votes	Negative Votes	Abstained Votes
Hendrik J. Hartong, Jr.	4,664,213		66,334
Andrew L. Lewis IV	4,664,213		66,334
Brian D. McLaughlin	4,655,986	8,227	66,334
E. Keith Moore	4,659,153	5,060	66,334
Richard T. Niner	4,664,213		66,334
O. Curtis Noel	4,656,913	7,300	66,334
Charles E. M. Rentschler	4,664,213		66,334

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: Exhibit 11 and 27

(b) Reports on Form 8-K:

1. The Company filed a Form 8-K on May 29, 1996 reporting the Company's press release dated May 22, 1996.
2. The Company filed a Form 8-K on June 6, 1996 reporting the Company's press release dated June 6, 1996.

SIGNATURES

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

HURCO COMPANIES, INC.

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

September 11, 1996

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HURCO COMPANIES, INC.

By: /s/ Roger J. Wolf  
Roger J. Wolf  
Senior Vice President and

Chief Financial Officer

September 11, 1996

EXHIBIT 11

STATEMENT RE: COMPUTATION OF  
PER SHARE EARNINGS

	Three Months Ended JULY 31,				Nine Months Ended July 31,			
	1996		1995		1996		1995	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
(in thousands, except per share amount)								
Net income (loss).....	\$ 957	\$ 957	\$ 428	\$ 428	\$ 2,554	\$ 2,554	\$ (284)	\$ (284)
Weighted average shares outstanding...	5,759	5,759	5,419	5,419	5,538	5,538	5,417	5,417
Assumed issuances under stock options plans (1)	161	161	99	99	141	141	-	-
	5,920	5,920	5,518	5,518	5,679	5,679	5,417	5,417
Earnings (loss) per common share.....	\$ .16	\$ .16	\$ .08	\$ .08	\$ .45	\$ .45	\$ (.05)	\$ (.05)

(1) NO ASSUMED ISSUANCES UNDER STOCK OPTION PLANS WERE MADE IN 1995, EXCEPT FOR THE THIRD QUARTER, BECAUSE SUCH ISSUANCES WOULD HAVE BEEN ANTI-DULUTIVE.

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE  
QUARTERLY REPORT 10-Q FOR THE PERIOD ENDED JULY 31, 1996 AND IS QUALIFIED  
IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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