

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, 2003 or Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] for the transition period from _____ to _____.

Commission File No. 0-9143

HURCO COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Indiana 35-1150732
(State or other jurisdiction of (I.R.S. Employer Identification Number) incorporation or organization)

One Technology Way
Indianapolis, Indiana

46268

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code

(317) 293-5309

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock,
No Par Value

(Title of Class)

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

Indicate by check mark 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.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No X

The aggregate market value of the Registrant's voting stock held by non-affiliates as of April 30, 2003 (the last day of our most recently completed second quarter) was \$8,430,569.

The number of shares of the Registrant's common stock outstanding as of January 2, 2004 was 5,609,360.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's Proxy Statement for its 2004 Annual Meeting of Shareholders (Part III).

Disclosure Concerning Forward-looking Statements

Certain statements made in this annual report on form 10-K may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, changes in general economic and business conditions that affect market demand for machine tools and related computer control systems, software products, and replacement parts, changes in manufacturing markets, adverse currency movements, innovations by competitors, performance of our contract manufacturers, governmental actions and initiatives, including import and export restrictions and tariffs, and developments in the relations among the U.S., China and Taiwan.

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an industrial technology company. We design and produce interactive, personal computer (PC) based, computer control systems and software and computerized machine tools for sale to the metal working industry through a worldwide sales, service and distribution network. Our proprietary computer control systems and software products are sold primarily as integral components of our computerized machine tool products.

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

Our executive offices and principal design, engineering, and manufacturing management operations are headquartered in Indianapolis, Indiana. Sales, application engineering and service offices are located in Indianapolis, Indiana; High Wycombe, England; Munich, Germany; Paris, France; Milan, Italy; Singapore and Taichung, Taiwan. We also have a representative sales office in Shanghai, China. Distribution facilities are located in Los Angeles, California and Venlo, the Netherlands; a manufacturing facility is located in Taichung, Taiwan.

Our strategy is to design, develop, produce and market a comprehensive line of computerized machine tools for the global metal working market, which incorporates our proprietary interactive computer control technology. This technology is designed to enhance the user's productivity through ease of operation and higher levels of machine performance (speed, accuracy and surface finish quality). We use an open system software architecture that permits our computer control systems and software to be used with standard PC hardware and have emphasized an operator friendly design that employs both interactive conversational and graphical programming software.

Products

During fiscal 2002, we discontinued several under-performing product lines and sold the related assets, to enable us to focus our resources and technology development on our core products. Our core products consist primarily of general purpose computerized machine tools for the metal cutting industry (principally vertical machining centers) into which our proprietary Ultimax(R) software and computer control systems have been fully integrated. We discontinued and sold the Delta(TM) series computer control and related Dynapath(TM) milling machine product line, and related parts and service activities, along with press brake (metal bending machine) product lines and all tooling products related to press brake applications. We continue to produce computer control systems and related software for press brake applications that are sold primarily as retrofit control systems. In addition, we produce and distribute software options, control upgrades, hardware accessories and replacement parts related to our continuing product lines and provide operator training and support services to our customers.

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

Net Sales and Service Fees by Product Category

	Year ended October 31,					
	2003		2002		2001	
Continuing Products and Services						
Computerized Machine Tools	\$60,977	80.7%	\$ 52,056	73.9%	\$ 69,631	75.4%
Computer Control Systems and Software *	3,044	4.0%	3,194	4.5%	4,782	5.2%
Service Parts	7,616	10.1%	7,240	10.3%	8,038	8.7%

Service Fees	3,460	4.6%	3,240	4.6%	3,749	4.1%
Total	\$75,097	99.4%	\$ 65,730	93.3%	\$ 86,200	93.4%
Discontinued Products and Services	435	0.6%	4,756	6.7%	6,067	6.6%
Total	\$75,532	100.0%	\$ 70,486	100.0%	\$ 92,267	100.0%

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

Computerized Machine Tool Products

We design, manufacture and market computerized machine tools which are equipped with a fully integrated interactive Ultimax(R) computer control system. Our Ultimax(R) twin screen "conversational" computer control system is sold solely as a fully integrated feature of Hurco computerized machine tools. This computer control system enables a machine tool operator to create a complex two-dimensional machining program directly from a blue print or CAD. An operator with little or no programming experience can successfully create a program and begin the machining of a part in a short time with minimal special training. Since the initial introduction of the Ultimax(R) computer control, we have added enhancements related to operator programming productivity, CAD compatibility, data processing throughput and motion control speed and accuracy. Our current Ultimax(R) 4 programming stations use a Pentium* processor featuring an operator console with liquid crystal display screens and incorporate personal computer (PC) platform components. This upgradeable computer control product offers enhanced performance while ensuring access to cost effective computing hardware and software.

Our current line of Ultimax(R) metal cutting machine tools is a complete family of products, which include vertical machining centers with an x-axis travel of 24, 26, 30, 40, 42, 50 and 64 inches. During fiscal 2002 we introduced the first model in our new VM series, the VM1, a vertical machining center with a 26 inch x-axis travel, a substantially smaller footprint and significantly lower price than our previous entry-level vertical machining center. In fiscal 2003, we introduced the VM2, a vertical machining center with a 40 inch x-axis travel. The VM2 has a smaller footprint and lower price than our vertical machining center with an x-axis travel of 42 inches. We also introduced four new higher-performance machine models in our VMX series vertical machining center line. These products provide different levels of performance features for different market applications ranging in price from \$36,000 to \$165,000.

Computer Control Systems and Software

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

o Autobend(R)

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

o CAM and Software Products

In addition to our standard computer control features, we offer software option products for programming two and three-dimensional parts. These products are marketed to users of our computerized machine tools equipped with our Pentium*-based Ultimax(R) computer control systems. Our Advanced Velocity Control (AVC) and Adaptive Surface Finish (ASF), high performance machining software options enable a customer to increase machine throughput using higher cutting feed rates. The ASF software option facilitates optimized surface finishes on complex parts using faster high resolution part data transfers.

Other products in this line are WinMax(R), a Windows** based off-line programming system; DXF, a data file transfer software option; and UltiNet(TM), a networking software option. The DXF software option eliminates manual data entry of part features by transferring AutoCAD(TM) drawing files directly into an Ultimax(R) computer control, or into our off-line programming software,

substantially increasing operator productivity. UltiNet(TM) is a networking software option used by our customers to transfer part design and manufacturing information to computerized machine tools at high speeds and to network computerized machine tools within the customer's manufacturing facility.

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

Parts and Service

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

Marketing and Distribution

We sell our products through approximately 200 independent agents and distributors in approximately 40 countries throughout North America, Europe and Asia. We also have our own direct sales personnel in England, France, Germany, Italy, Singapore and China, which are among the world's principal machine tool consuming countries. During fiscal 2003, no distributor accounted for more than 5% of our sales and service fees. Approximately 89% of the worldwide demand for computerized machine tools and computer control systems comes from outside the U.S. In fiscal 2003, approximately 70% of our revenues were from overseas customers.

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

Our computerized machine tool software options and accessories are sold primarily to end-users. We sell our Autobend(R) computer control systems to original equipment manufacturers of new machine tools who integrate them with their own products prior to the sale of those products to their own customers, to retrofitters of used machine tools who integrate them with those machines as part of the retrofitting operation and to end-users who have an installed base of machine tools, either with or without related computer control systems. During fiscal 2003, no single end-user of our products accounted for more than 5% of our total sales and service fees.

We believe that advances in industrial technology and the related demand for process improvements drive demand for our products.

Other factors affecting demand include:

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

However, demand for our products is highly dependent upon economic conditions and the general level of business confidence, as well as such factors as production capacity utilization and changes in governmental policies regarding tariffs, corporate taxation and other investment incentives. By marketing and distributing our products on a worldwide basis, we reduce the potential impact on our total sales and service fees by adverse changes in economic conditions in any particular geographic region.

Competition

We compete with many other companies in the United States and international markets. Several of these competitors are larger and have greater financial

resources than we do. We strive to compete effectively by incorporating unique, patented software and other proprietary features into our products that offer enhanced productivity, greater technological capabilities and ease of use. We offer our products in a range of prices and capabilities to target a broad potential market. We also believe that our competitiveness is aided by our reputation for reliability and quality, our strong international sales and distribution organization and our extensive customer service organization.

In the United States and European metal cutting markets, major competitors include Haas Automation, Inc., Cincinnati Machine, Deckel, Maho Gildemeister Group (DMG), Bridgeport Machines, Ltd. and Fadal Engineering along with a large number of foreign manufacturers including Okuma Machinery Works Ltd., Mori Seiki Co., Ltd., Masak and Matsuura Machinery Corporation.

Manufacturing

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

Our computerized metal cutting machine tools are manufactured to our specifications, primarily by our wholly owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML), which we established in fiscal 2000. This subsidiary has increased our overall capacity and reduced or eliminated our dependence on other Taiwan contract manufacturers. In addition, we have a 24% ownership interest in a contract machine manufacturer that produces certain of our models. HML and our affiliated machine manufacturer conduct final assembly operations and are supported by a network of sub-contract suppliers of components and sub-assemblies.

We also have a contract manufacturing agreement for computer control systems with a Taiwanese-based affiliate in which we have a 35% ownership interest. This company is manufacturing our Ultimax(R) and Autobend(R) computer control systems to our specifications, and is engaged primarily in the sourcing of industry standard computer components and proprietary parts, final assembly and test operations. We source one of the proprietary Ultimax(R) computer components (PCB) from a sole domestic supplier with whom we have had a long-term relationship.

We work closely with our manufacturing subsidiary and affiliates to increase their production capacity to meet the demand for our machine tool products and believe that such capacity is sufficient to meet our current and projected demand. We also continue to consider additional contract manufacturing resources that will increase our long-term capacity, and we believe that, except for the sole-sourced PCB, alternative sources for standard and proprietary components are available; however, any prolonged interruption of operations or significant reduction in capacity or performance capability of these principal Taiwan-based manufacturing facilities or the PCB supplier would have a material adverse effect on our operations.

Backlog

Backlog consists of firm orders received from customers and distributors but not shipped. Backlog was \$8.2 million, \$5.3 million and \$9.1 million as of October 31, 2003, 2002, and 2001, respectively.

Intellectual Property

We consider certain features of our products to be proprietary. We own, directly or through a subsidiary, a number of patents that are significant to our business.

In fiscal 2002, we acquired the core technology assets of a software development company for \$1.9 million. As part of the acquisition, we obtained ownership of three existing patents and one pending patent related to computer control technology, which we expect to incorporate in our proprietary computer control system.

We own patents for an object-oriented, open architecture methodology for computer control software. We also hold a non-exclusive license covering features of the automatic tool changer offered with certain of our computerized

machining centers as well as a patent for a manual tool changing apparatus.

Research and Development

Research and development expenditures for new products and significant product improvements, included as period operating expenses, were \$1.8 million, \$2.4 million and \$3.5 million in fiscal 2003, 2002, and 2001, respectively. In addition, we recorded expenditures of \$679,000 in 2003, \$534,000 in 2002, and \$665,000 in 2001 related to software development projects that were capitalized.

Employees

We had 232 employees at the end of fiscal 2003, none of which are covered by a collective-bargaining agreement or represented by a union. We have experienced no employee-generated work stoppages or disruptions and we consider our employee relations to be satisfactory.

Geographic Areas

Financial information about geographic areas is set forth in Note 15 to the Consolidated Financial Statements.

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

Availability of Reports and Other Information

Our website is www.hurco.com. We make available on this website, free of charge, access to our annual, quarterly and current reports and other documents filed by us with the Securities and Exchange Commission as soon as reasonably practical after the filing date.

Item 2. PROPERTIES

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

Location	Square Footage	Principal Uses
Indianapolis, Indiana	165,000 (1)	Corporate headquarters, design and engineering, product testing, computer control assembly, sales, application engineering and customer service
Los Angeles, California	13,000	Warehouse, distribution, sales, application engineering and customer service
High Wycombe, England	12,000	Sales, application engineering and customer service
Paris, France	4,800	Sales, application engineering and customer service
Munich, Germany	19,600	Sales, application engineering and customer service
Milan, Italy	4,850	Sales, application engineering and customer service
Singapore	3,000	Sales, application engineering and customer service
Shanghai, China	1,100	Sales, application engineering and customer service
Taichung, Taiwan	65,333	Manufacturing

(1) Approximately 45,000 square feet is leased to a third-party under a lease which expires January 30, 2005.

We own the Indianapolis facility and lease all other facilities. The leases have terms expiring at various dates ranging from January 2004 to April 2008. We believe that all of our facilities are well maintained and are adequate for our needs now and in the foreseeable future. We do not believe that we would experience any difficulty in replacing any of the present facilities if any of our leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits arising in the normal course of business. We do not expect any of these claims, individually or in the aggregate, 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

Executive officers are elected each year by the Board of Directors at the first board meeting following the Annual Meeting of Shareholders to serve during the ensuing year and until their respective successors are elected and qualified. There are no family relationships between any of our executive officers or between any of them and any of the members of the Board of Directors.

The following information sets forth as of December 31, 2003, 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	48	Chairman of the Board and Chief Executive Officer
James D. Fabris	52	President and Chief Operating Officer
Roger J. Wolf	63	Senior Vice President, Secretary, Treasurer and Chief Financial Officer
David E. Platts	51	Vice President, Technology
Stephen J. Alesia	37	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 in May 2000. Mr. Platts previously served as Vice President of Research and Development since 1989.

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

PART II

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

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

Fiscal Quarter Ended:	2003		2002	
	High	Low	High	Low
January 31.....	\$2.030	\$1.300	\$2.780	\$2.050
April 30.....	1.670	1.400	3.350	2.030

July 31.....	3.150	1.520	2.950	1.500
October 31.....	2.740	2.100	2.220	1.450

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

There were approximately 294 holders of record of our common stock as of January 2, 2004.

During the period covered by this report, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

The disclosure under the caption "Equity Compensation Plan Information" in Item 12 of this report is incorporated by reference in response to this item.

Item 6. SELECTED FINANCIAL DATA

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

	Year Ended October 31				
	2003	2002	2001	2000	1999
Statement of Operations Data:	(In thousands, except per share amounts)				
Sales and service fees (1).....	\$ 75,532	\$ 70,486	\$ 92,267	\$ 96,204	\$ 88,238
Gross profit.....	20,822	15,246 (2)	23,262	25,377	24,174
Selling, general and administrative expenses.....	18,749	19,658	24,040	23,538	21,259
Restructuring expense (credit) and other expense, net.....	(124)	2,755	143	300	(103)
Operating income (loss).....	2,197	(7,167)	(921)	1,539	3,018
Interest expense.....	658	634	790	939	1,293
License fee income and litigation settlement fees, net.....	--	163	723	5,365	304
Net income (loss).....	462	(8,263)	(1,597)	5,035	1,802
Earnings (loss) per common share-diluted.....	0.08	(1.48)	(.28)	.84	.30
Weighted average common shares outstanding-diluted.....	5,582	5,583	5,670	6,020	6,061

- (1) Sales and service fees for discontinued products were \$435, \$4,756, \$6,067, \$10,156, and \$7,286, for the years ended 2003 through 1999, respectively.
- (2) Includes \$1,083 of inventory write-down provision.

	As of October 31				
	2003	2002	2001	2000	1999
Balance Sheet Data:	(Dollars in thousands)				
Current assets.....	\$42,390	\$ 41,535	\$ 49,510	\$ 49,195	\$52,856
Current liabilities.....	20,154	21,185	18,217	23,124	19,580
Working capital.....	22,236	20,350	31,293	26,071	33,276
Current ratio.....	2.1	2.0	2.7	2.1	2.7
Total assets.....	57,958	57,152	66,217	65,024	69,632
Non-current liabilities.....	9,063	7,950	12,532	3,009	13,904
Total debt.....	9,222	8,885	12,000	3,736	14,172
Shareholders' equity.....	28,741	28,017	35,468	38,891	36,148

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

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.

2003	Percentage of Revenues		Year-to-Year % Change Increase (Decrease)
	2002	2001	
-----	-----	-----	-----

				03 vs. 02	02 vs. 01
				-----	-----
Sales and service fees.....	100.0%	100.0%	100.0%	7.2%	(23.6%)
Gross profit.....	27.6%	21.6%	25.2%	36.6%	(34.5%)
Selling, general and Administrative expenses.....	24.8%	27.9%	26.1%	(4.6%)	(18.2%)
Restructuring expense and Other expenses, net.....	(0.2%)	3.9%	0.2%	N/A	N/A
Operating income (loss).....	2.9%	(10.2%)	(1.0%)	N/A	N/A
License fee income, net.....	--	0.2%	0.8%	--	(77.4%)
Interest expense.....	0.9%	0.9%	0.9%	3.8%	(19.7%)
Net income (loss).....	0.6%	(11.7%)	(1.7%)	N/A	N/A

Fiscal 2003 Compared With Fiscal 2002

Net income for fiscal 2003 was \$462,000, or \$.08 per share, compared to a net loss of \$8.3 million in the prior year. We attribute our return to profitability to incremental sales from a new, entry-level machine model (the VM1) introduced in late fiscal 2002, strengthening European currencies in relation to the U.S. Dollar and the implementation of restructuring and cost reduction actions over the past 18 months. Results for fiscal 2002 were adversely impacted by \$3.8 million of restructuring expense.

We developed the VM1 to improve our competitiveness in the entry-level machining center market. The VM1 has been successful in both the domestic and international markets. In the United States, we have obtained an approximate 20% market share in the entry-level machining center market. In fiscal 2003, we shipped 285 VM1 units worldwide, which resulted in approximately \$11.0 million of incremental machine sales.

Our operating results for fiscal 2003 were also favorably impacted by changes in foreign currency exchange rates, particularly the Euro, in relation to the U.S. Dollar when translating foreign sales and service fees into U.S. Dollars for financial reporting purposes. As noted in the following table, approximately 63.9% of our net sales and service fees in fiscal 2003 were derived from European markets. The weighted average exchange rate for the Euro during fiscal 2003 was \$1.10, as compared to \$.93 for fiscal 2002, an increase of 18%.

Net Sales and Service Fees by Geographic Region

The following tables set forth net sales by geographic region for the years ended October 31, 2003 and 2002 (in thousands):

	October 31,			
	2003		2002	
	-----	-----	-----	-----
Americas	\$ 24,313	32.2%	\$ 24,148	34.3%
Europe	48,277	63.9%	44,509	63.1%
Asia Pacific	2,942	3.9%	1,829	2.6%
	-----	-----	-----	-----
Total	\$ 75,532	100.0%	\$ 70,486	100.0%
	=====	=====	=====	=====

Total sales and service fees on a worldwide basis were \$75.5 million in fiscal 2003, compared to \$70.5 million in the prior fiscal year, a \$5.0 million, or 7%, increase. However, on a constant dollar basis, sales and service fees were \$68.7 million, a \$1.8 million decrease.

In the Americas, sales and service fees from continuing products and services increased \$4.5 million, or 23%, due primarily to the successful introduction of the VM1, in late fiscal 2002. This increase was offset by a decrease of \$4.3 million in sales of discontinued products, the liquidation of which was substantially completed in fiscal 2002.

In Europe, sales and service fees increased by \$3.8 million as a result of the favorable effect of stronger European currencies. However, when measured at constant exchange rates, sales and service fees in Europe decreased \$3.0 million, or 7%, reflecting the continuing weakness in industrial equipment spending and reduced consumption of machine tools by many manufacturing companies, particularly in Germany.

Sales and service fees in Asia Pacific were not significantly affected by currency rates, but reflect improved activity in Asian markets.

In the fourth quarter of fiscal 2003, sales and service fees improved over the

first three fiscal quarters, reflecting an improvement in worldwide computerized machine tool demand from the depressed levels of the past three years.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for years ended October 31, 2003 and 2002 (in thousands):

	October 31,			
	2003		2002	
Continuing Products and Services				
Computerized Machine Tools	\$ 60,977	80.7%	\$ 52,056	73.9%
Computer Control Systems and Software	3,044	4.0%	3,194	4.5%
Service Parts	7,616	10.1%	7,240	10.3%
Service Fees	3,460	4.6%	3,240	4.6%
Total	\$ 75,097	99.4%	\$ 65,730	93.3%
Discontinued Products and Services*	435	0.6%	4,756	6.7%
Total	\$ 75,532	100.0%	\$ 70,486	100.0%

* Discontinued product sales were made solely in the United States.

Sales of continuing machine tool products increased \$8.9 million, or 17%, of which \$6.1 million was attributable to the favorable effects of foreign currency translation. Unit shipments of continuing machine tool models increased 23%, as sales of the VM1 more than offset a decline in the balance of the product line. The average net selling price per unit of continuing machine tool models decreased approximately 5% due to product mix and discounting, the effects of which were partially offset by the favorable effects of currency translation. When measured at constant exchange rates, the average net selling price per continuing unit declined approximately 16%.

New order bookings for fiscal 2003 were \$77.9 million, an increase of 16% as compared to \$67.0 million recorded in fiscal 2002. When measured at constant exchange rates, new order bookings increased \$3.5 million, or 5%. New order bookings for continuing products and services increased \$7.8 million, or 12%, when measured at constant exchange rates. The increase in orders for continuing products in constant U.S. Dollars was attributable to orders for the VM1 model, which more than offset the effect of weak order rates in the first nine months of fiscal 2003 related to the balance of the product line. New order bookings increased significantly in the fourth quarter of fiscal 2003 and were \$13.9 million, \$20.6 million, \$18.9 million and \$24.5 million for each of the four quarters in fiscal 2003. Backlog was \$8.2 million at October 31, 2003 compared to \$5.3 million at October 31, 2002.

Gross profit margin increased in fiscal 2003 to 27.6% from 21.6% (23.2% excluding a \$1.1 million restructuring charge) in fiscal 2002, due in part to strengthening European currencies as well as previously reported employee cost reductions and fewer sales of discontinued products, which were liquidated at discounted prices.

Selling, general and administrative ("SG&A") expenses for fiscal 2003 of \$18.7 million declined \$900,000, or 5%, from those of the corresponding 2002 period. When measured at constant exchange rates, SG&A expenses decreased \$2.1 million, or 11%, from fiscal 2002, as a result of previously reported employee cost reductions, lower research and development expenses, and reduced sales and marketing expenditures. The decrease was offset, in part, by the effects of a weaker U.S. Dollar when translating expenses incurred outside the United States for financial reporting purposes.

Other expense, net includes \$51,000 related to certain stock options which are subject to variable plan accounting as described in Note 8 to the Consolidated Financial Statements. Expense for this item in future periods will be directly impacted by changes in the price of our common stock until the options are exercised. Other expense, net in fiscal 2003 also includes currency exchange losses on inter-company receivables and payables denominated in foreign currencies, net of gains or losses on related forward contracts, and other non-operating income and expense items.

The provision for income taxes is related to the earnings of two foreign subsidiaries. In the United States and certain other foreign jurisdictions, we have net operating loss carryforwards for which we have a 100% valuation reserve

at October 31, 2003. The provision for income tax increased in fiscal 2003 because of increased earnings from our taxable foreign subsidiaries.

Fiscal 2002 Compared With Fiscal 2001

Our net loss for the year ended October 31, 2002, which was more than five times greater than that reported for fiscal 2001, was due primarily to substantially lower sales and service fees as result of a continuing decline in machine tool orders in both the U.S. and Europe. The Association for Manufacturing Technology, the machine tool industry's trade association, reported that in 2002, the U.S. dollar value of orders for machine tools decreased 25%, and there was a corresponding deterioration in our European markets.

Also contributing to the loss for fiscal 2002 were restructuring and other special charges totaling \$3.8 million, which consisted primarily of: (a) non-cash inventory write-downs of \$1.1 million, which were recorded as an increase in the cost of sales, and the write-off of capitalized software development costs of \$1.0 million, which was recorded as a restructuring expense, (b) severance costs of \$1.1 million related to personnel reductions, and (c) a reserve of \$1.1 million (of which \$896,000 was recorded in the fourth fiscal quarter) for potential expenditures that might be required pursuant to a disputed claim regarding a terminated facility lease in the United Kingdom, which is more fully discussed below.

During fiscal 2002, we discontinued several under-performing product lines, and sold the related assets, to enable us to focus our resources and technology development on our core products. These continuing core products, known as milling machines and vertical machining centers, consist primarily of general purpose computerized machine tools for the metal cutting industry into which our proprietary Ultimax(R) software and computer control systems have been fully integrated. Discontinued and sold were the Delta(TM) series computer control and related Dynapath(TM) milling machine product line, and related parts and service activities, along with press brake product lines and all tooling products related to press brake applications. These discontinued product lines were marketed exclusively in the United States.

During fiscal 2002, we also eliminated 53 domestic employee positions, which we expect will result in annual cost reductions of approximately \$3.8 million, of which \$2.1 million was realized in fiscal 2002. The positions that were eliminated were those related to the discontinued product lines as well as some positions associated with our realigned and consolidated domestic sales and service operations.

We previously occupied a facility located in England under a lease that expired in April 2002. The lease required that, following expiration of the lease, we make certain repairs to the facility resulting from deterioration of the facility during the lease term. The scope and cost of the repairs alleged by the lessor to be required evolved throughout fiscal 2002 and 2003 as investigations and negotiations proceeded. On September 30, 2003, we settled this claim with the lessor for (pound)684,000 (approximately \$1.2 million), which we had previously accrued. The settlement payment was due and paid in the first quarter of fiscal 2004.

The following tables set forth net sales by geographic region and product category for the years ended October 31, 2002 and 2001 (in thousands):

Net Sales and Service Fees by Geographic Region

	October 31,			
	2002		2001	
Americas.....	\$ 24,148	34.3%	\$ 34,779	37.7%
Europe	44,509	63.1%	54,977	59.6%
Asia Pacific.....	1,829	2.6%	2,511	2.7%
Total.....	<u>\$ 70,486</u>	<u>100.0%</u>	<u>\$ 92,267</u>	<u>100.0%</u>

Net Sales and Service Fees by Product Category

	October 31,			
	2002		2001	
Continuing Products and Services				
Computerized Machine Tools.....	\$ 52,056	73.9%	\$ 69,631	75.4%

Computer Control Systems and Software.....	3,194	4.5%	4,782	5.2%
Service Parts.....	7,240	10.3%	8,038	8.7%
Service Fees.....	3,240	4.6%	3,749	4.1%
Total.....	\$ 65,730	93.3%	\$ 86,200	93.4%
Discontinued Products and Services.....	4,756	6.7%	6,067	6.6%
Total.....	\$ 70,486	100.0%	\$ 92,267	100.0%

Our total sales and service fees were \$70.5 million in fiscal 2002, a \$21.8 million, or 24%, decline compared to fiscal 2001. Sales of computerized machine tools (other than discontinued products) declined \$17.6 million, or 25%, compared to fiscal 2001, reflecting the continuing global weakness in industrial equipment spending and reduced consumption of machine tools by many manufacturing companies, with the decline comprising \$6.8 million, \$10.1 million and \$671,000 in the United States, Europe and Southeast Asia, respectively. Non-machine tool revenues also declined due to reduced activity levels in our market sectors, with the decline being most pronounced in the U.S.

The following table sets forth machine unit volume and average net selling price for computerized machine tools by continuing and discontinued products:

Computerized Machine Tools - Units Sold	2002		2001	
Continuing Products	697	88.9%	942	92.4%
Discontinued Products	87	11.1%	77	7.6%
Total	784	100.0%	1,019	100.0%

Average Net Selling Price - Per Unit (in thousands)	2002		2001	
Continuing Products	\$ 74.7		\$ 73.9	
Discontinued Products	\$ 39.6		\$ 47.5	
Total	\$ 70.8		\$ 71.9	

The average net selling price per machine unit of continuing products increased due to the effect of stronger European currencies when translating foreign sales for financial reporting purposes which more than offset the effect of increased discounting due to weak market conditions.

New order bookings for continuing products in fiscal 2002 were \$62.2 million compared to \$83.3 million in fiscal 2001, a 25% decline. New orders for computerized machine tools (other than discontinued products) declined 27% in U.S. dollars worldwide. The decline, which was experienced in all of our geographic markets, reflected a sharp decrease in orders for vertical machining centers, our primary product line. Backlog was \$5.3 million at October 31, 2002, compared to \$9.1 million at October 31, 2001.

Gross margin for fiscal 2002, exclusive of inventory write-downs recorded in cost of sales, declined to 23.2% from 25.2% in fiscal 2001, due to the decline in our sales of vertical machining centers and our sale of approximately \$4.8 million in discontinued products at discounted prices. Gross margin did improve in the last three quarters of fiscal 2002 compared to the immediately preceding quarter, although the improvement was due primarily to the cost reductions implemented over the preceding eighteen months.

Selling, general and administrative expenses for fiscal 2002 of \$19.7 million were \$4.4 million, or 18%, lower than those for fiscal 2001, due to our cost reduction programs. We expect operating expenses to be lower in 2003 as we experience a full year's benefit of cost reductions initiated in fiscal 2002.

Non-operating items consisted of interest expense of \$634,000 in fiscal 2002, which was \$156,000, or 20%, lower than in fiscal 2001, primarily due to reduced borrowings. License fee income and litigation settlement fees in fiscal 2002 and 2001 consisted of several licenses that were granted during the year. The licensing program that resulted in these fees was effectively completed in the first quarter of fiscal 2002 and we do not expect additional license fee income in the foreseeable future. Earnings from equity investments are from our two affiliates which are accounted for using the equity method. Other expense in fiscal 2002 was not significant and in fiscal 2001, consisted primarily of the costs of typhoon-related flood damage at our manufacturing facility in Taiwan.

The provision for income taxes is related to the earnings of two foreign subsidiaries.

Liquidity and Capital Resources

At October 31, 2003, we had cash and cash equivalents of \$5.3 million, exclusive of \$622,000 restricted cash related to derivative instruments, compared to \$4.4 million at October 31, 2002. Cash generated from operations totaled \$2.3 and \$6.2 million at October 31, 2003 and 2002, respectively.

The weakening of the U.S. dollar in relation to European currencies subsequent to October 31, 2003, will result in a temporary increase in restricted cash related to derivative instruments, pending the liquidation of forward contracts in the normal course during fiscal 2004. Anticipated cash losses on these forward contracts will be funded by the increased U.S. dollar value of the related inter-company sales which are being hedged and; as a result, we do not expect cash flow from operations to be adversely affected.

Working capital, excluding short-term debt, was \$21.6 million at October 31, 2003, approximately the same as at October 31, 2002. Cash flow from operations benefited \$1.3 million in fiscal 2003 from accelerated collections of accounts receivable and \$1.5 million from planned reductions of finished machines in inventory. These amounts were substantially offset by reductions in accounts payable and accrued expenses due principally to timing of payments related to prior year foreign taxes and other operating items. We expect our operating working capital requirements to increase in fiscal 2004, commensurate with any increase in sales and service fees. Any such increase will be funded by cash flow from operation and borrowings under our bank credit facilities.

Capital investments during the year consisted of normal expenditures for software development projects and purchases of equipment. We funded these expenditures with cash flow from operations. On October 24, 2002, we issued a secured promissory note for \$1.3 million to the seller of certain patent rights as partial payment for the purchase of those rights. The note had an interest rate of 2.75% per annum and was payable in four quarterly installments of \$337,500, the last of which was paid on December 31, 2003.

Effective December 1, 2003, we amended and restated our credit agreement with our domestic bank, which extended the maturity date to December 1, 2006 and increased the maximum amount of the facility from \$7.0 million to \$8.0 million. The credit agreement provides the lender with a security interest in substantially all domestic assets, exclusive of the assets subject to the first mortgage, and 66% of the common stock of our U.S. holding companies, which own our foreign subsidiaries. Borrowings may be made in U.S. Dollars, Euros or Pounds Sterling. Interest on all outstanding borrowings is payable at LIBOR for the respective currency plus an applicable margin, or, at our option, prime rate plus a specified margin based on funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio, as follows:

Total Funded Debt/EBITDA ratio	LIBOR Margin	Prime Margin
Greater than 3.0	2.75%	0%
Greater than 2.5 and less than or equal to 3.0	2.0%	(.25%)
Greater than 2.0 and less than or equal to 2.5	1.5%	(.50%)
Less than or equal to 2.0	1.0%	(.75%)

Prior to March 1, 2004, the applicable margin is determined based on the total funded debt/EBITDA ratio being greater than 2.5 and less than or equal to 3.0. Thereafter, the applicable margin will be adjusted on the first day of the month following the month after each quarter end.

Availability under the facility is limited to the greater of the commitment or a borrowing base, as defined in the agreement, which measured as of October 31, 2003, aggregated \$7.5 million. The agreement requires that we maintain Consolidated Net Worth of \$32.0 million plus an amount equal to 75% of positive consolidated net income for the fiscal year ended October 31, 2004, and for each fiscal year thereafter. Consolidated Net Worth is defined as total Shareholders' Equity excluding Accumulated Other Comprehensive Income. Our consolidated total debt as compared to consolidated total debt plus Consolidated Net Worth ratio cannot be greater than 0.35 to 1.0 and our fixed charge coverage ratio cannot be less than 1.10 to 1.0. The fixed charge coverage ratio is the ratio of consolidated EBITDA minus taxes, unfunded capital expenditures and redemptions of capital stock to principal payments of indebtedness plus consolidated interest expense.

Effective January 15, 2004, we entered into an agreement with our principal domestic bank which provides our U.K. subsidiary with a revolving credit and overdraft facility. The facility includes a maximum commitment aggregating (pound)1.0 million (approximately \$1.7 million) and matures January 31, 2007. Borrowings will be secured by liens on substantially all of the assets of our U.K. subsidiary. Interest on outstanding borrowings will be based on LIBOR for fixed rate loans and a base rate for overdrafts, in each case, plus a margin based on consolidated funded debt to EBITDA equivalent to that of our domestic bank facility.

We have a 3.0 million Euro credit facility with a European bank. On December 1, 2003, the maturity date of the facility was extended until November 30, 2004. Interest on the facility is payable at 7.16% per annum or, at our option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollateralized, the bank reserves the right to require collateral in the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2003 were \$1.3 million.

During the fourth quarter of fiscal 2003, we settled a disputed claim in the United Kingdom regarding a terminated facility lease for \$1.2 million, which had been previously accrued. The settlement payment was due in two equal installments, which were paid in the first quarter of fiscal 2004. The settlement payments were funded through cash flow from operations and borrowings available from bank credit facilities.

Total debt at October 31, 2003 was \$9.2 million representing 24% of total capitalization, compared to \$8.9 million, or 24% of total capitalization, at October 31, 2002. We were in compliance with all loan covenants and had unused credit availability of \$6.4 million at October 31, 2003. We believe that cash flow from operations and borrowings available to us under our credit facilities will be sufficient to meet our anticipated cash requirements in fiscal 2004.

Contractual Obligations and Commitments

The following is a table of contractual obligations and commitments as of October 31, 2003 (all amounts in thousands):

	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt.....	\$ 9,222	\$ 645	\$ 4,703	\$ 145	\$ 3,729
Operating Leases.....	2,770	1,185	1,371	199	15
Deferred Credits and Other.....	486	--	--	--	486
Total.....	\$ 12,478	\$ 1,830	\$ 6,074	\$ 344	\$4,230

In addition to the contractual obligations and commitments disclosed above, we also have a variety of other contractual agreements related to the procurement of materials and services and other commitments. With respect to these agreements, we are not subject to any contracts which commit us to material non-cancelable commitments. While some of these contractual agreements are long-term supply agreements, we are not committed under these agreements to accept or pay for requirements which are not needed to meet production needs. We have no material minimum purchase commitments or "take-or-pay" type agreements or arrangements.

With respect to capital expenditures, we expect capital spending in fiscal 2004, exclusive of capitalized software development costs, to approximate \$1.5 million, which includes discretionary items.

Off Balance Sheet Arrangements

From time to time, our German subsidiary guarantees third party lease financing residuals in connection with the sale of certain machines in Europe. At October 31, 2003 there were 26 third party guarantees totaling approximately \$1.4 million. A retention of title clause allows our Germany subsidiary to obtain the machine if the customer defaults on its lease. We believe that the proceeds obtained from liquidation of the machine would cover any payments required under the guarantee.

Critical Accounting Policies

Our accounting policies, including those described below, require management to make significant estimates and assumptions using information available at the time the estimates are made. Such estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues and expenses. If our future experience differs materially from these estimates and assumptions, our results of operations and financial condition could be affected.

Revenue Recognition - We recognize product revenue upon delivery to the customer, which is normally at the time of shipment, because ownership and risk of loss passes to the customer at that time and payment terms are fixed. Our computerized machine tools are general-purpose computer controlled machine tools that are typically used in stand-alone operations. Transfer of ownership and risk of loss are not contingent upon contractual customer acceptance. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications as listed in our sales literature.

Depending upon geographic location, the machine installation at the end user may be completed by a distributor, independent contractor or Hurco service technician. In most instances where a machine is sold through a distributor, we have no installation involvement. If sales are direct or through sales agents, we will typically complete the machine installation. The machine installation consists of the reassembly of certain parts that were removed for shipping and the re-testing of the machine to ensure that it is performing with the standard specifications. We consider the machine installation process inconsequential and perfunctory. Service fees from maintenance contracts are deferred and recognized in earnings on a pro rata basis over the term of the contract. Sales related to software products are recognized when shipped in conformity with American Institute of Certified Public Accountants' Statement of Position 97-2 Software Revenue Recognition.

Inventories - We must determine at each balance sheet date how much, if any, of our inventory may ultimately prove to be unsaleable or unsaleable at its carrying cost. Reserves are established to effectively adjust any such inventory to net realizable value. To determine the appropriate level of valuation reserves, we evaluate current stock levels in relation to historical and expected patterns of demand for all of our products. Management evaluates the need for changes to valuation reserves based on market conditions, competitive offerings and other factors on a regular basis.

Deferred Tax Asset Valuation - As of October 31, 2003, we have deferred tax assets of \$5.6 million for which we have recorded a full valuation allowance, resulting in zero net deferred tax asset on our balance sheet. These future tax benefits relate primarily to net operating loss carryforwards in the United States and certain foreign jurisdictions, as well as Federal business tax credits carried forward in the United States. Some of these carryforward benefits expire at certain dates and utilization of certain others is limited to specific amounts each year. Realization of those benefits is entirely dependent upon generating sufficient future taxable earnings in the specific tax jurisdictions before they expire. Due to the recent losses in the United States and the applicable foreign tax jurisdictions, there is uncertainty whether these tax benefits can be utilized before they expire. Therefore, we have established a full valuation allowance. The need for this allowance is reviewed periodically, and if reduced in future periods, the associated tax benefits will be recorded in future operations as a reduction of income tax expense.

Capitalized Software Development Costs - Costs incurred to develop new computer software products and significant enhancements to software features of existing products are capitalized as required by SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", and amortized over the estimated product life of the related software. The determination as to when in the product development cycle technological feasibility has been established, and the expected product life, require judgments and estimates by management and can be affected by technological developments, innovations by competitors and changes in market conditions affecting demand. We capitalized \$679,000 in fiscal 2003, \$534,000 in fiscal 2002, and \$665,000 in fiscal 2001 related to software development projects. Also in fiscal 2002, we wrote off \$1.0 million of previously capitalized costs related to a discontinued product line. At October 31, 2003 we have an asset of \$1.9 million for capitalized software development projects, a significant portion of which relates to projects currently in process and subject to development risk and market acceptance. We periodically review the carrying values of these assets and make judgments as to

ultimate realization considering the above mentioned risk factors.

Derivative Financial Instruments - Critical aspects of our accounting policy for derivative financial instruments include conditions which require that critical terms of a hedging instrument are essentially the same as a hedged forecasted transaction. Another important element of the policy demands that formal documentation be maintained as required by the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Failure to comply with these conditions would result in a requirement to recognize changes in market value of hedge instruments in earnings. We routinely monitor significant estimates, assumptions, and judgments associated with derivative instruments, and compliance with formal documentation requirements.

Stock Compensation - We apply the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based compensation; therefore, no compensation expense has been recognized for stock options, except for certain shares subject to variable plan accounting, as options are granted at fair market value. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" provides an alternative method of accounting for stock options based on an option-pricing model, such as Black-Scholes. We have adopted the disclosure requirements of SFAS No. 123. Information and assumptions regarding compensation expense under the alternative method is provided in Note 8 to the Consolidated Financial Statements.

Item 7a. Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Risk

Our earnings are affected by changes in interest expense on our outstanding debt, all of which is subject to floating rates, either LIBOR or Prime. If market interest rates on our outstanding variable rate borrowings were to have increased by one percentage point (1%) (or 100 basis points) over the actual rates paid in that year, interest expense would have increased by \$62,000 in fiscal 2003 and \$90,000 in fiscal 2002. This sensitivity analysis assumes no changes in other factors affecting our financial statements that might result from changes in the economic environment which impact interest rates. Note 4 of the Consolidated Financial Statements has a discussion of the interest rates related to our current credit facilities. At October 31, 2003, outstanding borrowings under our bank credit facilities were \$4.1 million and our total indebtedness was \$9.2 million.

Foreign Currency Exchange Risk

In fiscal 2003, approximately 70% of our sales and service fees, including export sales, were derived from foreign markets. All of our computerized machine tools and computer control systems, as well as certain proprietary service parts, are sourced by our U.S.-based engineering and manufacturing division and re-invoiced to our foreign sales and service subsidiaries, primarily in their functional currencies.

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

We enter into foreign currency forward exchange contracts from time to time to hedge the cash flow risk related to forecast inter-company sales, and forecast inter-company and third party purchases denominated in, or based on, foreign currencies (primarily the Euro, Pound Sterling 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.

Forward contracts for the sale or purchase of foreign currencies as of October 31, 2003 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, 2003	
Sale Contracts:					
Euro	14,800,000	\$ 1.1057	\$ 16,364,360	\$ 17,047,507	Nov 2003-Oct 2004
Sterling	1,960,000	\$ 1.6241	\$ 3,183,236	\$ 3,278,948	Nov 2003-Sept 2004

Forward contracts for the sale of foreign currencies as of October 31, 2003 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, 2003	
Sale Contracts:					
Euro	4,671,837	\$ 1.1650	\$5,442,690	\$5,399,671	Nov 2003-Dec 2003
Singapore Dollar	2,601,353	\$.5733	\$1,491,356	\$1,496,295	Nov 2003 -Jan 2004
Sterling	522,374	\$ 1.6723	\$873,566	\$882,615	Nov 2003-Dec 2003
Purchase Contracts:					
New Taiwan Dollar	36,800,000	33.66*	\$1,093,286	\$1,085,478	Nov 2003-Dec 2003

* NT Dollars per U.S. dollars

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Auditors

To the Shareholders and Board of Directors of Hurco Companies, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Hurco Companies, Inc. and its subsidiaries at October 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended October 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements and financial statement schedule of Hurco Companies, Inc. for the year ended October 31, 2001 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated January 15, 2002.

/s/PricewaterhouseCoopers LLP

Indianapolis, Indiana
December 9, 2003

Report of Independent Public Accountants

Interest expense.....	658	634	790
License fee income and litigation settlement fees, net (Note 10 and 13).....	--	163	723
Earnings from equity investments.....	202	25	383
Other expense, net.....	321	61	215
Income (loss) before income taxes.....	1,420	(7,674)	(820)
Provision for income taxes (Note 6).....	958	589	777
Net income (loss).....	\$ 462	\$ (8,263)	\$ (1,597)
Earnings (loss) per common share - basic.....	\$ 0.08	\$ (1.48)	\$ (.28)
Weighted average common shares outstanding - basic.....	5,582	5,583	5,670
Earnings (loss) per common share - diluted.....	\$ 0.08	\$ (1.48)	\$ (.28)
Weighted average common shares outstanding - diluted.....	5,582	5,583	5,670

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

HURCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

	As of October 31	
	2003	2002
Current assets:	(Dollars in thousands, except per share amounts)	
Cash and cash equivalents.....	\$ 5,289	\$ 4,358
Cash - restricted.....	622	--
Accounts receivable, less allowance for doubtful accounts of \$630 in 2003 \$689 in 2002.....	12,823	13,425
Inventories.....	22,247	22,548
Other.....	1,409	1,204
Total current assets.....	42,390	41,535
Property and equipment:		
Land.....	761	761
Building.....	7,239	7,203
Machinery and equipment.....	10,568	10,144
Leasehold improvements.....	544	396
Less accumulated depreciation and amortization.....	19,112	18,504
	(10,730)	(9,696)
	8,382	8,808
Software development costs, less accumulated amortization.....	1,922	1,604
Investments and other assets.....	5,264	5,205
	\$ 57,958	\$ 57,152

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 9,249	\$ 8,752
Accounts payable-related parties.....	212	1,104
Accrued expenses and other.....	9,032	9,013
Accrued warranty expenses.....	1,016	1,003
Current portion of long-term debt.....	645	1,313
Total current liabilities.....	20,154	21,185
Non-current liabilities:		
Long-term debt.....	8,577	7,572
Deferred credits and other.....	486	378
	9,063	7,950
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, 5,575,987 and 5,583,158 shares issued and outstanding in 2003 and 2002, respectively.....	557	558
Additional paid-in capital.....	44,695	44,717
Accumulated deficit.....	(9,711)	(10,173)
Accumulated other comprehensive income (loss).....	(6,800)	(7,085)

Total shareholders' equity.....	28,741	28,017
	\$ 57,958	\$ 57,152

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

HURCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended October 31		
	2003	2002	2001
(Dollars in thousands)			
Cash flows from operating activities:			
Net income (loss).....	\$ 462	\$ (8,263)	\$ (1,597)
Adjustments to reconcile net income (loss) to Net cash provided by (used for) operating activities:			
Provision for doubtful accounts.....	421	133	547
Equity in income of affiliates.....	(202)	(25)	(383)
Depreciation and amortization.....	1,429	1,929	2,196
Restructuring charge (credit).....	--	2,250	(195)
Change in assets/liabilities			
(Increase) decrease in accounts receivable.....	1,348	1,615	3,113
(Increase) decrease in inventories.....	1,465	7,720	(4,018)
Increase (decrease) in accounts payable.....	(687)	(141)	(3,521)
Increase (decrease) in accrued expenses.....	(1,760)	1,228	558
Other.....	(200)	(245)	(182)
Net cash provided by (used for) operating activities.....	2,276	6,201	(3,482)
Cash flows from investing activities:			
Proceeds from sale of property and equipment.....	14	154	38
Purchase of property and equipment.....	(536)	(1,184)	(1,253)
Software development costs.....	(679)	(534)	(665)
Purchase of intellectual property.....	--	(500)	--
Change in restricted cash.....	(622)	--	--
Other proceeds (investments).....	(25)	1,037	(829)
Net cash used for investing activities.....	(1,848)	(1,027)	(2,709)
Cash flows from financing activities:			
Advances on bank credit facilities.....	55,731	28,369	44,300
Repayments on bank credit facilities.....	(54,418)	(37,251)	(34,050)
Repayments of term debt.....	(1,211)	(200)	(1,986)
Proceeds from first mortgage.....	--	4,500	--
Repayment of first mortgage.....	(108)	(39)	--
Proceeds from exercise of common stock options.....	--	4	35
Purchase of common stock.....	(23)	--	(1,706)
Net cash provided by (used for) financing activities.....	(29)	(4,617)	6,593
Effect of exchange rate changes on cash.....	532	278	(263)
Net increase (decrease) in cash.....	931	835	139
Cash and cash equivalents at beginning of year.....	4,358	3,523	3,384
Cash and cash equivalents at end of year.....	\$ 5,289	\$ 4,358	\$ 3,523

Supplemental disclosures:.....			
Cash paid for:			
Interest.....	\$ 595	\$ 519	\$ 682
Income taxes.....	\$ 468	\$ 442	\$ 501

Supplemental schedule of noncash investing and financial activities:

In fiscal 2002, we purchased patented technology for \$1.85 million. In connection therewith we issued a secured promissory note for \$1.35 million.	
Fair value of asset acquired.....	\$ 1,850
Cash paid.....	500
Promissory note issued.....	\$ 1,350

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

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares Issued & Outstanding	Amount				
(Dollars in thousands)						
Balances, October 31, 2000.....	5,955,359	\$ 596	\$ 46,347	\$ (313)	\$ (7,739)	\$38,891
Net loss.....	--	--	--	(1,597)	--	(1,597)
Translation of foreign currency financial statements.....	--	--	--	--	315	315
Unrealized loss of derivative instruments..	--	--	--	--	(470)	(470)
Comprehensive loss.....						(1,752)
Exercise of common stock options.....	16,400	1	34	--	--	35
Repurchase of common stock.....	(391,101)	(39)	(1,667)	--	--	(1,706)
Balances, October 31, 2001	5,580,658	\$ 558	\$ 44,714	\$ (1,910)	\$ (7,894)	\$35,468
Net income loss.....	--	--	--	(8,263)	--	(8,263)
Translation of foreign currency financial statements.....	--	--	--	--	981	981
Unrealized loss of derivative instruments..	--	--	--	--	(172)	(172)
Comprehensive loss.....						(7,454)
Exercise of common stock options.....	2,500	--	3	--	--	3
Balances, October 31, 2002.....	5,583,158	\$ 558	\$ 4,717	\$ (10,173)	\$ (7,085)	\$28,017
Net income loss.....	--	--	--	462	--	462
Translation of foreign currency financial statements.....	--	--	--	--	1,454	1,454
Unrealized loss of derivative instruments..	--	--	--	--	(1,169)	(1,169)
Comprehensive income.....						747
Repurchase of common stock.....	(7,171)	(1)	(22)	--	--	(23)
Balances, October 31, 2003.....	5,575,987	\$ 557	\$ 44,695	\$ (9,711)	\$ (6,800)	\$28,741

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 in affiliates are approximately \$1.8 million and are included in Investments and 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.

Restricted Cash. Restricted cash results from hedging arrangements that require cash to be on deposit with an institution based on open positions.

Translation of Foreign Currencies. All balance sheet accounts of non-U.S. subsidiaries are translated at the exchange rate as of the end of the year. Income and expenses are translated at the average exchange rates during the year. Cumulative foreign currency translation adjustments of \$5.0 million are included in Accumulated Other Comprehensive Income in shareholders' equity. Foreign currency transaction gains and losses are recorded as income or expense as incurred.

Hedging. On November 1, 2001, we adopted Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). 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 Expense, Net in the 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 forecast inter-company sales and forecast inter-company and third-party purchases of product denominated in foreign currencies (primarily 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 the 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 Expenses. 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 cost of sales in the period that the sale of the related hedged item is recognized, thereby providing an offsetting economic impact against the corresponding change in the U.S. dollar value of the inter-company sale or purchase item being hedged.

At October 31, 2003, we had \$1,814,000 of losses related to cash flow hedges deferred in Accumulated Other Comprehensive Income. Of this amount, \$778,000 represents unrealized losses related to future cash flow hedge instruments that remain subject to currency fluctuation risk. These deferred losses will be recorded as an adjustment to cost of sales in the periods through October 31, 2004, in which the sale of the related hedged item is recognized, as described above. At October 31, 2002, we had \$645,000 of losses related to cash flow hedges deferred in Accumulated Other Comprehensive Income. Net losses on cash flow hedge contracts which we reclassified from Other Comprehensive Income to Cost of Sales

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

in the years ended October 31, 2003, 2002 and 2001 were \$1,430,000, \$617,000, and \$261,000, respectively.

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, "Accounting Standards for Derivative Instruments and Hedging Activities" (SFAS 133), and, as a result, changes in fair value are reported currently as Other Expense, Net in the Consolidated Statement of Operations consistent with the transaction gain or loss on the related foreign denominated receivable or payable. Such net transaction losses were \$(154,000), \$(209,000) and \$(50,000) for the years ended October 31, 2003, 2002 and 2001, respectively.

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

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

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

Total depreciation expense for the years ended October 31, 2003, 2002 and 2001 was \$1.0 million, \$1.1 million and \$1.3 million, respectively. Any impairment would be recognized based on an assessment of future operations (including cash flows) to insure that assets are appropriately valued.

Revenue Recognition. We recognize product revenue upon delivery to the customer, which is normally at the time of shipment because ownership and risk of loss passes to the customer at that time and payment terms are fixed. Our computerized machine tools are general-purpose computer controlled machine tools that are typically used in stand-alone operations. Transfer of ownership and risk of loss are not contingent upon contractual customer acceptance. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications as listed in our sales literature.

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

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

License Fee Income, Net. From time to time, our wholly owned subsidiary, IMS Technology, Inc. (IMS) entered into agreements for the licensing of its interactive computer control patents. License fees received under a fully paid-up license, for which there are no future performance requirement or

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

contingency, and litigation settlement fees were recognized in income, net of legal fees and expenses, if any, at the time the related agreement was executed. License fees received in periodic installments that were 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. We have no deferred license fee income at October 31, 2003 and do not expect any significant license fee income in the foreseeable future.

Product Warranty. Expected future product warranty expense is recorded when the product is sold.

Research and Development Costs. The costs associated with research and development programs for new products and significant product improvements are expensed as incurred and are included in Selling, General and Administrative expenses. Research and development expenses totaled \$1.8 million, \$2.4 million, and \$3.5 million in fiscal 2003, 2002, and 2001, respectively.

Costs incurred to develop computer software products and significant enhancements to software features of existing products to be sold or otherwise marketed are capitalized, after technological feasibility is established. Software development costs are amortized to Cost of Sales on a straight-line basis over the estimated product life of the related software, which ranges from three to five years. We capitalized \$679,000 in 2003, \$534,000 in 2002, and \$665,000 in 2001 related to software development projects. Amortization expense was \$361,000, \$719,000, and \$925,000, for the years ended October 31, 2003, 2002, and 2001, respectively. Accumulated amortization at October 31, 2003 and 2002 was \$8.8 million and \$8.4 million, respectively. Any impairment of the carrying value of the capitalized software development costs could be recognized based on an assessment of future operations (including cash flows) to insure that assets are appropriately valued.

Estimated amortization expense for the existing amortizable intangible assets for the years ended October 31, is as follows:

Fiscal Year	Amortization Expense
2004	\$372
2005	380
2006	367
2007	367
2008	367

Earnings Per Share. Basic and diluted earnings per common share are based on the weighted average number of our shares of common stock outstanding. Diluted earnings per common share give effect to outstanding stock options using the treasury method. The impact of potentially issuable shares for the years ended October 31, 2002 and 2001 was excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

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

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

2. BUSINESS OPERATIONS

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

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

Credit Risk. We sell products to customers located throughout the world. We perform ongoing credit evaluations of customers and generally do not require collateral. Allowances are maintained for potential credit losses. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across many geographic areas. Although a significant amount of trade receivables are with distributors primarily located in the United States, no single distributor or region represents a significant concentration of credit risk.

Manufacturing Risk. Our computerized machine tools and integrated computer controls are manufactured primarily in Taiwan by our wholly-owned subsidiary and our affiliated contract manufacturers. We also source one of the proprietary Ultimax(R) computer components from a sole domestic supplier. 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, 2003 and 2002 are summarized below (in thousands):

	2003	2002
	-----	-----
Purchased parts and sub assemblies.....	\$ 5,729	\$ 6,677
Work-in-process.....	2,029	2,251
Finished goods.....	14,489	13,620
	-----	-----
	\$ 22,247	\$ 22,548
	=====	=====

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

4. DEBT AGREEMENTS

Long-term debt as of October 31, 2003 and 2002, consisted of (in thousands):

	2003	2002
	-----	-----
Domestic bank revolving credit facility.....	\$ 2,850	\$ --

European bank credit facility.....	1,274	2,475
First Mortgage.....	4,360	4,460
Installment Promissory Note.....	338	1,350
Economic Development Revenue Bonds, Series 1990.....	400	600
	-----	-----
	9,222	8,885
Less current portion.....	645	1,313
	-----	-----
	\$ 8,577	\$ 7,572
	=====	=====

As of October 31, 2003, long-term debt was payable as follows (in thousands):

Fiscal 2004.....	645
Fiscal 2005.....	1,591
Fiscal 2006.....	126
Fiscal 2007.....	2,986
Fiscal 2008.....	145
Thereafter.....	3,729

	9,222
	=====

As of October 31, 2003 and 2002, we had \$0 and \$1.1 million, respectively, of outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of October 31, 2003, we had unutilized credit facilities of \$6.4 million available for either direct borrowings or commercial letters of credit. We were in compliance with all loan covenants at October 31, 2003.

Domestic Bank Credit Facility. Interest on the domestic bank credit facility was payable at rates ranging from 5.12% to 6.25% at October 31, 2003 and from 4.28% to 5.25% at October 31, 2002.

Effective December 1, 2003, we amended and restated our bank credit agreement with our domestic bank, which extended the maturity date to December 1, 2006 and increased the maximum amount of the facility from \$7.0 million to \$8.0 million. The credit agreement provides the lender with a security interest in substantially all domestic assets, exclusive of the assets subject to a first mortgage, and 66% of the common stock of our U.S. holding companies, which own our foreign subsidiaries. Borrowings may be made in U.S. Dollars, Euro or Pounds Sterling. Interest on all outstanding borrowings is payable at LIBOR for the respective currency plus an applicable margin, or, at our option, prime rate plus a specified margin based on funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio, as follows:

Total Funded Debt/EBITDA ratio	LIBOR Margin	Prime Margin
-----	-----	-----
Greater than 3.0	2.75%	0%
Greater than 2.5 and less than or equal to 3.0	2.0%	(.25%)
Greater than 2.0 and less than or equal to 2.5	1.5%	(.50%)
Less than or equal to 2.0	1.0%	(.75%)

Prior to March 1, 2004, the applicable margin is determined based on the total funded debt/EBITDA ratio being greater than 2.5 and less than or equal to 3.0. Thereafter, the applicable margin will be adjusted on the first day of the month following the month after each quarter end.

Availability under the facility is limited to the greater of the commitment or a borrowing base, as defined in the agreement, which measured as of October 31, 2003 aggregated \$7.5 million. The

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

agreement requires that we maintain Consolidated Net Worth of \$32.0 million plus an amount equal to 75% of positive consolidated net income for the fiscal year ended October 31, 2004, and for each fiscal year thereafter. Consolidated Net Worth is defined as total Shareholders' Equity excluding Accumulated Other Comprehensive Income. Our consolidated total debt compared to consolidated total debt plus Consolidated Net Worth ratio cannot be greater than 0.35 to 1.0 and

our fixed charge coverage ratio cannot be less than 1.10 to 1.0. The fixed charge coverage ratio is the ratio of consolidated EBITDA minus taxes, unfunded capital expenditures and redemptions of capital stock to principal payments of indebtedness plus consolidated interest expense.

Promissory Note. On October 24, 2002, we issued a secured promissory note for \$1,350,000 to the seller of patented technology that we purchased. The note bears interest at 2.75% per annum and at October 31, 2003 the balance of the note is \$337,500, due at December 31, 2003.

First Mortgage. On April 30, 2002, we obtained a \$4.5 million first mortgage loan on our Indianapolis corporate headquarters. The loan bears interest at a rate of 7% and matures in April 2009. We are required to make principal payments over the seven-year term of the loan, based on a twenty-year amortization schedule. The proceeds from the first mortgage loan, together with other available cash, were used to repay bank debt.

European Bank Credit Facilities. Effective January 15, 2004, we entered into a letter agreement with our principal domestic bank which provides our U.K. subsidiary with a revolving credit and overdraft facility. The facility includes a maximum commitment aggregating (pound)1.0 million (approximately \$1.7 million) and matures January 31, 2007. Borrowings will be secured by liens on substantially all of the assets of our U.K. subsidiary. Interest on outstanding borrowings will be based on LIBOR for fixed rate loans and a base rate for overdrafts, in each case, plus a margin based on consolidated funded debt to EBITDA equivalent to that of our domestic bank facility.

We have a 3.0 million Euro credit facility with a European bank. On December 1, 2003, the maturity date of the facility was extended until November 30, 2004. Interest on the facility is payable at 7.16% per annum or, at our option, 1.75% above EURIBOR for fixed rate borrowings. Although the facility is uncollateralized, the bank reserves the right to require collateral in the event of increased risk evaluation. Borrowings outstanding under this facility at October 31, 2003 were \$1.3 million.

Economic Development Revenue Bonds. The Economic Development Revenue Bonds are payable in two remaining equal annual installments due on September 1, 2004 and 2005 and are secured by a letter of credit issued by our domestic bank. Interest rates on the bonds adjust weekly and, as of October 31, 2003 and 2002, interest was accruing at a rate of 1.12% and 2.10%, respectively.

5. FINANCIAL INSTRUMENTS

The carrying amounts for trade receivables and payables approximate their fair values. At October 31, 2003, the carrying amounts and fair values of our financial instruments, which include bank revolving credit facilities, senior notes and Economic Development Revenue Bonds, are not materially different. The fair value of long-term debt, including the current portion, is estimated based on quoted market prices for similar issues or on current rates offered to us for debt of the similar terms and maturities.

We also have financial instruments in the form of foreign currency forward exchange contracts as described in Note 1 to the Consolidated Financial Statements. The U.S. Dollar equivalent notional amount of these contracts was \$28.4 million at October 31, 2003. The net fair value of these derivative instruments recorded in Accrued Expenses at October 31, 2003 was \$758,000. Current market prices were used to estimate the fair value of the foreign currency forward exchange contracts.

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

The future value of the foreign currency forward exchange contracts and the related currency positions are subject to offsetting market risk resulting from foreign currency exchange rate volatility. The counterparties to these contracts are substantial and creditworthy financial institutions. We do not consider either the risk of counterparty non-performance or the economic consequences of counterparty non-performance as material risks.

6. INCOME TAXES

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and

liabilities for financial reporting purposes. Deferred income taxes also reflect the value of net operating losses and an offsetting valuation allowance. Our total deferred tax assets and corresponding valuation allowance at October 31, 2003 and 2002, consisted of the following (in thousands):

	October 31	
	2003	2002
Tax effects of future tax deductible items related to:		
Accrued inventory reserves.....	\$ 630	\$ 623
Accrued warranty expenses.....	107	121
Deferred compensation.....	224	213
Other accrued expenses.....	389	521
Total deferred tax assets.....	1,350	1,478
Tax effects of future taxable differences related to:		
Accelerated tax deduction and other tax over book deductions related to property, equipment and software.....	(990)	(968)
Other.....	(632)	(698)
Total deferred tax liabilities.....	(1,622)	(1,666)
Net tax effects of temporary differences.....	(272)	(188)
Tax effects of carryforward benefits:		
U.S. federal net operating loss carryforwards, expiring 2023.....	2,868	2,745
Foreign tax benefit carryforwards, expiring 2004-2008.....	568	326
Foreign tax benefit carryforwards, with no expiration.....	1,398	1,435
U.S. federal general business tax credits, expiring 2004-2023.....	1,036	1,017
Tax effects of carryforwards.....	5,870	5,523
Tax effects of temporary differences and carryforwards, net.....	5,598	5,335
Less valuation allowance.....	(5,598)	(5,335)
Net deferred tax asset.....	\$ --	\$ --

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.

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

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. While the need for this valuation allowance is subject to periodic review, if the allowance is reduced, the tax benefits of the carryforwards will be recorded in future operations as a reduction of our income tax expense.

Income (loss) before income taxes (in thousands):	Year Ended October 31		
	2003	2002	2001
Domestic.....	\$ (875)	\$ (7,238)	\$ (2,980)
Foreign.....	2,295	(436)	2,160
	\$ 1,420	\$ (7,674)	\$ (820)
Differences between the effective tax rate and U.S. federal income tax rate were (in thousands):			
Tax at U.S. statutory rate.....	\$ 497	\$ (2,686)	\$ (287)
Federal tax.....	--	(95)	95
Effect of tax rates of international jurisdictions			
In excess (less than) of U.S. statutory rates.....	(130)	97	155
State income taxes.....	--	(6)	--
Effect of losses without current year benefit.....	591	3,279	1,043
Utilization of net operating loss carryforwards	--	--	(229)
Provision for income taxes.....	\$ 958	\$ 589	\$ 777

Our provision for income taxes in fiscal 2003, 2002 and 2001 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.

We have defined contribution plans that include a majority of our employees, 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 \$228,076, \$263,640, and \$344,811, for the years ended October 31, 2003, 2002 and 2001, respectively.

We also have split-dollar life insurance agreements with our executive officers. In fiscal 2003, the premiums were borrowed from the cash value of the policies and will be repaid from the policies' cash surrender values when the policies are terminated in accordance with the provisions of the agreements. In fiscal years prior to 2003, the premiums were paid by the Company.

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. Under the provision of the 1997 Plan, 750,000 shares of common stock may be issued and the maximum number of shares of common stock that may be granted to any individual is 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, 2003, options to purchase 657,000 shares had been granted and remained outstanding under the 1997 Plan.

In 1990, we adopted the 1990 Stock Option Plan (the 1990 Plan), which allowed us to grant options to purchase shares of our common stock and related stock appreciation rights and limited rights to officers and our key employees. Under the provisions of the 1990 Plan, the maximum number of shares of common stock, which could be issued under options and related rights, was 500,000. There was no annual limit on the number of such shares with respect to which options and rights could be granted. Options granted under the 1990 Plan are exercisable for a period up to ten years after date of grant and vested in equal installments over a period of three to five years from the date of grant. The option price could not be less than 100% of the fair market value of a share of common stock on the date of grant and no options or rights could be granted under the 1990 Plan after April 30, 2000.

A summary of the status of the options under the 1990 and 1997 Plans as of October 31, 2003, 2002 and 2001 and the related activity for the year is as follows:

	Shares Under Option	Weighted Average Exercise Price Per Share

Balance October 31, 2000	826,660	\$4.77
Granted.....	57,000	3.67
Cancelled.....	(82,000)	5.23
Expired.....	(20,000)	7.15
Exercised.....	(16,400)	2.14

Balance October 31, 2001	765,260	\$4.63
Granted.....	342,000	2.14
Cancelled.....	(266,900)	4.18
Expired.....	(7,700)	2.13
Exercised.....	(2,500)	2.13

Balance October 31, 2002	830,160	\$3.78
Granted.....	--	--
Cancelled.....	(8,000)	4.14
Expired.....	(33,500)	5.85
Exercised.....	--	--

Balance October 31, 2003	788,660	\$3.69
=====		

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

Stock options outstanding and exercisable on October 31, 2003 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	580,160	\$2.84	5.9
5.813 - 8.250	208,500	6.05	5.0

\$ 2.125 - 8.250	788,660	\$3.69	5.5
=====			

Exercisable			
\$ 2.125 - 5.125	414,787	\$3.04	--
5.813 - 8.250	170,800	6.10	--

\$ 2.125 - 8.250	585,587	\$3.93	--
=====			

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

On November 11, 2001, our former CEO was granted 110,000 options at \$2.11 and all of his previous option grants were cancelled. These options are subject to variable plan accounting, which resulted in a charge to expense in fiscal 2003 of \$51,000 for the amount of the benefit that could have been realized based on the stock price at October 31, 2003.

The weighted average fair value at date of grant for options granted during fiscal 2002 and 2001, was \$1.43 and \$2.07, per share, respectively. No options were granted in 2003. 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:

	2003	2002	2001
Expected dividend yield.....	NA	0.00%	0.00%
Expected volatility.....	NA	53.71%	56.00%
Risk-free interest rate.....	NA	4.99%	5.18%
Expected term in years.....	NA	9.05	10

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

	2003	2002	2001
-----	-----	-----	-----
-----	-----	-----	-----

Net income (loss) (in thousands).....	\$	265	\$	(8,628)	\$	(1,928)
Earnings (loss) per share:.....						
Basic.....	\$	0.05	\$	(1.55)	\$	(.34)
Diluted.....	\$	0.05	\$	(1.55)	\$	(.34)

As of October 31, 2003, 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, 2003. The options expire at various dates between 2002 and 2008.

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

9. RELATED PARTY TRANSACTIONS

We own approximately 24% of one of our Taiwanese-based contract manufacturers. This investment of \$565,000 is accounted for using the equity method and is included in Investments and Other Assets on the Consolidated Balance Sheet. Purchases of product from this contract manufacturer totaled \$3.7 million, \$5.9 million, and \$12.2 million for the years ended October 31, 2003, 2002 and 2001, respectively. Trade payables to this contract manufacturer were \$111,000 at October 31, 2003, and \$1.0 million at October 31, 2002. Trade receivables were \$108,000 at October 31, 2003 and \$43,000 at October 31, 2002.

As of October 31, 2003, we owned 35% of Hurco Automation, Ltd. (HAL), a Taiwan based company. HAL's scope of activities includes the design, manufacture, sales and distribution of industrial automation products, software systems and related components, including control systems and components manufactured under contract for sale exclusively to us. We are accounting for this investment using the equity method. The investment of \$1.3 million at October 31, 2003 is included in Investments and Other Assets on the Consolidated Balance Sheet. Purchases of product from this supplier amounted to \$4.8 million, \$4.1 million and \$4.1 million in 2003, 2002 and 2001, respectively. Trade payables to HAL were \$1.2 million and \$879,000 at October 31, 2003 and 2002, respectively. Trade receivables from HAL were \$278,000 and \$311,000 at October 31, 2003 and 2002, respectively.

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

(000's)	2003	2002	2001
	-----	-----	-----
Net Sales.....	\$ 26,284	\$ 25,013	\$ 42,691
Gross Profit.....	4,409	4,173	7,305
Operating Income.....	564	127	2,047
Net Income.....	261	425	1,609
Current Assets.....	\$ 17,162	\$ 12,842	\$ 14,345
Non-current Assets.....	2,015	1,756	1,535
Current Liabilities.....	13,549	9,460	11,335

10. CONTINGENCIES AND LITIGATION

We previously occupied a facility located in England under a lease that expired in April 2002. The lease required that, following expiration of the lease, we make certain repairs to the facility resulting from deterioration of the facility during the lease term. The scope and cost of the repairs alleged by the lessor to be required evolved throughout fiscal 2002 and 2003 as investigations and negotiations proceeded. On September 30, 2003, we settled this claim with the lessor for (pound)684,000 (approximately \$1.2 million), which we had previously accrued. The settlement payment is due in two equal installments in November 2003 and January 2004.

We are involved in various claims and lawsuits arising in the normal course of business. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations.

11. GUARANTEES

During fiscal 2003, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and

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

Rescission of FASB Interpretation No. 34." FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosures of, the issuance of certain types of guarantees.

From time to time, our German subsidiary guarantees third party lease financing residuals in connection with the sale of certain machines in Europe. At October 31, 2003 there were 26 third party guarantees totaling approximately \$1.4 million. A retention of title clause allows our Germany subsidiary to obtain the machine if the customer defaults on its lease. We believe that the proceeds obtained from liquidation of the machine would cover any payments required under the guarantee.

We provide warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year for machines and shorter periods for service parts. We recognize a reserve with respect to this obligation at the time of product sale, with subsequent warranty claims recorded against the reserve. The amount of the warranty reserve is determined based on historical trend experience and any known warranty issues that could cause future warranty costs to differ from historical experience. A reconciliation of the changes in our warranty reserve is as follows (in thousands):

	Warranty Reserve
Balance at October 31, 2002	\$ 1,003
Provision for warranties during the period	1,058
Charges to the accrual	(1,135)
Impact of foreign currency translation	90

Balance at October 31, 2003	\$ 1,016
	=====

12. OPERATING LEASES

We lease facilities, certain equipment and vehicles under operating leases that expire at various dates through 2008. Future payments required under operating leases as of October 31, 2003, are summarized as follows (in thousands):

2004.....	1,185
2005.....	750
2006.....	337
2007.....	284
2008.....	199
Thereafter.....	15

Total.....	2,770
	=====

Lease expense for the years ended October 31, 2003, 2002, and 2001 was \$1.5 million, \$1.8 million, and \$1.6 million, respectively.

We recorded \$118,000 of lease income from subletting 45,000 square feet of our Indianapolis facility. The sublease expires on January 31, 2005.

13. LICENSE FEE INCOME AND LITIGATION SETTLEMENT FEES, NET

License fee income and litigation settlement fees, net for fiscal 2002 and 2001 were attributable to agreements entered into by our wholly owned subsidiary, IMS Technology, 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. We have no deferred license fee income at October 31, 2003 and do not expect any significant license fee income in the foreseeable future.

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

14. QUARTERLY HIGHLIGHTS (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
2003 (In thousands, except per share data)					
Sales and service fees.....	\$ 15,953	\$ 17,453	\$ 18,354	\$ 23,772	
Gross profit.....	3,994	5,128	5,074	6,626	
Gross profit margin.....	25.0%	29.4%	27.6%	27.9%	
Restructuring expense (credit) and other expense, net (Note 16).....	--	--	--	(124)	
Selling, general and administrative expenses	4,428	4,563	4,332	5,426	(b)
Operating income (loss).....	(434)	565	742	1,324	
Net income (loss).....	(582)	139	331	574	
Loss per common share - basic.....	\$ (.10)	\$.02	\$.06	\$.10	
Loss per common share - diluted.....	\$ (.10)	\$.02	\$.06	\$.10	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
2002 (In thousands, except per share data)					
Sales and service fees.....	\$ 18,520	\$ 14,995	\$ 18,204	\$ 18,767	
Gross profit.....	4,003	1,883 (a)	4,381	4,979	
Gross profit margin.....	21.6%	12.6% (a)	24.1%	26.5%	
Restructuring expense and other expense, net (Note 16).....	356	1,395	--	1,004	
Selling, general and administrative expenses	5,214	4,535	4,672	5,237	
Operating loss.....	(1,567)	(4,047)	(291)	(1,262)	
Net loss.....	(1,614)	(4,211)	(651)	(1,760)	
Loss per common share - basic.....	\$ (.29)	\$ (.75)	\$ (.12)	\$ (.32)	
Loss per common share - diluted.....	\$ (.29)	\$ (.75)	\$ (.12)	\$ (.32)	

a. Includes \$1.1 million restructuring charge for inventory write-downs related to under-performing product lines that were discontinued. Gross profit margin exclusive of the inventory charge was 19.1%.

b. Includes \$400,000 of incentive compensation expense.

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

15. SEGMENT INFORMATION

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

Our computerized metal cutting machine tools are manufactured to our specifications by manufacturing contractors in Taiwan including our wholly owned subsidiary, Hurco Manufacturing Limited (HML). Our executive offices and principal design, engineering, and manufacturing management operations are headquartered in Indianapolis, Indiana. We sell our products through approximately 200 independent agents and distributors in approximately 40 countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in England, France, Germany, Italy, Singapore and China. During fiscal 2003, no customer accounted for more than 5% of our sales and service fees.

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

thousands):

Net Sales and Service Fees by Product Category	Year ended October 31,		
	2003	2002	2001
Computerized Machine Tools.....	\$ 61,385	\$ 55,503	\$ 73,286
Computer Control Systems and Software *.....	3,044	3,632	5,716
Service Parts.....	7,643	8,111	9,516
Service Fees.....	3,460	3,240	3,749
Total.....	\$ 75,532	\$ 70,486	\$ 92,267

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

The following table sets forth revenues by geographic area, based on customer location, for each of the past three fiscal years were (in thousands):

Revenues by Geographic Area	Year Ended October 31		
	2003	2002	2001
United States.....	\$ 22,829	\$ 22,782	\$ 32,935
Germany.....	22,111	22,863	28,452
United Kingdom.....	8,381	7,387	8,814
Other Europe.....	17,735	14,142	17,847
Total Europe.....	48,227	44,392	55,113
Asia and Other.....	4,476	3,312	4,219
Total Foreign.....	52,703	47,704	59,332
	\$ 75,532	\$ 70,486	\$ 92,267

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

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

	October 31	
	2003	2002
United States.....	\$ 13,847	\$ 13,824
Foreign countries.....	1,721	1,793
	\$ 15,568	\$ 15,617

16. RESTRUCTURING EXPENSE AND OTHER EXPENSE, NET

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. Fiscal 2001 also included a reversal of a \$328,000 previously established reserve.

During fiscal 2002, we discontinued several under-performing product lines, sold the related assets and discontinued a software development project to enable us to focus our resources and technology development on our core products, which consist primarily of general purpose computerized machine tools for the metal cutting industry (vertical machining centers) into which our proprietary Ultimax(R) software and computer control systems have been fully integrated. As a result of these actions, we recorded restructuring charges totaling \$3.1 million consisting primarily of: (a) non-cash write downs of inventories of \$1.1 million recorded in cost of sales and capitalized software development costs of \$1.0 million recorded as restructuring expense, and (b) severance costs of \$934,000, related to personnel reductions.

Also included in restructuring expense and other expense, net in fiscal 2002 is a \$1.1 million provision for potential expenditures related to a disputed claim in the United Kingdom, regarding a terminated facility lease (Note 10) and a

\$277,000 credit due to a refund of software development fees resulting from the termination of a software development agreement during the second fiscal quarter (Note 18).

The severance accrual of \$264,000 at October 31, 2002 represented costs related to employees to be paid in future periods. The severance provision represented 53 positions that have been eliminated or were to be eliminated in fiscal 2003. At October 31, 2002, 38 employees had been paid the full amount of their severance while the remaining 15 employees were paid at various times through the second quarter of fiscal 2003.

In fiscal 2003, we paid the remaining severance and adjusted the foreign lease liability balance to the actual settlement amount.

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

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	(638)	133
	<u>\$ 640</u>	<u>\$ 143</u>	<u>\$ (650)</u>	<u>\$ 133</u>

Description	Balance 10/31/01	Provision (Credit)	Charges to Accrual	Balance 10/31/02
Cost of sales - restructuring:				
Inventory write-down.....	\$ --	\$ 1,083	\$ 1,083	\$ --
Restructuring expense:				
Capitalized software development cost write-off.....	--	1,036	1,036	--
Severance costs.....	133	934	803	264
Other expense (credit):				
Foreign lease termination liability (Note10)	51	1,062	--	1,113
Termination of software development agreement (Note 18).....	--	(277)	(277)	--
Total restructuring and other expense, net...	<u>184</u>	<u>2,755</u>	<u>1,562</u>	<u>1,377</u>
Total.....	<u>\$ 184</u>	<u>\$ 3,838</u>	<u>\$ 2,645</u>	<u>\$ 1,377</u>

Description	Balance 10/31/02	Provision (Credit)	Charges to Accrual	Balance 10/31/03
Severance costs.....	264	(43)	221	--
Foreign lease termination liability.....	1,113	(81)	(157)	1,189
	<u>\$ 1,377</u>	<u>\$ (124)</u>	<u>\$ 64</u>	<u>\$ 1,189</u>

17. STOCK REPURCHASES

Pursuant to our odd-lot tender offer in fiscal 2003, we repurchased 7,171 shares of common stock for approximately \$23,000. The repurchases of shares is reflected as a reduction in common stock.

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.

18. SOFTWARE DEVELOPMENT AGREEMENTS AND LOAN AGREEMENT

During fiscal 2001, we entered into agreements with a private software company to fund development costs related to the integration of patented, open architecture technology into our computer control products. We agreed to fund an aggregate of \$405,000, over a fifteen-month period ending in July 2002 of which \$180,000 was paid and recorded as a research and development expense in fiscal 2001. We also agreed to fund a secured term loan payable in installments through

February 2002, of \$1.0 million which is due April 1, 2003. In addition, the company granted us warrants to purchase an equity interest, which were exercisable on or before December 31, 2002, and 2003.

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

During fiscal 2002, we terminated these agreements. In connection therewith, we received repayment of our investment in a secured loan and warrants. We were also reimbursed for software development fees previously paid and expensed, resulting in a credit of \$277,000 which is reflected in Restructuring Expense and Other Expense. Net. Neither party has any future obligations to the other under the termination agreement.

We had an agreement with another private software company to fund \$683,000 of development costs, which was recorded as a research and development expense in fiscal 2002 and fiscal 2001. In October 2002, we exercised an option to purchase the core technology owned by the software company for \$1.9 million which is recorded in Investments and Other Assets at October 31, 2003. The core technology consists of patented software-based computer control technology that will be incorporated in our proprietary computer control system.

19. NEW ACCOUNTING PRONOUNCEMENTS

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

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

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Standard, which was effective for disposal activities initiated after December 31, 2002, addressed significant issues regarding the recognition, measurement and reporting of costs associated with exit and disposal activities. The adoption of this standard did not have a material impact on the Consolidated Financial Statements.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure - An Amendment to FASB Statement No. 123" (SFAS 148) for fiscal years ending after December 15, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of this standard did not have a material effect on the Consolidated Financial Statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved and is effective for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before

February 1, 2003. We do not expect that the adoption of this standard will have a material effect on the Consolidated Financial Statements.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150). This Standard is effective for financial instruments entered into or modified after May 31, 2003, and for all other instruments for interim periods beginning after June 15, 2003. SFAS 150 requires certain liabilities previously classified as equity to be reclassified to a liability. The adoption of this standard did not have a material effect on the Consolidated Financial Statements.

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

Not Applicable.

Item 9A. CONTROLS AND PROCEDURES

We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2003 pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

There have been no changes in our internal controls over financial reporting that occurred during the year ended October 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

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

The information required by this item is hereby incorporated by reference from our definitive proxy statement for our 2004 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 2004 annual meeting of shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information concerning equity compensation plans, the information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2004 annual meeting of shareholders.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of October 31, 2003, including the 1997 Stock Option and Incentive Plan and the 1990 Stock Option Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (#)	Weighted-average exercise price of outstanding options, warrants and rights (b) (\$)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (#)
Equity compensation plans approved by security holders	788,660	\$3.69	89,500

Equity compensation plans not approved by security holders ¹	125,000	5.54	--
	-----	-----	-----
Total	913,660	\$3.90	89,500
	=====	=====	=====

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

As of October 31, 2003, 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, 2003. The options expire at various dates between 2002 and 2008.

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 2004 annual meeting of shareholders.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is hereby incorporated by reference from the definitive proxy statement for our 2004 annual meeting of shareholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements. The following consolidated financial statements of Registrant are included herein under Item 8 of Part II:

	Page
Reports of Independent Accountants.....	22 - 23
Consolidated Statements of Operations - years ended	
October 31, 2003, 2002 and 2001.....	24
Consolidated Balance Sheets - as of October 31, 2003 and 2002....	25
Consolidated Statements of Cash Flows - years	
ended October 31, 2003, 2002 and 2001.....	26
Consolidated Statements of Changes in Shareholders' Equity -	
years ended October 31, 2003, 2002 and 2001.....	27
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2. Financial Statement Schedule. The following financial statement schedule is included in this Item.

Schedule II - Valuation and Qualifying	
Accounts and Reserves.....	49

All other financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(b) Reports on Form 8-K

Report furnished on August 20, 2003 under Item 12, Results of Operation and Financial Condition.

(c) Exhibits

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

Schedule II - Valuation and Qualifying Accounts and Reserves
for the years ended October 31, 2003, 2002, and 2001
(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, 2003.....	\$ 689	\$ 421	\$ --	\$ 480 (1)	\$ 630
October 31, 2002.....	\$ 907	\$ 133	\$ --	\$ 351 (2)	\$ 689
October 31, 2001.....	\$ 741	\$ 547	\$ --	\$ 381 (3)	\$ 907
Accrued warranty expenses For the year ended:					
October 31, 2003.....	\$ 1,003	\$ 1,148	\$ --	\$ 1,135	\$ 1,016
October 31, 2002.....	\$ 792	\$ 1,089	\$ --	\$ 878	\$ 1,003
October 31, 2001.....	\$ 831	\$ 661	\$ --	\$ 700	\$ 792

- (1) Receivable write-offs of \$493,000, net of cash recoveries on accounts previously written off of \$12,000.
(2) Receivable write-offs of \$359,000, net of cash recoveries on accounts previously written off of \$9,000.
(3) Receivable write-offs of \$384,000, net of cash recoveries on accounts previously written off of \$4,000.

EXHIBITS INDEX

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

-
- 10.1 Third Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of December 1, 2003 between the Registrant and Bank One, NA.
 - 10.2 Revolving Credit Facility and Overdraft Facility between Hurco Europe Limited and Bank One, NA dated January 15, 2004.
 - 11 Statement re: computation of per share earnings.
 - 21 Subsidiaries of the Registrant.
 - 23.2 Consent of PricewaterhouseCoopers LLP.
 - 31.1 Certification by the Chief Executive Officer, pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended.
 - 31.2 Certification by the Chief Financial Officer, pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended.
 - 32.1 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

- 3.1 Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-Q for the quarter ended July 31, 2000.
- 3.2 Amended and Restated By-Laws of the Registrant dated November 14,

2001, incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-K for the year ended October 31, 2001.

- 10.3* 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.
- 10.4* 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.
- 10.5* Form of Director Non-qualified Stock Option Agreement between the Registrant and Richard T. Niner, O. Curtis Noel and Charles E. Mitchell Rentschler, incorporated by reference as Exhibit 10.4 to the Registrant's Form 10-K for the year ended October 31, 1999.
- 10.6* Non-qualified Stock Option Agreement between the Registrant and Richard T. Niner, effective July 8, 1996 incorporated by reference to Exhibit 10.49 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.7* Non-qualified Stock Option Agreement between the Registrant and O. Curtis Noel, effective July 8, 1996 incorporated by reference to Exhibit 10.50 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.8* Non-qualified Stock Option Agreement between the Registrant and Charles E. Mitchell Rentschler, effective July 8, 1996 incorporated by reference to Exhibit 10.51 to the Registrant's Report on Form 10-K for the year ended October 31, 1996.
- 10.9* 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.
- 10.10* 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.
- 10.11 Mortgage dated April 30, 2002 between the Registrant and American Equity Investment Life Insurance Company incorporated by reference as Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended April 30, 2002.
- 10.12* Employment Agreement between the Registrant and Michael Doar dated November 13, 2001 incorporated by reference as Exhibit 10.2 to the Registrant's Report on Form 10-Q dated January 31, 2002
- 10.13 Promissory Note dated October 24, 2002 between the Registrant and CIMplus, Inc. (incorporated by reference to Exhibit 10.2 to the Registrants Report on Form 10-K for the year ended October 31, 2002.

* 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 23rd day of January 23, 2004.

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, Chairman of the Board, Chief Executive Officer and Director of Hurco Companies, Inc. (Principal Executive Officer)	January 23, 2004
/s/ Roger J. Wolf ----- Roger J. Wolf Senior Vice-President, Secretary, Treasurer and Chief Financial Officer of Hurco Companies, Inc. (Principal Financial Officer)	January 23, 2004
/s/ Stephen J. Alesia ----- Stephen J. Alesia Corporate Controller of Hurco Companies, Inc. (Principal Accounting Officer)	January 23, 2004
/s/ Robert W. Cruickshank ----- Robert W. Cruickshank, Director	January 23, 2004
/s/ Richard T. Niner ----- Richard T. Niner, Director	January 23, 2004
/s/ O. Curtis Noel ----- O. Curtis Noel, Director	January 23, 2004
/s/ Charles E. M. Rentschler ----- Charles E. M. Rentschler, Director	January 23, 2004
/s/ Gerald V. Roch ----- Gerald V. Roch, Director	January 23, 2004

THIRD AMENDED AND RESTATED CREDIT AGREEMENT
AND
AMENDMENT TO REIMBURSEMENT AGREEMENT

DATED AS OF DECEMBER 1, 2003

BETWEEN

HURCO COMPANIES, INC.

AND

BANK ONE, NA

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Other schedules and exhibits (omitted) supplementary are available to The Commission upon request.

EXHIBITS

- Exhibit A - Form of Note
- Exhibit B - Borrowing Base Certificate
- Exhibit C - Compliance Certificate
- Exhibit D - Form of Subsidiary Guaranty
- Exhibit E - Hurco Fiscal Year 2004 Plan
- Exhibit F - Wire Transfer Instructions
- Exhibit G - Form of Opinion

THIRD AMENDED AND RESTATED CREDIT AGREEMENT
AND AMENDMENT TO REIMBURSEMENT AGREEMENT

This Third Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement, dated as of December 1, 2003, is between Hurco Companies, Inc., an Indiana corporation, and Bank One, NA, a national banking association having its principal office in Chicago, Illinois. The parties hereto agree as follows:

INTRODUCTION

A. Hurco Companies, Inc. (defined below as the Borrower) and the Bank are parties to that certain Second Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement dated as of October 31, 2001, (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 revolving credit facility, including letters of credit (the "Existing Revolving Credit"), all for the purposes and on the terms therein set forth.

B. The Borrower and the Bank, successor by merger to Bank One, Michigan (formerly known as NBD Bank, Michigan) are parties to a Reimbursement Agreement (as defined below), pursuant to which the Bank 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.

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

D. On or about the Effective Date, Hurco Europe Limited, a corporation

organized under the laws of England and Wales and a Subsidiary of the Borrower ("Hurco Europe") will enter into a Letter Loan Agreement with the Bank, whereby the Bank has agreed to make revolving credit loans in favor of Hurco Europe in an aggregate amount not to exceed British Pounds Sterling 1,000,000 (the "UK Facility").

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 Eurocurrency Advances, in the same Agreed Currency and 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.

"Agreed Currencies" means (i) Dollars, (ii) so long as such currencies remain Eligible Currencies, British Pounds Sterling and the Euro, and (iii) any other Eligible Currency which the Borrower requests the Bank to include as an Agreed Currency hereunder and which is acceptable to the Bank. For the purposes of this definition, each of the specific currencies referred to in clause (ii), above shall mean and be deemed to refer to the lawful currency of the jurisdiction referred to in connection with such currency, e.g., "British Pounds Sterling" means the lawful currency of Great Britain.

"Agreement" means this Third 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 the Eurocurrency Rate, Floating Rate and Commitment Fees, the applicable percentage rates per annum set forth in the table below based upon the Total Funded Debt/EBITDA Ratio as of the

date of the applicable Advance or Commitment Fee:

Total Funded Debt/EBITDA Ratio	Eurocurrency Advances (% per annum)	Floating Rate Advances (% per annum)	Commitment Fee (% per annum)
Greater than 3.0	2.75%	0%	.375%
Greater than 2.5 and less than or equal to 3.0	2.0%	-.25%	.25%
Greater than 2.0 and less than or equal to 2.5	1.5%	-.50%	.25%
Less than or equal to 2.0	1.0%	-.75%	.125%

Notwithstanding the above, the Applicable Margin with respect to the Eurocurrency Rate and the Floating Rate shall be adjusted quarterly as necessary as of the first day of the month following the Bank receiving the financial statements required pursuant to Section 6.1(ii) allowing the Total Funded Debt/EBITDA Ratio to be calculated for the quarterly periods ending on each January 31, April 30, July 31, and October 31. Prior to March 1, 2004, the Applicable Margin shall be determined based on the Total Funded Debt/EBITDA Ratio being greater than 2.5 and less than or equal to 3.0.

"Approximate Equivalent Amount" of any currency with respect to any amount of Dollars shall mean the Equivalent Amount of such currency with respect to such amount of Dollars on or as of such date, rounded up to the nearest amount of such currency as determined by the Bank from time to time.

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

"Associated Costs Rate" means that rate quoted to the Bank at the time the Borrower requests a Eurocurrency Advance in an Agreed Currency other than Dollars which the Bank determines will be made by a Lending Installation in the United Kingdom.

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

"Bank" means Bank One, NA, a national banking association having its principal office in Chicago, Illinois, 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) 50% of the book value of Eligible Finished Goods Inventory as of such date, provided, however, that the aggregate book value of all Consigned Inventory included in this calculation shall not exceed

\$500,000 at any one time, plus

- (ii) 40% of the book value of Eligible Inventory as of such date, plus
- (iii) 80% of the book value of Eligible Trade Receivables as of such date, plus
- (iv) 80% of the book value (such book value in the aggregate not to exceed \$1,250,000) of Eligible Extended Receivables as of such date.

Notwithstanding the foregoing, assets which are subject to any Permitted Lien described in subsections (vii), (viii), or (xi) 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 Eurocurrency 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 and the other Agreed Currencies are carried on in the London interbank market (and, if the Advances which are the subject of such borrowing, payment, or rate selection are denominated in Euros, a day upon which such clearing system as is determined by the Bank to be suitable for clearing or settling the Euro is open for business) 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 2004 Plan prepared by the Borrower and attached as Exhibit E.

"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 Pru Account; provided in each case (excepting the Pru Account) 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 Purchase" means the purchase of core technology and all license agreements related to such core technology by Borrower from CIMPlus, Inc., pursuant to that certain Purchase Agreement dated as of October 24, 2002.

"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 and Security Agreement dated as of October 31, 2001, executed by the Borrower in favor of the Bank, the Confirmation of Pledge and Security Agreement of the Borrower of even date herewith, the Confirmation of Security Agreement (Patent & Licenses) of the Borrower of even date herewith, 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 (a) to make Loans to, and issue Facility LCs upon the application of, the Borrower in an aggregate amount not exceeding \$8,000,000, reduced by the amount as required pursuant to Section 2.5(c).

"Computation Date" is defined in Section 2.2.

"Consigned Inventory" means inventory of the Borrower which is Eligible Finished Goods Inventory but which at the time of determination has been delivered by the Borrower on consignment to a customer or potential customer of the Borrower or a university, college, or trade school and in which the Borrower has perfected its consignment rights.

"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, with reference to any period, Consolidated Net Income for such period determined in accordance with Agreement Accounting Principles plus, to the extent deducted in determining Consolidated Net Income, (i) Consolidated Interest Expense, (ii) expense for income taxes, (iii) depreciation, (iv) amortization, (v) extraordinary losses incurred other than in the ordinary course of business, (vi) non-current asset write downs, and (vii) non-cash losses on equity interests 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 interests of Affiliates), 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 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, less (b) any treasury stock 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 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.

"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.

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

"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.

"Dollar Amount" of any currency at any date shall mean (i) the amount of such currency if such currency is Dollars or (ii) the equivalent in Dollars of such amount if such currency is any currency other than Dollars, calculated on the basis of the arithmetical mean of the buy and sell spot rates of exchange of the Bank for such currency on the London market at 11:00 a.m., London time, on or as of the most recent Computation Date provided for in Section 2.2.

"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 Currency" means any currency other than Dollars (i) that is readily available, (ii) that is freely traded, (iii) in which deposits are customarily offered to banks in the London interbank market, (iv) which is convertible into Dollars in the international interbank market and (v) as to which an Equivalent Amount may be readily calculated. If, after the designation by the Bank of any currency as an Agreed Currency, (x) currency control or other exchange regulations are imposed in the country in which such currency is issued with the result that different types of such currency are introduced, (y) such currency is, in the determination of the Bank, no longer readily available or freely traded, or (z) in the determination of the Bank, an Equivalent Amount of such currency is not readily calculable, the Bank shall promptly notify the

Borrower, and such currency shall no longer be an Agreed Currency until such time as the Bank agrees to reinstate such currency as an Agreed Currency and promptly, but in any event within five Business Days of receiving such notice from the Bank, the Borrower shall repay all Loans in such affected currency or convert such Loans into Loans in Dollars or another Agreed Currency, subject to the other terms set forth in Article II.

"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, including demonstration models and consigned finished goods.

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

"Eligible Trade Receivables" means, as of any date, all accounts receivable included in the consolidated financial statements of the Borrower and its Subsidiaries for products or services sold or rendered by the Borrower in the ordinary course of business on normal 30 day terms, before reserves for bad debts, all determined in accordance with Agreement Accounting Principles other than (i) any such accounts receivable which are more than 90 days past due, (ii) are due from any Affiliate or Subsidiary of the Borrower, (iii) 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; or (iv) accounts receivable that are payable by any Person as to which 40% or more of the aggregate amount of such accounts receivable by such Person to the Company do not otherwise constitute Eligible Trade Receivables or Eligible Extended Receivables.

"Eligible Extended Receivables" means as of any date, all accounts receivable included in the consolidated financial statements of the Borrower and its Subsidiaries for products or services sold or rendered by the Borrower in the ordinary course of business with payment terms greater than 30 days, before reserves for bad debts, all determined in accordance with Agreement Accounting Principles, other than (i) any such accounts receivable which are more than 60 days past due, (ii) are due from any Affiliate or Subsidiary of the Borrower, (iii) 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; or (iv) accounts receivable that are payable by any Person as to which 40% or more of the aggregate amount of such accounts receivable by such Person to the Company do not otherwise constitute Eligible Trade Receivables or Eligible Extended Receivables.

"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.

"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.

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

"Euro" and/or "EUR" means the euro referred to in Council Regulation (EC) No. 1103/97 dated June 17, 1997 passed by the Council of the European Union, or, if different, the then lawful currency of the member states of the European Union that participate in the third stage of Economic and Monetary

Union.

"Eurocurrency" means any Agreed Currency.

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

"Eurocurrency Payment Office" of the Bank shall mean, for each of the Agreed Currencies, the office, branch, affiliate or correspondent bank of the Bank specified as the "Eurocurrency Payment Office" for such currency in Schedule 3 hereto or such other office, branch, affiliate or correspondent bank of the Bank as it may from time to time specify to the Borrower and each Lender as its Eurocurrency Payment Office.

"Eurocurrency Rate" means, with respect to a Eurocurrency Advance for the relevant Interest Period, the sum of (i) the quotient of (a) the Eurocurrency Reference Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, if any, plus (ii) the Applicable Margin, changing when and as the Applicable Margin changes, plus, (iii) for Advances booked in the United Kingdom, the Associated Costs Rate.

"Eurocurrency Reference Rate" means, with respect to a Eurocurrency Advance for the relevant Interest Period, the applicable British Bankers' Association LIBOR rate for deposits in the applicable Agreed Currency as reported by any 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, provided that, if no such British Bankers' Association LIBOR rate is available, the applicable Eurocurrency Reference Rate for the relevant Interest Period shall instead be the rate determined by the Bank to be the rate at which the Bank offers to place deposits in the applicable Agreed Currency 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 Bank's relevant Eurocurrency Loan and having a maturity equal to such Interest Period.

"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 2.18.2.

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

"Facility Termination Date" means December 1, 2006.

"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 and Applicable Margin change.

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

"Guarantors" means Hurco International Inc. and Hurco International Holdings, Inc. 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 Subsidiary Guaranty, dated of even date herewith, executed by the Guarantors in favor of the Bank substantially in the form of Exhibit D.

"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" is defined in the Introduction to this Agreement.

"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 GmbH Facility" means a credit facility of Hurco GmbH in a maximum principal amount of Three Million Euros obtained from Dresdner Bank or any affiliate or successor thereof which may be secured by assets of Hurco GmbH and an unsecured guaranty of payment of the Borrower.

"Hurco Guaranty" means the Hurco Guaranty dated on or about the Effective Date, executed by the Borrower in favor of the Bank, by which the Borrower has guaranteed to the Bank the obligations of Hurco Europe under the UK Facility, as it may be amended, modified or confirmed and in effect from time to time.

"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 5.8 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.

"Intellectual Property" is defined in Section 5.22.

"Interest Period" means, with respect to a Eurocurrency 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 the Bank, successor by merger to 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 2.5(b).

"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 2.18.3.

"Lending Installation" means, with respect to the Bank, the office, branch, subsidiary or affiliate of the Bank with respect to each Agreed Currency 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 Collateral Documents, the Guaranty, 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.

"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., and any successor thereto.

"Mortgage Financing" means a mortgage loan of the Borrower from American Investments Life Insurance Company, secured by the Borrower's headquarters and associated fixtures, leases, and rents, in the maximum principal amount of \$5,000,000.

"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.

"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 Comprehensive Income" means that amount reported in the Borrower's consolidated balance sheet as "Accumulated Other Comprehensive Income (Loss)" and which is included in total shareholders' equity in accordance with Agreement Accounting Principles.

"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, and the Facility LCs, each as existing following the Effective Date.

"Participants" is defined in Section 11.2.1.

"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 Agreement" means the Pledge and Security Agreement dated as of October 31, 2001, executed by the Borrower in favor of the Bank.

"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.

"Pru Account" means the Commodities Futures Account maintained by the Borrower with Prudential Securities, Inc.

"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 the Bank, successor by merger to 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 Eurocurrency liabilities.

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

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

"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.

"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 7.5% of the consolidated net sales 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.

"Total Funded Debt/EBITDA Ratio" means the ratio of Consolidated Total Indebtedness as of the end of each fiscal quarter of the Borrower to Consolidated EBITDA for the four consecutive fiscal quarters then ending.

"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 Eurocurrency Advance.

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

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

"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 in Agreed Currencies from time to time, and (ii) issue Facility LCs upon the request of the Borrower, in Dollar Amounts 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 (A) the aggregate principal amount of Facility LCs outstanding at any time shall not exceed the amount of the Commitment in effect at such time, and (B) all Floating Rate Loans shall be made and Facility LCs shall be issued in Dollars. 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 Eurocurrency 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. Determination of Dollar Amounts; Required Payments; Termination.

(a) The Bank will determine the Dollar Amount of each Advance as of the date three Business Days prior to the Borrowing Date or, if applicable, date of conversion or continuation of the Advance, and on any other Business Day elected by the Bank in its discretion (each a "Computation Date").

- (b) The Outstanding Credit Exposure and all other unpaid Obligations shall be paid in full by the Borrower on the Facility Termination Date.
- (c) 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 commitment fees) which are owing under the Outstanding Facilities.

2.3. Reserved.

2.4. Types of Advances. The Advances may be Floating Rate Advances or Eurocurrency 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) Commitment Fee. The Borrower agrees to pay to the Bank a commitment fee at a per annum rate equal to the Applicable Margin on the daily unused amount of the Commitment from the Effective Date to and including the Facility Termination Date, payable quarterly in arrears and on the Facility Termination Date. The commitment fee for each fiscal quarter of the Borrower shall be due and payable within ten (10) days after the Bank submits a statement to the Borrower of the amount due for such fiscal quarter, based on the Bank's determination of the Applicable Margin for such fiscal quarter. For purposes of calculating the commitment fee hereunder, the principal amount of each Advance made in an Agreed Currency other than Dollars shall be the Dollar Amount of such Advance as determined on the most recent Computation Date with respect to such Advance.

(b) LC Fees. 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 Eurocurrency 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.

(c) 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 (or the Approximate Equivalent Amount if denominated in an Agreed Currency other than Dollars), 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 aggregate principal Dollar Amount of the Outstanding Credit Exposure.

(d) Mandatory Prepayments. Notwithstanding anything in this Agreement to the contrary, if at any time the aggregate Dollar Amount of the Outstanding Credit Exposure (calculated, with respect to those Advances denominated in Agreed Currencies other than Dollars, as of the most recent Computation Date with respect to each such Advance) 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.

2.6. Minimum Amount of Each Advance. Each Eurocurrency Advance shall be in the minimum amount of \$1,000,000 and in multiples of \$100,000 if in excess thereof (or the Approximate Equivalent Amount if denominated in an Agreed Currency other than Dollars), 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, any Floating Rate Advance may be in the amount of the unused 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 Eurocurrency Advances, or, in a minimum aggregate amount of \$1,000,000 or any integral multiple of \$100,000 in excess thereof (or the Approximate Equivalent Amount if denominated in an Agreed Currency other than Dollars), any portion of the outstanding Eurocurrency Advances upon three Business Days' prior notice to the Bank.

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 Eurocurrency Advance, the Interest Period and Agreed Currency 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 Eurocurrency 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 Eurocurrency Advance, the Interest Period and Agreed Currency 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 Eurocurrency Advances pursuant to this Section 2.9 or are repaid in accordance with Section 2.7. Each Eurocurrency Advance shall continue as a Eurocurrency Advance until the end of the then applicable Interest Period therefor, at which time:

(i) each such Eurocurrency Advance denominated in Dollars shall be automatically converted into a Floating Rate Advance unless (x) such Eurocurrency Advance is or was repaid in accordance with Section 2.7 or (y) the Borrower shall have given the Bank a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurocurrency Advance either continue as a Eurocurrency Advance for the same or another Interest Period or be converted into a Floating Rate Advance; and

(ii) each such Eurocurrency Advance denominated in an Agreed Currency other than Dollars shall automatically continue as a Eurocurrency Advance in the same Agreed Currency with an Interest Period of one month unless (x) such Eurocurrency Advance is or was repaid in accordance with Section 2.7 or (y) the Borrower shall have given the Bank a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurocurrency Advance continue as a Eurocurrency 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 Eurocurrency Advance denominated in the same or any other Agreed Currency, provided, that any conversion of any Eurocurrency Advance shall be made only on the last day of the Interest Period applicable thereto. The Borrower shall give the Bank irrevocable notice (a "Conversion/Continuation Notice") of each conversion of a Floating Rate Advance into a Eurocurrency Advance or continuation of a Eurocurrency 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 Agreed Currency, amount of such Advance which is to be converted into or continued as a Eurocurrency 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 Eurocurrency Advance into a Floating Rate Advance pursuant to Section 2.9, to but excluding the date it is paid or is converted into a Eurocurrency 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 Eurocurrency 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 Eurocurrency 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 Eurocurrency Advance. During the continuance of a Default the Bank may, at its option, by notice to the Borrower, declare that (i) each Eurocurrency 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. (a) Each Advance shall be repaid and each payment of interest thereon shall be paid in the currency in which such

Advance was made. 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.

(b) Notwithstanding the foregoing provisions of this Section, if, after the making of any Advance in any currency other than Dollars, currency control or exchange regulations are imposed in the country which issues such currency with the result that the type of currency in which the Advance was made (the "Original Currency") no longer exists or the Borrower is not able to make payment to the Bank in such Original Currency, then all payments to be made by the Borrower hereunder in such currency shall instead be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of repayment) of such payment due, it being the intention of the parties hereto that the Borrower take all risks of the imposition of any such currency control or exchange regulations.

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 Agreed Currency and 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 Agreed Currencies and 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 Eurocurrency Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurocurrency Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurocurrency 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, except for interest on Loans denominated in British Pounds Sterling, which shall be calculated for actual days elapsed on the basis of a 365-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.

(a) 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 the Commitment, 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 or any inventory of the Borrower fails to

constitute Eligible Finished Goods Inventory, Eligible Trade Receivables, Eligible Extended Receivables, or Eligible Inventory, 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 (to the extent not previously executed and delivered) 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) Pledges of 100% of the Capital Stock of all Domestic Subsidiaries (excluding the Guarantors and all Inactive Subsidiaries), plus a pledge of 66% of the Capital Stock of Hurco International, Inc., and Hurco International Holdings, Inc.

(c) Guarantees of the Guarantors under the Guaranty.

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

2.21. Market Disruption. Notwithstanding the satisfaction of all conditions referred to in Article II and Article IV with respect to any Advance in any Agreed Currency other than Dollars, if there shall occur on or prior to the date of such Advance any change in national or international financial, political or economic conditions or currency exchange rates or exchange controls which would in the reasonable opinion of the Bank make it impracticable for any Eurocurrency Advances to be denominated in the Agreed Currency specified by the Borrower, then the Bank shall forthwith give notice thereof to the Borrower, and such Eurocurrency Advances shall not be denominated in such Agreed Currency but shall be made on such Borrowing Date in Dollars, in an aggregate principal amount equal to the Dollar Amount of the aggregate principal amount specified in the related Borrowing Notice or Conversion/Continuation Notice, as the case may be, as Floating Rate Advances, unless the Borrower notifies the Bank at least one Business Day before such date that (i) it elects not to borrow on such date or (ii) it elects to borrow on such date in a different Agreed Currency, as the case may be, in which the denomination of such Advances would in the opinion of the Bank be practicable and in an aggregate principal amount equal to the Dollar Amount of the aggregate principal amount specified in the related Borrowing Notice or Conversion/Continuation Notice, as the case may be.

2.22. Judgment Currency. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from the Borrower hereunder in the currency expressed to be payable herein (the "specified currency") into another currency, the parties agree that the rate of exchange used shall be that at which in accordance with normal banking procedures the Bank could purchase the specified currency with such other currency at the Bank's main Chicago office on the Business Day preceding that on which final, non-appealable judgment is given. The obligations of the Borrower in respect of any sum due to the Bank shall, notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the Business Day following receipt by the Bank of any sum adjudged to be so due in such other currency the Bank may in accordance with normal, reasonable banking procedures purchase the specified currency with such other currency. If the amount of the specified currency so purchased is less than the sum originally due to the Bank in the specified currency, the Borrower agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify the Bank against such loss, and if the amount of the specified currency so purchased exceeds the sum originally due to the Bank in the specified currency, the Bank agrees to remit such excess to the Borrower.

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 applicable Lending Installation, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by the Bank or applicable Lending Installation 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 Excluded Taxes), 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 applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurocurrency Advances), or (c) shall impose any other condition with respect to this Agreement, the Commitment, any Note, or the Loan, or any Facility LC (including without limitation converting any Eurocurrency Advance denominated in an Agreed Currency other than the Euro into a Eurocurrency Advance denominated in the Euro), and the result of any of the foregoing is to increase the cost to the Bank or applicable Lending Installation of making, funding, or maintaining any Eurocurrency Advance or any Facility LC or to reduce the amount of any sum receivable by the Bank or applicable Lending Installation 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. 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 Eurocurrency Advance at a suitable Lending Installation 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 Bank shall suspend the availability of Eurocurrency Advances and the Borrower shall, upon receiving notice thereof from the Bank, repay in full the then-outstanding principal amount of each Eurocurrency 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 Eurocurrency Advance if the Bank may lawfully continue to maintain the Eurocurrency Advance to that day, or (b) immediately if the Bank may not continue to maintain the Eurocurrency Advance to that day.

3.4. Funding Indemnification. If the Borrower makes any payment of principal with respect to any Eurocurrency 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 Eurocurrency 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 Eurocurrency 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 Eurocurrency 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 Eurocurrency Advance through the purchase of an underlying deposit in an amount equal to the amount of the Eurocurrency 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 Eurocurrency 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 Eurocurrency 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 Eurocurrency 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 Eurocurrency Advances shall be calculated as though the Bank funded its Eurocurrency Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurocurrency 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 G.
- (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 F, 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) A Confirmation of Pledge and Security Agreement of the Borrower, the Guaranty substantially in the form of Exhibit D, a Confirmation of Security Agreement (Patent & Licenses) of the Borrower, 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) 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 September 30, 2003, 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 September 30, 2003, 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. 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 could not reasonably be expected to have a Material Adverse Effect, 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 5.8 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 of the Borrower or the Guarantors. 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 and inventory of the Borrower represented or reported by the Borrower to be, or are otherwise included in, Eligible Finished Goods Inventory, Eligible Trade Receivables, Eligible Extended Receivables, and Eligible Inventory 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 6.20 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 30 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) Within 30 days after the end of each month, a report containing an aging as of the end of the preceding month of accounts receivable of the Borrower and its Subsidiaries, in a form satisfactory to the Bank.
- (vix) 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) 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.

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 Hurco GmbH Facility, the Mortgage Financing, the UK

Facility, a guaranty of payment of the Hurco GmbH Facility from the Borrower or any Subsidiary, and the Hurco Guaranty.

(vi) Product warranty obligations incurred in the ordinary course of business.

(vii) Indebtedness of the Borrower in an aggregate principal amount from and after the Effective Date not to exceed \$350,000 incurred in connection with the CIMPlus Purchase.

(viii) The UK Lease Liability, not to exceed British Pounds Sterling 350,000.

(ix) Indebtedness (other than the Indebtedness permitted under subsections (i) through (viii) above) which in the aggregate does not exceed six percent (6%) of the Consolidated 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.

(iii) Sales of the Borrower's Capital Stock, so long as the proceeds are applied as required by Section 2.5(d) (iv).

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) Additional Investments comprised of capital contributions (whether in the form of cash, a note, or other assets), up to \$1,000,000 in the aggregate, to new or existing Subsidiaries.

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 Hurco GmbH Facility.
- (viii) Liens on the assets of Hurco Europe to secure the UK Facility.
- (ix) A mortgage lien on the Borrower's headquarters and associated fixtures, leases, and rents to secure the Mortgage Financing.
- (x) The lien granted in favor of CIMPlus, Inc. on Property of the Borrower acquired in connection with the CIMPlus Purchase as security for Indebtedness permitted by Section 6.11(vii).
- (xi) Liens (other than the Liens permitted under subsections (i) through (x) 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 six percent (6%) of the Consolidated 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 Hurco GmbH Facility by the Borrower or any Subsidiary, (vi) the Guaranty of Underlease dated on or about April 30, 2002, among CMP Batteries Limited, Hurco Europe, and the Borrower, and (vii) to the extent permitted by Section 6.11.

6.19. Reserved.

6.20. Financial Covenants.

6.20.1. Minimum Consolidated Net Worth. The Borrower will not permit or suffer, at the end of each fiscal quarter beginning with the fiscal quarter ending October 31, 2003, the Consolidated Net Worth to be less than the sum of (a) \$32,000,000 plus, (b) an amount equal to 75% of positive Consolidated Net Income of the Borrower for the fiscal year

ended October 31, 2003, and for each fiscal year thereafter (excluding any Other Comprehensive Income for each period), such 75% of Consolidated Net Income to be added as of the end of each fiscal year of the Borrower.

6.20.2. 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 0.35 to 1.0.

6.20.3. Fixed Charge Coverage Ratio. The Borrower will not permit the ratio, determined as of (a) the end of the fiscal quarter ending on October 31, 2003, for the period of the three fiscal quarters of the Borrower then ending, (b) the end of each fiscal quarter for the period of the four fiscal quarters of the Borrower then ending, beginning with

the fiscal quarter ending on January 31, 2004, of (i) Consolidated EBITDA for such period, minus income taxes included in calculating Consolidated EBITDA, minus Capital Expenditures incurred during such period and financed with an Advance or other facility not constituting long term Indebtedness, minus redemptions of its Capital Stock by the Borrower, to (ii) principal payments of Indebtedness during such period (other than principal payments in connection with the CIMPlus Purchase or the UK Lease Liability) plus Consolidated Interest Expense during such period, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than 1.10 to 1.0.

6.21. Banking Relationship. The Borrower will use, and cause its Domestic Subsidiaries to use, the Bank as its primary bank of account and related account services.

6.22. Collateral Documents. Promptly, but not more than 10 days after the event causing the additional collateral requirement, the Borrower will, and will cause each Guarantor to, (i) execute and deliver additional Collateral Documents 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 is formed or which ceases to be an Inactive Subsidiary after the date hereof), and (ii) cause each Domestic Subsidiary which is acquired or created or which ceases to be an Inactive Subsidiary after the date hereof to execute and deliver to the Bank 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 within 30 days after the acquisition or creation of any Subsidiary not listed in Schedule 5.8 hereto, supplements to

Schedule 5.8 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 to pay when due any Indebtedness (other than Indebtedness hereunder but including the UK Facility); or the default by the Borrower or any of its Subsidiaries or any Guarantor 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 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 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 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 for which the Borrower or any Guarantor may be liable 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 Third Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement among the Company and Bank One, NA, dated as of December 1, 2003 (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 Collateral 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.

9.15. USA Patriot Act Notification. The following notification is provided to Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, Bank will ask for Borrower's name, tax identification number, business address, and other information that will allow Bank to identify Borrower. Bank may also ask to see Borrower's legal organization documents or other identifying documents.

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, NA,
with its principal office in Chicago, Illinois

By: /s/ Brian D. Smith
Brian D. Smith
Title: First Vice President
Attention: Brian D. Smith
Telephone: (317) 321-7089
FAX: (317) 321-6771

Hurco Europe Limited
c/o Hurco Companies, Inc.
One Technology Way
Indianapolis
Indiana 46268-0180
USA

For the attention of: Mr Roger J. Wolf

January 15, 2004

Dear Sir

(pound)700,000 Revolving Credit Facility and (pound)300,000 Overdraft Facility

We, Bank One, NA (the "Bank", which expression includes our successors, assigns and permitted transferees), are pleased to offer Hurco Europe Limited (the "Borrower"), on the terms and conditions set out in this agreement:

(a) a revolving credit facility (the "Revolving Credit Facility") of up to (pound)700,000; and

(b) an overdraft facility (the "Overdraft Facility") of up to (pound)300,000,

(together, the "Facilities") to be used for the Borrower's general working capital and corporate requirements.

1 Definitions

In this agreement, unless the context otherwise requires:

"Additional Cost" means, in relation to any period for which a calculation of LIBOR is to be made, a percentage calculated for such period at an annual rate conclusively determined by the Bank to be the cost to the Bank of complying with the Bank of England's reserve asset special deposit and mandatory liquid assets requirements from time to time;

"Advance" means each borrowing by way of an advance under the Revolving Credit Facility or (as the context requires) the principal amount of that borrowing outstanding at any relevant time;

"Affiliate" means in relation to a company (i) any company or body corporate which is for the time being a holding company or a subsidiary of that company or a subsidiary of any such holding company ("holding company" and "subsidiary" having the meanings respectively given thereto by Section 736 of the Companies Act 1985) and (ii) any person or group of persons which, or which together, control (within the meaning of Section 840 of the Income and Corporation Taxes Act 1988) that company;

"Banking Day" means a day when dealings in Sterling are carried on in the London interbank market and banks are open for business in London;

"Base Rate" means the Bank's base rate for Sterling as varied from time to time;

"Borrowing Base" means, at any time, an amount equal to the aggregate of:

- (a) 80 per cent of the Eligible Trade Debts;
- (b) 50 per cent of the Eligible Finished Goods Inventory; and
- (c) 40 per cent of the Eligible Unfinished Goods Inventory;

"Borrowing Base Certificate" means a certificate substantially in the form of Appendix 1 or as commonly in use by the Bank or its affiliates;

"Collateral" means the Charged Assets as such term is defined in the Debenture;

"Credit Documents" means the US Credit Agreement, the US Security Documents, the Parent Guarantee and any other agreement, instrument or

documents designated as such by the Bank;

"Debenture" means the debenture dated on or about the date of this agreement in form and substance satisfactory to the Bank in favour of the Bank granting, inter alia, fixed charges over the Borrower's book debts, inventory and plant, machinery and equipment and a floating charge over all of the Borrower's undertaking, properties and assets to secure all the Borrower's obligations, liabilities and indebtedness from time to time hereunder;

"Default" means any Event of Default or any event or circumstance which would upon the giving of a notice by the Bank and/or expiry of the relevant period and/or fulfilment of any other condition (in each case as specified in clause 14), constitute an Event of Default;

"Eligible Finished Goods Inventory" means the finished goods inventory of the Borrower located in the United Kingdom in each case valued at the book value given in the Borrower's latest monthly inventory listings provided in each case that the Bank has not determined that such inventory or goods are not acceptable for any reason having regard to its age, type, category and/or quality;

"Eligible Unfinished Goods Inventory" means the raw material inventory and parts inventory of the Borrower located in the United Kingdom, excluding work in progress, in each case valued at the book value given in the Borrower's latest monthly inventory listings provided in each case that the Bank has not determined that such inventory or goods are not acceptable for any reason having regard to its age, type, category and/or quantity;

"Eligible Trade Debt" means a book debt of the Borrower:

- (a) in relation to which the relevant debtor is domiciled in the United States of America or European Union; and
- (b) which is legally and beneficially owned (with full title guarantee) by the Borrower; and
- (c) which is not subject to any restrictions on assignment or charge so that it can be charged or otherwise secured to the Bank in accordance with the Debenture; and
- (d) which the relevant debtor is bound to pay, and does not dispute that it is bound to pay, in full on the due date;
and
- (e) which is not and is not asserted by the relevant debtor to be:
 - (i) subject of any set-off, counterclaim or other equity; or
 - (ii) subject to any discount (not already accounted for in the Borrower's books) or attempt to vary the terms of its payment; or
 - (iii) the subject of any action or attempted action for its recovery; or
 - (iv) a debt in connection with a contract which has been breached; or
 - (v) a debt in connection with any goods or services which have been rejected for any reason whatsoever;
- and
- (f) in relation to which the relevant debtor has not suffered an event which if it had occurred in relation to the Borrower would have been an Event of Default under clauses 14.1.5 to 14.1.8 (inclusive); and
- (g) which, if such debt is subject to credit insurance arrangements, is otherwise acceptable to the Bank, in its sole discretion; and

- (h) which either:
- (i) (in the case of debts required to be paid within 30 days from the invoice date) has not remained unpaid for a period exceeding 90 days past due; or
- (ii) (in the case of debts not required to be paid within 30 days from the invoice date) has not remained unpaid for a period exceeding 60 days past due;

and

- (i) which is not owed by an Affiliate of the Borrower; and
- (j) which is not an Excluded Debt;

"Encumbrance" means any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, standard security, assignment by way of security or other security interest of any kind;

"Event of Default" means any of the events of default set out in clause 14;

"Excluded Debt" " means book debts of the Borrower:

- (a) owing by debtors in connection with non-arms length transactions which are connected with any member of the Borrower; or
- (b) relating to stage payments or progress payments; or
- (c) relating to amounts which are not or are alleged not to be fixed for liquidated amounts; or
- (d) owing by a debtor in respect of which 40 per cent. or more of the aggregate amount of book debts owed by that debtor to the Borrower do not constitute Eligible Trade Debts;

"Guaranteed Amount" means, at any time, the aggregate amount of the Bank's maximum potential liability under all Undertakings issued and outstanding at that time;

"Indebtedness" means:

- (a) all indebtedness in respect of borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices);
- (b) any other indebtedness which is evidenced by a note, bond, debenture or similar instrument;
- (c) all capitalised lease obligations;
- (d) all obligations in respect of outstanding letters of credit, acceptances and similar obligations;
- (e) all liabilities secured by any security interest, lien or other encumbrance on any property owned by the Borrower even though the Borrower has not assumed or otherwise become liable for the payment thereof;
- (f) any net liabilities under interest rate cap agreements, interest rate swap agreements, foreign currency exchange agreements and other hedging agreements or arrangements; and
- (g) all guaranties, endorsements and other contingent obligations whether direct or indirect in respect of Indebtedness of others, including any obligation to supply funds to or in any manner to invest in, directly or indirectly, the debtor, to purchase Indebtedness, or to assure the owner of Indebtedness against loss, through an agreement to purchase goods, supplies, or services for the purpose of enabling the debtor to make payment of the Indebtedness held by such owner or otherwise;

"LIBOR" means, in relation to any Advance:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the Term of that Advance) the rate (rounded upwards to four decimal places) as supplied to the Bank at its request quoted by the Reference Bank to leading lenders in the London interbank market, as at 11 a.m. on the first day of such period for the offering of deposits in Sterling of that and for a period comparable to the Term for that Advance;

"Margin" means the applicable rate of interest set out in the following table:

Total Funded Debt/EBITDA Ratio	Margin (% per annum) in respect of the Facilities
> 3.00:1	2.75%
> 2.50:1 and <= 3.00:1	2.00%
> 2.00:1 and <= 2.50:1	1.50%
<= 2.00:1	1.00%

But so that:

- (a) no adjustment to the Margin shall occur prior to 1 March 2004 and prior to such date the Margin shall at all times be 2.00% per annum; and
- (b) any adjustment to the Margin shall only be made on 1 March, 1 June, 1 September and 1 December in each year and, for such purposes, the Total Funded Debt/EBITDA Ratio shall be determined as of the last day of (and for the period of) each period of four consecutive quarters ending on the preceding 31 October, 31 January, 30 April and 31 July respectively by reference to the management accounts delivered to the Bank pursuant to Section 6.1 of the US Credit Agreement;

"Operating Account" means the account in the name of the Borrower opened with the Bank, with account No. 7139268;

"Optional Currency" means any currency which is freely transferable, freely convertible into Sterling and dealt in on the London interbank market and for which the Bank provides overdraft facilities in the course of its normal operations;

"Overdraft" means, at any relevant time, the debit balance of the Operating Account;

"Parent" means Hurco Companies, Inc., an Indiana corporation whose principal place of business is at One Technology Way, Indianapolis, Indiana 46268-0180;

"Parent Guarantee" means the agreed form guarantee dated on or about the date of this agreement entered into by the Parent in favour of the Bank;

"Permitted Disposal" means any sale, lease or other disposal of:

- (a) obsolete assets on normal arm's length commercial terms where the assets are no longer required for the purposes of the business of the Borrower;
- (b) assets where the disposal proceeds (net of Taxes and costs of disposal) are used within six months of that disposal for the purchase of an asset to replace the asset disposed;
- (c) assets in exchange for assets of a substantially similar nature and value in the ordinary course of business; and
- (d) inventory in the ordinary course of business;

"Permitted Encumbrance" means an Encumbrance being any of the following:

- (a) Encumbrances granted with the prior written consent of the Bank;
- (b) liens and rights of set off arising by operation of law in the normal course of business and any encumbrance arising by way of retention of title of goods by the supplier of such goods where such goods are supplied on credit and are acquired in the Borrower's normal course of business;
- (c) Encumbrances comprised in the Debenture;
- (a) any other Encumbrance permitted to be entered into by a Subsidiary (as such term is defined in the US Credit Agreement) under Section 6.15 of the US Credit Agreement (other than sub-paragraphs (vii), (ix) and (x) thereof);

"Permitted Indebtedness" means:

- (a) Indebtedness incurred under this agreement;
- (b) unsecured debt incurred in the ordinary course of business;
- (c) unsecured Indebtedness owing to the Parent or any Affiliate of the Borrower;
- (d) Indebtedness incurred under the UK Lease Liability (as such term is defined in the US Credit Agreement); and
- (e) Indebtedness (other than unsecured trade debt incurred in the ordinary course of business) that is unsecured and fully subordinated to the interests of the Bank on terms acceptable to the Bank and only with the Bank's consent;
- (f) any other Indebtedness permitted to be entered into by a Subsidiary (as such term is defined in the US Credit Agreement) under Section 6.11 of the US Credit Agreement;

"Qualifying Bank" means a person which (at the time the relevant interest payment is made) is:

- (a) beneficially entitled to the interest payable to it under this agreement; and
- (b) a UK Lender or a Treaty Lender;

"Reference Bank" means the principal London office of Bank One, NA;

"Screen Rate" means the British Bankers' Association Interest Settlement Rate for the relevant period, displayed on the appropriate page of the Telerate screen. If the agreed page is replaced or service ceases to be available, the Bank may specify another page or service displaying the appropriate rate after consultation with the Borrower;

"Spot Rate" means in respect of any date the Bank's spot rate of exchange for the purchase of Dollars with Sterling at or about 11.00 a.m. on such date;

"Sterling" and "(pound)" means the lawful currency for the time being of the United Kingdom and in respect of all payments to be made under this agreement in Sterling means immediately available, freely transferable

cleared funds;

"Taxes" includes all present and future taxes, levies, imposts, duties, fees or charges of whatever nature together with interest thereon and penalties in respect thereof and "Tax" and "Taxation" shall be construed accordingly;

"Term" has the meaning given to that term in clause 4.1.2(c);

"Termination Date" means 31 January 2007;

"Total Funded Debt/EBITDA Ratio" has the meaning given to it in the US Credit Agreement;

"Total Outstandings" means, at any relevant time, the aggregate of:

- (a) all Advances;
- (b) the Overdraft; and
- (c) the Guaranteed Amount,

at such time;

"Transferee" has the meaning given to that term in clause 19.1;

"Treaty Lender" means a person which is resident (as such term is defined in the appropriate double taxation treaty) in a country with which the United Kingdom has a double taxation treaty giving the Borrower complete exemption from the imposition of any withholding or deduction for or on account of Taxes on interest (and which does not carry on business in that jurisdiction through a permanent establishment with which the Facilities in respect of which the interest is paid is effectively connected) and which has (or will have prior to the first date on which the relevant payment is to be made) delivered to the Bank for transmission to the Borrower, all necessary forms, claims, certificates and other documentation duly executed by such person necessary to establish that such person is entitled to receive payments by the Borrower under this agreement without any deduction for, or on account of, Taxes imposed and provided that if written authority from the relevant Tax authority is required to be obtained, prior to the making of

any payments of interest by the Borrower, to make such payment without any such deduction, such authority has been received by the Borrower (and remains valid and outstanding) prior to the first date on which the Borrower is required to make any such payment to such person and the Borrower undertakes to use all reasonable endeavours to request such authority;

"UK GAAP" means generally accepted accounting principles and practices in the United Kingdom;

"UK Lender" means a person which is:

- (a) a company which is resident in the UK for tax purposes; or
- (b) partnership each of whose members is a company so resident; or
- (c) a company which is not resident in the UK for tax purposes, but which carries on a trade in the UK through a branch or agency and is subject to corporation tax on interest paid to it under this agreement under section 11(1) of the Income and Corporation Taxes Act 1988;

"Undertakings" means VAT Guarantees, standby letters of credit or guarantees issued by the Bank on behalf of the Borrower in accordance with clause 5 and "Undertaking" shall be construed accordingly;

"US Credit Agreement" means the Third Amended and Restated Credit Agreement and Amendment to Reimbursement Agreement as of December 1, 2003, entered into between the Parent and the Bank (as the same may be amended and/or restated from time to time);

"US Credit Documents" means the US Credit Agreement and the US Security Documents;

"US Security Documents" means (collectively, as the same may be amended and/or restated from time to time):

- (a) a patents and licences security agreement entered into by the Parent in favour of the Bank, dated October 24, 2002 and confirmed on December 1, 2003;
- (b) a pledge and security agreement entered into by the Parent in favour of the Bank dated October 31, 2001 and confirmed on December 1, 2003;
- (c) the subsidiary guarantee by the Parent in favour of the Bank, dated December 1, 2003; and
- (d) any other documents evidencing any security interest or guarantee or indemnity entered into by the Parent in favour of the Bank, pursuant to the US Credit Agreement;

"VAT Guarantee" means each guarantee issued by the Bank in favour of H.M. Customs and Excise in relation to the deferred payment of import duty in accordance with clause 5.

2 Conditions

2.1 The Bank shall not be obliged to make the Facilities available under this agreement unless it shall have received the following documents in form and substance satisfactory to it:

2.1.1 a director's certificate in the form of Appendix 2, attaching the following documents:

- (a) a copy of the Certificate of Incorporation and Memorandum and Articles of Association of the Borrower;
- (b) a copy of the resolutions of the Board of Directors of the Borrower approving the terms of this agreement and the Debenture and authorising its appropriate officers to accept this agreement and to enter into the Debenture and to give all notices hereunder or thereunder on behalf of the Borrower; and
- (c) specimen signatures, authenticated by the secretary or a director of the Borrower of the persons authorised in the resolutions referred to in (b) above;

2.1.2 the Debenture duly executed by the Borrower;

2.1.3 the Parent Guarantee duly executed by the Parent; and

2.1.4 a copy of the US Credit Agreement duly executed by the parties thereto together with evidence that each of the other US Credit Documents has become in all respects unconditional in accordance with their respective terms;

2.1.5 a copy, certified as being true, complete and up-to-date by a Director or the Secretary of the Parent or its solicitors, of:

- (a) the Certificate of Incorporation and By-Laws of the Parent;
- (b) resolutions of the Board of Directors of the Parent approving the terms of the Parent Guarantee and authorising its appropriate officers to enter into the Parent Guarantee; and

2.1.6 specimen signatures, authenticated by the secretary or a director of the Parent of the persons authorised in the resolutions referred to in 2.1.5(b) above.

2.2 In addition no utilisation of the Facilities may be made if, at the time that utilisation is due to be made (i) the representations and warranties set out in clause 12 (for which purpose clause 12.1.5 shall refer to the latest audited financial statements of the Borrower delivered to the Bank under clause 13.7) are untrue or misleading or incorrect in any respect

as if made with respect to the facts and circumstances existing at such time or (ii) a Default has occurred and is continuing or would result from the making of that utilisation.

3 The Facilities

3.1 The Bank, relying on each of the representations and warranties in clause 12 agrees to make available to the Borrower the Facilities.

3.2 The Revolving Credit Facility may be utilised by the Borrower prior to the Termination Date on the terms and conditions set out in this agreement by:

3.2.1 the drawing of Advances in Sterling by the Borrower; or

3.2.2 the issue of Undertakings.

3.3 The Overdraft Facility may be utilised by the Borrower prior to the Termination Date on the terms and conditions set out in this agreement by debits to the Operating Account.

3.4 No utilisation of the Facilities shall be permitted if, as a result:

3.4.1 the Total Outstandings would exceed the lower of (A) the Borrowing Base and (B) (pound)1,000,000 at that time; or

3.4.2 the Guaranteed Amount would exceed (pound)200,000; or

3.4.3 the aggregate of the Advances and the Guaranteed Amount would exceed (pound)700,000; or

3.4.4 the amount of the Overdraft would exceed (pound)300,000.

4 Advances and the Overdraft

4.1 Advances

4.1.1 The Borrower may at any time prior to the Termination Date request the Bank by notice in writing to make Advances to the Borrower on the terms and conditions set out in this agreement.

4.1.2 Such notice shall specify:

(a) the amount of the proposed Advance (which shall be in a minimum amount of (pound)50,000 or an integral multiple of (pound)50,000);

(b) the proposed date of drawing (which shall be a Banking Day); and

(c) the period (the "Term") during which the Advance is to remain outstanding (which shall be 30, 60, 90 or 180 days or such other period as the Bank and the Borrower may agree expiring not later than the Termination Date),

and shall be received by the Bank not later than 11.00.a.m. on the proposed date of drawing.

4.1.3 Every such notice shall be irrevocable by the Borrower.

4.2 Overdraft

4.2.1 The Overdraft Facility may be used by the Borrower by debits to the Operating Account.

4.2.2 The Overdraft is repayable by the Borrower on demand by the Bank which may be made by the Bank in its sole discretion at any time.

4.2.3 The Bank shall deliver to the Borrower as soon as reasonably practicable after the 24th day of each month an interest statement itemising the daily interest accruing to the Operating Account on each day during the period commencing on the 24th day of the previous month and ending on the 23rd day of the current month.

5 Undertakings

- 5.1 The Borrower may make drawings under the Revolving Credit Facility by requesting the Bank by notice in writing to issue standby letters of credit and/or guarantees on its behalf in favour of such persons as the Borrower may specify to the Bank and/or VAT Guarantees on its behalf in favour of H.M. Customs and Excise.
- 5.2 Each request shall be received by the Bank no later than 10.00 a.m. on the second Banking Day before the proposed date of issuance of the relevant undertaking.
- 5.3 Each Undertaking shall be in Sterling or any other Optional Currency agreed by the Bank and in a form and substance approved by the Bank. The express expiry date of each Undertaking shall be satisfactory to the Bank and no Undertaking shall have an express expiry date later than the Termination Date. Without prejudice to the generality of the foregoing, each VAT Guarantee shall provide for expiry of the Bank's liability on receipt by H.M. Customs and Excise of seven days' notice of termination in writing from the Bank.
- 5.4 The Bank's issuance of any Undertaking shall be deemed, for the purpose of clause 3.4, to be a utilisation of the Revolving Credit Facility to the extent of the Bank's maximum potential liability under that Undertaking.
- 5.5 Each Undertaking issued by the Bank shall be a guarantee of payment only and shall contain no obligations by the Bank other than to make payment to the beneficiary/ies of the Undertaking on demand.
- 5.6 The Borrower shall indemnify the Bank against all losses, costs, damages expenses and demands which the Bank may suffer, incur, sustain or receive under or by reason of or in connection with the Undertakings and the Borrower shall pay to the Bank forthwith all moneys whatsoever which may from time to time be claimed or demanded from the Bank or which the Bank shall pay under or in connection with the Undertakings. This indemnity shall be a continuing indemnity and shall be in addition to any security or other right the Bank may have against the Borrower and shall not be wholly or partly discharged, varied or affected by any time or indulgence granted to or by the Bank or any other party or by any variation of any Undertakings or of this agreement or by anything done or omitted which would but for this provision operate to exonerate the Borrower.
- 5.7 The Borrower irrevocably authorises the Bank to pay immediately any amounts from time to time demanded or claimed or which the Bank may become liable to pay under or by reason of the Undertakings without reference to or further authority from the Borrower and notwithstanding that the Borrower may dispute the validity of such claim or demand.
- 5.8 The Bank's maximum actual and/or potential liability or risk in respect of an Undertaking shall not be treated as reduced for the purposes of this agreement unless (and to the relevant extent):
- 5.8.1 the Bank has received a written confirmation from the beneficiary of the relevant Undertaking of the amount of such reduction; or
- 5.8.2 such Undertaking has, under or in accordance with its terms, expired; or
- 5.8.3 a payment has been made under such an Undertaking.
- 5.9 Without prejudice to clause 14, upon the occurrence of an Event of Default and while the same is continuing the Borrower shall use all endeavours to procure the Bank's release from its liability thereunder by the relevant beneficiary.
- 5.10 The Borrower agrees that a certificate signed by an officer of the Bank to the effect that a sum has become due from the Bank in connection with an Undertaking shall (in the absence of manifest error) be conclusive as to the amount then due.

6 Borrowing Base Certificate

- 6.1 The Borrower shall monthly prepare and deliver to the Bank a Borrowing

Base Certificate signed by a director or a secretary of the Borrower setting out:

6.1.1 the details of the Eligible Trade Debts and stating the aggregate of those Eligible Trade Debts at the end of the preceding month;

6.1.2 the value of its Eligible Finished Goods Inventory at the end of the preceding month; and

6.1.3 the value of its Eligible Unfinished Goods Inventory at the end of the preceding month,

such certificate to be delivered to the Bank within 30 days of the end of each calendar month.

6.2 The Borrower shall ensure that the aggregate of the Total Outstandings at any time shall not exceed the Borrowing Base at that time.

6.3 If by reason of the reduction in the Borrowing Base the foregoing is not complied with, the Borrower shall within 5 Banking Days reduce the Total Outstandings to ensure such compliance.

7 Repayment

7.1 Each Advance shall be repaid in full together with accrued interest and all other moneys outstanding in connection with such Advance on the last day of its Term.

7.2 Notwithstanding the foregoing, if a new Advance is to be made on a day on which an outstanding Advance is due to be repaid then, unless the Borrower and the Bank otherwise agree, the Bank shall apply the proceeds of the new Advance in meeting the Borrower's obligation to repay the maturing Advance.

7.3 All outstanding Advances (if any) together with accrued interest and all other moneys outstanding in connection with such Advances shall be repaid or paid in full on the Termination Date.

8 Interest and Guarantee Fees

8.1 Interest on Advances

Interest shall be paid by the Borrower on each Advance at the rate per annum equal to the aggregate of (i) the applicable Margin; (ii) LIBOR; and (iii) the Additional Cost and shall be debited to the Operating Account on the last day of its Term.

8.2 Interest on the Overdraft

The Borrower shall pay interest on the Overdraft monthly in arrears on the 24th day of each month at the rate per annum determined by the Bank to be the aggregate of (i) the applicable Margin and (ii) the Base Rate. The accrued interest on the Overdraft shall be debited to the Operating Account monthly.

8.3 Guarantee fee

A guarantee fee shall be payable by the Borrower on the Guaranteed Amount from time to time at the annual rate per annum of the applicable Margin. Such fee shall be payable quarterly in arrears and the first payment to be made three months from the date of the first Undertaking and quarterly thereafter.

8.4 Default interest

Interest shall be paid on any overdue amount under this agreement (both before and after judgment) or on the occurrence of any other Default by the Borrower or the Parent under this agreement or the Parent Guarantee at the annual rate determined by the Bank to be the aggregate of (i) 2 per cent. per annum, (ii) LIBOR (in the case of the Advances) or the Base Rate (in the case of the Overdraft); (iii) the applicable Margin; and (iv) the Additional Cost (in the case of the Advances). Such rate shall be determined daily or two Banking Days before any period selected by the Bank. As long as the amount continues to be overdue such rate shall be

recalculated on the same basis at the end of each period selected by the Bank and such interest shall be compounded at the end of each such period.

9 Expenses

The Borrower shall pay to the Bank (whether or not any of the Facilities is utilised) on demand an amount equal to all fees, costs, charges and expenses (including, but not limited to, reasonable legal expenses, stamp, registration or other duties) incurred by the Bank in connection with the preparation and execution of this agreement, the Debenture, the Parent Guarantee and the documentation contemplated hereby and all costs, charges and expenses (including, but not limited to, reasonable legal expenses on a full indemnity basis) of the Bank in connection with the enforcement or preservation of any of its rights under this agreement, the Debenture and the Parent Guarantee or otherwise in connection with the Facilities. The Borrower shall also pay an amount equal to any value added tax payable by the Bank in respect of such costs, charges and expenses.

10 Payments and Indemnity

10.1 All sums payable in connection with the Facilities shall be paid to the Bank on the due date no later than 12 noon in Sterling in same day funds to such account as the Bank shall have notified to the Borrower by not less than 3 Banking Days' notice free and clear of any present or future taxes duties charges fees or withholdings and without any set-off or counterclaim or any condition or deduction whatsoever.

10.2 If the Borrower repays or prepays all or any part of the outstanding Advances before the expiry of the relevant Term (whether following the occurrence of an Event of Default or otherwise), the Borrower will indemnify the Bank against all loss or expense (including, but not limited to, reasonable legal expenses on a full indemnity basis) and all loss of profit the Bank may incur or sustain (including but not limited to all costs and losses resulting from the relevant payment not being made on the last day of the relevant Term). The Bank's certificate as to the amount of such loss or expense and interest shall be conclusive and binding on the Borrower save for manifest error.

10.3 Interest and any other payments under this agreement of an annual nature shall be calculated on a day to day basis and on the basis of the actual number of days elapsed and on the basis of: (i) a 365 day year (in the case of Sterling) and (ii) a 360 day year (in the case of currencies other than Sterling).

10.4 Any certificate or determination of the Bank as to any rate of interest, rate of exchange or any amount payable hereunder shall be prima facie evidence of the relevant rate or amount payable.

10.5 When any payment under this agreement would otherwise be due on a day which is not a Banking Day, the due date for payment shall be postponed to the next following Banking Day unless such Banking Day falls in the next calendar month in which case payment shall be made on the immediately preceding Banking Day.

11 Facility Fee

The Borrower shall pay to the Bank (i) on the date of this agreement and (ii) on each anniversary of the date of this agreement until the Termination Date, a fee in the amount of US \$6,000.

12 Representations and warranties

The Borrower represents, warrants and undertakes to the Bank on (i) the date of this agreement, (ii) each occasion on which the Borrower draws or otherwise requests a utilisation under the Facilities and (iii) each occasion an Advance is renewed for a further Term that:

12.1.1 the Borrower is duly incorporated and validly existing under the laws of England and Wales and has power to execute, deliver and perform

its obligations under this agreement and the Debenture; all necessary action has been taken by it to authorise the execution, delivery and performance of this agreement and the Debenture, no limitation on its powers will be exceeded as a result of transactions under this agreement or the Debenture and this agreement and (subject to applicable insolvency laws and general principles of equity) the Debenture, when executed, will constitute valid and legally binding obligations of the Borrower enforceable in accordance with their respective terms;

- 12.1.2 the execution, delivery and performance of this agreement and the Debenture by the Borrower will not contravene any existing law, regulation or authorisation to which it is subject, result in any material breach of or default under any agreement or other instrument to which the Borrower is a party or is subject or contravene any provision of the Borrower's Memorandum or Articles of Association;
- 12.1.3 every authorisation of, or registration with, governmental or public bodies or courts required by the Borrower in connection with the execution, delivery, performance, validity, enforceability or admissibility in evidence of this agreement and the Debenture has been obtained or made and is in full force and effect and there has been no default in the observance of any conditions imposed in connection therewith;
- 12.1.4 (save as disclosed to the Bank in writing prior to the date of this agreement) no litigation, alternative dispute resolution, arbitration, administrative proceeding or labour dispute is taking place, pending or, to its knowledge, threatened against the Borrower or any of its assets which, if adversely determined, could be reasonably expected to result in a liability of the Borrower in excess of (pound)50,000;
- 12.1.5 the audited financial statements of the Borrower provided to the Bank pursuant to clause 13.7 (if any) have been prepared in accordance with UK GAAP which have been consistently applied and give a true and fair view of the financial position of the Borrower as at the date to which they were prepared and the results of the operations of the Borrower for the financial year ended on such date;
- 12.1.6 there has been no material adverse change in the financial position of the Borrower from that set forth in its most recent financial statements (if any) provided pursuant to clause 13.7;
- 12.1.7 no event or circumstance which constitutes or which with the giving of notice or lapse of time or both would constitute an Event of Default has occurred and is continuing; and
- 12.1.8 the Borrower has not sold, transferred, lent or otherwise disposed of or ceased to exercise direct control over all or any part of its present or future undertaking, assets, rights or resources or agreed to do so (other than by way of a Permitted Disposal).

13 Covenants

It is a term of the Facilities that at all times during their continuance and until repayment of all Advances and the Overdraft and the discharge of all Undertakings and payment of all other moneys payable (whether actually or contingently) hereunder that the Borrower will:

- 13.1 not, without the Bank's prior written consent, create or allow to exist any Encumbrance (save for a Permitted Encumbrance) over any of its present or future assets, rights or revenues to secure obligations of itself or of any other person;
- 13.2 not, without the Bank's prior written consent, sell, transfer, lend, lease or otherwise dispose of or cease to exercise direct control over all or any part of its present or future undertaking, assets, rights or revenues (other than by way of a Permitted Disposal) whether by one or a series of transactions related or not other than by way of a Permitted Disposal;
- 13.3 not permit any of the Borrower's liabilities to have the benefit of any

guarantee, indemnity, bond or comfort letter unless the party giving the same similarly guarantees the outstanding Advances and all other moneys payable hereunder;

- 13.4 not make any material change in the nature of the Borrower's business, as carried on at the date of this agreement;
- 13.5 obtain, maintain in full force and effect and comply in all material respects with any conditions imposed in connection with, every authorisation of governmental or public bodies or courts and do, or cause to be done, all other acts and things, which may from time to time be necessary under applicable law for the continued due performance of its obligations under this agreement;
- 13.6 inform the Bank of any Event of Default or any event which with the giving of notice or lapse of time or both would constitute an Event of Default forthwith upon becoming aware thereof;
- 13.7 send to the Bank:
 - 13.7.1 within 110 days of each fiscal year end, a copy of the Borrower's annual audited financial statements;
 - 13.7.2 within 30 days of the end of each calendar month, monthly management accounts with such other information, certificates and forecasts as the Bank may from time to time reasonably require;
 - 13.7.3 within 30 days of the end of each calendar month, a statement of aged accounts receivable; and
 - 13.7.4 all other financial and other information concerning the Borrower and its business affairs as the Bank may from time to time reasonably require upon reasonable notice;
- 13.8 not, without the prior written consent of the Bank, incur or permit to exist on its behalf any obligations in respect of Indebtedness to any person other than Permitted Indebtedness;
- 13.9 not acquire or merge with any company;
- 13.10 file or cause to be filed all tax returns required to be filed in all jurisdictions in which it is situated or carries on business or is otherwise subject to taxation and pay all taxes shown to be due and payable on such returns or any assessments made against it prior to penalties being incurred unless the liability to pay such taxes is the subject of a bona fide dispute and it is maintaining adequate reserves in respect of such liability;
- 13.11 obtain or cause to be obtained, maintain in full force and effect and comply in all material respects with the conditions and restrictions (if any) imposed in, or in connection with, every authorisation material to the carrying on of its business;
- 13.12 ensure that its obligations under this agreement and the Debenture shall at all times rank at least pari passu with all its other present and future unsecured and unsubordinated Indebtedness with the exception of any obligations which are mandatorily preferred by law and not by contract;
- 13.13 ensure that the levels of contribution to the pension schemes for the time being operated by it are and continue to be sufficient to comply with applicable law;
- 13.14 maintain and keep up to date adequate insurance over all its present and future assets, including its employees, in form and substance satisfactory to the Bank;
- 13.15 not change the nature of its business as conducted on the date of this agreement; and
- 13.16 ensure that, by no later than the date falling 6 months after the date of this agreement, all primary clearing, depository and other banking facilities required by the Borrower are maintained with the Bank.

14 Events of Default

Without prejudice to the on demand nature of the Overdraft and without prejudice to the Bank's other rights, the Bank may terminate the Bank's obligation to make the Facilities available and demand immediate repayment of all outstanding Advances together with all accrued interest thereon and payment of cash cover equal to the Guaranteed Amount and of all other moneys payable to the Bank under this agreement or otherwise at any time after any of the following events shall have occurred:

- 14.1.1 the Borrower fails to pay any sum payable by it under this agreement in the currency, at the time and in the manner specified in this agreement (or within 3 Banking Days thereafter where the failure to pay is due solely to an administrative or systems error arising in the transmission of funds); or
- 14.1.2 the Borrower defaults in the due performance or observance of any other of its obligations under this agreement or the Parent default in the due performance or observance of any of its obligations under the Parent Guarantee and (if such default is in the opinion of the Bank capable of remedy) such default shall not have been remedied within 10 days of the Bank notifying the Borrower or the Parent, as the case may be of such default; or
- 14.1.3 any representation or warranty made or deemed to be made or repeated by the Borrower in or pursuant to this agreement or by the Parent in or pursuant to the Parent Guarantee is or proves to have been incorrect in any material respect; or
- 14.1.4 any obligation (including a contingent obligation) of the Borrower in respect of Indebtedness is not paid when due or becomes due or capable of being declared due prior to its stated maturity by reason of default; or
- 14.1.5 any judgment or order of a court of competent jurisdiction made against the Borrower which, if taken together with the amount of all other outstanding judgments or orders against the Borrower at such time, is in the aggregate sum of the Sterling Equivalent of \$100,000, is not stayed or complied with within 7 days or an encumbrancer takes possession of the whole or any part of the assets, rights or revenues of the Borrower, or
- 14.1.6 a distress or other legal process is levied or enforced upon any of the assets, rights or revenues of the Borrower and is not discharged within 7 days; or
- 14.1.7 the Borrower stops or suspends payment of its debts or is, or is deemed to be, unable to, or admits inability to, pay its debts as they fall due or commences negotiations with one or more of its creditors with a view to the general rescheduling of all or any of its debts or proposes or enters into any composition or other arrangement for the benefit of its creditors generally or any class thereof; or
- 14.1.8 the Borrower is adjudicated or found bankrupt or insolvent or any step is taken or proceedings are commenced for the winding-up, administration or dissolution of the Borrower or for the appointment of a liquidator, administrator, receiver or similar officer in respect of the Borrower or of the whole or any part of its assets, rights or revenues (and, in the case of a petition for winding-up of the Borrower, such petition is not discharged within 7 days from its presentation); or
- 14.1.9 any event occurs or proceeding is taken with respect to the Borrower in any jurisdiction to which it is subject which has an effect equivalent or similar to any of the events mentioned in clauses 14.1.5, 14.1.7 or 14.1.8; or
- 14.1.10 it becomes unlawful for the Borrower to perform all or any of its obligations under this agreement or the Debenture or for the Parent to perform any of its obligations under the Parent Guarantee; or

- 14.1.11 the Borrower ceases to be a subsidiary of the Parent; or
- 14.1.12 the Debenture ceases for any reason to be the valid and legally binding obligations of the Borrower; or
- 14.1.13 the Parent Guarantee ceases for any reason to be the valid and legally binding obligations of the Parent; or
- 14.1.14 any of the Credit Documents ceases for any reason to be the valid and legally binding obligation of the Borrower or the Parent; or
- 14.1.15 a Default (as such term is defined in any Credit Document) occurs under any of the Credit Documents or, if any Credit Document has been terminated, an event occurs which, but for such termination, would have been such a Default; or
- 14.1.16 any of the events mentioned in clauses 14.1.1 and 14.1.4 to 14.1.9 occurs in relation to the Parent; or 14.1.17 any other event occurs or circumstance arises which, in the reasonable opinion of the Bank, is likely materially and adversely to affect the ability of the Borrower or the Parent to perform all or any of their respective obligations under or otherwise to comply with the terms of this agreement or the Debenture (in the case of the Borrower) or the Parent Guarantee (in the case of the Parent).

15 Set-off

The Bank may apply any credit balance to which the Borrower is entitled on any of the Borrower's accounts with the Bank at any of the Bank's branches in or towards satisfaction or any sum then due and payable by the Borrower hereunder. For this purpose, the Bank is authorised to purchase with the moneys standing to the credit of such account such other currencies as may be necessary to effect such application.

16 Indemnity

- 16.1 The Borrower shall indemnify the Bank on demand against any loss or expense which the Bank shall incur as a consequence of the occurrence of any Event of Default.
- 16.2 No payment to the Bank under this agreement pursuant to any judgment or order of any court or otherwise shall operate to discharge the obligation of the Borrower in respect of which it was made unless and until payment in full shall have been received in the currency in which it is payable and to the extent that the amount of any such payment shall on actual conversion into the currency in which it is payable fall short of the amount of the obligation expressed in the currency in which it is payable the Bank shall have a further and separate cause of action against the Borrower for the recovery of such sum as shall after conversion into the currency in which it is payable be equal to the amount of the shortfall.

17 Illegality and increased costs

- 17.1 If at any time it is unlawful or contrary to any regulation for the Bank to make, fund or allow to remain outstanding any Advances or Undertakings under this agreement then the Bank's obligation to make the Facilities available shall cease and, if the Bank so requires, the Borrower shall forthwith repay all amounts outstanding under this agreement together with accrued interest thereon and all other moneys owing hereunder and pay to the Bank an amount equal to the face amount of each Undertaking.
- 17.2 If the result of (i) any change in, or in the interpretation or application of any law or regulation or (ii) the introduction of any law or regulation (in each case which occurs after the date of this agreement) is to:
 - 17.2.1 subject the Bank to Taxes or change the basis of Taxation with respect to any payment under this agreement (other than Taxes or Taxation on the overall net income, profits or gains of the Bank imposed in the jurisdiction in which its principal or lending office under this agreement is located); and/or

- 17.2.2 increase the cost to, or impose an additional cost on, the Bank in making the Facilities available or maintaining or funding any Advances or the Overdraft or providing any Undertaking; and/or
- 17.2.3 reduce the amount payable or the effective return to the Bank under this agreement; and/or
- 17.2.4 reduce the Bank's rate of return on its capital by reason of a change in the manner in which it is required to allocate capital resources to its obligations under this agreement; and/or
- 17.2.5 require the Bank to make a payment or forgo a return on or calculated by reference to any amount received or receivable by it under this agreement,

then and in each such case (unless the increased cost or reduction in return would not have arisen but for any assignment by the Bank to a Transferee under clause 19.1 or the movement by the Bank of its facility office):

- (i) the Bank shall notify the Borrower in writing of such event promptly upon its becoming aware of the same; and
 - (ii) the Borrower shall on demand, made at any time whether or not the amounts outstanding under this agreement have been repaid, pay to the Bank the amount which the Bank specifies (in a certificate setting forth the basis of the computation of such amount but not including any matters which the Bank regards as confidential in relation to its funding arrangements) is required to compensate the Bank for such increased cost, reduction, payment or foregone return.
- 17.3 In the event that the Borrower is obliged to repay any amounts outstanding under this agreement under clause 17.2, the Borrower may within sixty days from the date of the demand referred to in clause 17.2.5(ii) prepay the Facilities in full, together with all other amounts then payable under this agreement.

18 Taxes

- 18.1 If at any time the Borrower is required to make any deduction or withholding in respect of Taxes from any payment due under this agreement for the account of the Bank, the sum due from the Borrower in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Bank receives on the due date for such payment (and retains, free from any liability in respect of such deduction or withholding) a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made. The Borrower shall promptly upon request deliver to the Bank any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any such deduction or withholding.
- 18.2 If following any such deduction or withholding as is referred to in clause 18.1 the Bank shall receive or be granted a credit against or remission for any Taxes payable by it, the Bank shall, subject to the Borrower having made any increased payment in accordance with clause 18.1 and to the extent that the Bank can do so without prejudicing the retention of the amount of such credit or remission and without prejudice to the right of the Bank to obtain any other relief or allowance which may be available to it, reimburse the Borrower with such amount as the Bank shall in its absolute discretion certify to be the proportion of such credit or remission as will leave the Bank (after such reimbursement) in no worse position than it would have been in had there been no such deduction or withholding from the payment by the Borrower as aforesaid. Such reimbursement shall be made forthwith upon the Bank certifying that the amount of such credit or remission has been received by it. Nothing contained in this agreement shall oblige the Bank to rearrange its tax affairs or to disclose any information regarding its tax affairs and computations. Without prejudice to the generality of the foregoing, the Borrower shall not by virtue of this clause 18.2, be entitled to enquire about the Bank's tax affairs.
- 18.3 The Bank hereby confirms to the Borrower that, on the date of this

agreement, it is a Qualifying Bank.

18.4 The Bank shall, upon becoming aware in the context of this agreement that it has ceased to be a Qualifying Bank, promptly notify the Borrower.

19 Assignment

19.1 This agreement shall be binding upon, and enure for the benefit of, the Bank and the Borrower and their respective successors. The Borrower may not assign or transfer any of its rights or obligations under this agreement. The Bank may, without the consent of the Borrower, assign or transfer all or any part of its rights or transfer all or any part of its obligations under this agreement to any one or more purchasers whether or not they are related to the Bank (a "Transferee") unless such Transferee is not a Qualifying Bank in which event the Borrower's prior written consent to such assignment or transfer shall be required. If the Bank transfers all or any part of its rights or transfers all or any part of its obligations as provided in this clause 19.1 all relevant references in this agreement to the Bank shall thereafter be construed as a reference to the Bank and/or its assignee(s) or transferee(s) (as the case may be) to the extent of their respective interests and, in the case of a transfer, the Borrower shall look solely to the Transferee for the performance of the obligations so transferred to it.

19.2 The Bank may disclose to a potential assignee or transferee or to any other person who is proposing to enter into contractual relations with the Bank in relation to this agreement such information about the Borrower as the Bank shall consider appropriate provided that any such potential assignee or transferee or other person has first agreed to keep that information confidential.

20 Notices

20.1 Every notice, request, demand or other communication under this agreement shall:

20.1.1 be in writing delivered personally or by first-class prepaid letter or telefax;

20.1.2 be deemed to have been received, subject as otherwise provided in this agreement, in the case of a letter, when delivered and, in the case of a telefax, when a complete and legible copy is received by the addressee (unless the time of despatch of any telefax is after close of business in which case it shall be deemed to have been received at the opening of business on the next business day); and

20.1.3 be sent:

(a) to the Borrower at:

Hurco Europe Limited
Halifax Road
Cressex Business Park
High Wycombe
Buckinghamshire, Hpl2 3SN

Telefax: +44 (0) 1494 443350
Attention: David Waghorn, Managing Director;
Ray Axon, Financial Controller and Company Secretary;

with a copy to:

Hurco Companies, Inc
One Technology Way
Indianapolis
IN 46268-0180

Telefax: 00 1 317 347 6201
Attention: Mr Roger J. Wolf, Senior Vice President &
Chief Financial Officer

(b) to the Bank at:

Bank One, NA
1 Triton Square
London NW1 3FN
Telefax: 020 7903 4889
Attention: Mark Herridge, Associate Director;
Paul Hogan, Associate;

with a copy to

Bank One, NA
111 Monument Circle
Indianapolis
IN 46277-0104
Telefax: 00 1 317 321 6771
Attention: Brian D Smith, First Vice President.

or to such other address or telefax number as is notified by the relevant party to the other party to this agreement.

21 Law and jurisdiction

21.1 This agreement shall be governed by and construed in accordance with English law.

21.2 The parties to this agreement agree for the benefit of the Bank that:

21.2.1 if any party has any claim against any other arising out of or in connection with this agreement such claim shall be referred to the High Court of Justice in England, to the jurisdiction of which each of the parties irrevocably submits; and

21.2.2 nothing in this clause 21.2 shall limit the right of the Bank to refer any such claim against the Borrower to any other court of competent jurisdiction outside England, to the jurisdiction of which the Borrower hereby irrevocably agrees to submit, nor shall the taking of proceedings by the Bank before the courts in one or more jurisdictions preclude the taking of proceedings in any other jurisdiction whether concurrently or not.

21.3 No term of this agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not party to this agreement

We enclose a copy of this letter which we request the Borrower to sign and return to us signifying the Borrower's acceptance of the Facilities and the Borrower's agreement with all the above terms and conditions. If we do not receive such signed copy by 5.30 p.m. on 31 January 2004 the offer of the Facilities contained in this letter shall thereupon be deemed automatically to be withdrawn.

Yours faithfully

/s/ Mark Herridge
.....
For and on behalf of
Bank One, NA

To: Bank One, NA
1 Triton Square
London NW1 3FN

January 15, 2004

Dear Sirs

(pound)700,000 Revolving Credit Facility and (pound)300,000 Overdraft Facility

We are pleased to confirm our acceptance of the Facilities which you have placed at our disposal on the terms and conditions set out in your letter of 15 January 2004 of which the above is a copy.

/s/ Roger J. Wolf

.....
For and on behalf of
Hurco Europe Limited

Appendix 1

Form of Borrowing Base Certificate

To: the Bank

From: the Borrower

(pound)700,000 Revolving Credit Facility and
(pound)300,000 Overdraft Facility Agreement
dated [o]January 2004
(the "Agreement")

We hereby certify that as at [specify relevant month end] the amount of Eligible Trade Debts, Eligible Finished Goods Inventory, Eligible Unfinished Goods Inventory and the Borrowing Base were:

1 Eligible Trade Debts

- (a) total Eligible Trade Debts (pound) [o]
- (b) 80 per cent of total Eligible Trade Debts

2 Eligible Finished Goods Inventory

- (a) total Eligible Finished Goods Inventory (pound) [o]
- (b) 50 per cent of total Eligible Finished Goods Inventory

3 Eligible Unfinished Goods Inventory

- (a) total Eligible Unfinished Goods Inventory (pound) [o]
- (b) 40 per cent of total Eligible Unfinished Goods Inventory

4 Borrowing Base

Borrowing Base

(being the aggregate of:

- (a) the amount set out in 1(b);
- (b) the amount set out in 2(b); and
- (c) the amount set out in 3(b)).

We confirm that:

- 1 no event or circumstance has occurred and is continuing which constitutes an Event of Default;
- 2 the representations and warranties contained in clause 12 of the Agreement are true and correct at the date of this certificate as if made with respect to the facts and circumstances existing at the date of this certificate.

Words and expressions defined in the Agreement shall have the same meaning where used in the certificate.

.....
For and on behalf of
Hurco Europe Limited

Appendix 2

[DIRECTOR'S/SECRETARY'S] CERTIFICATE

I, Roger J. Wolf, being a Director of Hurco Europe Limited (the "Company"),
HEREBY CERTIFY on behalf of the Company and without personal liability as
follows:

1. Private company

The Company is a private limited company incorporated in England and Wales with
company number 0162880 and registered office at Halifax Road, Cressex Business
Park, High Wycombe, Buckinghamshire HP12 3SN.

2. Constitutional documents of the Company

The documents annexed to this certificate as annexure "A" constitute a true and
up to date copy of the certificate of incorporation, each certificate of
incorporation on change of name of the Company, the certificate of
re-registration as a public or private company and the memorandum and articles
of association of the Company containing all modifications thereto, and there
are no other constitutional documents of the Company.

3. Board resolutions of the Company

The documents annexed to this certificate as annexure "B" are true copies of the
minutes of a meeting of the board of directors of the Company duly convened and
held on [?] January 2004. The resolutions set out therein were duly passed and
have not been amended or revoked. No borrowing restrictions (or lack of power)
in relation to the giving of guarantees or security or otherwise of the Company
will be exceeded as a result of the Company entering into the [Documents] (as
defined in the minutes referred to above) (the "Documents"), borrowing moneys
thereunder or giving the guarantees or security thereunder or incurring or
performing the obligations expressed to be assumed by it thereunder.

4. Authorised signatories

Set out below are true signatures of those persons authorised by the
resolutions of the board of directors of the Company referred to in paragraph 3
above to sign the Documents and to execute all such undertakings, statements,
certificates, notices (including, without limitation, any Borrowing Base
Certificate), acknowledgements and other documents as may be required to be
done, signed and executed by or on behalf of the Company in connection with the
Documents and otherwise in relation to or ancillary to the same.

Roger J. Wolf, Director

David G. Waghorn, Director

Raymond Axon, Secretary

SIGNED [DATE]

.....
Roger J. Wolf, Director

Exhibit 11
Statement Re: Computation of Per Share Earnings

	Three Months Ended October 31,				Twelve Months Ended October 31,			
	2003		2002		2003		2002	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
(in thousands, except per share amount)								
Net loss	\$ 574	\$ 574	\$ (1,760)	\$ (1,760)	\$ 462	\$ 462	\$ (8,263)	\$ (8,263)
Weighted average shares outstanding	5,578	5,578	5,583	5,583	5,582	5,582	5,583	5,583
Assumed issuances under stock options plans	--	34	--	--	--	--	--	--
	5,578	5,612	5,583	5,583	5,582	5,582	5,583	5,583
Loss per common share	\$ 0.10	\$ 0.10	\$ (0.32)	\$ (0.32)	\$ 0.08	\$ 0.08	\$ (1.48)	\$ (1.48)

Exhibit 21

SUBSIDIARIES OF HURCO COMPANIES, INC.

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

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48204) of Hurco Companies, Inc. of our report dated December 9, 2003, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP
Indianapolis, Indiana
January 23, 2004

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT
OF 1934, AS AMENDED

I, Michael Doar, certify that:

1. I have reviewed this annual report on Form 10-K of Hurco Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Doar
Michael Doar,
Chairman of the Board & Chief Executive Officer
January 16, 2004

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT
OF 1934, AS AMENDED

I, Roger J. Wolf, certify that:

1. I have reviewed this annual report on Form 10-K of Hurco Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Roger J. Wolf
Roger J. Wolf
Senior Vice President & Chief Financial Officer
January 16, 2004

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Hurco Companies, Inc. (the "Company") on Form 10-K for the period ending October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Doar
Michael Doar
Chairman of the Board & Chief Executive Officer
January 16, 2004

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Hurco Companies, Inc. (the "Company") on Form 10-K for the period ending October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Roger J. Wolf

Roger J. Wolf
Senior Vice President & Chief Financial Officer
January 16, 2004