

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended July 31, 1997
Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to
-----.

Commission File No. 0-9143

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

Indiana 35-1150732
(State or other jurisdiction of (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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for the past 90 days:

Yes X No

The number of shares of the Registrant's common stock outstanding as of September 8, 1997 was 6,537,771.

HURCO COMPANIES, INC.
July 1997 Form 10-Q Quarterly Report

Table of Contents

Part I - Financial Information

	Page
Item 1 Condensed Consolidated Financial Statements	
Condensed Consolidated Statement of Operations - Three months and nine months ended July 31, 1997 and 1996...	3
Condensed Consolidated Balance Sheet - As of July 31, 1997 and October 31, 1996	4
Condensed Consolidated Statement of Cash Flows -	

	Three months and nine months ended July 31, 1997 and 1996...	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	9

Part II - Other Information

Item 1	Legal Proceedings	13
Item 4	Submission of Matters to a Vote of Security Holders.....	14
Item 6	Exhibits and Reports on Form 8-K	15
Signatures		15

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

HURCO COMPANIES, INC.

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

	Three Months Ended July 31, ----- 1997 1996 ----- (unaudited)		Nine Months Ended July 31, ----- 1997 1996 ----- (unaudited)	
Sales and service fees	\$24,637	\$23,039	\$69,495	\$72,358
Cost of sales and service	17,462	16,051	48,992	51,664
	-----	-----	-----	-----
Gross profit	7,175	6,988	20,503	20,694
Selling, general and administrative expenses	5,352	5,223	15,615	15,635
	-----	-----	-----	-----
Operating income	1,823	1,765	4,888	5,059
Interest expense	473	712	1,533	2,631
License fee income, net	1,221	16	7,396	324
Other expense, net	34	62	84	115
	-----	-----	-----	-----
Income before taxes	2,537	1,007	10,667	2,637
Provision for foreign income taxes	3	50	917	83
	-----	-----	-----	-----
Net income	\$ 2,534	\$ 957	\$ 9,750	\$ 2,554
	=====	=====	=====	=====
Earnings per common share	\$.38	\$.16	\$ 1.46	\$.45

	=====	=====	=====	=====
Weighted average common shares outstanding	6,690	5,920	6,675	5,679
	=====	=====	=====	=====

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands, except per share data)

	July 31, 1997	October 31, 1996
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,117	\$ 1,877
Accounts receivable	15,140	17,162
Inventories	25,838	24,215
Other	736	854
Total current assets	43,831	44,108
Long-term license fees receivable	1,074	1,040
Property and equipment:		
Land	761	761
Building	7,067	7,095
Machinery and equipment	11,483	12,662
Leasehold improvements	1,164	1,002
Less accumulated depreciation and amortization	(11,122)	(11,714)
	9,353	9,806
Software development costs, less amortization	4,183	3,792
Other assets	1,553	1,004
	\$ 59,994	\$ 59,750
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,483	\$ 11,407
Accrued expenses	6,175	7,454
Accrued warranty expenses	1,534	1,425
Current portion of long-term debt	3,036	3,050
Total current liabilities	20,228	23,336
Non-current liabilities		
Long-term debt	12,950	19,060
Deferred credits and other obligations	1,400	1,213
Total non-current liabilities	14,350	20,273
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; and 6,537,571 and 6,531,871 shares issued, respectively	654	653
Additional paid-in capital	50,324	50,312
Accumulated deficit	(20,458)	(30,208)
Foreign currency translation adjustment	(5,104)	(4,616)
Total shareholders' equity	25,416	16,141
	\$ 59,994	\$ 59,750
	=====	=====

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

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

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	1997	1996	1997	1996
	-----		-----	
	(unaudited)		(unaudited)	
Cash flows from operating activities:				
Net income	\$2,534	\$ 957	\$9,750	\$2,554
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	502	517	1,433	2,075
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(231)	1,617	1,290	2,683
(Increase) decrease in inventories	1,379	(1,174)	(2,248)	(745)
Increase (decrease) in accounts payable ..	(800)	1,144	(1,844)	99
Increase (decrease) in accrued expenses ..	476	116	(807)	(1,129)
Other	(113)	(231)	449	216
	-----		-----	
Net cash provided by operating activities	3,747	2,946	8,023	5,753
	-----		-----	
Cash flows from investing activities:				
Proceeds from sale of equipment	23	1	106	33
Purchase of property and equipment	(244)	(138)	(493)	(391)
Software development costs	(270)	(397)	(997)	(1,065)
Other investments	(11)	(8)	(429)	66
	-----		-----	
Net cash provided by (used for) investing activities	(502)	(542)	(1,813)	(1,357)
	-----		-----	
Cash flows from financing activities:				
Advances on bank credit facilities	7,222	7,820	25,279	37,885
Repayment on bank credit facilities	(9,722)	(11,482)	(29,512)	(42,632)
Repayment of term debt	--	(3,140)	(1,786)	(5,090)
Proceeds from the issuance of common stock and exercises of common stock options	5	4,830	13	4,830
	-----		-----	
Net cash provided by (used for) financing activities	(2,495)	(1,972)	(6,006)	(5,007)
	-----		-----	
Effect of exchange rate changes on cash	229	26	36	(51)
	-----		-----	
Net increase (decrease) in cash	979	458	240	(662)
	-----		-----	
Cash and cash equivalents at beginning of period	1,138	952	1,877	2,072
	-----		-----	
Cash and cash equivalents at end of period ..	\$2,117	\$1,410	\$2,117	\$1,410
	=====	=====	=====	=====

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

The condensed consolidated financial statements as of July 31, 1997 and 1996 are unaudited but include all adjustments which the Company considers necessary for a fair presentation of its financial position at those dates and its results of operations and cash flows for the three months and nine months then ended. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the

Company's Annual Report on Form 10-K for the year ended October 31, 1996.

2. LICENSE FEES

From time to time, the Company's wholly-owned subsidiary, IMS Technology, Inc. ("IMS") enters into agreements for the licensing of its interactive computer numerical control (CNC) patents. License fees received in a lump sum under a fully paid-up license are recognized in income, net of legal fees, expenses and foreign taxes, if any, at the time the license agreement is executed. License fees received in periodic installments that are contingent upon the continuing validity of a licensed patent are recognized in income, net of legal fees, expenses and foreign taxes, if any, over the life of the licensed patent.

During the third quarter ended July 31, 1997, the Company recorded license fee income, net of expenses, aggregating approximately \$1,221,000, nearly all of which was attributable to two license agreements entered into during the quarter. Pursuant to those agreements, IMS granted a fully paid-up license of its interactive CNC patents to each of two manufacturers of machine tools and CNC systems in exchange for a lump sum payment. One of those manufacturers had been a defendant in the on-going litigation brought by IMS for infringement of its interactive CNC patents and the license was entered into as part of a settlement with that manufacturer.

3. PROVISION FOR FOREIGN INCOME TAXES

The provision for foreign income taxes includes \$896,000 which represents foreign withholding tax on a payment received in the second fiscal quarter of 1997 for a license fee settlement. The remainder of the expense is income tax related to a foreign subsidiary.

4. HEDGING

The U.S. dollar equivalent notional amount of outstanding foreign currency forward exchange contracts was approximately \$8,501,450 as of July 31, 1997 and \$12,645,000 as of October 31, 1996. Deferred gains related to hedges of intercompany sales commitments were approximately \$200,000 as of July 31, 1997. Contracts outstanding at July 31, 1997 mature at various times through February 28, 1998.

5. EARNINGS PER SHARE

Earnings per share of common stock are based on the weighted average number of common shares outstanding, which includes the effects of outstanding stock options computed using the treasury stock method. Such common stock equivalents totaled 154,000 and 141,000 shares for the three and nine month periods ended July 31, 1997, respectively.

In February, 1997, the Financial Accounting Standards Board released Statement of Accounting Standards No. 128, "Earnings Per Share" (SFAS 128), which changes the method of computation of earnings per share (EPS). SFAS 128 replaces Primary EPS with Basic EPS and replaces Fully Diluted EPS with Diluted EPS. Basic EPS, unlike Primary EPS, does not consider dilution for potentially dilutive securities. Diluted EPS uses an average share price for the period whereas Fully Diluted EPS uses the greater of the average share price or end-of-period share price. SFAS 128 is effective for fiscal 1998 and earlier adoption is not permitted. Basic EPS computed under SFAS 128 for the three and nine months ended July 31, 1997 was \$.39 and \$1.49, respectively. Diluted EPS computed under SFAS 128 for the three and nine months ended July 31, 1997 was \$.38 and \$1.46, respectively.

6. ACCOUNTS RECEIVABLE

The allowance for doubtful accounts was \$733,000 as of July 31, 1997 and \$785,000 as of October 31, 1996.

7. INVENTORIES

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

	July 31, 1997	October 31, 1996
Purchased parts and sub-assemblies	\$ 11,011	\$ 12,354
Work-in-Process	1,189	1,942
Finished Goods	13,638	9,919
	-----	-----
	\$ 25,838	\$ 24,215
	=====	=====

8. SUBSEQUENT EVENTS

Subsequent to July 31, 1997, IMS granted a fully paid-up license of its interactive CNC patent to each of three manufacturers of CNC systems in exchange for lump sum payments, as a result of which the Company will recognize additional license fee income, net of legal fees and foreign withholding taxes, of approximately \$1.7 million in the fourth quarter of fiscal 1997. One of the parties was a defendant in the ongoing IMS patent infringement litigation.

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

a) Bank Credit Agreement

The Company's bank credit agreement provides for a revolving, unsecured credit facility expiring May 1, 2000, which permits borrowings, at any one time outstanding, of up to \$22.5 million (inclusive of outstanding letters of credit of up to \$12.0 million). Of such borrowings, up to \$5.0 million may be drawn in designated European currencies. The agreement also provides for the continuation of the Company's term loan, of which a balance of \$1.25 million (the final installment) is due and payable on September 30, 1997. Interest on all outstanding borrowings will be payable at LIBOR plus an amount ranging from .75% to 2.0% based on a prescribed formula, or at the Company's option, prime.

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

b) Senior Notes

At July 31, 1997, the Company had outstanding approximately \$7.1 million of unsecured Senior Notes, bearing an interest rate of 10.87%, of which approximately \$1.8 million is due on December 1, 1997 and the balance is due in equal annual installments through 2000.

Effective September 8, 1997, the interest rate on the Senior Notes was reduced to 10.37% and the financial covenants were amended to conform to those contained in the Company's amended and restated bank credit agreement.

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere herein. Certain statements made in this report may constitute "forward-looking statements". For a description of risks and uncertainties related to forward-looking statements, see the Company's Annual Report on Form 10-K for the year ended October 31, 1996.

RESULTS OF OPERATIONS

Three Months Ended July 31, 1997 Compared to Three Months Ended July 31, 1996

Sales and service fees for the third quarter of fiscal 1997 increased \$1.6 million, or 7.0%, from the corresponding quarter of fiscal 1996, notwithstanding the approximately \$935,000 negative impact of a strengthening U.S. dollar when translating foreign currency revenues into U.S. dollars for financial reporting purposes.

Sales of CNC-operated machine tools in the third quarter of fiscal 1997 totaled \$16.4 million, an increase of \$2.1 million, or 14.5%, from the corresponding 1996 period. Sales of CNC systems and software (which do not include systems and software that are sold as an integral part of a machine tool) totaled \$4.4 million in the third quarter of 1997, a decline of \$174,000, or 3.7%, from the corresponding 1996 period. Sales of service parts and service fees declined 7.3% from the corresponding 1996 period, which is attributable to improvements in recent years in the quality of the Company's products along with a transfer to the Company's distributors in the United States of responsibility for certain servicing activities.

The increase in sales of CNC-operated machine tools occurred both in the domestic market where the increase totaled \$896,000, or 17.0%, and in the European market, where the increase totaled \$2.1 million, or 26.9%, in spite of the unfavorable effect of translating foreign currency sales. These increases were offset, however, by a decrease of \$932,000, or 78.7%, in South East Asia as a result of adverse economic conditions in that region.

Gross profit as a percentage of sales for the third quarter of fiscal 1997 was 29.1% compared to 30.3% for the corresponding period in fiscal 1996. A reduction in the effective margin on foreign sales due to the negative impact of translating foreign currencies into U.S. dollars for financial reporting purposes was substantially offset by the combined effects of an increased percentage of higher-margin European sales in the total sales mix, increased domestic and European sales of higher-margin products introduced in the latter part of fiscal 1996, and increased sales of software options in connection with sales of machine tools.

Interest expense for the third quarter of fiscal 1997 decreased approximately \$239,000, or 33.5%, from the amount reported for the corresponding 1996 period primarily due to a substantial reduction in outstanding borrowings.

License fee income for the third quarter of fiscal 1997, which represented approximately 48.1% of income before taxes during that period compared to 1.5% in the corresponding period in fiscal 1996, was attributable almost entirely to two agreements entered into during the quarter by the Company's wholly-owned subsidiary, IMS Technology, Inc. (IMS), pursuant to which it granted fully paid-up licenses of its interactive CNC patent in exchange for lump sum payments by the licensees. The Company also expects to recognize additional license fee income of approximately \$1.7 million, net of legal expenses and foreign withholding taxes in the fourth quarter of fiscal 1997 as a result of three additional patent license agreements entered into by IMS subsequent to July 31, 1997, all of which provide for lump sum payments to IMS. Also, as of July 31, 1997, additional license fees of approximately \$1.2 million, net of legal fees, related to previous license agreements, have been deferred and will be recognized in income over the four-year remaining life of the licensed patent. Further, under a license agreement with Siemens A.G., a principal supplier to the Company, approximately \$650,000 is expected to be received in future periods in the form of discounts on purchases by the Company, which will be reflected as a reduction of the cost of such purchases. Although settlements have been reached with several of the defendants in the on-going IMS patent infringement litigation, as a result of which those defendants have entered into license agreements with IMS, the remaining defendants are continuing to contest the IMS claims. IMS is continuing to pursue the litigation and is also engaged in licensing discussions with other companies that are not in the litigation. There can be no assurance that IMS will enter into license agreements with any of the remaining defendants or any other companies, or that the terms of any future license agreements will be similar to those previously entered into.

Net income increased by \$1.6 million, and was approximately 2.6 times the corresponding 1996 period, due primarily to increased revenues, the receipt of license fees and a significant reduction in interest expense.

New order bookings during the third quarter of fiscal 1997 were \$25.7 million, an increase of approximately \$1.8 million, or 7.6%, from the corresponding period of fiscal 1996. The amount of new orders during the 1997 third quarter

was negatively impacted by approximately \$713,000 due to the translation effects of a stronger U.S. dollar on orders expressed in foreign currencies but compares favorably to the \$21.2 million and \$22.9 million of new orders reported for the first and second quarters of fiscal 1997, respectively. Although domestic machine tool orders during the 1997 third quarter decreased slightly compared to the corresponding 1996 period, the decrease was more than offset by an increase in orders in the European market. International orders represented approximately 45% of new order bookings for the third quarter of fiscal 1997 compared to 50% for the immediately preceding fiscal quarter and 42% for the third quarter of fiscal 1996. Backlog at July 31, 1997 was \$8.3 million compared to \$7.5 million at April 30, 1997.

Nine Months Ended July 31, 1997 Compared to Nine Months Ended July 31, 1996

Sales and service fees for the first nine months of fiscal 1997 decreased \$2.9 million, or 4.0%, compared with the corresponding period in fiscal 1996. Of the total decrease, \$1.7 million reflected the net effects of translating foreign currency revenues into U.S. dollars for financial reporting purposes.

Sales of CNC-operated machine tools, which totaled \$43.9 million in the first nine months of fiscal 1997, were 6.5% below the \$47.0 million recorded during the corresponding fiscal 1996 period. The decrease occurred in the U.S. market, with a decline of \$2.3 million, or 11.8%, as well as in S. E. Asia, where the decline of \$1.5 million, or 68.8%, was most pronounced and reflected the economic turmoil in that region. Sales of CNC-operated machine tools in Europe increased \$771,000, or 3.1%, in spite of the adverse impact of foreign currency translation. In comparing the fiscal 1997 and 1996 results, it also should be recognized that the first half of fiscal 1996 was marked by an unusually high level of shipments, as the increasing availability of products from the Company's contract manufacturers permitted an accelerated reduction of the high backlog that had resulted from the combined effects of a strengthening machine tool market, the introduction of the Company's Advantage(R) series product line and capacity constraints on the part of the Company's contract manufacturers during fiscal 1995. Sales of CNC systems and software (which do not include systems and software that are sold as an integral part of a machine tool) increased during the first half of fiscal 1997 by \$603,000, or 4.4%, primarily due to increased shipments of Autobend(R) control products in response to improved worldwide market demand. Sales of service parts and service fees decreased by \$417,000, or 3.6%, compared to the first nine months of fiscal 1996.

As a percentage of sales, gross profit increased to 29.5% in the first nine months of fiscal 1997, compared to 28.6% for the corresponding period in fiscal 1996. The improvement in margin is attributable to the combined effects of an increased percentage of higher-margin European shipments in the total sales mix, increased domestic and European shipments of higher-margin products introduced in the latter part of fiscal 1996 and increased sales of software options in connection with sales of machine tools.

Interest expense for the first half of fiscal 1997 decreased approximately \$1.1 million, or 41.8%, from the amount reported for the corresponding period in fiscal 1996, primarily due to a substantial reduction in outstanding borrowings and the payment during the 1996 period of \$240,000 of nonrecurring fees to the Company's lenders.

License fee income for the first nine months of fiscal 1997 was almost entirely attributable to new licensing agreements relating to the IMS interactive CNC patent. The provision for income tax is primarily the result of foreign withholding taxes related to one of these agreements.

Primarily as a result of the substantial licensing fee income received during the period, net income for the first nine months of fiscal 1997 increased by approximately \$7.2 million compared to the corresponding period in fiscal 1996. The increase also reflected the benefits of improved margins and the substantial reduction in interest expense.

New order bookings during the first nine months of fiscal 1997 were \$69.9 million, an increase of 3.1% from the \$67.8 million reported for the first nine months of fiscal 1996, primarily as a result of a 5.9% increase in orders for machine tools. Backlog at April 30, 1997 was \$8.3 million compared to \$9.0 million at October 31, 1996.

The Company manages its foreign currency exposure through the use of foreign currency forward exchange contracts. The Company does not speculate in the

financial markets and, therefore, does not enter into these contracts for trading purposes. The Company also moderates its currency risk related to significant purchase commitments with certain foreign vendors through price adjustment agreements that provide for a sharing of, or otherwise limit, the potential adverse effect of currency fluctuations on the costs of purchased products. The results of these programs achieved management's objectives for the first nine months of fiscal 1997 and fiscal 1996. See Note 4 to the Condensed Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1997, the Company had cash and cash equivalents of \$2.1 million compared to \$1.9 million at October 31, 1996. Cash provided by operations totaled \$3.7 million in the third quarter of fiscal 1997, compared to \$2.9 million in the same period of fiscal 1996. Cash flow from operations was enhanced by approximately \$1.2 million of license fee income received in the third quarter. In light of an increased level of finished product on hand available for shipment, the company has reduced scheduled purchases of machine tool products from its contract manufacturers to reduce finished goods inventories in the fourth quarter of fiscal 1997 and the first half of fiscal 1998, which will favorably impact future cash flow from operations.

Working capital was \$23.6 million at July 31, 1997, compared to \$20.8 million at October 31, 1996. Outstanding borrowings under the Company's revolving credit facilities were reduced by \$2.5 million during the third quarter of fiscal 1997 and \$4.2 million for the nine months, primarily as a result of repayments made with cash flow from operations, including license fees. At July 31, 1997, \$13.4 million was available to the Company for either direct borrowings or commercial letters of credit.

Capital investments for the quarter and nine months ended July 31, 1997 consisted principally of expenditures for property, equipment and software development projects. Other investments for the nine-month period included \$190,000 in the second fiscal quarter with respect to Hurco Automation, Ltd. (HAL). As of July 31, 1997, the Company has a commitment to invest an additional \$364,000 in HAL through fiscal 1999. The Company's investment activities for the nine months ended July 31, 1997 were funded through cash flow from operations.

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

a) Bank Credit Agreement

The Company's bank credit agreement provides for a revolving, unsecured credit facility expiring May 1, 2000, which permits borrowings, at any one time outstanding, of up to \$22.5 million (inclusive of outstanding letters of credit of up to \$12.0 million). Of such borrowings, up to \$5.0 million may be drawn in designated European currencies. The agreement also provides for the continuation of the Company's term loan, of which a balance of \$1.25 million (the final installment) is due and payable on September 30, 1997. Interest on all outstanding borrowings will be payable at LIBOR plus an amount ranging from .75% to 2.0% based on a prescribed formula, or at the Company's option, prime.

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

b) Senior Notes

At July 31, 1997, the Company had outstanding approximately \$7.1 million of unsecured Senior Notes, bearing an interest rate of 10.87%, of which approximately \$1.8 million is due on December 1, 1997 and the balance is due in equal annual installments through 2000.

Effective September 8, 1997, the interest rate on the Senior Notes was reduced to 10.37% and the financial covenants were amended to conform to those contained in the Company's amended and restated bank credit agreement.

Under the terms of the Company's credit facilities, as amended and restated, \$3.0 million of loan payments are due and payable over the twelve month period ending July 31, 1998. Management believes that cash flow from operations and borrowings under its credit facilities will be sufficient to meet the Company's working capital needs for the foreseeable future.

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

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As previously reported, IMS and the Company are parties to a number of pending legal proceedings involving patent infringement and other claims in connection with an IMS patent for certain interactive CNC technology originally developed by the Company (the IMS actions). Since March 1997, the Company has completed settlements with three parties to the IMS actions, Fanuc, Ltd. Southwestern Industries, Inc. and Bridgeport Machines, Inc. IMS has agreed to dismiss all infringement claims against Fanuc, Southwestern and Bridgeport.

On July 3, 1997, IMS commenced an action in the U.S. District Court for the Eastern District of Virginia alleging infringement of the IMS patent. IMS amended its complaint on August 11, 1997, naming Haas Automation, Inc., Allen-Bradley, Inc. and Fidia S.p.A., controls and machine tool manufacturers, as defendants in this action. IMS also named three machine tool end-users in the action. The complaint seeks unspecified damages, attorneys' fees and costs and injunctive relief.

The Company is involved in various other claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on its consolidated financial position or results of operations.

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

The Company's annual meeting of shareholders was held May 29, 1997. At the meeting, the following seven persons were elected to the Board of Directors by the votes indicated:

	For	Against or Withheld	Abstentions	Broker Non-Votes
Hendrik J. Hartong, Jr.	5,988,553	840	288,047	--
Andrew L. Lewis IV	5,989,393		288,047	--
Brian D. McLaughlin	5,987,953	1,440	288,047	--
E. Keith Moore	5,989,093	300	288,047	--
Richard T. Niner	5,989,393		288,047	--
O. Curtis Noel	5,988,393	1,000	288,047	--
Charles E. M. Rentschler	5,989,093	300	288,047	--

Shareholders also approved an amendment of the Company's Amended and Restated Articles of Incorporation which, among other things, increased the number of authorized shares of common stock and preferred stock. The results of the voting with respect to the amendment were as follows:

For	Against or Withheld	Abstentions	Broker Non-Votes
4,800,111	1,173,552	19,739	284,038

Shareholders also approved the Company's 1997 Stock Option and Incentive Plan. The results of the voting with respect to the plan were:

For	Against or Withheld	Abstentions	Broker Non-Votes
4,717,894	407,416	36,179	1,115,951

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3.1 Amended and Restated Articles of Incorporation.
10.52 1997 Stock Option and Incentive Plan.

11 Statement re: Computation of Per Share Earnings
27 Financial Data Schedule (electronic filing only).

(b) Reports on Form 8-K: None

SIGNATURES

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

HURCO COMPANIES, INC.

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

By: /s/ Stephen J. Alesia
Stephen J. Alesia
Corporate Controller and
Principal Accounting Officer

September 10, 1997

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3.1 Amended and Restated Articles of Incorporation.

10.52 1997 Stock Option and Incentive Plan.

11 Statement re: Computation of Per Share Earnings

27 Financial Data Schedule (electronic filing only).

(b) Reports on Form 8-K: None

SIGNATURES

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

HURCO COMPANIES, INC.

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

By: _____
Stephen J. Alesia
Corporate Controller and
Principal Accounting Officer

September 10, 1997

Exhibit 3.1

AMENDED AND RESTATED
ARTICLES OF INCORPORATION

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
HURCO COMPANIES, INC.
(As Amended Through June 2, 1997)

ARTICLE I

Name

The name of the Corporation is HURCO COMPANIES, INC.

ARTICLE II

Purposes

The purposes for which the Corporation is organized are to engage in, either alone or as a partner, joint venturer or otherwise, the invention, design, manufacture, production, sale and lease of products and equipment of all types to be used in the metal working industry, and to engage in and transact any and all other lawful business for which corporations may be incorporated under the Indiana Business Corporation Law, as the same may, from time to time, be amended (the "Corporation Law").

ARTICLE III

Term of Existence

The period during which the Corporation shall continue is perpetual.

ARTICLE IV

Number of Shares

The total number of shares which the Corporation shall have authority to issue is 13,500,000 consisting of 12,500,000 shares of Common Stock, no par value (the "Common Stock"), and 1,000,000 shares of Preferred Stock, no par value (the "Preferred Stock").

ARTICLE V

Terms of Authorized Shares

Section 1. Designation. The authorized shares of the Corporation shall be divided into two (2) classes, as follows:

- (i) 12,500,000 shares of Common Stock. The shares of Common Stock shall be identical with each other in all respects.

- (ii) 1,000,000 shares of Preferred Stock, which shares may hereafter be issued in one or more series as provided in Section 2.

Section 2. Rights, Privileges, Limitations and Restrictions of Preferred Stock. Except as otherwise provided in these Articles, the Board of Directors is vested with authority to determine and state the designation and the relative preferences, limitations, voting rights, if any, and other rights of each series of Preferred Stock by the adoption and filing in accordance with the Corporation Law, before the issuance of any shares of such series of Preferred Stock, of an amendment or amendments to these Articles of Incorporation, as the same may, from time to time, be amended, determining the terms of such series of Preferred Stock. All shares of Preferred Stock of the same series shall be identical with each other in all respects. Without limiting the generality of the foregoing, the Board of Directors shall have the authority to determine the following:

- (i) The designation of such series, the number of shares which shall initially constitute such series and the stated value thereof if different from the par value thereof;
- (ii) Whether the shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be special, conditional or limited or no voting rights except as required by law;
- (iii) The rate or rates and the time or times at which dividends and other distributions on the shares of such series shall be paid, the relationship or priority of such dividends to those payable on Common Stock or to other series of Preferred Stock, and whether or not any such dividends shall be cumulative;
- (iv) The amount payable on the shares of such series in the event of the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, and the relative priorities, if any, to be accorded such payments in liquidation;
- (v) The terms and conditions upon which either the Corporation may exercise a right to redeem shares of such series or upon which the holder of such shares may exercise a right to require redemption of such shareholder's Preferred Stock, including any premiums or penalties applicable to exercise of such rights;
- (vi) Whether or not a sinking fund shall be created for the redemption of the shares of such series, and the terms and conditions of any such fund;
- (vii) Rights, if any, to convert any shares of such series, either into shares of Common Stock or into other series of Preferred Stock and the prices, premiums or penalties, ratios and other terms applicable to any such conversion;
- (viii) Restrictions on acquisition, rights of first refusal or other limitations on transfer as may be applicable to such series, including any series intended to be offered to a special class or group; and
- (ix) Any other relative rights, preferences, limitations, qualifications or restrictions on such series of Preferred Stock, including rights and remedies in the event of default in connection with dividends, other distributions or redemptions.

Section 3. Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the shares of Common Stock shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation and any preferential amounts to be distributed to holders of the Preferred Stock and

any other class or series of stock then outstanding having a priority over the Common Stock, in the event of voluntary or involuntary liquidation, dissolution or winding up, to share ratably in the remaining net assets of the Corporation.

Section 4. Issuance of Shares. The Board of Directors has authority to authorize and direct the issuance by the Corporation of shares of Preferred Stock and Common Stock at such times, in such amounts, to such persons, for such considerations and upon such terms and conditions as it may, from time to time, determine upon, subject only to the restrictions, limitations, conditions and requirements imposed by the Corporation Law, other applicable law and these Articles of Incorporation, as the same may, from time to time, be amended.

Section 5. Distributions Upon Shares. The Board of Directors has authority to authorize and direct the payment of dividends and the making of other distributions by the Corporation in respect of the issued and outstanding shares of Preferred Stock and Common Stock (i) at such times, in such amount and forms, from such sources and upon such terms and conditions as it may, from time to time, determine upon, subject only to the restrictions, limitations, conditions and requirements imposed by the Corporation Law, other applicable law and these Articles of Incorporation, as the same may, from time to time, be amended; and (ii) in shares of the same class or series or in shares of any other class or series without obtaining the affirmative vote or the written consent of the holders of the shares of the class or series in which the payment or distribution is to be made.

Section 6. Acquisition of Shares. The Board of Directors has authority to authorize and direct the acquisition by the Corporation of the issued and outstanding shares of Preferred Stock and Common Stock at such times, in such amounts, from such persons, for such consideration, from such sources, and upon such terms and conditions as it may, from time to time, determine upon, subject only to the restrictions, limitations, conditions and requirements imposed by the Corporation Law, other applicable law and these Articles of Incorporation, as the same may, from time to time, be amended.

Section 7. No Pre-emptive Rights. The holders of the Common Stock and the holders of any series of the Preferred Stock shall have no pre-emptive rights to subscribe to or purchase any shares of Common Stock, Preferred Stock, or other securities of the Corporation.

Section 8. Record Ownership of Shares or Rights. The Corporation, to the extent permitted by law, shall be entitled to treat the person in whose name any share or right of the Corporation is registered on the books of the Corporation as the owner thereof for all purposes, and shall not be bound to recognize any equitable or any other claim to, or interest in, such share or right on the part of any other person, whether or not the Corporation shall have notice thereof.

ARTICLE VI

Voting Rights of Shares

The shares of the Corporation shall have the following voting rights.

Section 1. Common Stock. Except as otherwise provided by the Corporation Law or by these Articles, the record holder of each authorized, issued and outstanding share of Common Stock shall be entitled to one (1) vote for each such share on all matters submitted to shareholders for a vote.

Section 2. Preferred Stock. Except as specifically provided in the Corporation Law, holders of outstanding shares of Preferred Stock of any series shall have such voting rights, if any, as provided in the amendment or amendments to these Articles of Incorporation determining the terms of such series of Preferred Stock.

ARTICLE VII

Directors

Section 1. Number. The number of directors may be fixed from

time to time by the By-Laws of the Corporation at any number not less than three (3). In the absence of a by-law fixing the number of directors, the number shall be nine (9).

Section 2. Qualification. Directors shall be American citizens and may, but need not be, shareholders of the Corporation.

Section 3. Staggered Terms. If there are nine (9) or more directors, the By-Laws of the Corporation may provide for staggering their terms by dividing the total number of directors into two (2) or three (3) groups, with each group containing one-half (1/2) or one-third (1/3) of the total, as near as may be.

Section 4. Removal of Directors. At any meeting of shareholders of the Corporation called for the purpose of removing directors, the shareholders may remove any director for cause, by a majority vote of shares entitled to vote, and may remove any director without cause by a seventy-five percent (75%) vote of shares entitled to vote. Record holders of outstanding shares of Common Stock and Preferred Stock of the Corporation may only vote in respect to the removal of directors elected by said class of stock.

ARTICLE VIII

Provisions for Regulation of Business and Conduct of Affairs of Corporation

Section 1. Meetings of Shareholders. Meetings of the shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the By-Laws of the Corporation or in the respective notices or waivers of notice thereof. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a consent in writing setting forth the action so taken is signed by all of the shareholders entitled to vote with respect thereto and such written consent is filed with the minutes of the proceedings of the shareholders.

Section 2. Meetings of Directors. Meetings of the directors of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the By-Laws of the Corporation or in the respective notices, or waivers of notice, thereof. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if a consent in writing setting forth the action so taken is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of the proceedings of such Board or committee.

Section 3. By-Laws. The Board of Directors of the Corporation shall have power, without the assent or vote of the shareholders, to make, alter, amend or repeal the By-Laws of the Corporation, but the affirmative vote of two-thirds (2/3) of the members of the Board of Directors, if it consists of more than nine (9) members, or a majority of the members of the Board of Directors, if it consists of nine (9) or fewer members, for the time being, shall be necessary to effect any alteration, amendment or repeal.

Section 4. Special Transactions. The affirmative vote of the holders of not less than three-fourths (3/4) of all outstanding shares of Common Stock of this Corporation shall be required for the approval of any proposal that (1) this Corporation merge or consolidate with any other corporation or entity if such other corporation or entity or any of its affiliates, singly or in the aggregate, are directly or indirectly the beneficial owners of more than five percent (5%) of the total outstanding shares of Common Stock of this Corporation (such other corporation or entity being herein referred to as the "Related Corporation"); or that (2) this Corporation sell or exchange all or substantially all of its assets or business to or with such Related Corporation; or that (3) this Corporation issue or deliver any stock or other securities of its issue in exchange or payment for any properties or assets of such Related Corporation or securities issued by such Related Corporation; or (4) involves a merger of any affiliate of this Corporation with or into such Related Corporation or any of its affiliates, and to effect such transaction the approval of shareholders of this Corporation is required by law; or (5) this Corporation be merged or consolidated into a subsidiary which does not have in its Articles of Incorporation the provisions contained in this Section 7; provided, however, that the foregoing shall not apply to any such merger, consolidation, sale or exchange, or issuance or delivery of stock or other securities which was (i) approved by resolution of the Board of Directors adopted by the affirmative vote of not less than two-thirds (2/3) of the then

authorized number of directors; or (ii) approved by resolution of the Board of Directors prior to the acquisition of the beneficial ownership of more than five percent (5%) of the total voting power of all outstanding shares of the voting stock of the Corporation by such Related Corporation and its affiliates. For the purposes hereof, an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified; "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise; and in computing the percentage of outstanding Common Stock beneficially owned by any person the shares outstanding and the shares owned shall be determined as of the record date fixed to determine the stockholders entitled to vote or express consent with respect to such proposal. The shareholder vote, if any, required for mergers, consolidation, sales or exchanges of assets or issuances of stock or other securities not expressly provided for in this Article, shall be such as may be required by the Corporation Law.

Section 5. Amendment of Articles of Incorporation. The Corporation reserves the right to increase or decrease the number of its authorized shares, or any class or series thereof, and to reclassify the same, and to amend, alter, change or repeal any provisions contained in these Articles of Incorporation or in any amendment hereto, or to add any provision to the Articles of Incorporation or to any amendment hereto, in the manner now or hereafter prescribed or permitted by the Corporation Law or any other applicable laws, and all rights and powers conferred upon shareholders in these Articles of Incorporation, or any amendment hereto, are granted subject to this reservation. Notwithstanding the foregoing, however, Article VII and Sections 3 and 4 of Article VIII hereof may not be amended or repealed in any respect unless such repeal or amendment is approved by the affirmative vote of three-fourths (3/4) of the outstanding shares of Common Stock.

1997 STOCK OPTION AND INCENTIVE PLAN

HURCO COMPANIES, INC.
1997 STOCK OPTION AND INCENTIVE PLAN

1. Plan Purpose. The purpose of the Plan is to promote the long-term interests of the Company and its shareholders by providing a means for attracting and retaining officers and key employees of the Company and its Affiliates.

2. Definitions. The following definitions are applicable to the Plan:

"Affiliate" -- means any "parent corporation" or "subsidiary corporation" of the Company as such terms are defined in Code sections 424(e) and (f), respectively.

"Affiliated SAR" -- means a SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised. The deemed exercise of an Affiliated SAR shall not necessitate a reduction in the number of Shares subject to the related Option.

"Award" -- means the grant by the Committee of Incentive Stock Options, Non-Qualified Stock Options, SARs, Restricted Shares, Performance Shares or any combination thereof, as provided in the Plan.

"Award Agreement" -- means the written agreement setting forth the terms and provisions applicable to each Award granted under the Plan.

"Base Price" -- means the amount over which the appreciation in value of a Share will be measured upon exercise of an SAR.

"Board" -- means the Board of Directors of the Company.

"Change in Control" -- means each of the events specified in the following clauses (i) through (iii): (i) any third person, including a "group" as defined in Section 13(d)(3) of the Exchange Act after the date of the adoption of the Plan by the Board, first becomes the beneficial owner of shares of the Company with respect to which 25% or more of the total number of votes for the election of the Board of Directors of the Company may be cast, (ii) as a result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets or contested election, or combination of the foregoing, the persons who were directors of the Company shall cease to constitute a majority of the Board of Directors of the Company or (iii) the shareholders of the Company shall approve an agreement providing either for a transaction in which the Company will cease to be an independent publicly owned entity or for a sale or other disposition of all or substantially all the assets of the Company; provided, however, that the occurrence of any of such events shall not be deemed a Change in Control if, prior to such occurrence, a resolution specifically approving such occurrence shall have been adopted by at least a majority of the Board of Directors of the Company.

"Code" -- means the Internal Revenue Code of 1986, as amended.

"Committee" -- means the Committee appointed by the Board pursuant to Section 3 of the Plan.

"Company" -- means Hurco Companies, Inc., an Indiana corporation.

"Continuous Service" -- means the absence of any interruption or termination of service as an Employee of the Company or an Affiliate. Service shall not be considered interrupted in the case of sick leave, military leave or any other leave of absence approved by the Company or in the case of any transfer between the Company and an Affiliate or any successor to the Company.

"Director" -- means any individual who is a member of the Board.

"Disability" -- means total and permanent disability as determined by the Committee pursuant to Code section 22(e)(3).

"Employee" -- means any person, including an officer or Director, who is employed by the Company or any Affiliate.

"Exchange Act" -- means the Securities Exchange Act of 1934, as amended.

"Exercise Price" -- means the price per Share at which the Shares subject to an Option may be purchased upon exercise of the Option.

"Freestanding SAR" -- means a SAR that is granted independently of any Option.

"Incentive Stock Option" -- means an option to purchase Shares granted by the Committee pursuant to the terms of the Plan which is intended to qualify under Code section 422.

"Market Value" -- means the last reported sale price on the date in question (or, if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) of one Share on the principal exchange on which the Shares are listed for trading, or if the Shares are not listed for trading on any exchange, the average trading price of one share on the date in question as reported on the Nasdaq National Market or any similar system then in use, or, if the Shares are not listed on the Nasdaq National Market, the mean between the closing high bid and low asked quotations of one Share on the date in question as reported by Nasdaq or any similar system then in use, or, if no such quotations are available, the fair market value on such date of one Share as the Committee shall determine.

"Non-Qualified Stock Option" -- means an option to purchase Shares granted by the Committee pursuant to the terms of the Plan, which option is not intended to qualify under Code section 422.

"Option" -- means an Incentive Stock Option or a Non-Qualified Stock Option.

"Participant" -- means any Employee of the Company or any Affiliate who is selected by the Committee to receive an Award.

"Performance Cycle" -- means the period of time, designated by the Committee, over which Performance Shares may be earned.

"Performance Shares" -- means Shares awarded pursuant to Section 12 of the Plan.

"Plan" -- means the Hurco Companies, Inc., 1997 Stock Option and Incentive Plan.

"Reorganization" -- means the liquidation or dissolution of the Company or any merger, consolidation or combination of the Company (other than a merger, consolidation or combination in which the Company is the continuing entity and which does not result in the outstanding Shares being converted into or exchanged for different securities, cash or other property or any combination thereof).

"Restricted Period" -- means the period of time selected by the Committee for the purpose of determining when restrictions are in effect under Section 10 of the Plan with respect to Restricted Shares.

"Restricted Shares" -- means Shares which have been contingently awarded to a Participant by the Committee subject to the restrictions referred to in Section 10 of the Plan, so long as such restrictions are in effect.

"Retirement" -- means a Participant's cessation of Continuous Service on or after age 65 or such other age as set forth in the Company's retirement policy as in effect from time to time.

"Stock Appreciation Right" or "SAR" -- means an Award,

granted alone or in connection with a related Option, pursuant to Section 11 of the Plan.

"Securities Act" -- means the Securities Act of 1933, as amended.

"Shares" -- means the shares of common stock, no par value, of the Company.

"Tandem SAR" -- means a SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase an equal number of Shares under the related Option (and when a Share is purchased under the Option, the SAR shall be canceled to the same extent).

3. Administration. The Plan shall be administered by the Committee, which shall consist of two or more members of the Board, each of whom shall be a "non-employee director" as provided under Rule 16b-3 of the Exchange Act, and an "outside director" as provided under Code section 162(m). The members of the Committee shall be appointed by the Board. Except as limited by the express provisions of the Plan, the Committee shall have sole and complete authority and discretion to (a) select Participants and grant Awards; (b) determine the number of Shares to be subject to types of Awards generally, as well as to individual Awards granted under the Plan; (c) determine the terms and conditions upon which Awards shall be granted under the Plan; (d) prescribe the form and terms of Award Agreements; (e) establish procedures and regulations for the administration of the Plan; (f) interpret the Plan; and (g) make all determinations deemed necessary or advisable for the administration of the Plan.

A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee without a meeting, shall be acts of the Committee. All determinations and decisions made by the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

4. Participants. The Committee may select from time to time Participants in the Plan from those officers and key Employees of the Company or its Affiliates who, in the opinion of the Committee, have the capacity for contributing in a substantial measure to the successful performance of the Company or its Affiliates.

5. Shares Subject to Plan, Limitations on Grants and Exercise Price. Subject to adjustment by the operation of Section 13 hereof:

(a) The maximum number of Shares which may be issued with respect to Awards made under the Plan is 500,000 Shares. The Shares with respect to which Awards may be made under the Plan may either be authorized and unissued shares or unissued shares heretofore or hereafter reacquired and held as treasury shares. Any Award which expires, terminates or is surrendered for cancellation or with respect to Restricted Shares which is forfeited (so long as any cash dividends paid on such Shares are also forfeited), may be subject to new Awards under the Plan with respect to the number of Shares as to which a termination or forfeiture has occurred.

(b) The number of Shares which may be granted under the Plan to any Participant during the term of the Plan under all forms of Awards shall not exceed 100,000 Shares.

(c) Notwithstanding any other provision under the Plan, the Exercise Price for any Incentive Stock Option and the Base Price for any Tandem or Affiliated SAR granted in connection with an Incentive Stock Option awarded under the Plan may not be less than the Market Value of the Shares on the date of grant.

6. General Terms and Conditions of Options. The Committee shall have full and complete authority and discretion, except as expressly limited by the Plan, to grant Options and to prescribe the terms and conditions (which need not be identical among Participants) of the Options. Each Option shall be evidenced by an Award Agreement that shall specify: (a) the Exercise Price, (b) the number of Shares subject to the Option, (c) the expiration date of the Option, (d) the manner, time and rate (cumulative or otherwise) of

exercise of the Option, (e) the restrictions, if any, to be placed upon the Option or upon Shares which may be issued upon exercise of the Option, (f) the conditions, if any, under which a Participant may transfer or assign Options, and (g) any other terms and conditions as the Committee, in its sole discretion, shall determine. The Committee may, as a condition of granting any Option, require that a Participant agree to surrender for cancellation one or more Options previously granted to such Participant.

7. Exercise of Options.

(a) Except as provided in Section 16, an Option granted under the Plan shall be exercisable during the lifetime of the Participant to whom such Option was granted only by such Participant, and except as provided in Section 8 of the Plan, no Option may be exercised unless at the time the Participant exercises the Option, the Participant has maintained Continuous Service since the date of the grant of the Option.

(b) To exercise an Option under the Plan, the Participant must give written notice to the Company specifying the number of Shares with respect to which the Participant elects to exercise the Option together with full payment of the Exercise Price. The date of exercise shall be the date on which the notice is received by the Company. Payment may be made either (i) in cash (including check, bank draft or money order), (ii) by tendering Shares already owned by the Participant and having a Market Value on the date of exercise equal to the Exercise Price, (iii) by requesting that the Company withhold Shares issuable upon exercise of the Option having a Market Value equal to the Exercise Price, or (iv) by any other means determined by the Committee in its sole discretion.

8. Termination of Options. Unless otherwise specifically provided by the Committee in the Award Agreement or any amendment thereto, Options shall terminate as provided in this Section.

(a) Unless sooner terminated under the provisions of this Section, Options shall expire on the earlier of the date specified in the Award Agreement or the expiration of ten (10) years from the date of grant.

(b) If the Continuous Service of a Participant is terminated for cause, or voluntarily by the Participant for any reason other than death, Disability or Retirement, all rights under any Options granted to the Participant shall terminate immediately upon the Participant's cessation of Continuous Service.

(c) If the Continuous Service of a Participant is terminated by reason of Retirement or terminated by the Company without cause, the Participant may exercise outstanding Options to the extent that the Participant was entitled to exercise the Options at the date of cessation of Continuous Service, but only within the period of three (3) months immediately succeeding the Participant's cessation of Continuous Service, and in no event after the applicable expiration dates of the Options.

(d) In the event of the Participant's death or Disability, the Participant or the Participant's beneficiary, as the case may be, may exercise outstanding Options to the extent that the Participant was entitled to exercise the Options at the date of cessation of Continuous Service, but only within the one-year period immediately succeeding the Participant's cessation of Continuous Service by reason of death or Disability, and in no event after the applicable expiration date of the Options.

9. Incentive Stock Options. Incentive Stock Options may be granted only to Participants who are Employees. Any provisions of the Plan to the contrary notwithstanding, (a) no Incentive Stock Option shall be granted more than ten years from the earlier of the date the Plan is adopted by the Board of Directors of the Company or approved by the Company's Shareholders, (b)

no Incentive Stock Option shall be exercisable more than ten years from the date the Incentive Stock Option is granted, (c) the Exercise Price of any Incentive Stock Option shall not be less than the Market Value per Share on the date such Incentive Stock Option is granted, (d) any Incentive Stock Option shall not be transferable by the Participant to whom such Incentive Stock Option is granted other than by will or the laws of descent and distribution and shall be exercisable during such Participant's lifetime only by such Participant, (e) no Incentive Stock Option shall be granted which would permit a Participant to acquire, through the exercise of Incentive Stock Options in any calendar year, under all plans of the Company and its Affiliate, Shares having an aggregate Market Value (determined as of the time any Incentive Stock Option is granted) in excess of \$100,000 (determined by assuming that the Participant will exercise each Incentive Stock Option on the date that such Option first becomes exercisable), and (f) no Incentive Stock Option may be exercised more than three (3) months after the Participant's cessation of Continuous Service (one (1) year in the case of Disability) for any reason other than death. Notwithstanding the foregoing, in the case of any Participant who, at the date of grant, owns shares possessing more than 10% of the total combined voting power of all classes of capital stock of the Company or any Affiliate, the Exercise Price of any Incentive Stock Option shall not be less than 110% of the Market Value per Share on the date such Incentive Stock Option is granted and such Incentive Stock Option shall not be exercisable more than five years from the date such Incentive Stock Option is granted.

10. Terms and Conditions of Restricted Shares. The Committee shall have full and complete authority, subject to the limitations of the Plan, to grant Awards of Restricted Shares and to prescribe the terms and conditions (which need not be identical among Participants) in respect of the Awards. Unless the Committee otherwise specifically provides in the Award Agreement, an Award of Restricted Shares shall be subject to the following provisions:

(a) At the time of an Award of Restricted Shares, the Committee shall establish for each Participant a Restricted Period during which, or at the expiration of which, the Restricted Shares shall vest. Subject to paragraph (e) of this Section, the Participant shall have all the rights of a shareholder with respect to the Restricted Shares, including but not limited to, the right to receive all dividends paid on the Restricted Shares and the right to vote the Restricted Shares. The Committee shall have the authority, in its discretion, to accelerate the time at which any or all of the restrictions shall lapse with respect to any Restricted Shares prior to the expiration of the Restricted Period, or to remove any or all restrictions, whenever it may determine that such action is appropriate by reason of changes in applicable tax or other laws or other changes in circumstances occurring after the commencement of the Restricted Period.

(b) If a Participant ceases Continuous Service for any reason, including death, before the Restricted Shares have vested, a Participant's rights with respect to the unvested portion of the Restricted Shares shall terminate and be returned to the Company.

(c) Each certificate issued in respect to Restricted Shares shall be registered in the name of the Participant and deposited by the Participant, together with a stock power endorsed in blank, with the Company and shall bear the following (or a similar) legend:

"The transferability of this certificate and the shares represented hereby are subject to the terms and conditions (including forfeiture) contained in the 1997 Stock Option and Incentive Plan of Hurco Companies, Inc., and an Award Agreement entered into between the registered owner and Hurco Companies, Inc. Copies of the Plan and Award Agreement are on file in the office of the Secretary of the Company."

(d) At the time of an Award of Restricted Shares, the Participant shall enter into an Award Agreement with the Company in a form specified by the Committee agreeing to the terms and conditions of the Award.

(e) At the time of an Award of Restricted Shares, the Committee may, in its discretion, determine that the payment to the Participant of dividends declared or paid on the

Restricted Shares by the Company, or a specified portion thereof, shall be deferred until the earlier to occur of (i) the lapsing of the restrictions imposed with respect to the Restricted Shares, or (ii) the forfeiture of such Restricted Shares under paragraph (b) of this Section, and shall be held by the Company for the account of the Participant until such time. In the event of deferral, there shall be credited at the end of each year (or portion thereof) interest on the amount of the account at the beginning of the year at a rate per annum as the Committee, in its discretion, may determine. Payment of deferred dividends, together with accrued interest, shall be made upon the earlier to occur of the events specified in (i) and (ii) of this paragraph.

(f) At the expiration of the restrictions imposed by this Section, the Company shall redeliver to the Participant the certificate(s) and stock power deposited with the Company pursuant to paragraph (c) of this Section and the Shares represented by the certificate(s) shall be free of all restrictions.

(g) No Award of Restricted Shares may be assigned, transferred or encumbered.

11. Grant of SARs. Subject to the terms and conditions of the Plan, a SAR Award may be made to Participants at any time and from time to time as shall be determined by the Committee, in its sole discretion. The Committee may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination thereof as follows:

(a) The Committee, subject to the limitations of the Plan, shall have complete discretion to determine the Exercise Price and other terms and conditions of SARs granted under the Plan. Each SAR Award shall be evidenced by an Award Agreement specifying the terms and conditions of the Award, including its term, the Base Price and the conditions of exercise.

(b) The Base Price of Shares with respect to a Tandem or Affiliated SAR Award shall equal the Exercise Price of the Shares under the related Option.

(c) Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an Incentive Stock Option: (i) the Tandem SAR shall expire no later than the expiration of the underlying Incentive Stock Option; (ii) the value of the payout with respect to the Tandem SAR shall be for no more than one hundred percent (100%) of the difference between the Exercise Price of the underlying Incentive Stock Option and the Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (iii) the Tandem SAR shall be exercisable only when the Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

(d) Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Market Value of a Share on the date of exercise over the Base Price; times

(ii) The number of Shares with respect to which the SAR Award is exercised.

At the discretion of the Committee, payment for a SAR may be in cash, Shares or a combination thereof.

12. Performance Shares. The Committee, in its sole discretion, may from time to time authorize the grant of Performance Shares upon the

achievement of performance goals (which may be cumulative and/or alternative) as may be established, in writing, by the Committee based on any one or any combination of the following business criteria: (a) earnings per Share; (b) return on equity; (c) return on assets; (d) operating income; or (e) Market Value per Share. At the time as it is certified, in writing, by the Committee that the performance goals established by the Committee have been attained or otherwise satisfied within the Performance Cycle, the Committee shall authorize the payment of cash in lieu of Performance Shares or the issuance of Performance Shares registered in the name of the Participant, or a combination of cash and Shares. The grant of an Award of Performance Shares shall be evidenced by an Award Agreement containing the terms and conditions of the Award as determined by the Committee. To the extent required under Code Section 162(m), the business criteria under which performance goals are determined by the Committee shall be resubmitted to shareholders for reapproval no later than the first shareholder meeting that occurs in the fifth year following the year in which shareholders previously approved the Plan.

If the Participant ceases Continuous Service before the end of a Performance Cycle for any reason other than Retirement, Disability, or death, the Participant shall forfeit all rights with respect to any Performance Shares that were being earned during the Performance Cycle. The Committee, in its sole discretion, may establish guidelines providing that if a Participant ceases Continuous Service before the end of a Performance Cycle by reason of Retirement, Disability, or death, the Participant shall be entitled to a prorated payment with respect to any Performance Shares that were being earned during the Performance Cycle.

13. Adjustments Upon Changes in Capitalization. In the event of any change in the outstanding Shares subsequent to the effective date of the Plan by reason of any reorganization, recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation or any change in the corporate structure or Shares of the Company, the maximum aggregate number and class of shares as to which Awards may be granted under the Plan and the number and class of shares with respect to which Awards theretofore have been granted under the Plan shall be appropriately adjusted by the Committee to prevent the dilution or diminution of Awards. The Committee's determination with respect to any adjustments shall be conclusive. Any shares or other securities received, as a result of any of the foregoing, by a Participant with respect to Restricted Shares shall be subject to the same restrictions and the certificate(s) or other instruments representing or evidencing the shares or other securities shall be legended and deposited with the Company in the manner provided in Section 10 of this Agreement.

14. Effect of Reorganization. Unless otherwise provided by the Committee in the Award Agreement, Awards will be affected by a Reorganization as follows:

(a) If the Reorganization is a dissolution or liquidation of the Company then (i) the restrictions on Restricted Shares shall lapse and (ii) each outstanding Option or SAR Award shall terminate, but each Participant to whom the Option or SAR was granted shall have the right, immediately prior to the dissolution or liquidation to exercise the Option or SAR in full, notwithstanding the provisions of Section 9, and the Company shall notify each Participant of such right within a reasonable period of time prior to any dissolution or liquidation.

(b) If the Reorganization is a merger or consolidation, other than a Change in Control subject to Section 15 of this Plan, upon the effective date of the Reorganization (i) each Participant shall be entitled, upon exercise of an Option in accordance with all of the terms and conditions of the Plan, to receive in lieu of Shares, shares or other securities or consideration as the holders of Shares shall be entitled to receive pursuant to the terms of the Reorganization; and (ii) each holder of Restricted Shares shall receive shares or other securities as the holders of Shares received which shall be subject to the restrictions set forth in Section 10 unless the Committee accelerates the lapse of such restrictions and the certificate(s) or other instruments representing or evidencing the shares or other securities shall be legended and deposited with the Company in the manner provided in Section 10 of this Plan.

The adjustments contained in this Section and the manner of application of such provisions shall be determined solely by the Committee.

15. Effect of Change of Control. If the Continuous Service of any Participant of the Company or any Affiliate is involuntarily terminated, for whatever reason, at any time within twelve months after a Change in Control, unless the Committee shall have otherwise provided in the Award Agreement, (a) any Restricted Period with respect to an Award of Restricted Shares shall lapse upon the Participant's termination of Continuous Service and all Shares of Restricted Shares shall become fully vested in the Participant to whom the award was made; and (b) with respect to Performance Shares, the Participant shall be entitled to receive a prorata payment of Shares to the same extent as if the Participant ceases Continuous Service by reason of Retirement under Section 12 of the Plan. If a tender offer or exchange offer for Shares (other than such an offer by the Company) is commenced, or if the event specified in clause (iii) of the definition of a Change in Control contained in Section 2 shall occur, unless the Committee shall have otherwise provided in the Award Agreement, all Option and SAR Awards theretofore granted and not fully exercisable shall become exercisable in full upon the happening of such event and shall remain exercisable in accordance with their terms; provided, however, that no Option or SAR shall be exercisable by a director or officer of the Company within six months of the date of grant of the Option or SAR and no Option or SAR which has previously been exercised or otherwise terminated shall become exercisable.

16. Assignments and Transfers. Except as otherwise expressly authorized by the Committee in the Award Agreement or any amendment thereto during the lifetime of a Participant no Award nor any right or interest of a Participant in any Award under the Plan may be assigned, encumbered or transferred otherwise than by will or the laws of descent and distribution.

17. Employee Rights Under the Plan. No officer, Employee or other person shall have a right to be selected as a Participant nor, having been so selected, to be selected again as a Participant and no officer, Employee or other person shall have any claim or right to be granted an Award under the Plan or under any other incentive or similar plan of the Company or any Affiliate. Neither the Plan nor any action taken under the Plan shall be construed as giving any Employee any right to be retained in the employ of the Company or any Affiliate.

18. Delivery and Registration of Shares. The Company's obligation to deliver Shares with respect to an Award shall, if the Committee requests, be conditioned upon the receipt of a representation as to the investment intention of the Participant to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of the Securities Act or any other applicable federal or state securities laws. It may be provided that any representation requirement shall become inoperative upon a registration of the Shares or other action eliminating the necessity of the representation under the Securities Act or other state securities laws. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange or system on which Shares may then be listed, and (ii) the completion of any registration or other qualification of the Shares under any state or federal law, rule or regulation, as the Company shall determine to be necessary or advisable.

19. Withholding Tax. Prior to the delivery of any Shares or cash pursuant to an Award, the Company shall have the right and power to deduct or withhold, or require the Participant to remit to the Company, an amount sufficient to satisfy all applicable tax withholding requirements. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require a Participant to satisfy all or part of the tax withholding obligations in connection with an Award by (a) having the Company withhold otherwise deliverable Shares, or (b) delivering to the Company Shares already owned having a Market Value equal to the amount required to be withheld. The amount of the withholding requirement shall be deemed to include any amount which the Committee determines, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined for these purposes. For these purposes, the value of the Shares to be withheld or delivered shall be equal to the Market Value as of the date that the taxes are required to be withheld.

20. Termination, Amendment and Modification of Plan. The Board may at any time terminate, and may at any time and from time to time and in any

respect amend or modify, the Plan; provided however, that to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or Code section 422 (or any other applicable law or regulation, including requirements of any stock exchange or quotation system on which the Company's common stock is listed or quoted) shareholder approval of any Plan amendment shall be obtained in the manner and to the degree as is required by the applicable law or regulation; and provided further, that no termination, amendment or modification of the Plan shall in any manner affect any Award theretofore granted pursuant to the Plan without the consent of the Participant to whom the Award was granted or transferee of the Award.

21. Effective Date and Term of Plan. The Plan shall become effective upon its adoption by the Board of Directors, subject to ratification by the shareholders of the Company at the next annual meeting, and shall continue in effect for a term of ten years from the date of adoption by the Board of Directors unless sooner terminated under Section 20 of the Plan.

22. Governing Law. The Plan and Award Agreements shall be construed in accordance with and governed by the laws of the State of Indiana.

23. Awards to Foreign Nationals and Employees Outside the United States. To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice and to further the purpose of this Plan, the Committee may, without amending this Plan, (a) establish special rules applicable to Awards granted to Participants who are foreign nationals, are employed outside the United States, or both, including rules that differ from those set forth in this Plan, and (b) grant Awards to such Participants in accordance with those rules.

Adopted by the Board of Directors of
Hurco Companies, Inc.
as of March 6, 1997

Adopted by the Shareholders of
Hurco Companies, Inc.
as of May 29, 1997

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
QUARTERLY REPORT 10-Q FOR THE PERIOD ENDED JULY 31, 1997 AND IS QUALIFIED
IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK>

0000315374

<NAME>

SONJA BUCKLES

<MULTIPLIER>

1,000

<CURRENCY>

US DOLLARS

<PERIOD-TYPE>

9-MOS

<FISCAL-YEAR-END>

OCT-31-1997

<PERIOD-START>

NOV-1-1996

<PERIOD-END>

JUL-31-1997

<EXCHANGE-RATE>

1

<CASH>

2,117

<SECURITIES>

0

<RECEIVABLES>

15,873

<ALLOWANCES>

733

<INVENTORY>

25,838

<CURRENT-ASSETS>

43,831

<PP&E>

20,475

<DEPRECIATION>

11,122

<TOTAL-ASSETS>

59,994

<CURRENT-LIABILITIES>

20,228

<BONDS>

0

<PREFERRED-MANDATORY>

0

<PREFERRED>

0

<COMMON>

654

<OTHER-SE>

24,762

<TOTAL-LIABILITY-AND-EQUITY>

59,994

<SALES>

69,495

<TOTAL-REVENUES>

69,495

<CGS>

48,992

<TOTAL-COSTS>

48,992

<OTHER-EXPENSES>

(7,312)

<LOSS-PROVISION>

0

<INTEREST-EXPENSE>

1,533

<INCOME-PRETAX>

10,667

<INCOME-TAX>

917

<INCOME-CONTINUING>

9,750

<DISCONTINUED>

0

<EXTRAORDINARY>

0

<CHANGES>

0

<NET-INCOME>

9,750

<EPS-PRIMARY>

1.46

<EPS-DILUTED>

1.46