UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended July 31, 2011 or
☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________.

Commission File No. 0-9143

HURCO COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Indiana	**35-1150732**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Technology Way 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 ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the Registrant's common stock outstanding as of September 1, 2011 was 6,440,851.

HURCO COMPANIES, INC.
July 2011 Form 10-Q Quarterly Report

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	**2010**	**2011**	**2010**
	(Unaudited)		(Unaudited)	
Sales and service fees	$ 50,573	$ 26,474	$ 131,829	$ 71,178
Cost of sales and service	34,723	21,815	91,637	57,862
Gross profit	15,850	4,659	40,192	13,316
Selling, general and administrative expenses	9,317	6,994	27,401	20,757
Operating income (loss)	6,533	(2,335)	12,791	(7,441)
Interest expense	47	21	61	43
Interest income	35	24	107	49
Investment income	2	4	9	12
Other (income) expense, net	242	55	721	448
Income (loss) before taxes	6,281	(2,383)	12,125	(7,871)
Provision (benefit) for income taxes	1,706	(1,210)	3,655	(3,289)
Net income (loss)	$ 4,575	$ (1,173)	$ 8,470	$ (4,582)
Income (loss) per common share				
Basic	$ .71	$ (0.18)	$ 1.31	$ (0.71)
Diluted	$ .70	$ (0.18)	$ 1.30	$ (0.71)
Weighted average common shares outstanding				
Basic	6,441	6,441	6,441	6,441
Diluted	6,480	6,441	6,474	6,441

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per-share data)

	July 31 2011 (Unaudited)	October 31 2010 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,139	$ 48,255
Accounts receivable, net	30,407	20,114
Refundable taxes	4,383	5,093
Inventories, net	75,105	55,866
Deferred income taxes	2,804	2,467
Derivative assets	381	905
Other	5,763	3,508
Total current assets	167,982	136,208
Non-current assets:		
Property and equipment:		
Land	782	782
Building	7,116	7,116
Machinery and equipment	16,198	15,095
Leasehold improvements	2,366	2,183
	26,462	25,176
Less accumulated depreciation and amortization	(15,192)	(13,424)
	11,270	11,752
Software development costs, less accumulated amortization	5,274	6,042
Investments and other assets, net	6,209	6,344
	$ 190,735	$ 160,346
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 44,332	$ 30,394
Accrued expenses and other	13,447	8,132
Accrued warranty expenses	1,781	1,591
Derivative liabilities	2,017	2,123
Short-term debt	854	—
Total current liabilities	62,431	42,240
Non-current liabilities:		
Deferred income taxes	2,465	2,335
Deferred credits and other	1,124	1,031
Total liabilities	66,020	45,606
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, 13,250,000 shares authorized, 6,471,710 and 6,440,851 shares issued; and 6,440,851 and 6,440,851 shares outstanding, as of July 31, 2011 and October 31, 2010, respectively	644	644
Additional paid-in capital	52,476	52,144
Retained earnings	72,294	63,824
Accumulated other comprehensive loss	(699)	(1,872)
Total shareholders' equity	124,715	114,740
	$ 190,735	$ 160,346

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	**2010**	**2011**	**2010**
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income (loss)	$ 4,575	$ (1,173)	$ 8,470	$ (4,582)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Provision for doubtful accounts	39	(74)	(163)	(263)
Deferred income taxes	447	473	677	(310)
Equity in (income) loss of affiliates	(21)	(27)	(38)	154
Depreciation and amortization	1,081	978	3,227	2,811
Foreign currency (gain) loss	844	1,030	(2,476)	4,614
Unrealized (gain) loss on derivatives	150	1,457	(138)	622
Stock-based compensation	138	46	332	95
Change in assets and liabilities:				
(Increase) decrease in accounts receivable and refundable taxes	(6,532)	4,078	(8,616)	3,675
(Increase) decrease in inventories	(6,584)	(1,034)	(17,415)	6,379
Increase (decrease) in accounts payable	5,389	7,805	12,011	12,454
Increase (decrease) in accrued expenses	3,354	(782)	5,119	(1,849)
Net change in derivative assets and liabilities	(472)	(733)	115	(1,772)
Other	(1,226)	(2,272)	(25)	(3,120)
Net cash provided by (used for) operating activities	1,182	9,772	1,080	18,908
Cash flows from investing activities:				
Proceeds from sale of property and equipment	—	7	—	42
Purchase of property and equipment	(480)	(188)	(855)	(437)
Software development costs	(238)	(310)	(890)	(805)
Other investments	(41)	73	(25)	56
Net cash provided by (used for) investing activities	(759)	(418)	(1,770)	(1,144)
Cash flows from financing activities:				
Advances on short-term debt	202	—	839	—
Effect of exchange rate changes on cash	(164)	(183)	735	(1,357)
Net increase (decrease) in cash and cash equivalents	461	9,171	884	16,407
Cash and cash equivalents at beginning of period	48,678	36,018	48,255	28,782
Cash and cash equivalents at end of period	$ 49,139	$ 45,189	$ 49,139	$ 45,189

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended July 31, 2011 and 2010
(Unaudited)

(In thousands, except shares outstanding)	Common stock Shares outstanding	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balances, October 31, 2009	**6,440,851**	**$ 644**	**$ 52,003**	**$ 69,568**	**$ (1,839)**	**$ 120,376**
Net loss	—	—	—	(4,582)	—	(4,582)
Translation of foreign currency financial statements	—	—	—	—	(2,262)	(2,262)
Realized losses on derivative instruments reclassified into operations, net of tax of $61	—	—	—	—	99	99
Unrealized gain on derivative instruments, net of tax of $197	—	—	—	—	320	320
Comprehensive loss	—	—	—	—	—	(6,425)
Stock-based compensation expense	—	—	95	—	—	95
Balances, July 31, 2010 (Unaudited)	**6,440,851**	**$ 644**	**$ 52,098**	**$ 64,986**	**$ (3,682)**	**$ 114,046**
Balances, October 31, 2010	**6,440,851**	**$ 644**	**$ 52,144**	**$ 63,824**	**$ (1,872)**	**$ 114,740**
Net income	—	—	—	8,470	—	8,470
Translation of foreign currency financial statements	—	—	—	—	2,214	2,214
Realized gain on derivative instruments reclassified into operations, net of tax of $(226)	—	—	—	—	(384)	(384)
Unrealized loss on derivative instruments, net of tax of $(386)	—	—	—	—	(657)	(657)
Comprehensive income	—	—	—	—	—	9,643
Stock-based compensation expense	—	—	332	—	—	332
Balances, July 31, 2011 (Unaudited)	**6,440,851**	**$ 644**	**$ 52,476**	**$ 72,294**	**$ (699)**	**$ 124,715**

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

The unaudited Condensed Consolidated Financial Statements include the accounts of Hurco Companies, Inc. and its consolidated subsidiaries. As used in this report, and unless the context indicates otherwise, the terms “we”, “us”, “our” and similar language refer to Hurco Companies, Inc. and its consolidated subsidiaries. We design and produce computerized machine tools, interactive computer control systems and software for sale through our distribution network to the worldwide metal cutting market. We also provide software options, computer control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The condensed financial information as of July 31, 2011 and for the three and nine months ended July 31, 2011 and July 31, 2010 is unaudited; however, in our opinion, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations, changes in shareholders’ equity and cash flows at the end of the interim periods. We suggest that you read these condensed consolidated financial statements in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2010.

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risk that we manage through the use of derivative instruments is foreign currency risk.

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign exchange rate movements on our net equity investment in one of our foreign subsidiary’s gross profit and net earnings, we enter into derivative financial instruments in the form of foreign exchange forward contracts with a major financial institution. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Canadian Dollars, South African Rand, Singapore Dollars and New Taiwan Dollars.

We record all derivative instruments as assets or liabilities at fair value.

Derivatives Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts periodically to hedge certain forecasted inter-company sales and purchases denominated in foreign currencies (the Pound Sterling, Euro and New Taiwan Dollar). The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments, and are recorded in the Condensed Consolidated Balance Sheets at fair value in Derivative assets and Derivative liabilities. The effective portion of the gains and losses resulting from the changes in the fair value of these hedge contracts are deferred in Accumulated other comprehensive loss and recognized as an adjustment to Cost of sales and service in the period that the corresponding inventory sold that is the subject of the related hedge contract 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 being hedged. The ineffective portion of gains and losses resulting from the changes in the fair value of these hedge contracts is reported in Other (income) expense, net immediately. We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and determining that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default.

We had forward contracts outstanding as of July 31, 2011, denominated in Euros, Pounds Sterling and New Taiwan Dollars with set maturity dates ranging from August 2011 through July 2012. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2011, were $48.2 million for Euros, $10.6 million for Pounds Sterling and $27.9 million for New Taiwanese Dollars. At July 31, 2011, we had approximately $1.5 million of losses, net of tax, related to cash flow hedges deferred in Accumulated other comprehensive loss. Of this amount, $786,000 represents unrealized losses, net of tax, related to cash flow hedge instruments that remain subject to currency fluctuation risk. The majority of these deferred losses will be recorded as an adjustment to Cost of sales and service in periods through July 2012, when the corresponding inventory that is the subject of the related hedge contract is sold, as described above.

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we have maintained a forward contract with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under Financial Accounting Standards Board, or FASB, guidance related to the accounting for derivatives instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment in Accumulated other comprehensive loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matures in November 2011. At July 31, 2011, we had $216,000 of realized gains and $146,000 of unrealized losses, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to this forward contract.

Derivatives Not Designated as Hedging Instruments

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 guidance of the FASB guidance and, as a result, changes in their fair value are reported currently as Other (income) expense, net in the Condensed Consolidated Statements of Operations consistent with the transaction gain or loss on the related receivables and payables denominated in foreign currencies.

We had forward contracts outstanding as of July 31, 2011, in Euros, Pounds Sterling, Canadian Dollars, South African Rand, Singapore Dollars and New Taiwan Dollars with set maturity dates ranging from August 2011 through December 2011. The aggregate amount of these contracts at forward rates in U.S. Dollars at July 31, 2011 for Euros, Pounds Sterling, Canadian Dollars, South African Rand, New Taiwan Dollars and Singapore Dollars totaled $38.4 million.

Fair Value of Derivative Instruments

We recognize the fair value of derivative instruments as assets and liabilities on a gross basis on our Condensed Consolidated Balance Sheets. As of July 31, 2011 and October 31, 2010, all derivative instruments were recorded at fair value on the balance sheets as follows (in thousands):

	2011		2010	
Derivatives	Balance sheet location	Fair value	Balance sheet location	Fair value
Designated as hedging instruments:				
Foreign exchange forward contracts	Derivative assets	$ 320	Derivative assets	$ 872
Foreign exchange forward contracts	Derivative liabilities	$ 1,800	Derivative liabilities	$ 1,778
Not designated as hedging instruments:				
Foreign exchange forward contracts	Derivative assets	$ 61	Derivative assets	$ 33
Foreign exchange forward contracts	Derivative liabilities	$ 217	Derivative liabilities	$ 345

Effect of Derivative Instruments on the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Changes in Shareholders' Equity and Operations

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Changes in Shareholders' Equity and Operations during the first nine months ended July 31, 2011 and 2010 (in thousands):

Derivatives	Amount of gain (loss) recognized in Other comprehensive loss Nine months ended July 31,		Location of gain (loss) reclassified from Other comprehensive loss	Amount of gain (loss) reclassified from Other comprehensive loss Nine months ended July 31,	
	2011	2010		2011	2010
Designated as hedging instruments: (Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ (1,043)	$ 517	Cost of sales and service	$ 610	$ (160)
Foreign exchange forward contract – Net investment	$ (153)	$ 482			

We recognized a loss of $28,000 for the first nine months ended July 31, 2011, and a loss of $38,000 for the first nine months ended July 31, 2010 as a result of contracts closed early that were deemed ineffective for financial reporting purposes and did not qualify as cash flow hedges.

Derivatives	Location of gain (loss) recognized in operations	Amount of gain (loss) recognized in operations Nine months ended July 31, 2011	2010
Not designated as hedging instruments:			
Foreign exchange forward contracts	Other (income) expense, net	$ (461)	$ 1,293

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Changes in Shareholders' Equity and Operations during the three months ended July 31, 2011 and 2010 (in thousands):

Derivatives	Amount of gain (loss) recognized in Other comprehensive loss Three months ended July 31, 2011	2010	Location of gain (loss) reclassified from Other comprehensive loss	Amount of gain (loss) reclassified from Other comprehensive loss Three months ended July 31, 2011	2010
Designated as hedging instruments: (Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ 370	$ (881)	Cost of sales and service	$ 113	$ (39)
Foreign exchange forward contract – Net investment	$ 126	$ 81			

We recognized a loss of $3,000 for the three months ended July 31, 2011, and a gain of $27,000 for the three months ended July 31, 2010 as a result of contracts closed early that were deemed ineffective for financial reporting purposes and did not qualify as cash flow hedges.

Derivatives	Location of gain (loss) recognized in operations	Amount of gain (loss) recognized in operations Three months ended July 31, 2011	2010
Not designated as hedging instruments:			
Foreign exchange forward contracts	Other (income) expense, net	$ 87	$ (41)

3. EQUITY INCENTIVE PLAN

In March 2008, we adopted the Hurco Companies, Inc. 2008 Equity Incentive Plan (the "2008 Plan"), which allows us to grant awards of stock options, Stock Appreciation Rights settled in stock (SARs), restricted shares, performance shares and performance units. The 2008 Plan replaced the 1997 Stock Option and Incentive Plan (the "1997 Plan") which expired in March 2007. The Compensation Committee of the Board of Directors has authority to determine the officers, directors and key employees who will be granted awards; designate the number of shares subject to each award; determine the terms and conditions upon which awards will be granted; and prescribe the form and terms of award agreements. We have granted stock options under both plans which are currently outstanding and restricted shares under the 2008 Plan. No stock option may be exercised more than ten years after the date of grant or such shorter period as the Compensation Committee may determine at the date of grant. The total number of shares of our common stock that may be issued as awards under the 2008 Plan is 750,000. The market value of a share of our common stock, for purposes of the 2008 Plan, is the closing sale price as reported by the Nasdaq Global Select Market on the date in question or, if not a trading day, on the last preceding trading date.

A summary of stock option activity for the nine-month period ended July 31, 2011, is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at October 31, 2010	115,369	$ 20.66
Options granted	—	—
Options exercised	—	—
Options cancelled	—	—
Outstanding at July 31, 2011	115,369	$ 20.66

Summarized information about outstanding stock options as of July 31, 2011, that have already vested and those that are expected to vest, as well as stock options that are currently exercisable, are as follows:

	Options already vested and expected to vest	Options currently exercisable
Number of outstanding options	115,369	68,036
Weighted average remaining contractual life (years)	7.26	4.61
Weighted average exercise price per share	$ 20.66	$ 24.05
Intrinsic value of outstanding options	$ 1,075,000	$ 429,000

The intrinsic value of an outstanding stock option is calculated as the difference between the stock price as of July 31, 2011 and the exercise price of the option.

On December 22, 2010, the Compensation Committee granted a total of 25,000 shares of restricted stock to our executive officers. The restricted stock vests in full three years from the date of grant provided the recipient remains employed by us through that date. The grant date fair value of the restricted stock is based on the closing sales price of our common stock on the grant date which was $23.10 per share.

On March 17, 2011, the Compensation Committee granted a total of 5,859 shares of restricted stock to our board of directors. The restricted stock vests one year from the date of grant provided the recipient remains on the board of directors through that date. The grant date fair value of the restricted stock is based on the closing sales price of our common stock on the grant date which was $29.86 per share.

A reconciliation of the Company's restricted stock activity and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at October 31, 2010	—	$ —
Shares granted	30,859	24.38
Shares vested	—	—
Shares cancelled	—	—
Unvested at July 31, 2011	30,859	$ 24.38

During the first nine months of fiscal 2011 and 2010, we recorded $332,000 and $95,000, respectively, of stock-based compensation expense related to grants of stock options and shares of restricted stock under the plans. As of July 31, 2011, there was $888,000 of total unrecognized stock-based compensation cost that we expect to recognize by the end of fiscal 2014.

4. EARNINGS (LOSS) PER SHARE

Per share results have been computed based on the average number of common shares outstanding. The computation of basic and diluted net income (loss) per share is determined using net income (loss) applicable to common shareholders as the numerator and the number of shares included in the denominator as follows (in thousands, except per share amounts):

(in thousands, except per share amount)	Three months ended July 31,				Nine months ended July 31,			
	2011		2010		2011		2010	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income (loss)	$ 4,575	$ 4,575	$ (1,173)	$ (1,173)	$ 8,470	$ 8,470	$ (4,582)	$ (4,582)
Undistributed earnings								
Allocated to participating shares	(22)	(22)	-	-	(40)	(40)	-	-
Net income (loss) applicable to common shareholders	$ 4,553	$ 4,553	$ (1,173)	$ (1,173)	$ 8,430	$ 8,430	$ (4,582)	$ (4,582)
Weighted average shares outstanding	6,441	6,441	6,441	6,441	6,441	6,441	6,441	6,441
Stock options	—	39	—	—	—	33	—	—
	6,441	6,480	6,441	6,441	6,441	6,474	6,441	6,441
Income (loss) per share	$ 0.71	$ 0.70	$ (0.18)	$ (0.18)	$ 1.31	$ 1.30	$ (0.71)	$ (0.71)

5. ACCOUNTS RECEIVABLE

Accounts receivable are net of allowances for doubtful accounts of $334,000 as of July 31, 2011 and $497,000 as of October 31, 2010.

6. INVENTORIES

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

	July 31, 2011	October 31, 2010
Purchased parts and sub-assemblies	$ 20,380	$ 16,137
Work-in-process	14,717	13,157
Finished goods	40,008	26,572
	$ 75,105	$ 55,866

7. SEGMENT INFORMATION

We operate in a single segment: industrial automation systems. 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.

8. GUARANTEES AND WARRANTIES

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of machines to customers that use financing. We follow FASB guidance for accounting for contingencies with respect to these guarantees. As of July 31, 2011, we had 26 outstanding third party payment guarantees totaling approximately $1.5 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer has the risk of ownership. The customer does not obtain title, however, until it has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue for potential liabilities under these guarantees when we believe a loss is probable and can be estimated.

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. The increased provision in the first nine months ended July 31, 2011 compared to the first nine months ended July 31, 2010 reflects the increased volume of sales and anticipated claims related to machines under warranty and the sale of a greater number of our higher performance machines which have a higher cost per claim. A reconciliation of the changes in our warranty reserve is as follows (in thousands):

	Nine months ended	
	July 31, 2011	July 31, 2010
Balance, beginning of period	$ 1,591	$ 1,286
Provision for warranties during the period	2,224	1,285
Charges to the reserve	(2,061)	(1,329)
Impact of foreign currency translation	27	(59)
Balance, end of period	$ 1,781	$ 1,183

9. COMPREHENSIVE INCOME (LOSS)

A reconciliation of our net income (loss) to comprehensive income (loss) is as follows (in thousands):

	Three months ended	
	July 31, 2011	July 31, 2010
Net income (loss)	$ 4,575	$ (1,173)
Translation of foreign currency financial statements	(674)	(645)
Realized (gain) loss on derivative instruments reclassified into operations, net of tax	(71)	24
Unrealized gain (loss) on derivative instruments, net of tax	233	(545)
Comprehensive income (loss)	$ 4,063	$ (2,339)

10. DEBT AGREEMENTS

We are party to a domestic credit agreement that provides us with a $15.0 million revolving credit facility and maximum outstanding letters of credit of $3.0 million. Borrowings under this agreement may be used for general corporate purposes and bear interest at a floating rate, based either on LIBOR or the prime rate, plus an applicable margin. The agreement contains financial covenant, including restrictions on incurring additional debt, making acquisitions or paying dividends if we report a cumulative net loss for four consecutive quarters. We also have an uncommitted credit facility in Taiwan in the amount of 100.0 million New Taiwan Dollars (approximately $3.5 million) in addition to a £1.0 million revolving credit facility in the United Kingdom and a €1.5 million revolving credit facility in Germany. The domestic and United Kingdom facilities mature on December 7, 2012. The credit facility in Germany does not have an expiration date.

On March 7, 2011 we entered into an uncommitted credit facility in China in the amount of 20.0 million Chinese Yuan (approximately $3.0 million) and amended our domestic credit agreement to accommodate the new facility. This facility expires on February 24, 2012.

All of our credit facilities are unsecured.

At July 31, 2011, we had $854,000 of borrowings outstanding under our credit facility in China, but had no other debt or borrowings under any of our other credit facilities. At July 31, 2011, we were in compliance with all covenants contained in the related credit agreements and, as of that date, we had unutilized credit facilities of $24.5 million.

11. INCOME TAXES

Our effective tax rate for the first nine months of fiscal 2011 was 30% in comparison to 42% for the same period in fiscal 2010. The decrease in the effective tax rate period-over-period was primarily due to changes in the geographic mix of income or loss between tax jurisdictions and reduction in statutory tax rates in certain foreign jurisdictions. We recorded an income tax provision during the first nine months of fiscal 2011 of approximately $3.7 million compared to an income tax benefit of $3.3 million for the same period in fiscal 2010, as a result of the increase in pre-tax income period-over-period.

Our unrecognized tax benefits were $220,000 as of July 31, 2011 and $196,000 as of October 31, 2010, and in each case included accrued interest.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of our income tax provision. We believe our unrecognized tax positions meet the minimum statutory threshold to avoid payment of penalties and, therefore, no tax penalties have been estimated. As of July 31, 2011, the gross amount of interest accrued, reported in Accrued expenses and other, was approximately $28,000, which did not include the federal tax benefit of interest deductions.

We file U.S. federal and state income tax returns, as well as tax returns in several foreign jurisdictions. The statutes of limitations with respect to unrecognized tax benefits will expire between July 2012 and August 2014.

12. FINANCIAL INSTRUMENTS

The carrying amounts for our trade receivables and payables approximate their fair values. We also have financial instruments in the form of foreign currency forward exchange contracts as described in Note 2. The U.S. Dollar equivalent notional amounts of these contracts were $127.4 million and $89.1 million at July 31, 2011 and October 31, 2010, respectively. The fair value of Derivative assets recorded on our Condensed Consolidated Balance Sheets was $381,000 at July 31, 2011 and $905,000 at October 31, 2010. The fair value of Derivative liabilities recorded on our Condensed Consolidated Balance Sheets was $2.0 million at July 31, 2011 and $2.1 million at October 31, 2010.

The future value of our 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.

FASB fair value guidance established a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exist, therefore requiring an entity to develop its own assumptions.

In accordance with this guidance, the following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value as of July 31, 2011 and October 2010 (in thousands):

	Assets		Liabilities	
	July 31, 2011	October 31, 2010	July 31, 2011	October 31, 2010
Level 1				
Deferred Compensation	$ 755	$ 674	$ -	$ -
Level 2				
Derivatives	$ 381	$ 905	$ 2,017	$ 2,123

Included in Level 1 assets are mutual fund investments under a nonqualified deferred compensation plan. We estimate the fair value of these investments on a recurring basis using market prices which are readily available. Included as Level 2 fair value measurements are derivative assets and liabilities related to hedged and unhedged gains and losses on foreign currency forward exchange contracts entered into with a third party. We estimate the fair value of these derivatives on a recurring basis using foreign currency exchange rates obtained from active markets.

During fiscal 2011, we did not have any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities.

13. EMPLOYEE BENEFITS

We have defined contribution plans that include a majority of our employees, under which our matching contributions are primarily 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 matching contributions to the plans are based on employee contributions or compensation. From April 1, 2009 to December 31, 2010 we suspended our discretionary contributions to the U.S. plan as a cost reduction measure, however effective January 1, 2011 we reinstated our matching contributions to that plan in an amount equal to 25% of the first 6% of a participant’s annual earnings contributed, up to the maximum permitted by law. Our total contributions to all plans were approximately $200,000 and $109,000, for the first nine months ended July 31, 2011 and 2010, respectively.

14. NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board amended Accounting Standards Update (ASU) 2011-05, *Comprehensive Income, Presentation of Comprehensive Income*, which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders’ equity. The guidance in ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The guidance in ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Since the provisions of ASU 2011-05 are presentation related only, we do not expect the adoption of ASU 2011-05 to have a material effect on our consolidated financial statements.

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

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an industrial technology company operating in a single reporting segment. We design and produce computerized machine tools, featuring our proprietary computer control systems and software, for sale through our own distribution network to the worldwide metal cutting market. We also provide software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The following overview is intended to provide a brief explanation of the principal factors that have contributed to our recent financial performance. This overview is intended to be read in conjunction with the more detailed information included in our unaudited financial statements that appear elsewhere in this report.

The substantial decline in global demand for machine tools in fiscal 2009 and 2010 during the recent global recession had a significant adverse effect on our operational performance in those two years. Since the beginning of fiscal 2011, we have experienced substantial improvements in sales and net income, reflecting a recovery in industrial manufacturing activity. During the recession, we significantly reduced our production levels and took several cost containment measures. Our financial resources allowed us to continue to expand our product offerings during the downturn, and we began increasing our production levels at the end of fiscal 2010.

The market for machine tools is international in scope. We have significant foreign sales and significant foreign manufacturing operations. During the past three years, sales to foreign customers as a percentage of total sales were between 72% and 78% of our revenues. During the first nine months of fiscal 2011, more than 60% of our revenues were attributable to customers located in Europe, where we typically sell the majority of our higher performance VMX series machines. We sell our products through more than 100 independent agents and distributors in countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in Canada, China, France, Germany, India, Italy, Poland, Singapore, South Africa, South Korea, the United Kingdom and certain parts of the United States. The vast majority of our machine tools are manufactured to our specifications primarily by our wholly owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML). Machine castings and components to support HML's production are manufactured at our facility in Ningbo, China. We also manufacture machine tools for the Chinese market at the Ningbo facility.

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies—primarily the Euro and Pound Sterling—in the countries in which those customers are located. Our product costs are incurred and paid primarily in the New Taiwan Dollar and the U.S. Dollar. Changes in currency exchange rates may have a material effect on our operating results and consolidated balance sheets as reported under U.S. Generally Accepted Accounting Principles. For example, when the U.S. Dollar strengthens in value relative to a foreign currency, sales made, and expenses incurred, in that currency when translated to U.S. Dollars for reporting in our financial statements, are lower than would be the case when the U.S. Dollar is weaker. In the comparison of our period-to-period results, we discuss the effect of currency translation on those results including the increases or decreases in those results as reported in our financial statements (which reflect translation to U.S. Dollars at exchange rates prevailing during the period covered by those financial statements) and also the effect that changes in exchange rates had on those results.

Our high levels of foreign manufacturing and sales also subject us to cash flow risks due to fluctuating currency exchange rates. We seek to mitigate those risks through the use of various derivative instruments – principally foreign currency forward exchange contracts.

In the third quarter of fiscal 2011, our business continued to benefit from increased global demand for machine tools, as orders were 42% higher than in the corresponding quarter of fiscal 2010. Sales for the third quarter of fiscal 2011 were 91% above those in the third quarter of fiscal 2010. Our gross profit for the third quarter of fiscal 2011 was $15.9 million, or 31% of sales, compared to $4.7 million, or 18% of sales, for the third quarter of fiscal 2010. The year-over-year improvement in gross profit was primarily related to increased sales in Europe, the primary market for our higher performance VMX series machines, and the increased efficiency realized from higher production levels during fiscal 2011. However, gross profit for the first nine months of fiscal 2011 was adversely impacted by cost increases for metals and an appreciated Taiwanese Dollar compared to the same fiscal period in 2010. We expect the cost increases relative to the Taiwanese Dollar and metals to continue and we will adjust sales prices accordingly.

RESULTS OF OPERATIONS

Three Months Ended July 31, 2011 Compared to Three Months Ended July 31, 2010

Sales and Service Fees. Sales and service fees for the third quarter of fiscal 2011 were $50.6 million, an increase of $24.1 million, or 91%, from the third quarter of fiscal 2010. A weaker U.S. Dollar when translating foreign sales to U.S. Dollars had a favorable impact of approximately 12%, or $3.3 million, on the period-to-period comparison.

The following tables set forth net sales (in thousands) by geographic region and product category for the third quarter of fiscal 2011 and 2010, respectively:

Sales and Service Fees by Geographic Region

	Three months ended July 31,				Change	
	2011		2010		Amount	%
North America	$ 13,119	26%	$ 7,208	27%	$ 5,911	82%
Europe	31,305	62%	15,896	60%	15,409	97%
Asia Pacific	6,149	12%	3,370	13%	2,779	82%
Total	$ 50,573	100%	$ 26,474	100%	$ 24,099	91%

The increase in sales for all regions was primarily driven by higher customer demand as a result of the rebound in industrial manufacturing activity and our ability to increase production to meet this demand. During the third quarter of fiscal 2011, unit shipments as compared to the corresponding quarter in fiscal 2010 increased by 57% in North America, 69% in Europe, and 78% in the Asia Pacific sales region. Our expanded presence in Asia contributed to the increased sales in that region.

Sales and Service Fees by Product Category

	Three months ended July 31,				Change	
	2011		2010		Amount	%
Computerized Machine Tools	$ 44,421	88%	$ 22,020	83%	$ 22,401	102%
Service Fees, Parts and Other	6,152	12%	4,454	17%	1,698	38%
Total	$ 50,573	100%	$ 26,474	100%	$ 24,099	91%

Unit shipments of computerized machine tools during the third quarter of fiscal 2011 increased by 67% from the corresponding period in fiscal 2010.

Orders. Orders for the third quarter of fiscal 2011 totaled $39.8 million, an increase of $11.8 million, or 42%, from the corresponding period in fiscal 2010. Sales outpaced orders in the third quarter of fiscal 2011 by $10.8 million, largely due to the increased order level during the preceding quarter, as customers placed orders in advance of an announced price increase. Orders increased in North America by $1.3 million, or 16%, in Europe by $6.9 million, or 44%, and in the Asia Pacific region by $3.6 million, or 79%. The impact of currency translation on orders was consistent with the impact on sales.

Gross Profit. Gross profit for the third quarter of fiscal 2011 was $15.9 million, or 31% of sales, compared to $4.7 million, or 18% of sales, for the same period in 2010. The year-over-year improvement in gross profit was primarily related to increased sales in Europe, the primary market for our higher performance VMX series machines, and the increased efficiency realized from higher production levels during fiscal 2011. However, gross profit for fiscal 2011 was adversely impacted by cost increases for metals and an appreciated Taiwanese Dollar compared to the same fiscal period in 2010. A price increase was implemented at the end of the second quarter of fiscal 2011 in an effort to offset these higher costs.

Operating Expenses. Selling, general and administrative expenses were $9.3 million for the third quarter of fiscal 2011, an increase of $2.3 million, or 33%, over the third quarter of fiscal 2010. The increase consisted primarily of higher sales commission due to increased sales volume, higher sales and marketing expense, increased incentive compensation expense and the unfavorable impact of a weaker U.S. Dollar on foreign currency translation. Despite the dollar increase, the increase in sales reduced selling, general and administrative expenses as a percentage of sales and service fees during the third quarter of fiscal 2011 to 18% as compared to 26% for the third quarter of fiscal 2010.

Operating Income (Loss). Operating income for the third quarter of fiscal 2011 was $6.5 million compared to an operating loss of $2.3 million for the prior year period. The substantial improvement in operating income period-over-period was primarily due to the significant increase in sales.

Other (Income) Expense, Net. The increase in other expense of $204,000 for the third quarter of fiscal 2011 compared to the same period in fiscal 2010 was primarily due to net realized and unrealized losses from foreign currency fluctuations on payables and receivables, net of foreign currency forward exchange contracts.

Income Taxes. Our effective tax rate for the third quarter of fiscal 2011 was 27% in comparison to 51% for the same period in fiscal 2010. The decrease in the effective tax rate period-over-period is primarily due to changes in the geographic mix of income or loss between tax jurisdictions and reduction in statutory tax rates in certain foreign jurisdictions. We recorded an income tax provision during the third quarter of fiscal 2011 of approximately $1.7 million compared to an income tax benefit of $1.2 million for the same period in fiscal 2010, reflecting the increase in pre-tax income during fiscal 2011.

Nine Months Ended July 31, 2011 Compared to Nine Months Ended July 31, 2010

Sales and Service Fees. Sales and service fees for the first nine months of fiscal 2011 were $131.8 million, an increase of $60.7 million, or 85%, from the first nine months of fiscal 2010. A weaker U.S. Dollar when translating foreign sales to U.S. Dollars had a favorable impact of approximately 5%, or $3.3 million, on the period-to-period comparison.

The following tables set forth net sales (in thousands) by geographic region and product category for the first nine months of fiscal 2011 and 2010, respectively:

Sales and Service Fees by Geographic Region

	Nine months ended July 31,				Change	
	2011		2010		Amount	%
North America	$ 35,718	27%	$ 19,114	27%	$ 16,604	87%
Europe	79,881	61%	43,254	61%	36,627	85%
Asia Pacific	16,230	12%	8,810	12%	7,420	84%
Total	$ 131,829	100%	$ 71,178	100%	$ 60,651	85%

The increase in sales for all regions was primarily driven by higher customer demand as a result of the rebound in industrial manufacturing activity and our ability to increase production to meet this demand. Unit shipments for the first nine months of fiscal 2011 increased in North America by 88%, in Europe by 67%, and in the Asia Pacific region by 67% compared to the same period in fiscal 2010.

Sales and Service Fees by Product Category

	Nine months ended July 31,				Change	
	2011		2010		Amount	%
Computerized Machine Tools	$ 114,250	87%	$ 58,793	83%	$ 55,457	94%
Service Fees, Parts and Other	17,579	13%	12,385	17%	5,194	42%
Total	$ 131,829	100%	$ 71,178	100%	$ 60,651	85%

Unit shipments of computerized machine tools during the first nine months of fiscal 2011 increased by 72% from the corresponding period in fiscal 2010.

Orders. Orders for the first nine months of fiscal 2011 totaled $156.7 million, an increase of $77.5 million, or 98%, from the corresponding period in fiscal 2010. Orders increased in North America by $14.8 million, or 67%, in Europe by $52.8 million, or 115%, and in the Asia Pacific region by $9.9 million, or 86%. The impact of currency translation on orders was consistent with the impact on sales. Orders, measured in units, increased in North America by 52%, in Europe by 89%, and in the Asia Pacific region by 80%.

Gross Profit. Gross profit for the first nine months of fiscal 2011 was $40.2 million, or 30% of sales, compared to $13.3 million, or 19% of sales, for the same period in 2010. The year-over-year improvement in gross profit was primarily related to increased sales in Europe, the primary market for our higher performance VMX series machines, and the increased efficiency realized from higher production levels during fiscal 2011. However, gross profit for the first nine months of fiscal 2011 was adversely impacted by cost increases for metals and an appreciated Taiwanese Dollar compared to the same fiscal period in 2010. A price increase was implemented at the end of the second quarter of fiscal 2011 in an effort to offset these higher costs.

Operating Expenses. Selling, general and administrative expenses were $27.4 million for the first nine months of fiscal 2011, an increase of $6.6 million, or 32%, from the first nine months of fiscal 2010. The increase consisted primarily of higher sales commission due to increased sales volume, higher sales and marketing expense, increased incentive compensation expense and an increase in wages paid to employees who had experienced wage reductions as cost containment measures. Despite the dollar increase, the increased sales in fiscal 2011 resulted in selling, general and administrative expenses being 21% of sales and service fees during the first nine months of fiscal 2011 compared to 29% for the first nine months of fiscal 2010.

Operating Income (Loss). Operating income for the first nine months of fiscal 2011 was $12.8 million compared to an operating loss of $7.4 million for the prior year period. The substantial improvement in operating income period-over-period was primarily due to the significant increase in sales.

Other (Income) Expense, Net. Other expense for the first nine months of fiscal 2011 was $666,000 compared to $430,000 for the first nine months of fiscal 2010. The increase in expense was primarily due to net realized and unrealized losses from foreign currency fluctuations on payables and receivables, net of foreign currency forward exchange contracts.

Income Taxes. Our effective tax rate for the first nine months of fiscal 2011 was 30% in comparison to 42% for the same period in fiscal 2010. The decrease in the effective tax rate period-over-period was primarily due to changes in the geographic mix of income or loss between tax jurisdictions and reduction in statutory tax rates in certain foreign jurisdictions. We recorded an income tax provision during the first nine months of fiscal 2011 of approximately $3.7 million compared to an income tax benefit of $3.3 million for the same period in fiscal 2010, reflecting the increase in pre-tax income during fiscal 2011.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2011, we had cash of $49.1 million, compared to $48.3 million at October 31, 2010. Approximately 56% of the $49.1 million of cash is denominated in U.S. Dollars. The balance is held outside the U.S. in the local currencies of our various foreign entities and is subject to fluctuations in currency exchange rates.

Working capital, excluding cash, was $56.4 million at July 31, 2011, compared to $45.7 million at October 31, 2010. The increase in working capital, excluding cash, was primarily due to an increase in accounts receivable and finished goods inventory as a result of increased customer demand in fiscal 2011.

Capital expenditures of $1.7 million during the first nine months of fiscal 2011 were primarily for implementation of operating systems, purchase of factory equipment for production facilities in Taiwan and software development costs. We funded these expenditures with cash flow from operations.

At July 31, 2011, we had $854,000 of borrowings outstanding under our credit facility in China and had no other borrowings under any of our other credit facilities. At July 31, 2011, we were in compliance with the covenants contained in all of our credit facilities and had $24.5 million available for borrowings under those facilities.

We believe our cash position and borrowing capacity under our credit facilities provide adequate liquidity to fund our operations and keep us committed to our strategic plan of product innovation and targeted penetration of developing markets.

Although we have not made any significant acquisitions in the recent past, we continue to receive and review information on businesses and assets, including intellectual property assets, which are available for purchase.

CRITICAL ACCOUNTING POLICIES

Our accounting policies, which are described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, require management to make significant estimates and assumptions using information available at the time the estimates are made. These 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 would be affected. There were no material changes to our critical accounting policies during the first nine months of fiscal 2011.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes related to contractual obligations and commitments from the information provided in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010.

OFF BALANCE SHEET ARRANGEMENTS

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of machines to customers that use financing. We follow FASB guidance for accounting for contingencies with respect to these guarantees. As of July 31, 2011, we had 26 outstanding third party payment guarantees totaling approximately $1.5 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer has the risk of ownership. The customer does not obtain title, however, until it has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue for potential liabilities under these guarantees when we believe a loss is probable and can be estimated.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made in this report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the statements. These risks, uncertainties and other factors include:

- A recurrent global recession which could reduce overall demand and our customers’ ability to purchase our products and services;
- The cyclical nature of the machine tool industry;
- The risks of our international operations;
- The limited number of our manufacturing sources;
- The effects of changes in currency exchange rates;
- Our dependence on new product development;
- Possible obsolescence of our technology and the need to make technological advances;
- Competition with larger companies that have greater financial resources;
- Increases in the prices of raw materials, especially steel and iron products;
- Acquisitions that could disrupt our operations and affect operating results;
- Impairment of our assets;
- Negative or unforeseen tax consequences;
- The need to protect our intellectual property assets; and
- The effect of the loss of members of senior management and key personnel.

We discuss these and other important risks and uncertainties that may affect our future operation in Part I, Item 1A – Risk Factors in our most recent Annual Report on Form 10-K and may update that discussion in Part II, Item 1A – Risk Factors in this report or a Quarterly Report on Form 10-Q we file hereafter.

Readers are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest on borrowings on our bank credit agreements are tied to prevailing domestic and foreign interest rates. At July 31, 2011, we had $854,000 of borrowings outstanding under our credit facility in China, but had no other debt or borrowings under any of our other bank credit facilities.

Foreign Currency Exchange Risk

In fiscal 2010, we derived more than 70% of our revenues 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 subsidiaries in Taiwan and China or an affiliated contract manufacturer in Taiwan. Our 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 the exchange rate risk associated with our 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 forecasted inter-company sales and 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 July 31, 2011, which are designated as cash flow hedges under FASB guidance related to accounting for derivative instruments and hedging activities were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars: Contract Date	Contract Amount at Forward Rates in U.S. Dollars: July 31, 2011	Maturity Dates
Sale Contracts:					
Euro	33,660,000	1.3952	46,963,049	48,154,337	August 2011 – July 2012
Pound Sterling	6,445,000	1.6034	10,333,893	10,571,903	August 2011 – July 2012
Purchase Contracts:					
New Taiwan Dollar	798,000,000	28.776*	27,731,807	27,913,065	August 2011 – July 2012

*NT Dollars per U.S. Dollar

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2011, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables and are not designated as hedges under this guidance 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	July 31, 2011	
Sale Contracts:					
Euro	12,643,718	1.4286	18,063,275	18,132,983	August 2011 – October 2011
Pound Sterling	1,187,037	1.6242	1,928,041	1,949,570	August 2011 – September 2011
Canadian Dollar	589,730	1.0541	621,645	616,113	September 2011 – October 2011
Singapore Dollar	543,263	.8283	449,982	451,723	December 2011
South African Rand	5,707,998	.1458	832,000	842,600	October 2011
Purchase Contracts:					
New Taiwan Dollar	471,093,892	28.709*	16,409,235	16,364,887	August 2011 – September 2011

* NT Dollars per U.S. Dollar

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we have maintained a forward contract with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under FASB guidance related to the accounting for derivatives instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment in Accumulated other comprehensive loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matures in November 2011. At July 31, 2011, we had $216,000 of realized gains and $146,000 of unrealized losses, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to this hedging activity. Forward contracts for the sale or purchase of foreign currencies as of July 31, 2011, which are designated as net investment hedges under this guidance were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate	Contract Amount at Forward Rates in U.S. Dollars		Maturity Date
			Contract Date	July 31, 2011	
Sale Contracts:					
Euro	3,000,000	1.3549	4,064,700	4,296,720	November 2011

Item 4. 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 July 31, 2011, 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 were no changes in our internal controls over financial reporting during the quarter ended July 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits arising in the normal course of our business. We believe it is remote that any of these claims will have a material adverse effect on our consolidated financial position or results of operations.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended October 31, 2010.

Item 5. OTHER INFORMATION

During the period covered by this report, the Audit Committee of our Board of Directors engaged our independent registered public accounting firm to perform non-audit, tax planning services. This disclosure is made pursuant to Section 10A9(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

Item 6. EXHIBITS

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 Executive 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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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/ John G. Oblazney
John G. Oblazney
Vice President and
Chief Financial Officer

By: /s/ Sonja K. McClelland
Sonja K. McClelland
Corporate Controller and
Principal Accounting Officer

September 9, 2011

Exhibit 31.1

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 quarterly report on Form 10-Q 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)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

    (c) 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

    (d) 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 first fiscal quarter) 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 & Chief Executive Officer
September 9, 2011

Exhibit 31.2

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

I, John G. Oblazney, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   c. 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

   d. 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 first fiscal quarter) 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/ John G. Oblazney

John G. Oblazney
Vice President & Chief Financial Officer
September 9, 2011

Exhibit 32.1

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

In connection with the Quarterly Report of Hurco Companies, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to § 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 & Chief Executive Officer
September 9, 2011

Exhibit 32.2

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

In connection with the Quarterly Report of Hurco Companies, Inc. (the "Company") on Form 10-Q for the period ending July 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to § 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/ John G. Oblazney
John G. Oblazney
Vice President & Chief Financial Officer
September 9, 2011