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, 2021
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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	HURC	Nasdaq Global Select Market

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐
Accelerated filer ☒
Non-accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 August 31, 2021 was 6,601,406.

HURCO COMPANIES, INC.

Form 10-Q Quarterly Report for Fiscal Quarter Ended July 31, 2021

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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, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Sales and service fees	$ 54,178	$ 45,382	$ 166,213	$ 126,168
Cost of sales and service	41,204	34,313	126,898	99,231
Gross profit	12,974	11,069	39,315	26,937
Selling, general and administrative expenses	10,331	9,627	32,172	31,072
Operating income (loss)	2,643	1,442	7,143	(4,135)
Interest expense	2	19	23	69
Interest income	17	14	33	104
Investment income	8	11	154	76
Other income (expense), net	11	(223)	(37)	(933)
Income (loss) before income taxes	2,677	1,225	7,270	(4,957)
Provision (benefit) for income taxes	1,109	(937)	2,602	(2,299)
Net income (loss)	$ 1,568	$ 2,162	$ 4,668	$ (2,658)
Income (loss) per common share				
Basic	$ 0.23	$ 0.32	$ 0.70	$ (0.39)
Diluted	$ 0.23	$ 0.32	$ 0.70	$ (0.39)
Weighted average common shares outstanding				
Basic	6,601	6,595	6,591	6,705
Diluted	6,618	6,604	6,605	6,705
Dividends paid per share	$ 0.14	$ 0.13	$ 0.41	$ 0.38

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2021	2020	2021	2020
Net income (loss)	$ 1,568	$ 2,162	$ 4,668	$ (2,658)
Other comprehensive income (loss):				
Translation gain (loss) of foreign currency financial statements	(732)	5,092	3,574	5,240
(Gain) / loss on derivative instruments reclassified into operations, net of tax of $6, $(47), $(210) and $(80), respectively	20	(158)	(699)	(268)
Gain / (loss) on derivative instruments, net of tax of $(83), $(145), $(272) and $19, respectively	(277)	(480)	(906)	67
Total other comprehensive income (loss)	(989)	4,454	1,969	5,039
Comprehensive income (loss)	$ 579	$ 6,616	$ 6,637	$ 2,381

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, 2021 (unaudited)	October 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 80,471	$ 57,859
Accounts receivable, net	31,798	27,686
Inventories, net	149,326	149,864
Derivative assets	444	968
Prepaid assets	14,088	13,803
Other	191	1,231
Total current assets	276,318	251,411
Property and equipment:		
Land	868	868
Building	7,352	7,352
Machinery and equipment	29,663	29,195
Leasehold improvements	5,152	4,754
	43,035	42,169
Less accumulated depreciation and amortization	(32,047)	(30,248)
Total property and equipment, net	10,988	11,921
Non–current assets:		
Software development costs, less accumulated amortization	7,660	7,840
Intangible assets, net	1,645	1,846
Operating lease - right of use assets, net	11,105	11,748
Deferred income taxes	2,682	2,479
Investments and other assets, net	9,348	8,410
Total non–current assets	32,440	32,323
Total assets	$ 319,746	$ 295,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 41,857	$ 27,643
Customer deposits	8,194	5,356
Derivative liabilities	909	872
Operating lease liabilities	4,245	4,132
Accrued payroll and employee benefits	7,218	6,931
Accrued income taxes	731	285
Accrued expenses	4,529	4,018
Accrued warranty expenses	1,332	1,200
Total current liabilities	69,015	50,437
Non–current liabilities:		
Deferred income taxes	73	131
Accrued tax liability	1,819	1,918
Operating lease liabilities	7,257	7,989
Deferred credits and other	4,655	4,032
Total non–current liabilities	13,804	14,070
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; 6,674,741 and 6,636,906 shares issued and 6,601,406 and 6,565,163 shares outstanding, as of July 31, 2021 and October 31, 2020, respectively	660	657
Additional paid-in capital	62,876	60,997
Retained earnings	174,412	172,484
Accumulated other comprehensive loss	(1,021)	(2,990)
Total shareholders' equity	236,927	231,148
Total liabilities and shareholders' equity	$ 319,746	$ 295,655

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, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Cash flows from operating activities:				
Net income (loss)	$ 1,568	$ 2,162	$ 4,668	$ (2,658)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities, net of acquisitions:				
Provision for doubtful accounts	(1)	290	226	417
Deferred income taxes	192	142	703	201
Equity in loss (income) of affiliates	(33)	(11)	(69)	(77)
Foreign currency (gain) loss	229	(1,603)	(431)	(36)
Unrealized (gain) loss on derivatives	(163)	1,823	(306)	1,842
Depreciation and amortization	1,034	1,246	3,150	3,418
Stock–based compensation	699	640	2,079	1,419
Change in assets and liabilities, net of acquisitions:				
(Increase) decrease in accounts receivable	5,022	(3,409)	(3,851)	11,595
(Increase) decrease in inventories	(4,871)	3,665	2,483	(1,093)
(Increase) decrease in prepaid expenses	481	(487)	(680)	(5,055)
Increase (decrease) in accounts payable	4,200	1,190	13,542	(3,127)
Increase (decrease) in customer deposits	(107)	(200)	2,690	(174)
Increase (decrease) in accrued expenses	(175)	631	694	(5,758)
Increase (decrease) in accrued income tax	216	(526)	432	(2,006)
Net change in derivative assets and liabilities	7	245	170	40
Other	216	(778)	948	1,237
Net cash provided by (used for) operating activities	8,514	5,020	26,448	185
Cash flows from investing activities:				
Proceeds from sale of property and equipment	—	1	3	128
Purchase of property and equipment	(325)	(89)	(1,001)	(478)
Software development costs	(227)	(236)	(833)	(692)
Other investments	(28)	—	(210)	—
Net cash provided by (used for) investing activities	(580)	(324)	(2,041)	(1,042)
Cash flows from financing activities:				
Dividends paid	(951)	(875)	(2,740)	(2,568)
Taxes paid related to net settlement of restricted shares	—	—	(197)	(498)
Proceeds from exercise of common stock options	—	67	—	67
Stock repurchases	—	(3,088)	—	(7,000)
Net cash provided by (used for) financing activities	(951)	(3,896)	(2,937)	(9,999)
Effect of exchange rate changes on cash and cash equivalents	(400)	1,022	1,142	1,002
Net increase (decrease) in cash and cash equivalents	6,583	1,822	22,612	(9,854)
Cash and cash equivalents at beginning of period	73,888	45,267	57,859	56,943
Cash and cash equivalents at end of period	$ 80,471	$ 47,089	$ 80,471	$ 47,089

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

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except shares outstanding)

	Three Months Ended July 31, 2021 and 2020					
	Common Stock		Additional		Accumulated Other	
	Shares Outstanding	Amount	Paid–in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balances, April 30, 2020	6,666,226	$ 667	$ 62,731	$ 175,638	$ (8,348)	$ 230,688
Net income (loss)	—	—	—	2,162	—	2,162
Other comprehensive income (loss)	—	—	—	—	4,454	4,454
Stock–based compensation expense, net of taxes withheld for vested restricted shares	—	—	638	—	—	638
Exercise of common stock options	3,738	—	67	—	—	67
Stock repurchases	(104,801)	(10)	(3,078)	—	—	(3,088)
Dividends paid	—	—	—	(875)	—	(875)
Balances, July 31, 2020	6,565,163	$ 657	$ 60,358	$ 176,925	$ (3,894)	$ 234,046
Balances, April 30, 2021	6,601,406	$ 660	$ 62,177	$ 173,795	$ (32)	$ 236,600
Net income (loss)	—	—	—	1,568	—	1,568
Other comprehensive income (loss)	—	—	—	—	(989)	(989)
Stock–based compensation expense, net of taxes withheld for vested restricted shares	—	—	699	—	—	699
Exercise of common stock options	—	—	—	—	—	—
Stock repurchases	—	—	—	—	—	—
Dividends paid	—	—	—	(951)	—	(951)
Balances, July 31, 2021	6,601,406	$ 660	$ 62,876	$ 174,412	$ (1,021)	$ 236,927

	Nine Months Ended July 31, 2021 and 2020					
	Common Stock		Additional		Accumulated Other	
	Shares Outstanding	Amount	Paid–in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balances, October 31, 2019	6,767,237	$ 677	$ 66,350	$ 182,151	$ (8,933)	$ 240,245
Net income (loss)	—	—	—	(2,658)	—	(2,658)
Other comprehensive income (loss)	—	—	—	—	5,039	5,039
Stock–based compensation expense, net of taxes withheld for vested restricted shares	47,750	5	916	—	—	921
Exercise of common stock options	3,738	—	67	—	—	67
Stock repurchases	(253,562)	(25)	(6,975)	—	—	(7,000)
Dividends paid	—	—	—	(2,568)	—	(2,568)
Balances, July 31, 2020	6,565,163	$ 657	$ 60,358	$ 176,925	$ (3,894)	$ 234,046
Balances, October 31, 2020	6,565,163	$ 657	$ 60,997	$ 172,484	$ (2,990)	$ 231,148
Net income (loss)	—	—	—	4,668	—	4,668
Other comprehensive income (loss)	—	—	—	—	1,969	1,969
Stock–based compensation expense, net of taxes withheld for vested restricted shares	36,243	3	1,879	—	—	1,882
Exercise of common stock options	—	—	—	—	—	—
Stock repurchases	—	—	—	—	—	—
Dividends paid	—	—	—	(2,740)	—	(2,740)
Balances, July 31, 2021	6,601,406	$ 660	$ 62,876	$ 174,412	$ (1,021)	$ 236,927

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, the words “we”, “us”, “our”, “Hurco”, and the “Company” refer to Hurco Companies, Inc. and its consolidated subsidiaries.

We design, manufacture, and sell computerized (i.e., Computer Numeric Control (“CNC”)) machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal cutting industry through a worldwide sales, service, and distribution network. Although the majority of our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training, and applications support.

We operate in the industrial equipment industry and have a global footprint that subjects us to various business risks in many different countries. During fiscal 2020, our operating results were adversely affected by the international business disruption due to the outbreak of COVID-19 and the economic slowdown in Europe, uncertainty surrounding the U.K. Brexit activities, and political friction in the U.S. Many of our customers deferred or eliminated investments in capital equipment last year, which we attributed largely to the uncertainty these events created. During the nine months of fiscal 2021, our sales increased year-over-year in all regions as countries began to lift the government-mandated COVID-19 stay-at-home orders or other similar operating restrictions. Because of the potential for extended vulnerability, we have closely evaluated the estimates we have made in preparing the financial statements as of July 31, 2021, with the understanding that these estimates could change in the near term. We will continue to evaluate and disclose any uncertainty associated with key assumptions underlying fair value estimates, trends, and uncertainties that have had, or are reasonably expected to have, a material effect on our consolidated financial position, results of operations, changes in shareholders' equity, and cash flows for and at the end of each interim period.

The condensed financial information as of July 31, 2021 and for the three and nine months ended July 31, 2021 and July 31, 2020 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 for and 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, 2020.

2. REVENUE RECOGNITION

We design, manufacture, and sell computerized machine tools. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training, and applications support.

We recognize revenues from the sale of machine tools, components and accessories and services and reflect the consideration to which we expect to be entitled. We record revenues based on a five-step model in accordance with Financial Accounting Standards Board ("FASB") guidance codified in Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers" ("ASC 606"). In accordance with ASC 606, we have defined contracts as agreements with our customers and distributors in the form of purchase orders, packing or shipping documents, invoices, and, periodically, verbal requests for components and accessories. For each contract, we identify our performance obligations, which are delivering goods or services, determine the transaction price, allocate the contract transaction price to each of the performance obligations (when applicable), and recognize the revenue when (or as) each of the performance obligations to the customer is fulfilled. A good or service is transferred when the customer obtains control of that good or service. Our computerized machine tools are general purpose computer-controlled machine tools that are typically used in stand-alone operations. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications. We deem that the customer obtains control upon delivery of the product and that obtaining control is not contingent upon contractual customer acceptance. Therefore, we generally recognize revenue from sales of our machine tool systems upon delivery of the product to the customer or distributor, which is normally at the time of shipment.

Depending upon geographic location, after shipment, a machine may be installed at the customer's facility by a distributor, independent contractor or by one of our service technicians. In most instances where a machine is sold through a distributor, we have no installation involvement. If sales are direct or through sales agents, we will typically complete the machine installation, which consists of the reassembly of certain parts that were removed for shipping and the re-testing of the machine to ensure that it is performing within the standard specifications. We consider the machine installation process for our three-axis machines to be inconsequential and perfunctory. For our five-axis machines that we install, we estimate the fair value of the installation performance obligation and recognize that installation revenue on a prorata basis over the period of the installation process.

From time to time, and depending upon geographic location, we may provide training or freight services. We consider these services to be perfunctory within the context of the contract, as the value of these services typically does not rise to a material level as a component of the total contract value. Service fees from maintenance contracts are deferred and recognized in earnings on a prorata basis over the term of the contract and are generally sold on a stand-alone basis. Customer discounts and estimated product returns are considered variable consideration and are recorded as a reduction of revenue in the same period that the related sales are recorded. We have reviewed the overall sales transactions for variable consideration and have determined that these amounts are not significant.

3. 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, for which we enter into derivative instruments in the form of foreign currency forward exchange contracts with a major financial institution.

We enter into these forward exchange contracts to reduce the potential effects of foreign exchange rate movements on our net equity investment in one of our foreign subsidiaries, to reduce the impact on gross profit and net earnings from sales and purchases denominated in foreign currencies, and to reduce the impact on our net earnings of foreign currency fluctuations on receivables and payables denominated in foreign currencies that are different than the subsidiaries' functional currency. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Indian Rupee, Singapore Dollars, Chinese Yuan, Polish Zloty, 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 the following 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 is 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 immediately reported in Other expense, net. 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, 2021, denominated in Euros, Pounds Sterling and New Taiwan Dollars with set maturity dates ranging from August 2021 through July 2022. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2021, were $16.2 million for Euros, $9.5 million for Pounds Sterling and $26.0 million for New Taiwan Dollars. At July 31, 2021, we had approximately $906,000 of losses, net of tax, related to cash flow hedges deferred in Accumulated other comprehensive loss. Included in this amount was $402,000 of unrealized loss, 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 2022, when the corresponding inventory that is the subject of the related hedge contracts 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 entered into a forward contract with a notional amount of €3.0 million in November 2020. 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 derivative 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 2021. As of July 31, 2021, we had a realized gain of $813,000 and a minimal amount of unrealized loss 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 inter-company receivables, payables and loans denominated in foreign currencies. These derivative instruments are not designated as hedges under FASB guidance and, as a result, changes in their fair value are reported currently as Other 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 not designated as hedges under FASB guidance as of July 31, 2021, denominated in Euros, Pounds Sterling, and New Taiwan Dollar with set maturity dates ranging from August 2021 through May 2022. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2021, totaled $37.5 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, 2021 and October 31, 2020, all derivative instruments were recorded at fair value on our Condensed Consolidated Balance Sheets as follows (in thousands):

	July 31, 2021		October 31, 2020	
Derivatives	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 177	Derivative assets	$ 495
Foreign exchange forward contracts	Derivative liabilities	$ 697	Derivative liabilities	$ 279
Not Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 267	Derivative assets	$ 473
Foreign exchange forward contracts	Derivative liabilities	$ 212	Derivative liabilities	$ 593

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

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Changes in Shareholders' Equity, and Condensed Consolidated Statements of Operations, net of tax, during the three months ended July 31, 2021 and 2020 (in thousands):

Derivatives	**Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)** Three Months Ended July 31, 2021	2020	**Location of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)**	**Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)** Three Months Ended July 31, 2021	2020
Designated as Hedging Instruments: (Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ (277)	$ (480)	Cost of sales and service	$ (20)	$ 158
Foreign exchange forward contract – Net investment	$ 44	$ (193)			

We did not recognize any gains or losses as a result of hedges deemed ineffective for either of the three months ended July 31, 2021 or 2020. We recognized the following gains and losses in our Condensed Consolidated Statements of Operations during the three months ended July 31, 2021 and 2020 on derivative instruments not designated as hedging instruments (in thousands):

Derivatives	**Location of Gain (Loss) Recognized in Operations**	**Amount of Gain (Loss) Recognized in Operations** Three Months Ended July 31, 2021	2020
Not Designated as Hedging Instruments:			
Foreign exchange forward contracts	Other expense, net	$ 602	$ (1,784)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the three months ended July 31, 2021 (in thousands):

	Foreign Currency Translation	Cash Flow Hedges	Total
Balance, April 30, 2021	$ 233	$ (265)	$ (32)
Other comprehensive income (loss) before reclassifications	(732)	(277)	(1,009)
Reclassifications	—	20	20
Balance, July 31, 2021	$ (499)	$ (522)	$ (1,021)

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Changes in Shareholders' Equity, and Condensed Consolidated Statements of Operations, net of tax, during the nine months ended July 31, 2021 and 2020 (in thousands):

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) Nine Months Ended July 31, 2021	2020	Location of Gain (Loss) Reclassified from Other Comprehensive Income (Loss)	Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) Nine Months Ended July 31, 2021	2020
Designated as Hedging Instruments: (Effective Portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ (906)	$ 67	Cost of sales and service	$ 699	$ 268
Foreign exchange forward contract – Net investment	$ (36)	$ (104)			

We did not recognize any gains or losses as a result of hedges deemed ineffective for either of the nine months ended July 31, 2021 or 2020. We recognized the following gains and losses in our Condensed Consolidated Statements of Operations during the nine months ended July 31, 2021 and 2020 on derivative instruments not designated as hedging instruments (in thousands):

Derivatives	Location of Gain (Loss) Recognized in Operations	Amount of Gain (Loss) Recognized in Operations Nine Months Ended July 31, 2021	2020
Derivatives		2021	2020
Not Designated as Hedging Instruments:			
Foreign exchange forward contracts	Other expense, net	$ (801)	$ (658)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the nine months ended July 31, 2021 (in thousands):

	Foreign Currency Translation Foreign Currency Translation	Cash Flow Hedges Cash Flow Hedges	Total
Balance, October 31, 2020	$ (4,073)	$ 1,083	$ (2,990)
Other comprehensive income (loss) before reclassifications	3,574	(906)	2,668
Reclassifications	—	(699)	(699)
Balance, July 31, 2021	$ (499)	$ (522)	$ (1,021)

4. EQUITY INCENTIVE PLAN

In March 2016, we adopted the Hurco Companies, Inc. 2016 Equity Incentive Plan (the "2016 Equity Plan"), which allows us to grant awards of stock options, stock appreciation rights, restricted stock, stock units and other stock-based awards. The 2016 Equity Plan replaced the Hurco Companies, Inc. 2008 Equity Incentive Plan (the "2008 Equity Plan") and is the only active plan under which equity awards may be made by us to our employees and non-employee directors. No further awards will be made under the 2008 Equity Plan. The total number of shares of our common stock that may be issued pursuant to awards under the 2016 Equity Plan is 856,048, which includes 386,048 shares remaining available for future grants under the 2008 Equity Plan as of March 10, 2016, the date our shareholders approved the 2016 Equity Plan.

The Compensation Committee of our Board of Directors has the authority to determine the officers, directors, and key employees who will be granted awards under the 2016 Equity Plan; 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 restricted shares and performance units under the 2016 Equity Plan that are currently outstanding, and we have granted stock options under the 2008 Equity Plan that are currently outstanding. 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 market value of a share of our common stock, for purposes of the 2016 Equity 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, 2021, is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at October 31, 2020	33,307	$ 22.09
Options granted	—	—
Options exercised	—	—
Options cancelled	—	—
Outstanding at July 31, 2021	33,307	$ 22.09

Summarized information about outstanding stock options as of July 31, 2021, that have already vested and are currently exercisable, are as follows:

	Options Already Vested and Currently Exercisable
Number of outstanding options	33,307
Weighted average remaining contractual life (years)	0.72
Weighted average exercise price per share	$ 22.09
Intrinsic value of outstanding options	$ 395,000

The intrinsic value of an outstanding stock option is calculated as the difference between the stock price as of July 31, 2021 and the exercise price of the option.

On March 11, 2021, the Compensation Committee granted a total of 9,708 shares of time-based restricted stock to our non-employee directors. The restricted shares vest in full 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 shares was based on the closing sales price of our common stock on the grant date, which was $37.06 per share.

On January 5, 2021, the Compensation Committee approved a long-term incentive compensation arrangement for our executive officers in the form of time-based restricted shares and performance stock units ("PSUs") under the 2016 Equity Plan, which will be payable in shares of our common stock if earned and vested. The awards were approximately 25% time-based vesting and approximately 75% performance-based vesting. The three-year performance period for the PSUs is fiscal 2021 through fiscal 2023.

On that date, the Compensation Committee granted a total of 23,164 shares of time-based restricted stock to our executive officers. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $28.60 per share.

On January 5, 2021, the Compensation Committee granted a total target number of 39,199 PSUs to our executive officers designated as "PSU – TSR". These PSUs were weighted as approximately 40% of the overall 2021 executive long-term incentive compensation arrangement and will vest and be paid based upon the total shareholder return of our common stock over the three-year period of fiscal 2021-2023, relative to the total shareholder return of the companies in a specified peer group over that period. Participants will have the ability to earn between 50% of the target number of the PSUs – TSR for achieving threshold performance and 200% of the target number of the PSUs – TSR for achieving maximum performance. The grant date fair value of the PSUs – TSR was $27.04 per PSU and was calculated using the Monte Carlo approach.

On January 5, 2021, the Compensation Committee granted a total target number of 32,430 PSUs to our executive officers designated as "PSU – ROIC". These PSUs were weighted as approximately 35% of the overall 2021 executive long-term incentive compensation arrangement and will vest and be paid based upon the achievement of pre-established goals related to our average return on invested capital over the three-year period of fiscal 2021-2023. Participants will have the ability to earn between 50% of the target number of the PSUs – ROIC for achieving threshold performance and 200% of the target number of the PSUs – ROIC for achieving maximum performance. The grant date fair value of the PSUs – ROIC was based on the closing sales price of our common stock on the grant date, which was $28.60 per share.

On November 12, 2020, the Compensation Committee granted a total of 11,531 shares of time-based restricted stock to our non-executive employees. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant, which was $29.30 per share.

A reconciliation of our restricted stock and PSU activity and related information for the nine-month period ended July 31, 2021 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at October 31, 2020	231,960	$ 39.03
Shares or units granted	116,032	28.85
Shares or units vested	(36,243)	31.12
Shares or units cancelled	(42,625)	43.99
Shares withheld	(6,568)	38.20
Unvested at July 31, 2021	262,556	$ 34.84

During the nine months of fiscal 2021 and 2020, we recorded approximately $2.1 million and $1.4 million, respectively, of stock-based compensation expense related to grants under the 2016 Equity Plan. As of July 31, 2021, there was an estimated $3.7 million of total unrecognized stock-based compensation cost that we expect to recognize by the end of the first quarter of fiscal 2024.

5. EARNINGS PER SHARE

Per share results have been computed based on the average number of common shares outstanding over the period in question. 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 outstanding as the denominator as follows (in thousands, except per share amounts):

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2021		2020		2021		2020	
(in thousands, except per share amounts)	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income (loss)	$ 1,568	$ 1,568	$ 2,162	$ 2,162	$ 4,668	$ 4,668	$ (2,658)	$ (2,658)
Undistributed earnings (loss) allocated to participating shares	(17)	(17)	(23)	(23)	(51)	(51)	28	28
Net income (loss) applicable to common shareholders	$ 1,551	$ 1,551	$ 2,139	$ 2,139	$ 4,617	$ 4,617	$ (2,630)	$ (2,630)
Weighted average shares outstanding	6,601	6,601	6,595	6,595	6,591	6,591	6,705	6,705
Stock options and contingently issuable securities	—	17	—	9	—	14	—	—
	6,601	6,618	6,595	6,604	6,591	6,605	6,705	6,705
Income (loss) per share	$ 0.23	$ 0.23	$ 0.32	$ 0.32	$ 0.70	$ 0.70	$ (0.39)	$ (0.39)

6. ACCOUNTS RECEIVABLE

Accounts receivable are net of allowances for doubtful accounts of $1.6 million as of July 31, 2021 and $1.4 million as of October 31, 2020.

7. INVENTORIES

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

	July 31, 2021	October 31, 2020
Purchased parts and sub–assemblies	$ 37,815	$ 30,390
Work–in–process	16,901	12,635
Finished goods	94,610	106,839
	$ 149,326	$ 149,864

8. LEASES

We adopted Accounting Standards Update ("ASU") No. 2016-02, "Leases" ("ASC 842") on November 1, 2019, the start of our 2020 fiscal year, and utilized the transition method allowed. Accordingly, comparative period financial information was not adjusted for the effects of adopting ASC 842 and no cumulative-effect adjustment was required to the opening balance of retained earnings on the adoption date.

Upon adoption of ASC 842, we utilized the following elections:

- We have elected to combine non-lease components with lease components.
- If at the lease commencement date, a lease has a lease term of 12 months or less and does not include a purchase option that is reasonably certain to be exercised, we have elected not to apply ASC 842 recognition requirements. Nonetheless, we intend to include leases of less than 12 months within the updated footnote disclosures, if material.
- We have elected not to use the portfolio method if we enter into a large number of leases in the same month with the same terms and conditions.

Our lease portfolio includes leased production and assembly facilities, warehouses and distribution centers, office space, vehicles, material handling equipment utilized in our production and assembly facilities, laptops and other information technology equipment, as well as other miscellaneous leased equipment. Most of the leased production and assembly facilities have lease terms ranging from two to five years, although the terms and conditions of our leases can vary significantly from lease to lease. We have assessed the specific terms and conditions of each lease to determine the amount of the lease payments and the length of the lease term, which includes the minimum period over which lease payments are required plus any renewal options that are both within our control to exercise and reasonably certain of being exercised upon lease commencement. In determining whether or not a renewal option is reasonably certain of being exercised, we assessed all relevant factors to determine if sufficient incentives exist as of lease commencement to conclude renewal is reasonably certain. There are no material residual value guarantees provided by us, nor any material restrictions or covenants imposed by the leases to which we are a party. In determining the lease liability, we utilize our incremental borrowing rate to discount the future lease payments over the lease term to present value.

We record a right-of-use asset and lease liability on our Condensed Consolidated Balance Sheets for all leases for which we are a lessee, in accordance with ASC 842. We are a lessor in a small number of lease agreements associated with our machine tools and/or automation integration equipment for which the impact to our consolidated financial statements is immaterial. All our leases for which we are a lessee are classified as operating leases under the guidance in Topic 840.

We recorded total operating lease expense of $3.9 million and $3.7 million for the nine months ended July 31, 2021 and 2020, respectively, which is classified within Cost of sales and service and Selling, general and administrative expenses within the Condensed Consolidated Statements of Operations. Operating lease expense includes short-term leases and variable lease payments which are immaterial. There were no lease costs capitalized on the Condensed Consolidated Balance Sheets as of July 31, 2021.

The following table summarizes supplemental cash flow information and non-cash activity related to operating leases for the nine months ended July 31, 2021 (in thousands):

	Nine Months Ended July 31, 2021
Operating cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities	$ 3,827
Non-cash information:	
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 3,003

The following table summarizes the maturities of undiscounted cash flows of lease commitments reconciled to the total lease liability as of July 31, 2021 (in thousands):

Remainder of 2021	$ 1,208
2022	4,116
2023	2,775
2024	1,210
2025	821
2026 and thereafter	1,750
Total	11,880
Less: Imputed interest	(378)
Present value of operating lease liabilities	$ 11,502

As of July 31, 2021, the weighted-average remaining term of our lease portfolio was approximately 4.0 years and the weighted-average discount rate was approximately 1.6%.

9. SEGMENT INFORMATION

We operate in a single segment: industrial automation equipment. We design, manufacture and sell computerized (i.e., CNC) machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal cutting industry through a worldwide sales, service and distribution network. Although the majority of our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training and applications support.

10. GUARANTEES AND PRODUCT WARRANTIES

From time to time, we guarantee third party payment obligations in connection with the sale of machines to customers that use financing. We follow FASB guidance for accounting for guarantees (codified in ASC 460). As of July 31, 2021, we had 12 outstanding third party payment guarantees totaling approximately $1.0 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer assumes 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 liabilities under these guarantees at fair value, which amounts are insignificant.

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

	Nine Months Ended July 31,	
	2021	**2020**
Balance, beginning of period	$ 1,200	$ 1,760
Provision for warranties during the period	1,495	1,474
Charges to the reserve	(1,384)	(1,988)
Impact of foreign currency translation	21	25
Balance, end of period	$ 1,332	$ 1,271

The year-over-year increase in our warranty reserve was primarily due to an increase in unit sales volume.

11. DEBT AGREEMENTS

On December 31, 2018, we and our subsidiary Hurco B.V. entered into a new credit agreement, which was amended by that certain First Amendment dated March 13, 2020 and that certain Second Amendment dated December 23, 2020 (as amended, the “2018 Credit Agreement”), with Bank of America, N.A., as the lender. The 2018 Credit Agreement provides for an unsecured revolving credit and letter of credit facility in a maximum aggregate amount of $40.0 million. The 2018 Credit Agreement provides that the maximum amount of outstanding letters of credit at any one time may not exceed $10.0 million, the maximum amount of outstanding loans made to our subsidiary Hurco B.V. at any one time may not exceed $20.0 million, and the maximum amount of all outstanding loans denominated in alternative currencies at any one time may not exceed $20.0 million. Under the 2018 Credit Agreement, we and Hurco B.V. are borrowers, and certain of our other subsidiaries are guarantors. The scheduled maturity date of the 2018 Credit Agreement is December 31, 2021.

Borrowings under the 2018 Credit Agreement bear interest at floating rates based on, at our option, either (i) a LIBOR–based rate, or other alternative currency–based rate approved by the lender, plus 1.25% per annum, or (ii) a base rate (which is the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate or (c) the one month LIBOR–based rate plus 1.00%), plus 0.00% per annum. Outstanding letters of credit will carry an annual rate of 1.25%.

The 2018 Credit Agreement contains customary affirmative and negative covenants and events of default, including covenants (1) restricting us from making certain investments, loans, advances and acquisitions (but permitting us to make investments in subsidiaries of up to $10.0 million); (2) restricting us from making certain payments, including (a) cash dividends, except that we may pay cash dividends as long as immediately before and after giving effect to such payment, the sum of the unused amount of the commitments under the 2018 Credit Agreement plus our cash on hand is not less than $10.0 million, and as long as we are not in default before and after giving effect to such dividend payments and (b) payments made to repurchase shares of our common stock, except that we may repurchase shares of our common stock as long as we are not in default before and after giving effect to such repurchases and the aggregate amount of payments made by us for all such repurchases during any fiscal year does not exceed $10.0 million; (3) requiring that we maintain a minimum working capital of $125.0 million; (4) requiring that we maintain a minimum tangible net worth of $170.0 million; and (5) providing that if the total amount of indebtedness outstanding owed by the Company and its Taiwanese and Chinese subsidiaries to the lender or its affiliates (the “Specified Outstanding Amount”) exceeds $25.0 million, then the Company will not permit the amount of unrestricted cash-on-hand of the Company and its subsidiaries to be less than the Specified Outstanding Amount. We may use the proceeds from advances under the 2018 Credit Agreement for general corporate purposes.

In March 2019, our wholly-owned subsidiaries in Taiwan (Hurco Manufacturing Limited (“HML”)) and China (Ningbo Hurco Machine Tool, Ltd (“NHML”)) closed on uncommitted revolving credit facilities with maximum aggregate amounts of 150 million New Taiwan Dollars (the "Taiwan credit facility") and 32.5 million Chinese Yuan (the "China credit facility"), respectively. As uncommitted facilities, both the Taiwan and China credit facilities are subject to review and termination by the respective underlying lending institutions from time to time.

As a result, as of July 31, 2021, our existing credit facilities consisted of our €1.5 million revolving credit facility in Germany, the 150 million New Taiwan Dollars Taiwan credit facility, the 32.5 million Chinese Yuan China credit facility and the $40.0 million revolving credit facility under the 2018 Credit Agreement.

As of July 31, 2021, there were no borrowings under any of our credit facilities and there was approximately $52.2 million of available borrowing capacity thereunder.

12. INCOME TAXES

Our provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates, and other events that are not consistent from period to period, such as changes in income tax laws.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law on March 27, 2020. The CARES Act included several provisions that provide economic relief for individuals and businesses. The CARES Act, among other things, included tax provisions relating to refundable payroll tax credits, the deferral of employer’s social security payments, and modifications to net operating loss carryback provisions. On December 27, 2020, the Consolidated Appropriations Act of 2021 (the “CAA”), which includes the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and the American Rescue Plan Act of 2021, was signed into law and provided further COVID-19 economic relief with an expansion of the employee retention credit. As a result, we recorded a benefit of $2.9 million related to the employee retention credit during the nine months of fiscal 2021.

During the third quarter of fiscal 2021, we assessed and recorded the estimated year to date impact of recent changes in income tax laws to address the unfavorable impact of the COVID-19 pandemic. The CARES Act included economic relief and modifications, most notably the net operating loss carryback provisions for the U.S. We recorded an income tax expense during the nine months of fiscal 2021 of $2.6 million compared to an income tax benefit of $2.3 million for the same period in 2020. Our effective tax rate for the nine months of fiscal 2021 was 36%, compared to 46% in the corresponding prior year period. The year-over-year change in the effective tax rate was primarily due to changes in geographic mix of income and loss that includes jurisdictions with differing tax rates, various discrete income tax expense items, and more specifically related to the prior year period, and changes in income tax laws to address the unfavorable impact of the COVID-19 pandemic.

Our unrecognized tax benefits were $268,000 as of July 31, 2021 and $204,000 as of October 31, 2020, and in each case included accrued interest.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of income tax expense. As of July 31, 2021, the gross amount of interest accrued, reported in Accrued expenses, was approximately $41,000, 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 August 2021 and August 2024.

Currently, our subsidiary in Taiwan is under tax audit for fiscal year 2018.

13. FINANCIAL INSTRUMENTS

FASB fair value guidance establishes 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, 2021 and October 31, 2020 (in thousands):

	Assets		Liabilities	
	July 31, 2021	October 31, 2020	July 31, 2021	October 31, 2020
Level 1				
Deferred compensation	$ 2,398	$ 1,868	$ —	$ —
Level 2				
Derivatives	$ 444	$ 968	$ 909	$ 872

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 that are readily available.

Included in Level 2 fair value measurements are derivative assets and liabilities related to 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. Derivative instruments are reported in the accompanying Condensed Consolidated Financial Statements at fair value. We have derivative financial instruments in the form of foreign currency forward exchange contracts as described in Note 3 of Notes to the Condensed Consolidated Financial Statements. The U.S. Dollar equivalent notional amounts of these contracts was $93.6 million and $70.8 million at July 31, 2021 and October 31, 2020, respectively.

The fair 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 the forward exchange contracts are substantial and creditworthy financial institutions. We do not consider either the risk of counterparties' non-performance or the economic consequences of counterparties' non-performance to be material risks.

14. CONTINGENCIES AND LITIGATION

From time to time, we are involved in various claims and lawsuits arising in the normal course of business. Pursuant to applicable accounting rules, we accrue the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. We maintain insurance policies for such matters, and we record insurance recoveries when we determine such recovery to be probable. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations. We believe that the ultimate resolution of claims for any losses will not exceed our insurance policy coverages.

15. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements:

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard modifies the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. This standard is effective for our fiscal year 2021. We adopted this standard on November 1, 2020. This standard did not have a significant effect on our accounting policies or on our consolidated financial statements and related disclosures.

New Accounting Pronouncements:

In December 2019, FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which allows for companies to remove certain exceptions and clarifies certain requirements regarding franchise taxes, goodwill, consolidated tax expenses, and annual effective tax rate calculations. This standard is effective for our fiscal year 2022, with early adoption permitted. We are assessing the impact this new accounting standard will have on our consolidated financial statements and related disclosures.

In March 2020, FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This standard provides temporary optional expedients and exceptions to the U.S. Generally Accepted Accounting Principles guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as SOFR. This standard is effective for all entities beginning March 12, 2020 through December 31, 2022. We are assessing the impact this new accounting standard will have on our consolidated financial statements and related disclosures.

There have been no other significant changes in the Company's critical accounting policies and estimates during the nine months ended July 31, 2021.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains information intended to help provide an understanding of our financial condition and other related matters, including our liquidity, capital resources and results of operations. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited financial statements and the notes accompanying our unaudited financial statements appearing elsewhere in this report, as well as our audited financial statements, the accompanying notes and the MD&A included in our Annual Report on Form 10-K for the year ended October 31, 2020.

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an international, industrial technology company operating in a single segment. We design, manufacture and sell computerized (i.e., CNC) machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal cutting industry through a worldwide sales, service and distribution network. Although the majority of our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. We also provide machine tool components, automation integration equipment and solutions for job shops, software options, control upgrades, accessories and replacement parts for our products, as well as customer service, training and applications 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 financial statements that appear elsewhere in this report.

The market for machine tools is international in scope. We have both significant foreign sales and significant foreign manufacturing operations. During the nine months of fiscal 2021, approximately 49% of our revenues were attributable to customers in Europe, where we typically sell more of our higher-performance, higher-priced VMX series machines. Additionally, approximately 14% of our revenues were attributable to customers in the Asia Pacific region, where we encounter greater pricing pressures.

We have three brands of CNC machine tools in our product portfolio: Hurco is the technology innovation brand for customers who want to increase productivity and profitability by selecting a brand with the latest software and motion technology. Milltronics is the value-based brand for shops that want easy-to-use machines at competitive prices. The Takumi brand is for customers that need very high speed, high efficiency performance, such as that required in the production, die and mold, aerospace, and medical industries. Takumi machines are equipped with industry standard controls instead of the proprietary controls found on Hurco and Milltronics machines. These three brands of CNC machine tools are responsible for the vast majority of our revenue. However, we have added other non-Hurco branded products to our product portfolio that have contributed product diversity and market penetration opportunity. Many of these non-Hurco branded products are sold by our wholly-owned distributors and are comprised primarily of other general-purpose vertical milling centers and lathes, laser cutting machines, waterjet cutting machines, CNC grinders, compact horizontal machines, metal cutting saws and CNC swill lathes. Additionally, ProCobots LLC ("ProCobots") is our wholly-owned subsidiary that provides automation solutions that can be integrated with any machine tool. Finally, through our wholly-owned subsidiary in Italy, LCM, we produce high value machine tool components and accessories.

We principally sell our products through more than 200 independent agents and distributors throughout the Americas, Europe, and Asia. Although some distributors carry competitive products, we are the primary line for the majority of our distributors globally. We also have our own direct sales and service organizations in China, France, Germany, India, Italy, the Netherlands, Poland, Singapore, Taiwan, the United Kingdom, and certain parts of the United States, which are among the world's principal machine tool consuming markets. The vast majority of our machine tools are manufactured to our specifications primarily by our wholly-owned subsidiary in Taiwan, HML. Machine castings to support HML's production are manufactured at our wholly-owned subsidiary in Ningbo, China, NHML. Components to support our SRT line of five-axis machining centers, such as the direct drive spindle, swivel head, and rotary table, are manufactured by our wholly-owned subsidiary in Italy, LCM.

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies in the countries in which those customers are located (primarily the Euro, Pound Sterling, and Chinese Yuan). 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 financial statements as reported under U.S. Generally Accepted Accounting Principles. For example, when the U.S. Dollar weakens 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 higher than would be the case when the U.S. Dollar is stronger. In the comparison of our period-to-period results, we discuss the effect of currency translation on those results, which reflect translation to U.S. Dollars at exchange rates prevailing during the period covered by those financial statements.

We operate in the industrial equipment industry and have a global footprint that subjects us to various business risks in many different countries. The COVID-19 pandemic had a significant impact on our business and industry in fiscal 2020. We are currently participating in challenging global market conditions, with continued COVID-19 business restrictions, vendor delays, chronic logistics issues and inflationary increases in cost of materials. During the nine months of fiscal 2021, our sales increased year-over-year in all regions as countries began to lift the government-mandated COVID-19 stay-at-home orders or other similar operating restrictions. However, we cannot predict the duration or scope of impact of the COVID-19 pandemic on a global basis and the impact that any new developments, including variants and surges, could have on our financial results. We will continue to evaluate and disclose any trends and uncertainties that have had or are reasonably expected to have, a material effect on our consolidated financial position, results of operations, changes in shareholders' equity and cash flows for and at the end of each interim period.

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

RESULTS OF OPERATIONS

Three Months Ended July 31, 2021 Compared to Three Months Ended July 31, 2020

Sales and Service Fees. Sales and service fees for the third quarter of fiscal 2021 were $54.2 million, an increase of $8.8 million, or 19%, compared to the corresponding prior year period, and included a favorable currency impact of $2.3 million, or 5%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the third quarter ended July 31, 2021 and 2020 (dollars in thousands):

	Three Months Ended July 31,					
	2021		2020		$ Change	% Change
Americas	$ 19,150	35 %	$ 17,870	39 %	$ 1,280	7 %
Europe	28,403	53 %	19,538	43 %	8,865	45 %
Asia Pacific	6,625	12 %	7,974	18 %	(1,349)	(17)%
Total	$ 54,178	100 %	$ 45,382	100 %	$ 8,796	19 %

Sales in the Americas for the third quarter of fiscal 2021 increased by 7%, compared to the corresponding period in fiscal 2020. The increase in sales in the Americas for the third quarter of fiscal 2021 was due to an increased volume of machine shipments, both Hurco and Milltronics, and an increase in sales of ProCobots automation solutions. The improved sales volume of machines primarily reflected increased shipments of Hurco VM and VMX machines as well as Milltronics toolroom machines.

European sales for the third quarter of fiscal 2021 increased by 45%, compared to the corresponding period in fiscal 2020, and included a favorable currency impact of 10%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The year-over-year increase in European sales was attributable to increased volume of shipments of Hurco and Takumi machines in Germany, the United Kingdom, and Italy, as well as increased shipments of machine tool components and accessories manufactured by LCM. The improved sales volume of machines was primarily attributable to increased shipments of Hurco Lathes, VM and VMX machines.

Asian Pacific sales for the third quarter of fiscal 2021 decreased by 17%, compared to the corresponding period in fiscal 2020, and included a favorable currency impact of 5%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The year-over-year decrease in Asian Pacific sales for the third quarter of fiscal 2021 was primarily due to decreased sales of Hurco and Takumi machines in China.

Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for the third quarter ended July 31, 2021 and 2020 (dollars in thousands):

	Three Months Ended July 31,					
	2021		2020		$ Change	% Change
Computerized Machine Tools	$ 45,326	84 %	$ 37,752	83 %	$ 7,574	20 %
Computer Control Systems and Software †	612	1 %	422	1 %	190	45 %
Service Parts	6,251	11 %	5,818	13 %	433	7 %
Service Fees	1,989	4 %	1,390	3 %	599	43 %
Total	$ 54,178	100 %	$ 45,382	100 %	$ 8,796	19 %

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

Sales of computerized machine tools for the third quarter of fiscal 2021 increased by 20%, compared to the corresponding prior year period, due mainly to increased volume of shipments of Hurco, Takumi and Milltronics products, particularly in the Americas and Europe. Sales of computer control systems and software and service fees for the third quarter of fiscal 2021 increased by 45% and 43%, respectively, compared to the corresponding prior year period, primarily due to increased software sales and services provided across all regions where our customers are located. Service parts for the third quarter of fiscal 2021 increased by 7%, compared to the corresponding prior year period, due mainly to increased aftermarket parts sales for Hurco products in Germany and France. The increases in each product category described above included a favorable currency impact of 5%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

Orders. Orders for the third quarter of fiscal 2021 were $66.7 million, an increase of $30.6 million, or 85%, compared to the corresponding period in fiscal 2020, and included a favorable currency impact of $2.9 million, or 8%, when translating foreign orders to U.S. Dollars.

The following table sets forth new orders booked by geographic region for the third quarter ended July 31, 2021 and 2020 (dollars in thousands):

	Three Months Ended July 31,					
	2021		2020		$ Change	% Change
Americas	$ 23,837	36 %	$ 16,315	45 %	$ 7,522	46 %
Europe	33,998	51 %	14,155	39 %	19,843	140 %
Asia Pacific	8,882	13 %	5,621	16 %	3,261	58 %
Total	$ 66,717	100 %	$ 36,091	100 %	$ 30,626	85 %

Orders in the Americas for the third quarter of fiscal 2021 increased by 46%, compared to the corresponding period in fiscal 2020. The increased order levels reflected higher demand for all categories of Hurco, Takumi, and Milltronics machines as well as increased demand for ProCobots automation solutions.

European orders for the third quarter of fiscal 2021 increased by 140%, compared to the corresponding prior year period, and included a favorable currency impact of 17%, when translating foreign orders to U.S. Dollars. The year-over-year increases in orders were driven primarily by increased customer demand for Hurco and Takumi machines in Germany, the United Kingdom, France and Italy, as well as increased demand for LCM machine tool components and accessories.

Asian Pacific orders for the third quarter of fiscal 2021 increased by 58%, compared to the corresponding prior year period, primarily due to increased customer demand for Hurco vertical milling machines and Takumi machines in China and Southeast Asia. Asian Pacific orders for the third quarter of fiscal 2021 included a favorable currency impact of 9%, when translating foreign orders to U.S. dollars.

Gross Profit. Gross profit for the third quarter of fiscal 2021 was $13.0 million, or 24% of sales, compared to $11.1 million, or 24% of sales, for the corresponding prior year period. The year-over-year increase in gross profit reflected improved leverage of fixed overhead costs through higher levels of machine sales, improved pricing due to changes in demand and normalized inventory levels, and the favorable impact of foreign currency translation compared to the corresponding prior year periods. Approximately $0.4 million of the gross profit improvement for the third quarter of fiscal 2021 was a result of recording the employee retention credit extended to the Company under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and the American Rescue Plan Act of 2021 (the “employee retention credit”). The improvement in gross profit as a percentage of sales is partially offset by recent inflationary increases in cost of materials and high costs associated with transporting finished goods on a global basis.

Operating Expenses. Selling, general, and administrative expenses for the third quarter of fiscal 2021 were $10.3 million, or 19% of sales, compared to $9.6 million, or 21% of sales, in the corresponding fiscal 2020 period, and included an unfavorable currency impact of $0.4 million, when translating foreign expenses to U.S. Dollars for financial reporting purposes. Selling, general and administrative expenses for the third quarter of fiscal 2021 continued to trend downward as a percentage of sales from fiscal 2020 as a result of the cost management plans implemented during fiscal 2020 and continued during fiscal 2021. Additionally, approximately $0.6 million of the selling, general, and administrative expense reduction for the third quarter of fiscal 2021 was a result of recording the employee retention credit.

Operating Income. Operating income for the third quarter of fiscal 2021 was $2.6 million, or 5% of sales, compared to $1.4 million, or 3% of sales, for the corresponding prior year period. The year-over-year increase in operating income for the third quarter was primarily due to increases in the sales volume of Hurco, Takumi and Milltronics machines, LCM components and accessories, and ProCobots automation solutions. As discussed above, operating income for the third quarter of fiscal 2021 included a benefit of $1.0 million, related to the employee retention credit recorded during the third quarter of fiscal 2021.

Other Income (Expense), Net. Other income, net in the third quarter of fiscal 2021 was less than $0.1 million, compared to other expense, net of $0.2 million in the corresponding period in fiscal 2020. The change from other expense, net to other income, net was due mainly to a reduction in foreign currency exchange losses in the third quarter of fiscal 2021, compared to the corresponding prior year period.

Income Taxes. The effective tax rate for the third quarter of fiscal 2021 was 41%, compared to (76)% in the corresponding prior year period. The year-over-year change in the effective tax rate was primarily due to changes in geographic mix of income and loss that includes jurisdictions with differing tax rates, various discrete income tax expense items, and more specifically related to the prior year period, and changes in income tax laws to address the unfavorable impact of the COVID-19 pandemic.

Nine Months Ended July 31, 2021 Compared to Nine Months Ended July 31, 2020

Sales and Service Fees. Sales and service fees for the nine months of fiscal 2021 were $166.2 million, an increase of $40.0 million, or 32%, compared to the corresponding prior year period, and included a favorable currency impact of $6.7 million, or 5%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the nine months ended July 31, 2021 and 2020 (dollars in thousands):

	Nine Months Ended July 31, 2021		2020		$ Change	% Change
Americas	$ 62,121	37 %	$ 52,045	41 %	$ 10,076	19 %
Europe	81,598	49 %	54,359	43 %	27,239	50 %
Asia Pacific	22,494	14 %	19,764	16 %	2,730	14 %
Total	$ 166,213	100 %	$ 126,168	100 %	$ 40,045	32 %

Sales in the Americas for the nine months of fiscal 2021 increased by 19%, compared to the corresponding period in fiscal 2020. The increase in sales in the Americas for the nine months of fiscal 2021 was due to an increased volume of machine shipments, both Hurco and Milltronics, and an increase in sales of ProCobots automation solutions. The improved sales volume of machines primarily reflected increased shipments of Hurco VM and VMX machines as well as Milltronics toolroom machines.

European sales for the nine months of fiscal 2021 increased by 50%, compared to the corresponding period in fiscal 2020, and included a favorable currency impact of 10%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The year-over-year increase in European sales was attributable to increased volume of shipments of Hurco and Takumi machines in Germany, the United Kingdom, and Italy, as well as increased shipments of machine tool components and accessories manufactured by LCM. The improved sales volume of machines was primarily attributable to increased shipments of Hurco Lathes, VM and VMX machines.

Asian Pacific sales for the nine months of fiscal 2021 increased by 14%, compared to the corresponding period in fiscal 2020, and included a favorable currency impact of 6%, when translating foreign sales to U.S. Dollars for financial reporting purposes. The year-over-year increase in sales for the nine months of fiscal 2021 was attributable to increased shipments of Hurco machines in India and Southeast Asia.

Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for the nine months ended July 31, 2021 and 2020 (dollars in thousands):

	Nine Months Ended July 31, 2021		2020		$ Change	% Change
Computerized Machine Tools	$ 139,211	84 %	$ 102,955	82 %	$ 36,256	35 %
Computer Control Systems and Software †	1,859	1 %	1,317	1 %	542	41 %
Service Parts	19,394	12 %	16,905	13 %	2,489	15 %
Service Fees	5,749	3 %	4,991	4 %	758	15 %
Total	$ 166,213	100 %	$ 126,168	100 %	$ 40,045	32 %

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

Sales of computerized machine tools for the nine months of fiscal 2021 increased by 35%, compared to the corresponding prior year period, due to an increased volume of shipments of Hurco, Takumi and Milltronics products across all regions where our customers are located. Sales of computer control systems and software and service parts for the nine months of fiscal 2021 increased by 41% and 15%, respectively, compared to the corresponding prior year period, due mainly to increased aftermarket sales for Hurco and Takumi products across all regions where our customers are located. Service fees for the nine months of fiscal 2021 increased by 15%, compared to the corresponding prior year period, mainly due to increased services provided to customers in Europe for Hurco, Takumi and LCM products. Increases in each of the product categories described above included a favorable currency impact of 5%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

Orders. Orders for the nine months of fiscal 2021 were $189.8 million, an increase of $71.5 million, or 61%, compared to the corresponding period in fiscal 2020, and included a favorable currency impact of $8.0 million, or 7%, when translating foreign orders to U.S. Dollars.

The following table sets forth new orders booked by geographic region for the nine months ended July 31, 2021 and 2020 (dollars in thousands):

	Nine Months Ended July 31,					
	2021		2020		$ Change	% Change
Americas	$ 66,988	35 %	$ 50,400	43 %	$ 16,588	33 %
Europe	94,194	50 %	51,476	43 %	42,718	83 %
Asia Pacific	28,573	15 %	16,347	14 %	12,226	75 %
Total	$ 189,755	100 %	$ 118,223	100 %	$ 71,532	61 %

Orders in the Americas for the nine months of fiscal 2021 increased by 33%, compared to the corresponding period in fiscal 2020. The increased order levels reflected higher demand for all categories of Hurco, Takumi, and Milltronics machines as well as increased demand for ProCobots automation solutions.

European orders for the nine months of fiscal 2021 increased by 83%, compared to the corresponding prior year period, and included a favorable currency impact of 13%, when translating foreign orders to U.S. Dollars. The year-over-year increase in orders was driven primarily by increased customer demand for Hurco and Takumi machines in Germany, the United Kingdom, France and Italy, as well as increased demand for LCM machine tool components and accessories.

Asian Pacific orders for the nine months of fiscal 2021 increased by 75%, compared to the corresponding prior year period, primarily due to increased customer demand for Hurco vertical milling machines and Takumi machines in China and Southeast Asia. Asian Pacific orders for the nine months of fiscal 2021 included a favorable currency impact of 10%, when translating foreign orders to U.S. Dollars.

Gross Profit. Gross profit for the nine months of fiscal 2021 was $39.3 million, or 24% of sales, compared to $26.9 million, or 21% of sales, for the corresponding prior year period. The year-over-year increase in gross profit as a percentage of sales reflected improved leverage of fixed overhead costs through higher levels of machine sales, improved pricing due to changes in demand and normalized inventory levels, and the favorable impact of foreign currency translation compared to the corresponding prior year periods. Additionally, approximately $1.2 million of the gross profit improvement for the nine months of fiscal 2021 was a result of recording the employee retention credit. The improvement in gross profit as a percentage of sales is partially offset by recent inflationary increases in cost of materials and high costs associated with transporting finished goods on a global basis.

Operating Expenses. Selling, general, and administrative expenses for the nine months of fiscal 2021 were $32.2 million, or 19% of sales, compared to $31.1 million, or 25% of sales, in the corresponding fiscal 2020 period, and included an unfavorable currency impact of $1.1 million, when translating foreign expenses to U.S. Dollars for financial reporting purposes. Selling, general and administrative expenses for the nine months of fiscal 2021 continued to trend downward as a percentage of sales from fiscal 2020 as a result of the cost management plans implemented during fiscal 2020 and continued during fiscal 2021. Additionally, approximately $1.7 million of the selling, general, and administrative expense reduction for the nine months of fiscal 2021 was a result of recording the employee retention credit.

Operating Income (Loss). Operating income for the nine months of fiscal 2021 was $7.1 million, or 4% of sales, compared to operating loss of $4.1 million, or (3)% of sales, for the corresponding prior year period. The year-over-year increase from an operating loss to operating income for the nine month period was primarily due to increases in the of sales volume of Hurco, Takumi and Milltronics machines, LCM components and accessories, and ProCobots automation solutions. As discussed above, operating income for the nine months of fiscal 2021 included a benefit of $2.9 million related to the employee retention credit recorded during fiscal 2021.

Other Income (Expense), Net. Other expense, net in the nine months of fiscal 2021 was less than $0.1 million compared to $0.9 million for the corresponding period in fiscal 2020. The decrease in other expense, net was due mainly to a reduction in foreign currency exchange losses in the nine months of fiscal 2021, compared to the corresponding prior year period.

Income Taxes. The effective tax rate for the nine months of fiscal 2021 was 36%, compared to 46% in the corresponding prior year period. The year-over-year change in the effective tax rate was primarily due to changes in geographic mix of income and loss that includes jurisdictions with differing tax rates, various discrete income tax expense items, and more specifically related to the prior year period, and changes in income tax laws to address the unfavorable impact of the COVID-19 pandemic.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2021, we had cash and cash equivalents of $80.5 million, compared to $57.9 million at October 31, 2020. Approximately 25% of the $80.5 million of cash and cash equivalents was denominated in U.S. Dollars. The balance was attributable to our foreign operations and is held in the local currencies of our various foreign entities, subject to fluctuations in currency exchange rates. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic working capital needs.

Working capital was $207.3 million at July 31, 2021 compared to $201.0 million at October 31, 2020. The increase in working capital was primarily driven by the increase in cash and cash equivalents and accounts receivable, which was partially offset by increases in accounts payable and customer deposits.

Capital expenditures of $1.8 million during the nine months of fiscal 2021 were primarily for capital improvements in existing facilities and software development costs. We funded these expenditures with cash on hand.

On March 12, 2021, we announced that our Board of Directors approved a share repurchase program in an aggregate amount of up to $7.0 million. Repurchases under the program may be made in the open market or through privately-negotiated transactions from time to time through March 10, 2023, subject to applicable laws, regulations and contractual provisions. The program may be amended, suspended or discontinued at any time and does not commit us to repurchase any shares of our common stock. We did not repurchase any shares of our common stock under this program during the third quarter of fiscal 2021.

In addition, during the nine months ended July 31, 2021, we paid cash dividends to our shareholders of $2.7 million. Future dividends are subject to approval of our Board of Directors and will depend upon many factors, including our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business strategy and other factors deemed relevant by our Board of Directors from time to time.

On December 31, 2018, we and our subsidiary Hurco B.V. entered into the 2018 Credit Agreement with Bank of America, N.A., as the lender, which was subsequently amended on each of March 13, 2020 and December 23, 2020. The 2018 Credit Agreement provides for an unsecured revolving credit and letter of credit facility in a maximum aggregate amount of $40.0 million. The 2018 Credit Agreement provides that the maximum amount of outstanding letters of credit at any one time may not exceed $10.0 million, the maximum amount of outstanding loans made to our subsidiary Hurco B.V. at any one time may not exceed $20.0 million, and the maximum amount of all outstanding loans denominated in alternative currencies at any one time may not exceed $20.0 million. Under the 2018 Credit Agreement, we and Hurco B.V. are borrowers, and certain of our other subsidiaries are guarantors. The scheduled maturity date of the 2018 Credit Agreement is December 31, 2021.

Borrowings under the 2018 Credit Agreement bear interest at floating rates based on, at our option, either (i) a LIBOR-based rate, or other alternative currency-based rate approved by the lender, plus 1.25% per annum, or (ii) a base rate (which is the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate or (c) the one month LIBOR-based rate plus 1.00%), plus 0.00% per annum. Outstanding letters of credit will carry an annual rate of 1.25%.

The 2018 Credit Agreement contains customary affirmative and negative covenants and events of default, including covenants (1) restricting us from making certain investments, loans, advances and acquisitions (but permitting us to make investments in subsidiaries of up to $10.0 million); (2) restricting us from making certain payments, including (a) cash dividends, except that we may pay cash dividends as long as immediately before and after giving effect to such payment, the sum of the unused amount of the commitments under the 2018 Credit Agreement plus our cash on hand is not less than $10.0 million, and as long as we are not in default before and after giving effect to such dividend payments and (b) payments made to repurchase shares of our common stock, except that we may repurchase shares of our common stock as long as we are not in default before and after giving effect to such repurchases and the aggregate amount of payments made by us for all such repurchases during any fiscal year does not exceed $10.0 million; (3) requiring that we maintain a minimum working capital of $125.0 million; (4) requiring that we maintain a minimum tangible net worth of $170.0 million; and (5) providing that if the Specified Outstanding Amount exceeds $25.0 million, then the Company will not permit the amount of unrestricted cash-on-hand of the Company and its subsidiaries to be less than the Specified Outstanding Amount. We may use the proceeds from advances under the 2018 Credit Agreement for general corporate purposes.

In March 2019, our wholly-owned subsidiaries in Taiwan, HML, and China, NHML, closed on uncommitted revolving credit facilities with maximum aggregate amounts of 150 million New Taiwan Dollars and 32.5 million Chinese Yuan, respectively. As uncommitted facilities, both the Taiwan and China credit facilities are subject to review and termination by the respective underlying lending institution from time to time.

As of July 31, 2021, our existing credit facilities consisted of our €1.5 million revolving credit facility in Germany, the 150 million New Taiwan Dollars Taiwan credit facility, the 32.5 million Chinese Yuan China credit facility and the $40.0 million revolving credit facility under the 2018 Credit Agreement. We had no debt or borrowings under any of our credit facilities at July 31, 2021.

At July 31, 2021, we had an aggregate of approximately $52.2 million available for borrowing under our credit facilities and were in compliance with all covenants relating thereto.

We have an international cash pooling strategy that generally provides access to available cash deposits and credit facilities when needed in the U.S., Europe or Asia Pacific. We believe our access to cash pooling and our borrowing capacity under our credit facilities provide adequate liquidity to fund our global operations over the next twelve months and allow us to remain committed to our strategic plan of product innovation, acquisitions, targeted penetration of developing markets, payment of dividends and our stock repurchase program.

We continue to receive and review information on businesses and assets for potential acquisition, including intellectual property assets that 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, 2020, 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 nine months of fiscal 2021.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes related to our contractual obligations and commitments from the information provided in our Annual Report on Form 10-K for the fiscal year ended October 31, 2020.

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 guarantees (codified in ASC 460). As of July 31, 2021, we had 12 outstanding third party payment guarantees totaling approximately $1.0 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer assumes the risk of ownership. The customer does not obtain title, however, until the customer 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 liabilities under these guarantees at fair value, which amounts are insignificant.

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, but are not limited to:

- The impact of the COVID-19 pandemic and other public health epidemics on the global economy, our business and operations, our employees and the business, operations and economies of our customers and suppliers;
- The cyclical nature of the machine tool industry;
- Uncertain economic conditions, which may adversely affect overall demand, in the Americas, Europe and Asia Pacific markets;
- The risks of our international operations;
- Governmental actions, initiatives and regulations, including import and export restrictions, duties and tariffs and changes to tax laws;
- The effects of changes in currency exchange rates;
- Competition with larger companies that have greater financial resources;
- The United Kingdom's withdrawal from the European Union (Brexit);
- Our dependence on new product development;
- The need and/or ability to protect our intellectual property assets;
- The limited number of our manufacturing and supply chain sources;
- Increases in the prices of raw materials, especially steel and iron products;
- The effect of the loss of members of senior management and key personnel;
- Our ability to integrate acquisitions;
- Acquisitions that could disrupt our operations and affect operating results;
- Failure to comply with data privacy and security regulations;
- Breaches of our network and system security measures;
- Possible obsolescence of our technology and the need to make technological advances;
- Impairment of our assets;
- Negative or unforeseen tax consequences;
- Uncertainty concerning our ability to use tax loss carryforwards; and
- Changes in the LIBOR rate.

We discuss these and other important risks and uncertainties that may affect our future operations 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 in 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. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. 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 under our bank credit agreements are tied to prevailing domestic and foreign interest rates. At July 31, 2021, we had no borrowings outstanding under any of our credit facilities.

Foreign Currency Exchange Risk

In the nine months of fiscal 2021, we derived approximately 63% of our revenues from customers located outside of the Americas, where we invoiced and received payments in several foreign currencies. 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, the U.S., Italy 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 and the Euro.

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, 2021, which are designated as cash flow hedges under FASB guidance related to accounting for derivative instruments and hedging activities, were as follows (in thousands, except weighted average forward rates):

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, 2021	Maturity Dates
Sale Contracts:					
Euro	13,650	1.1979	16,351	16,237	Aug 2021 - Jul 2022
Sterling	6,800	1.3774	9,366	9,455	Aug 2021 - Jul 2022
Purchase Contracts:					
New Taiwan Dollar	720,000	27.1531 *	26,516	25,967	Aug 2021 - Jul 2022

* New Taiwan Dollars per U.S. Dollar

Forward contracts for the sale or purchase of foreign currencies as of July 31, 2021, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies and are not designated as hedges under FASB guidance, were as follows (in thousands, except weighted average forward rates):

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, 2021	
Sale Contracts:					
Euro	13,828	1.2022	16,624	16,455	Aug 2021 - May 2022
Sterling	1,028	1.3930	1,432	1,429	Sep 2021 - Nov 2021
Purchase Contracts:					
New Taiwan Dollar	549,613	27.7914 *	19,776	19,658	Aug 2021 - Nov 2021

* New Taiwan 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 derivative 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 2021. As of July 31, 2021, we had a realized gain of $813,000 and a minimal amount of unrealized loss recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to the hedging of our net investment in Euro-denominated assets. Forward contracts for the sale or purchase of foreign currencies as of July 31, 2021, which are designated as net investment hedges under this guidance were as follows (in thousands, except weighted average forward rates):

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, 2021	
Sale Contracts:					
Euro	3,000	1.1892	3,568	3,565	Nov 2021

Item 4. CONTROLS AND PROCEDURES

We conducted an evaluation under the supervision and with the 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, 2021, 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 control over financial reporting during the three months ended July 31, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and lawsuits arising in the normal course of business. Pursuant to applicable accounting rules, we accrue the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. We maintain insurance policies for such matters, and we record insurance recoveries when we determine such recovery to be probable. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations. We believe that the ultimate resolution of claims for any losses will not exceed our insurance policy coverages.

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, 2020. However, the COVID-19 pandemic could exacerbate or trigger the risks discussed in our Annual Report on Form 10-K for the year ended October 31, 2020, any of which could materially affect our business, financial condition and results of operations.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not repurchase any shares of our common stock in the third quarter of fiscal 2021.

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 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

Item 6. EXHIBITS

EXHIBIT INDEX

3.1	Amended and Restated Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1997.
3.2	Amended and Restated By-Laws of the Registrant as amended through March 12, 2021, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on March 12, 2021.
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities 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	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2021, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Operations; (ii) Condensed Consolidated Statements of Comprehensive Income (Loss); (iii) Condensed Consolidated Balance Sheets; (iv) Condensed Consolidated Statements of Cash Flows; (v) Condensed Consolidated Statements of Changes in Shareholders' Equity; and (vi) Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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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/ Sonja K. McClelland
Sonja K. McClelland
Executive Vice President, Treasurer & Chief Financial Officer
September 3, 2021

Exhibit 31.1

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

I, Gregory Volovic, 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 fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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/ Gregory Volovic
Gregory Volovic
Chief Executive Officer
September 3, 2021

Exhibit 31.2

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

I, Sonja K. McClelland, 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 fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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/ Sonja K. McClelland

Sonja K. McClelland
Executive Vice President, Treasurer & Chief Financial Officer
September 3, 2021

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 ended July 31, 2021 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/ Gregory Volovic
Gregory Volovic
Chief Executive Officer
September 3, 2021

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 ended July 31, 2021 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/ Sonja K. McClelland
Sonja K. McClelland
Executive Vice President, Treasurer & Chief Financial Officer
September 3, 2021