HURCO COMPANIES INC
Form 10-K
January 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2017 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	Name of each exchange on which registered

Common Stock, No Par Value Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d).

Yes ¨ No x

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

Yes x No ¨

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

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is 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

x Accelerated filer
¨ Non-accelerated filer (Do not check if a smaller reporting company)
¨ 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 x

The aggregate market value of the registrant's voting stock held by non-affiliates as of April 28, 2017 (the last business day of our most recently completed second quarter) was $192,102,000.

The number of shares of the registrant's common stock outstanding as of December 18, 2017 was 6,641,197.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for its 2018 Annual Meeting of Shareholders (Part III).

Forward-Looking Statements

This report contains certain statements that are forward-looking statements within the meaning of federal securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. When used in this report, the words “may”, “will”, “should”, “would” ,“could”, “anticipate”, “expect”, “plan”, “seek”, “b
“predict”, “estimate”, “potential”, “project”, “target”, “forecast”, “intend”, “strategy”, “future”, “opportunity”, “assume”, “guic
expressions are intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks and other important factors under the heading “Risk Factors” in Part I, Item 1A of this report. You should understand that it is not possible to predict or identify all factors that could cause actual results to differ materially from forward-looking statements. Consequently, you should not consider any list or discussion of such factors to be a complete set of all potential risks or uncertainties. Readers of this report are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in this report. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports and our other filings with the Securities and Exchange Commission (“SEC”).

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an international, industrial technology company. 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, software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training and applications support. As used in this report, the words “we”, “us”, “our”, “Hurco” and the “Company” refer to Hurco Companies, Inc. and its consolidated subsidiaries.

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

Our executive offices and principal design and engineering operations are headquartered in Indianapolis, Indiana, U.S. Sales, application engineering and service subsidiaries are located in China, France, Germany, India, Italy, Poland, Singapore, South Africa, Taiwan, the United Kingdom, and the U.S. We have manufacturing and assembly operations in Taiwan, the U.S., Italy and China, and distribution facilities in the U.S., the Netherlands, and Taiwan.

Our strategy is to design, manufacture and sell a comprehensive line of computerized machine tools that help customers in the worldwide metal cutting market increase productivity and profitability. The majority of our machine tools employ proprietary, interactive, computer control technology that increases productivity through ease of operation via interactive conversational and graphical programming software. All of our machine tools deliver high levels of machine performance (speed, accuracy and surface finish quality) that increases productivity. We routinely expand our product offerings to meet customer needs, which has led us to design and manufacture more complex machining centers with advanced capabilities. We bring a disciplined approach to strategically enter new geographic markets, as appropriate.

Industry

Machine tool products are considered capital goods, which makes them part of an industry that has historically been highly cyclical.

Industry association data for the U.S. machine tool market is available and that market accounts for approximately 9% of worldwide consumption. Reports available for the U.S. machine tool market include:

- United States Machine Tool Consumption – generated by the Association for Manufacturing Technology, this report includes metal cutting machines of all types and sizes, including segments in which we do not compete
- Purchasing Manager's Index - developed by the Institute for Supply Management, this report includes activity levels in U.S. manufacturing plants that purchase machine tools
- Capacity Utilization of Manufacturing Companies – issued by the Federal Reserve Board

A limited amount of information is available for foreign markets, and different reporting methodologies are used by various countries. Machine tool consumption data, published by Gardner Publications, Inc., calculates machine tool consumption annually by country. It is important to note that data for foreign countries are based on government reports that may lag 6 to 12 months behind real-time and, therefore, are unreliable for forecasting purposes.

Demand for capital equipment can fluctuate significantly during periods of changing economic conditions. Manufacturers and suppliers of capital goods, such as our company, are often the first to experience these changes in demand. Additionally, since our typical order backlog is approximately 45 days, it is difficult to estimate demand with any reasonable certainty. Therefore, we do not have the benefit of relying on the common leading indicators that other industries use for market analysis and forecasting purposes.

Products

Our core products consist of general purpose computerized machine tools for the metal cutting industry, principally, vertical machining centers (mills) and turning centers (lathes). The majority of our machine tools are equipped and integrated fully with our proprietary software and computer control systems, while the remaining machine tools are equipped with industry standard controls. Additionally, we produce and distribute software options, control upgrades, hardware accessories and replacement parts for our machine tool product lines, and we provide operator training and support services to our customers. We also produce computer control systems and related software for press brake applications that are sold as retrofit units for installation on existing or new press brake machines.

The following table sets forth the contribution of each of our product groups and services to our total revenues during each of the past three fiscal years (in thousands):

Net Sales and Service Fees by Product Category

	Year Ended October 31,					
	2017		2016		2015	
Computerized Machine Tools*	$209,311	86 %	$195,618	86 %	$189,712	87 %
Computer Control Systems and Software †	2,324	1 %	2,078	1 %	3,085	1 %
Service Parts	24,255	10 %	21,908	10 %	19,375	9 %
Service Fees	7,777	3 %	7,685	3 %	7,211	3 %
Total	$243,667	100%	$227,289	100%	$219,383	100%

* Amounts shown include sales of Milltronics and Takumi computerized machine tools to third parties since the respective dates of those acquisitions during the third quarter of fiscal 2015.

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

Product Portfolio by Brand

We have three brands of CNC machine tools in our product portfolio: Hurco is the premium brand focused on sophisticated technology. Milltronics is the entry level brand with a simplified control and straightforward feature sets. Takumi is an industry standard brand with machines that are equipped with industry standard controls instead of the proprietary controls found on Hurco and Milltronics machines. Typically, manufacturing facilities that use industry standard controls focus on medium to high production, wherein they run large batches of a few types of parts instead of small batches of many different types of parts. In addition, through our wholly–owned subsidiary LCM Precision Technology S.r.l. (“LCM”), we produce machine tool components and accessories. The main product categories of each brand are outlined below.

The Hurco, Milltronics and Takumi product lines represent a comprehensive product portfolio with more than 150 different models. The combined machine tool product lines also provide benefits related to the development of product enhancements, technologies and models due to leverage of shared resources and cross-utilization of proven engineering designs that allow us to achieve manufacturing cost reductions from economies of scale and manufacturing efficiencies.

Hurco CNC Machine Tools

Hurco computerized machine tools are equipped with a fully integrated interactive computer control system that features our proprietary WinMax® software. Our computer control system enables a machine tool operator to create complex two-dimensional or three-dimensional machining programs directly from an engineering drawing or computer-aided design geometry file. An operator with little or no machine tool programming experience can successfully create a program with minimal training and begin machining the part in a short period of time. The control features an operator console with active touch, and incorporates an upgradeable personal computer (PC) platform using a high speed processor with solid rendering graphical programming. In addition, WinMax® has a Windows®†-based operating system that enables users to improve shop floor flexibility and software productivity. Companies using computer controlled machine tools are better able to:

- maximize the efficiency of their human resources;
- make more advanced and complex parts from a wide range of materials using multiple processes;

† Windows® is a registered trademark of Microsoft Corporation in the United States and other countries.

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- incorporate fast moving changes in technology into their operations to keep their competitive edge; and
- integrate their business into the global supply chain of their customers by supporting small to medium lot sizes for "just in time" initiatives.

Our Windows® based control facilitates our ability to meet these customer needs. The familiar Windows® operating system coupled with our intuitive conversational style of program creation allows our customers' operators to create and edit part-making programs without incurring the incremental overhead of specialized computer aided design and computer aided manufacturing programmers. With the ability to transfer most computer aided design data directly into a Hurco program, programming time can be significantly reduced.

Machine tool products today are being designed to meet the demand for machining complex parts with greater part accuracies. Our proprietary controls with WinMax® software and high speed processors efficiently handle the large amounts of data these complex part-making programs require, which enable our customers to create parts with higher accuracy at faster speeds. We continue to add technology to our control design as it becomes available. For example, UltiMotion, our patented motion control system, provides significant cycle time reductions and increases the quality of a part's surface finish. This technology differentiates us in the marketplace and is incorporated into our control.

Our offering of Hurco machining centers, currently equipped with either a dual touch-screen console or a single touch-screen console, consists of the following product lines:

HTM/HTL Product Line

The HTM/HTL product line includes a tool room mill and tool room lathe. These models are designed for easy access to the table or chuck and are popular in tool room, prototype and maintenance applications. There is a 30 inch X-travel mill and an 8-inch chuck lathe.

VM Product Line

The VM product line consists of moderately priced vertical machining centers for the entry-level market. The design premise of the machining center with a large work cube and a small footprint optimizes the use of available floor space. The VM line consists of five models in four sizes with X-axis (horizontal) travels of 18, 26, 40, and 50 inches.

VMX Product Line

The VMX product line consists of higher performing vertical machining centers aimed at manufacturers that require greater part accuracy. It is our flagship series of machining centers. The VMX line consists of 12 models in eight sizes with X-axis travels of 24, 26, 30, 42, 50, 60, 64, and 84 inches.

Five-Axis Product Line

The five-axis product line is targeted at manufacturers seeking to produce multi-sided parts or true five-axis in a single setup. Machines in this product line can yield significant productivity gains for manufacturers that previously had to process each side of a part separately. Additionally, investing in five-axis technology helps our customers to expand their customer base, as they are able to bid on more complex projects that require simultaneous five-axis operations. The five-axis product line consists of 18 models with three different configurations: swivel head, trunnion table, and cantilever.

HS Product Line

Due to the integral, motorized spindle with a base speed of 18,000 rpm, the HS product line is desirable for the die and mold industry because of that industry's particular interest in the improvement of surface finish quality and the reduction of cycle time. Additionally, this product line offers us the opportunity to expand our customer base to manufacturers that produce larger batches. The HS product line consists of four models with X-axis travels of 24, 30, 42, and 60 inches.

BX Product Line

The BX product line is for customers that require higher accuracy parts as they are built with an extremely rigid double column design that offers superior vibration dampening and excellent thermal characteristics. Three models are available, two with 40 inch X-travel (a three-axis version and a five-axis version) as well as a 53 inch X-travel model.

HM/HMX Product Line

The HM product line offers customers moderately priced horizontal machining centers designed for small lot sizes. Two models are available, one with a rotary table and one with a plain table. They both have X-travel of 67 inches. The HMX product line is beneficial to manufacturers entering production manufacturing versus small batch manufacturing. The HMX machines have expanded tool capacity, a comprehensive chip management system, a built-in pallet changer, and a box-in-box design supported at both the top and bottom to increase rigidity for long production runs and heavy cuts. The HMX product line consists of three models in three sizes with X-axis travels of 24, 32, and 41 inches.

HBMX Product Line

The HBMX product line is beneficial to manufacturers that build custom machinery and parts for a multitude of industries, such as packaging, pharmaceutical, automotive, energy, and medical. Additionally, boring mills are also used to repair and/or rebuild large components. The HBMX boring mill product line consists of four models with X-axis travels of 55, 79, 94, and 120 inches.

TM/TMM Product Line

The TM/TMM product line of slant-bed lathes (horizontal turning centers) is designed for entry-level job shops and contract manufacturers seeking efficient processing of small to medium lot sizes. There is one TM model in seven sizes, measured by chuck size: the TM6, TM8, TM10, TM12, TM18, TM18L, and TM18BB. The TM18BB big bore turning center targets the energy and aerospace industries because it has a larger chuck diameter and bigger bar capacity for larger parts. We added motorized tooling on the lathe turret to further enhance the capability of the TM turning centers and designated it as the TMM product line. These turning centers with live tooling allow our customers to complete a number of secondary milling, drilling and tapping operations while the part is still held in the chuck after the turning operations are complete, which provides significant productivity gains. The TMM product line consists of three models: TMM8, TMM10, and TMM12.

TMX Product Line

The TMX product line consists of high performance turning centers. There are six models in two sizes. The TMXMY models are equipped with an additional axis and motorized live tooling while the TMXMYS models also have an additional spindle.

DCX Product Line

The double column DCX series includes five models in three sizes. These 2-meter, 3-meter, and 4-meter machining centers are designed to facilitate production of large parts and molds often required by the aerospace, energy and custom machinery industries.

New Product Lines

In fiscal 2017, we introduced the VC500, a moderately-priced cantilever five-axis machine that features a generous 20-inch diameter table. Additionally, a new tool room lathe called the HTL8-60 was introduced for tool room applications. This open bed lathe provides easy access to the workpiece. Hurco has designed and offers a 3D print head technology that allows a Hurco CNC machine to be used for 3D printing, which is advantageous for prototyping. In fiscal 2017, we launched the second generation of this technology which better integrates the device into the WinMax® control software. It is used as an attachment to an existing machine and requires no external power supply.

Milltronics CNC Machine Tools

Our Milltronics line of CNC machine tools is designed for excellent value with more standard features for the price versus market leaders. We manufacture and sell these machine tools with fully integrated interactive computer control systems that are also compatible with G & M Code programs (generated from CAD/CAM software) and conversational visual aid programming. These straightforward and easy-to-use control systems are available in two versions, the Series 8200-B for tool room products and the more advanced Series 9000 offered on our new vertical machining centers and bridge mills.

The Milltronics portfolio consists of the following product lines:

VM General Purpose (GP) Product Line

The VM-GP product line consists of attractively-priced vertical machining centers designed for job shops, prototype, research and development and other general machining applications. These belt-driven models are 40-taper and available in four different sizes – all with the Series 9000 control. Customers can choose models with X-axis (horizontal) travels of 25, 30, 40 or 50 inches.

VM Inline Performance (IL) Product Line

The VM-IL product line consists of moderately-priced performance vertical machining centers for high-speed applications such as tool, die and mold, aerospace or medical machining. Featuring heavier castings, faster motion and inline spindles, these 40-taper machines include the Series 9000 control and are available in four sizes. Models include X-axis travels of 30, 42, 50 or 60 inches.

VM Extra Power (XP) Product Line

The VM-XP product line consists of moderately-priced vertical machining centers for more demanding metal removal applications such as castings or forgings. These 50-taper models are either gear driven or heavy-duty belt driven and include the Series 9000 control. Customers can choose from three different models with X-axis travels of 43, 50 or 60 inches.

BR Product Line

The BR product line consists of high-speed bridge mills that are used in pattern shops and the aerospace industry in addition to job shops, due to the large table and travels that support a wide range of part sizes. BR machines have inline spindles and are available as six models in three sizes with X-axis travels of 100, 150, and 200 inches. BR machines offer the Series 8200-B control.

MM/MB/RH Product Line

Products with the MM/MB or RH designation are part of the tool room bed mill category, which are machines that do not have an enclosure, also referred to as open bed machines. Typical applications include general machining, job shops, prototype or maintenance and repair. Available with quill head or rigid head designs, there are six models in four sizes with X-axis travels of 30, 40, 60 and 78 inches. These easy-to-use machines feature the Series 8200-B control.

SL Product Line

The SL product line of slant-bed lathes (horizontal turning centers) is designed for entry-level job shops and contract manufacturers seeking efficient processing of small to medium lot sizes. There are two models with chuck sizes of 6 and 10 inches. These compact machines feature the Series 8200-B control.

ML Product Line

The ML product line consists of combination lathes that the customer can configure for either tool room or production applications with the option to add live tooling. There are 17 models available in a variety of thru hole sizes and in the following six swing-over bed diameters: 17, 19, 23, 27, 36, and 39.7 inches. These flexible machines feature the Series 8200-B control.

New Product Lines

In fiscal 2017, we introduced a new CNC knee mill called the VK4-II featuring the 8200-B control, designed for entry level or tool room applications. The first model of the next generation of SL lathes was also introduced, called the SL8-II. This new series will eventually replace the SL Series with more fully featured models and the 9000 Series control.

Takumi CNC Machine Tools

Our Takumi machine tools feature industry standard CNC controls, including Fanuc®*, Siemens®, Mitsubishi® or Heidenhain®. Models include drill and tap machines; three-axis vertical machining centers with linear guides; three-axis vertical machining centers with box ways; high-speed, double column vertical machining centers; and heavy duty, double column and five-axis machining centers. The Takumi brand allows us to expand our customer base to include manufacturers who opt for industrial controls. Generally, manufacturers who use industrial controls have production-oriented operations where they run medium to large batches of just a few different types of parts.

The Takumi portfolio consists of the following product lines:

VT Series

The VT Series includes one high-speed drill and tap machine. Model VT500 features fast tool change times and rapid spindle acceleration/deceleration. This three-axis machine is designed for high volume production applications such as automotive parts or electronics components.

VC Series

The VC Series vertical machining centers are fast, three-axis linear guide machining centers designed for customers doing batch or production work. The VC machines are available in two sizes with X-axis travels of 34 and 42 inches.

V Series

The V Series vertical machining centers are heavy duty, box way machines built for tough applications such as roughing cast iron. These three-axis, massive machines feature belt or geared spindles to provide maximum torque. The V Series product line includes eight models with X-axis travels of 39, 43, 47, 60, 70, 78, 86, and 126 inches.

H Series

Designed to produce parts that require high precision and superior surface finishes, H Series machines offer an extremely rigid and thermally stable double column design. These three-axis models feature high-speed direct drive or built-in HSK spindles with up to 20,000 rpm, and offer a 24,000 rpm spindle and 36,000 rpm spindle as options. The H Series product line consists of eight models in seven different sizes with X-axis travels of 30, 35, 40, 53, 63, 86, and 126 inches.

*Fanuc® is a registered trademark of GE Fanuc Automation Americas, Inc. Siemens® is a registered trademark of Siemens AG. Mitsubishi® is a registered trademark of Mitsubishi Electric Corporation. Heidenhain® is a registered trademark of HEIDENHAIN CORPORATION, a wholly owned subsidiary of the German company DR. JOHANNES HEIDENHAIN GmbH.

U Series

Designed with trunnion tables and swivel heads these five-axis simultaneous machining centers offer versatility as well as save setup and process time. Most models are offered with double column structure for superior stability and performance. The U-Series product line consists of five models, four of which offer trunnion table sizes of 10, 16, 24 and 31.5 inches. One addition model, the UB, is equipped with B/C swivel head and HSK100, 12K built-in spindle. The UB's double column design provides spacious X-axis travel of 126 inches.

G Series

Designed specifically for the machining of graphite or copper electrodes used in electrical discharge machining (EDM), G Series machines offer the same extremely rigid and thermally stable double column design of the H Series, featuring high-speed direct drive or built-in HSK spindles with up to 20,000 rpm. The G Series product line consists of two models with X-axis travels of 30 and 40 inches.

BC Series

The BC Series machine is a double column three-axis machining center designed for heavy cutting and applications that require high power and torque, such as mold and die. This model includes a 6,000 rpm geared-head design with X-axis travels of 82 inches.

Other Control Systems, Software and Accessories

The following machine tool computer control systems and software products are sold directly to end-users and/or to original equipment manufacturers.

Autobend®

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

Software Products

In addition to our standard computer control features, we offer software option products for part programming. These products are sold to users of our Hurco computerized machine tools equipped with our dual touch-screen or single touch-screen consoles featuring WinMax® control software. Each international division packages the options as appropriate for its market. The most common options include: Advanced Verification Graphics, Swept Surface, DXF Transfer, UltiMonitor, UltiPocket with Helical Ramp Entry and Insert Pockets, Conversational Part and Tool Probing, Tool and Material Library, NC/Conversational Merge, Job List, Stream Load, Linear Thermal Compensation, Thread Repair, and Simultaneous Five-Axis Contouring.

The Advanced Verification Graphics option displays a picture of the rendered part on the screen of the control that can be viewed from any angle. The detail allows the customer to evaluate how the part is programmed to be machined before cutting commences, which eliminates the need to scrap expensive material.

Our Swept Surface software option simplifies programming of 3D contours and significantly reduces programming time.

The DXF Transfer software option increases operator productivity because it eliminates manual data entry of part features by transferring AutoCAD®* drawing files directly into our computer control or into our desktop programming software, WinMax® Desktop.

UltiMonitor is a web-based productivity, management and service tool that enables customers to monitor, inspect and receive notifications about their Hurco machines from any location where they can access the internet. Customers can transfer part designs, receive event notifications via email or text, access diagnostic data, monitor the machine via webcam and communicate with the machine operator.

UltiPocket with Helical Ramp Entry and Insert Pockets automatically calculates the tool path around islands, eliminating the arduous task of plotting these shapes. Islands can also be rotated, scaled and repeated.

Conversational Part and Tool Probing options permit the computerized dimensional measurement of machined parts and the associated cutting tools. This “on-machine” technique improves the throughput of the measurement process when compared to traditional "off-machine" approaches.

The Tool and Material Library option stores the tool and material information with the machine instead of storing it with each individual part program. The user enters the tool data and geometry one time and chooses the particular tool from the list when it is needed. Additionally, the library reads the part program and automatically locates the tool or displays an alert if the tool does not exist. In addition to saving time, the Tool and Material Library eliminates the need to enter information repeatedly, and can prevent common tool crash conditions.

NC/Conversational Merge lets the user incorporate conversational features, such as tool probing, pattern operations, and scaling into existing G-Code programs.

Job List provides an intuitive way to group files together and run them sequentially without operator intervention, which promotes automation, lights-out machining, program stitching, file bundling, and adaptive processes.

Stream Load allows the user to run very large NC files without the need to upload the entire file into the control’s memory to avoid exceeding memory limits.

Linear Thermal Compensation is a feature that allows the user to specify corrections to compensate for the effects of thermal growth in high speed machining applications.

Thread Repair is a feature for turning applications that provides an efficient way to repair existing threads, which is especially beneficial for large pipes and other parts manufactured for the oil/energy sector.

Simultaneous Five-Axis Contouring software enables a five-axis machine to command motion concurrently on all axes. This allows the user to create continuous tool-paths along complex geometries with only a single machine/part setup, providing increased productivity along with the performance benefits of using shorter cutting tools. The sale of simultaneous five-axis contouring software is subject to government export licensing requirements.

3D Print Head

Hurco has designed and offers a 3D print head technology that allows a Hurco CNC machine to be used for 3D printing, which is advantageous for prototyping. It is used as an attachment to an existing machine and requires no external power supply.

* AutoCAD® is a registered trademark of Autodesk, Inc., and/or its subsidiaries/ affiliates in the U.S. and/or other countries.

LCM Machine Tool Components and Accessories

Based in Italy, LCM designs, manufactures and sells mechanical and electro-mechanical components and accessories for machine tools. LCM's direct drive spindle, swivel head, and rotary torque table are used in our SRT line of five-axis machining centers to achieve simultaneous five-axis machining.

CNC Rotary Tables

LCM has five lines of CNC rotary tables for both horizontal and vertical-horizontal positioning. Customers can choose rotary tables with either hydraulic or pneumatic clamping systems. Additionally, LCM offers CNC rotary tables powered by either a torque motor or a high-precision mechanical transmission.

CNC Tilt Tables

LCM has seven lines of CNC tilting rotary tables, of which four lines are intended specifically for five-axis machining centers. Each of the seven lines is differentiated by the technology used for clamping (hydraulic or pneumatic) and by the type of transmission (either mechanical transmission or torque motor).

Swivel Heads and Electro-spindles

LCM has two primary lines of swivel heads that enable the spindle axis to be tilted with continuous motion and one line of electro-spindles (built-in motors for swivel heads). The two lines of swivel heads are differentiated by the type of transmission (either mechanical transmission or torque motor).

Parts and Service

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

Manufacturing

Our computerized metal cutting machine tools are manufactured and assembled to our specifications primarily by our wholly-owned subsidiaries in Taiwan (Hurco Manufacturing Limited (“HML”) and Waconia, Minnesota (Milltronics USA, Inc. (“Milltronics”)). HML and Milltronics conduct final assembly operations and are supported by a network of contract suppliers of components and sub-assemblies that manufacture components for our products. Our facility in Ningbo, China, focuses on the machining of castings to support HML’s production in Taiwan. The LCM line of electro-mechanical components and accessories for machine tools is designed and manufactured in Italy. Our facility in Indianapolis, Indiana, also conducts final assembly operations for certain Hurco VMX machines for the American market and manufactures certain electro-spindle components for LCM.

We have a contract manufacturing agreement for computer control systems with Hurco Automation, Ltd. (“HAL”), a Taiwanese company in which we have a 35% ownership interest. This company produces all of our computer control systems to our specifications, sources industry standard computer components and our proprietary parts, performs final assembly and conducts test operations.

We work closely with our subsidiaries, key component suppliers and HAL to ensure that their production capacity will be sufficient to meet the projected demand for our machine tool products. Many of the key components used in our machines can be sourced from multiple suppliers. However, any prolonged interruption of operations or significant reduction in the capacity or performance capability at any of our manufacturing facilities, or at any of our key component suppliers, could have a material adverse effect on our operations.

Marketing and Distribution

We principally sell our products through more than 193 independent agents and distributors throughout North and South America (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, Poland, Singapore, South Africa, Taiwan, the United Kingdom and certain parts of the United States, which are among the world's principal machine tool consuming markets.

Approximately 91% of the worldwide demand for computerized machine tools and computer control systems is outside of the U.S. In fiscal 2017, approximately 71% of our revenues were derived from customers outside of the U.S. No single end-user or distributor of our products accounted for more than 5% of our total sales and service fees. The end-users of our products are precision tool, die and mold manufacturers, independent job shops, specialized short-run production applications within large manufacturing operations and manufacturing facilities that focus on medium to high run production wherein they run large batches of a few types of parts instead of small batches of many different parts. Industries served include aerospace, defense, medical equipment, energy, automotive/ transportation, electronics and computer industries.

We also sell our Autobend® computer control systems to original equipment manufacturers of new metal fabrication machine tools that integrate them with their own products prior to the sale of those products to their own customers, to retrofitters of used metal fabrication machine tools that integrate them with those machines as part of the retrofitting operation, and to end-users that have an installed base of metal fabrication machine tools, either with or without related computer control systems.

Demand

We believe demand for our products is driven by advances in industrial technology and the related demand for automated process improvements. Other factors affecting demand include:

- the need to continuously improve productivity and shorten cycle time;
- an aging machine tool installed base which will require replacement with more advanced technology;
- the industrial development of emerging markets in Latin America, Asia and Eastern Europe; and
- the declining supply of skilled machinists.

Demand for our products is also highly dependent upon economic conditions and the general level of business confidence, as well as such factors as production capacity utilization and changes in governmental policies regarding tariffs, corporate taxation, fluctuations in foreign currencies, and other investment incentives.

Competition

We compete with many other machine tool producers in the United States and foreign countries. Most of our competitors are larger and have greater financial resources than our company. Major worldwide competitors include DMG Mori Seiki Co., Ltd., Mazak, Haas Automation, Inc., Hardinge Inc., Doosan, Okuma Machinery Works Ltd, Hyundai and Feeler.

Through our subsidiary LCM, we compete with manufacturers of machine tool components and accessories such as IBAG, Kessler, Peron Speed, GSA Technology Co., LTD and Duplomatic Automation.

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

Intellectual Property

We consider the majority of our products to be proprietary. Various features of our Hurco and Milltronics control systems and machine tools employ technologies covered by patents and trademarks that are material to our business. We also own additional patents covering new technologies that we have acquired or developed, and that we are planning to incorporate into our control systems or products in the future.

Research and Development

In the fiscal years set forth below, we incurred both (i) non-capitalized research and development expenditures for new products and significant product improvements and (ii) capitalized expenditures related to software development projects as follows (in thousands):

Fiscal Year	Non-Capitalized Research and Development	Capitalized Software Development
2017	$ 4,200	$ 2,300
2016	$ 4,900	$ 2,200
2015	$ 3,900	$ 1,400

Employees

We had approximately 749 full-time employees at the end of fiscal 2017, none of whom are covered by a collective-bargaining agreement or represented by a union. We have experienced no employee-generated work stoppages or disruptions, and we consider our employee relations to be satisfactory.

Geographic Areas

Financial information concerning the geographic areas in which we sell our products is set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 14 of Notes to Consolidated Financial Statements. Some of the risks of doing business on a global basis are described in Item 1A. Risk Factors below.

Backlog

For information on orders and backlog, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Availability of Reports and Other Information

Our website can be found at www.hurco.com. We use this website as a means of disclosing pertinent information about the Company, free of charge, including:

- Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, proxy materials, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file that material with or furnish it to the SEC;
- press releases on quarterly earnings, product announcements, legal developments and other material news that we may post from time to time;
- corporate governance information including our Corporate Governance Principles, Code of Business Conduct and Ethics, information concerning our Board of Directors and its committees, including the charters of the Audit Committee, Compensation Committee, Nominating and Governance Committee and other governance-related policies; and
- opportunities to sign up for email alerts and RSS feeds to have information provided in real time.

The information available on our website is not incorporated by reference in, or a part of, this or any other report we file with, or furnish to, the SEC.

Item 1A. **RISK FACTORS**

In this section we describe what we believe to be the material risks related to our business. The risks and uncertainties described below or elsewhere in this report are not the only ones to which we are exposed. Additional risks and uncertainties not presently known and/or risks we currently deem immaterial may also adversely affect our business and operations. If any of the developments included in the following risks were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected.

The cyclical nature of our business causes fluctuations in our operating results.

The machine tool industry is highly cyclical and changes in demand can occur abruptly in the geographic markets we serve. As a result of this cyclicality, we have experienced significant fluctuations in our sales, which, in periods of reduced demand, have adversely affected our results of operations and financial condition, which could re-occur in the future.

Uncertain global economic conditions may adversely affect overall demand.

We typically sell the majority of our larger high-performance VMX machines in Europe, which makes us particularly sensitive to economic and market conditions in that region. Economic uncertainty and business downturns in the U.S., European and Asian Pacific markets adversely affect our results of operations and financial condition.

Our international operations pose additional risks that may adversely impact sales and earnings.

During fiscal 2017, approximately 71% of our revenues were derived from sales to customers located outside of the U.S. In addition, our main manufacturing facilities are located outside of the U.S. Our international operations are subject to a number of risks, including:

- trade barriers;
- regional economic uncertainty;
- differing labor regulation;

- governmental expropriation;
- domestic and foreign customs and tariffs;
- current and changing regulatory environments affecting the importation and exportation of products and raw materials;
- difficulty in obtaining distribution support;
- difficulty in staffing and managing widespread operations;
- differences in the availability and terms of financing;
- political instability and unrest;
- negative or unforeseen consequences resulting from the introduction, termination, modification, or renegotiation of international trade agreements or treaties;
- changes in tax regulations and rates in foreign countries; and
- changes in the European Union and Asia may adversely affect business activity and economic conditions globally and could continue to contribute to instability in global financial and foreign exchange markets, as well as disrupting the free movement of goods, services and people between countries.

Quotas, tariffs, taxes or other trade barriers could require us to change manufacturing sources, reduce prices, increase spending on marketing or product development, withdraw from or not enter certain markets or otherwise take actions that could be adverse to us. Also, in some foreign jurisdictions, we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. These factors may adversely affect our future operating results. The vast majority of our products are shipped from our manufacturing facility in Taiwan from the Port of Taichung to four ports of destination: Los Angeles, California, Tacoma, Washington, Venlo, the Netherlands, and Shanghai, China. Changes in customs requirements, as a result of national security or other constraints put upon these ports, may also have an adverse impact on our results of operations.

Additionally, we must comply with complex foreign and U.S. laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other foreign laws prohibiting corrupt payments to governmental officials, and anti-competition regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially adversely affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents in foreign countries will not violate our policies.

We depend on limited sources for our products.

We depend on our wholly-owned subsidiaries, HML, Ningbo Hurco Manufacturing Limited, Milltronics, and LCM, to produce our machine tools and electro-mechanical components and accessories in Taiwan, China, the U.S. and Italy, respectively. We also depend on our 35% owned affiliate, HAL, and other key third party suppliers to produce our computer control systems and key components, such as motors and drives for our machine tools. An unplanned interruption in manufacturing would have a material adverse effect on our results of operations and financial condition. Such an interruption could result from a change in the political environment or a natural disaster, such as an earthquake, typhoon, or tsunami. Also, any interruption in service by one of our key component suppliers, if prolonged, could have a material adverse effect on our results of operations and financial condition.

Fluctuations in the exchange rates between the U.S. Dollar and any of several foreign currencies can increase our costs and decrease our revenues.

Our sales to customers located outside of the U.S., which generated approximately 71% of our revenues in fiscal 2017, are invoiced and received in several foreign currencies, primarily the Euro, Pound Sterling and Chinese Yuan. Therefore, our results of operations and financial condition are affected by fluctuations in exchange rates between these currencies and the U.S. Dollar, both for purposes of actual conversion and for financial reporting purposes. In addition, we are exposed to exchange risk associated with our purchases of materials and components for our Taiwan manufacturing operations, which are primarily made in the New Taiwan Dollar and the Euro. We hedge our foreign currency exposure with the purchase of forward exchange contracts. These hedge contracts only mitigate the impact of changes in foreign currency rates that occur during the term of the related contract period and carry risks of counter-party failure. There can be no assurance that our hedges will have their intended effects.

Our competitive position and prospects for growth may be diminished if we are unable to develop and introduce new and enhanced products on a timely basis that are accepted in the market.

The machine tool industry is subject to technological change, evolving industry standards, changing customer requirements, and improvements in and expansion of product offerings. Our ability to anticipate changes in technology, industry standards, customers' requirements and competitors' product offerings and to develop and introduce new and enhanced products on a timely basis that are accepted in the market, are significant factors in maintaining and improving our competitive position and growth prospects. If the technologies or standards used in our products become obsolete or fail to gain widespread commercial acceptance, our business would be materially adversely affected. Developments by others may render our products or technologies obsolete or noncompetitive.

We compete with larger companies that have greater financial resources, and our business could be harmed by competitors' actions.

The markets in which our products are sold are extremely competitive and highly fragmented. In marketing our products, we compete with other manufacturers in terms of quality, reliability, price, value, delivery time, service and technological characteristics. We compete with a number of U.S., European and Asian competitors, most of which are larger, have substantially greater financial resources and have been supported by governmental or financial institution subsidies and, therefore, may have competitive advantages over us. Our financial resources are limited compared to those of most of our competitors, making it challenging to remain competitive.

Fluctuations in the price of raw materials, especially steel and iron, could adversely affect our sales, costs and profitability.

We manufacture products with a high iron and steel content. The availability and price for these and other raw materials are subject to volatility due to worldwide supply and demand forces, speculative actions, inventory levels, exchange rates, production costs and anticipated or perceived shortages. In some cases, those cost increases can be passed on to customers in the form of price increases; in other cases they cannot. If the prices of raw materials increase and we are not able to charge our customers higher prices to compensate, our results of operations would be adversely affected.

Regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

The SEC requires disclosure by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires a disclosure report to be filed annually with the SEC, and requires companies to perform due diligence and to disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of components that are incorporated into our products, including tin, tantalum, gold and tungsten. The number of suppliers that provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. We may not be able to sufficiently verify the origins of the relevant minerals used in components manufactured by third parties through our due diligence procedures, which may harm our reputation. We may also encounter challenges to satisfy those customers that require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excessive.

The technology within our products evolves, and we periodically bring new versions of our machines to market. The phasing out of an old product involves estimating the amount of inventory required to satisfy the final demand for those machines and to satisfy future repair part needs. Based on changing customer demand and expectations of delivery times for repair parts, we may find that we have either obsolete or excess inventory on hand. Because of unforeseen future changes in technology, market demand or competition, we might have to write off unusable inventory, which would adversely affect our results of operations.

Acquisitions could disrupt our operations and harm our operating results.

We may seek opportunities to expand our product offerings or the markets we serve by acquiring other companies, product lines, technologies and personnel. Acquisitions involve numerous risks, including the following:

- difficulties integrating the operations, technologies, products, and personnel of an acquired company;
- diversion of management’s attention from normal daily operations of the business;
- potential difficulties completing projects associated with in-process research and development;
- difficulties entering markets in which we have no or limited prior experience, especially when competitors in such markets have stronger market positions;

- initial dependence on unfamiliar supply chains or relatively small supply partners;
- insufficient revenues to offset increased expenses associated with acquisitions;
- the potential loss of key employees of the acquired companies; and
- potential for recording goodwill and intangible assets that later can be subject to impairment.

Acquisitions may also cause us to:

- issue common stock that would dilute our current shareholders' percentage ownership;
- assume liabilities of an acquired company;
- record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large acquisition and integration costs, immediate write-offs, and restructuring and other related expenses; and
- become subject to litigation.

Mergers and acquisitions are inherently risky. No assurance can be given that our acquisitions will be successful. Further, no assurance can be given that an acquisition will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate an acquisition could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, there can be no assurance that enhancements to those products will be made in a timely manner or that pre-acquisition due diligence will identify all possible issues that might arise with respect to such products.

Risks related to new product development also apply to acquisitions. For additional information, please see the risk factor above entitled, "Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excessive."

Assets may become impaired, requiring us to record a significant charge to earnings.

We review our assets, including intangible assets such as goodwill, for indications of impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. We could be required to record a significant charge to earnings in our financial statements for the period in which any impairment of these assets is determined, which would adversely affect our results of operations for that period.

We may experience negative or unforeseen tax consequences.

We may experience negative or unforeseen tax consequences, which could materially adversely affect our results of operations. We review the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income in both the U.S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax-planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in the U.S. or foreign jurisdictions may require the creation of a valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made and could have a material adverse impact on our results of operations and financial condition. We also earn a significant amount of our operating income from outside the U.S., and any repatriation of funds representing earnings of foreign subsidiaries may significantly impact our effective tax rates.

We are subject to taxes in the U.S. and numerous foreign jurisdictions. Due to economic and political conditions, tax rates in various jurisdictions, including the U.S., may be subject to significant change. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory taxes, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation, including tax laws in the U.S. Similarly, changes in tax laws or regulations, including those in the U.S., could negatively impact our effective tax rate and results of operations. A change in a statutory tax rate may result in the revaluation of our deferred tax assets and liabilities related to the relevant jurisdiction in which the new tax law is enacted, potentially resulting in a material expense or benefit recorded in our Consolidated Statements of Income for that period.

In December 2017, both houses of the U.S. Congress passed legislation that was approved and signed into law. This legislation could have a material benefit or material adverse impact on our effective tax rate, tax expense and cash flow. The Company is in the process of analyzing the potential aggregate impact the enactment of this passed legislation will have on our financial condition, cash flows and results of operations. Any benefits associated with lower U.S. corporate tax rates could be reduced or outweighed by other tax changes adverse to our business or operations, such as new or additional taxes imposed on earnings and/or reinvested earnings of our foreign subsidiaries. The aggregate impact of such legislation could have a material adverse impact on our cash flows and results of operations.

Our continued success depends on our ability to protect our intellectual property.

Our future success depends in part upon our ability to protect our intellectual property. We rely principally on nondisclosure agreements, other contractual arrangements, trade secret law, trademark registration and patents to protect our intellectual property. However, these measures may be inadequate to protect our intellectual property from infringement by others or prevent misappropriation of our proprietary rights. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do U.S. laws. Our inability to protect our proprietary information and enforce our intellectual property rights through infringement proceedings could have a material adverse effect on our business, financial condition and results of operations.

The unanticipated loss of current members of our senior management team and other key personnel may adversely affect our operating results.

The unexpected loss of members of our senior management team or other key personnel could impair our ability to carry out our business plan. We believe that our future success will depend in part on our ability to attract and retain highly skilled and qualified personnel. The loss of senior management or other key personnel may adversely affect our operating results as we incur costs to replace the departed personnel and potentially lose opportunities in the transition of important job functions.

If our network and system security measures are breached and unauthorized access is obtained to our data, to our employees', customers' or vendors' data, or to our critical information technology systems, we may incur legal and financial exposure and liabilities.

As part of our business, we store our data and certain data about our employees, customers and vendors in our information technology systems. If a third party gained unauthorized access to our data, including any data regarding our employees, customers or vendors, the security breach could expose us to risks, including loss of business, litigation and possible liability. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Although we work closely with industry recognized manufacturers supporting the security measures we have employed in an effort to keep our technology current with the ongoing threats, the techniques used to obtain unauthorized access, or to sabotage systems, change frequently, and therefore we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in: the unauthorized publication of our confidential business or proprietary information; the unauthorized release of employee, customer or vendor data and payment information; a loss of confidence by our customers; damage to our reputation; a disruption to our business; litigation and legal liability; and a negative impact on our future sales. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Item 1B. **Unresolved Staff Comments**

None.

Item 2. PROPERTIES

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

Principal Uses	Locations	Square Footage
Corporate headquarters, design and engineering, product testing, sales and marketing, application engineering, customer service, manufacturing and assembly	Indianapolis, Indiana, U.S. (1)	165,000
Manufacturing, assembly, sales, application engineering and customer service	Taichung, Taiwan	455,200
	Waconia, Minnesota, U.S.	97,700
	Castell'Alfero, Italy	32,300
Manufacturing	Ningbo, China	31,000
Sales, application engineering and customer service	High Wycombe, England	16,000
	Benoni, South Africa	3,200
	Paris, France	9,700
	Munich and Verl, Germany	20,100
	Milan, Italy	13,800
	Venlo, the Netherlands	9,700
	Toh Guan, Singapore	3,900
	Shanghai, Dongguan, Kunshan and Beijing, China	13,300
	Chennai, Delhi, Coimbatore, and Pune India	12,800
	Liegnitz, Poland	2,900
	Grand Rapids, Michigan, U.S.	3,700

(1) Approximately 4,200 square feet is leased to third-parties under leases that will expire April 30, 2018.

We own the Indianapolis facility and lease all other facilities. The leases have terms expiring at various dates ranging from January 2018 to March 2024. We believe that all of our facilities are well maintained and are adequate for our needs now and in the foreseeable future. We do not believe that we would experience any difficulty in replacing any of the present facilities if any of our leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

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 4. MINE SAFETY DISCLOSURES

None.

Executive Officers of the Registrant

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

The following information sets forth as of October 31, 2017, the name of each executive officer and his or her age, tenure as an officer, principal occupation and business experience:

Name	**Age**	**Position(s) with the Company**
Michael Doar	62	Chairman of the Board and Chief Executive Officer
Gregory S. Volovic	53	President
Sonja K. McClelland	46	Vice President, Secretary, Treasurer and Chief Financial Officer

Michael Doar was elected Chairman of the Board and Chief Executive Officer on November 14, 2001. Mr. Doar had held various management positions with Ingersoll Milling Machine Company from 1989 until 2001. Mr. Doar has been a director of Hurco since 2000.

Gregory S. Volovic has been employed by us since March 2005 and was elected as our President in March 2013. Mr. Volovic previously held the position of Executive Vice President, Software and Engineering until October 2009. Prior to joining us, Mr. Volovic held various positions with Thomson, Inc. including Director of E-Business, Engineering, and Information Technology. Prior to that, Mr. Volovic was employed by Unisys Corporation.

Sonja K. McClelland has been employed by us since September 1996 and was elected as Executive Vice President, Secretary, Treasurer and Chief Financial Officer in March 2014. Ms. McClelland served as Corporate Accounting Manager from September 1996 to 1999, as Division Controller for Hurco USA from September 1999 to November 2004, and as our Corporate Controller and Assistant Secretary from November 2004 to March 2014. Prior to joining us, Ms. McClelland was employed for three years by an international public accounting firm.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "HURC". The following table sets forth, for the periods indicated, the high and low sale prices as reported by the Nasdaq Global Select Market and declared dividends per share of our common stock.

Fiscal Quarter Ended:	2017 High	Low	Declared Dividends	2016 High	Low	Declared Dividends
January 31	$34.55	$24.80	$ .09	$28.47	$23.90	$ .08
April 30	$32.25	$26.25	$ .10	$33.40	$23.25	$ .09
July 31	$35.83	$27.74	$ .10	$33.65	$26.57	$ .09
October 31	$46.75	$32.78	$ .10	$30.42	$25.45	$ .09

On December 18, 2017, the closing price of our common stock on the Nasdaq Global Select Market was $42.15.

Holders

There were 107 holders of record of our common stock as of December 18, 2017.

Dividend Policy

We began declaring cash dividends on our common stock in the third quarter of fiscal 2013, and we expect to continue to declare dividends on a quarterly basis; however, the declaration and amount of any future cash dividends will be subject to the sole discretion 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.

Our payment of dividends is limited by our U.S. credit agreement, as further described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 4 of Notes to Consolidated Financial Statements.

Other Information

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

The disclosure under the caption "Equity Compensation Plan Information at 2017 Fiscal Year End" in our 2018 proxy statement is incorporated by reference in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The performance graph information is included in Item 9B. Other Information.

Item 6. **SELECTED FINANCIAL DATA**

The Selected Financial Data presented below has been derived from our consolidated financial statements for the years indicated and should be read in conjunction with the consolidated financial statements and related notes set forth elsewhere herein and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended October 31,				
	2017	2016	2015	2014	2013
Statement of Operations Data:	**(In thousands, except per share amounts)**				
Sales and service fees	$243,667	$227,289	$219,383	$222,303	$192,804
Gross profit	70,564	70,440	69,091	68,612	55,056
Selling, general and administrative expenses	49,661	50,824	45,287	46,615	41,413
Operating income (loss)	20,903	19,616	23,804	21,997	13,643
Other income (expense)	(187)	(731)	(251)	(636)	(1,201)
Net income (loss)	15,115	13,292	16,214	15,143	8,190
Earnings (loss) per common share - diluted	$2.25	$1.99	$2.44	$2.30	$1.25
Weighted average common shares outstanding-diluted	6,680	6,642	6,602	6,538	6,497
Dividends declared per common share	$0.39	$0.35	$0.31	$0.26	$0.10

	As of October 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:	(Dollars in thousands)				
Current assets	$246,415	$218,381	$216,112	$208,691	$182,921
Current liabilities	70,899	57,968	65,086	66,803	55,686
Working capital	175,526	160,413	151,026	141,888	127,235
Current ratio	3.5	3.8	3.3	3.1	3.3
Total assets	281,645	251,949	248,577	239,176	212,804
Non-current liabilities	7,671	8,506	8,923	7,728	5,627
Total debt	1,507	1,476	1,583	3,272	3,665
Shareholders' equity	203,085	185,475	174,568	164,645	151,491

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

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an international, industrial technology company operating in a single segment. We design, manufacture and sell computerized (i.e., Computer Numeric Control, or 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, software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The following overview is intended to provide a brief explanation of the principal factors that have contributed to our recent financial performance. This overview is intended to be read in conjunction with the more detailed information included in our 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 fiscal 2017, approximately 55% 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 sell more of our entry-level, lower-priced machines, but where we also encounter greater price pressures.

We have three brands of CNC machine tools in our product portfolio: Hurco is the premium brand focused on sophisticated technology; Milltronics is the entry-level brand with a simplified control and straightforward feature sets; and Takumi is an industry-standard brand with machines that are equipped with industry-standard controls instead of the proprietary controls found on Hurco and Milltronics machines. Typically, manufacturing facilities that use industry standard controls focus on medium to high production, wherein they run large batches of a few types of parts instead of small batches of many different types of parts. The Hurco, Milltronics and Takumi product lines represent a comprehensive product portfolio of more than 150 different models. In addition, through our wholly–owned subsidiary LCM Precision Technology S.r.l. (“LCM”), we produce machine tool components and accessories.

We sell our products through more than 193 independent agents and distributors throughout North and South America (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, Poland, Singapore, South Africa, 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, Hurco Manufacturing Ltd. (“HML”). Machine castings and components to support HML’s production are manufactured at wholly-owned subsidiary in Ningbo, China, Ningbo Machine Tool Co., Ltd. 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.

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 various derivative instruments – principally foreign currency forward exchange contracts.

Results of Operations

The following table presents, for the fiscal years indicated, selected items from the Consolidated Statements of Income expressed as a percentage of our worldwide sales and service fees and the year-to-year percentage changes in the dollar amounts of those items.

	Percentage of Revenues			Year-to-Year % Change Increase/Decrease	
	2017	2016	2015	’17 vs. ’16	’16 vs. ’15
Sales and service fees	100 %	100 %	100 %	7 %	4 %
Gross profit	29 %	31 %	31 %	0 %	2 %
Selling, general and administrative expenses	20 %	22 %	21 %	-2 %	12 %
Operating income (loss)	9 %	9 %	11 %	7 %	-18 %
Net income (loss)	6 %	6 %	7 %	14 %	-18 %

Fiscal 2017 Compared to Fiscal 2016

Sales and Service Fees. Sales and service fees for fiscal 2017 were $243.7 million, an increase of $16.4 million, or 7%, compared to fiscal 2016 and included a negative currency impact of $1.3 million, or 1%, when translating foreign sales to U.S. dollars for financial reporting purposes.

Net Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the fiscal years ended October 31, 2017 and 2016 (in thousands):

Fiscal Year Ended October 31, Increase/Decrease

	2017		2016		Amount	%
Americas	$75,540	31 %	$74,386	33 %	$ 1,154	2 %
Europe	133,671	55 %	124,070	54 %	9,601	8 %
Asia Pacific	34,456	14 %	28,833	13 %	5,623	20 %
Total	$243,667	100%	$227,289	100%	$ 16,378	7 %

Sales in the Americas for fiscal 2017 increased by 2% compared to fiscal 2016 and reflected improved U.S. market conditions and demand from customers for all product lines (Hurco, Takumi and Milltronics) and in all regions of the country where our customers are located. European sales for fiscal 2017 increased by 8%, compared to fiscal 2016, and included a negative currency impact of 1%, when translating foreign sales to U.S. dollars for financial reporting purposes. Excluding the negative impact of currency, the year-over-year increase in European sales for fiscal 2017 was driven primarily by increased sales of Hurco machines in the United Kingdom and Germany. Asian Pacific sales for fiscal 2017 increased by 20%, compared to fiscal 2016, primarily due to increased sales of Hurco and Takumi machines in all Asian Pacific countries where our customers are located, with China contributing the largest increase. Asian Pacific sales for fiscal 2017 included a favorable currency impact 1%, when translating foreign sales to U.S. dollars for financial reporting purposes.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product group and services for the fiscal years ended October 31, 2017 and 2016 (in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2017		2016		Amount	%
Computerized Machine Tools	$209,311	86 %	$195,618	86 %	$ 13,693	7 %
Computer Control Systems and Software †	2,324	1 %	2,078	1 %	246	12 %
Service Parts	24,255	10 %	21,908	10 %	2,347	11 %
Service Fees	7,777	3 %	7,685	3 %	92	1 %
Total	$243,667	100%	$227,289	100%	$ 16,378	7 %

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

Sales of computerized machine tools and computer control systems and software for fiscal 2017 increased by 7% and 12%, respectively, compared to fiscal 2016, driven primarily by an increase in sales volume of Hurco machines in Europe, particularly the United Kingdom and Germany. Sales of service parts and service fees for fiscal 2017 increased by 11% and 1%, respectively, compared to fiscal 2016, due primarily to an increase in aftermarket sales of Hurco components in Germany.

Orders and Backlog. Orders for fiscal 2017 were $260.6 million, an increase of $41.4 million, or 19%, compared to fiscal 2016, and included a negative currency impact of $2.6 million, or 1%, when translating foreign orders to U.S. dollars.

The following table sets forth new orders booked by geographic region for fiscal years ended 2017 and 2016 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2017		2016		Amount	%
Americas	$85,070	33 %	$70,944	32 %	$ 14,126	20 %
Europe	137,622	53 %	121,519	56 %	16,103	13 %
Asia Pacific	37,917	14 %	26,759	12 %	11,158	42 %
Total	$260,609	100%	$219,222	100%	$ 41,387	19 %

Orders in the Americas for fiscal 2017 increased by 20% compared to fiscal 2016 and reflected improved U.S. market conditions and demand from customers for all product lines (Hurco, Takumi and Milltronics) and in all regions of the country where our customers are located. European orders for fiscal 2017 increased by 13%, compared to fiscal 2016, driven primarily by increased demand for Hurco and Takumi vertical milling machines in Germany, the United Kingdom, and Italy. European orders for fiscal 2017 included a negative currency impact of 2%, when translating foreign orders to U.S. dollars. Asian Pacific orders for fiscal 2017 increased by 42%, compared to fiscal 2016, driven primarily by increased demand for Hurco and Takumi machines in all Asian Pacific countries where our customers are located, with China contributing the largest increase. Asian Pacific orders for fiscal 2017 included a favorable currency impact of 1%, when translating foreign orders to U.S. dollars.

Backlog at October 31, 2017 increased to $52.0 million compared to $32.3 million at October 31, 2016 primarily due to an increase in customer orders during fiscal 2017. We do not believe backlog is a useful measure of past performance or indicative of future performance. Backlog orders as of October 31, 2017 are expected to be fulfilled in fiscal 2018.

Gross Profit. Gross profit for fiscal 2017 was $70.6 million, or 29% of sales, compared to $70.4 million, or 31% of sales, for fiscal 2016. The decrease in gross profit as a percentage of sales for fiscal 2017 primarily reflected the negative impact of foreign currency translation, compared to fiscal 2016, and a sales mix comprised of more entry-level machines, such as those under the Milltronics and Takumi brands, in price competitive geographic regions, such as the Americas and Asia Pacific.

Operating Expenses. Selling, general and administrative expenses for fiscal 2017 were $49.7 million, or 20% of sales, compared to $50.8 million, or 22% of sales, in fiscal 2016, and included a favorable currency impact of $0.2 million when translating foreign expenses to U.S. dollars for financial reporting purposes.

Operating Income. Operating income for fiscal 2017 was $20.9 million, or 9% of sales, compared to $19.6 million, or 9% of sales, in fiscal 2016. The year-over-year increase in operating income was primarily attributable to a reduction in operating expenses associated with trade show expenses for the International Manufacturing Technology Show (“IMTS”) held in September 2016.

Other Expense, Net. Other expense, net for fiscal 2017 decreased by $0.5 million from fiscal 2016 due mainly to lower foreign currency losses experienced in 2017.

Provision for Income Taxes. Our effective tax rate for fiscal 2017 was 27% in comparison to 30% for fiscal 2016. The decrease in the effective tax rate year-over-year was primarily due to changes in the geographic mix of income and loss among tax jurisdictions.

Net Income. Net income for fiscal 2017 was $15.1 million, or $2.25 per diluted share, an increase of $1.8 million, or 14%, from fiscal 2016 net income of $13.3 million, or $1.99 per diluted share.

Fiscal 2016 Compared to Fiscal 2015

Sales and Service Fees. Sales and service fees for fiscal 2016 were $227.3 million, an increase of $7.9 million, or 4%, compared to fiscal 2015 and included a negative currency impact of $6.4 million, or 3%, when translating foreign sales to U.S. dollars for financial reporting purposes.

Net Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the fiscal year ended October 31, 2016 and 2015 (in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2016		2015		Amount	%
Americas	$74,386	33 %	$70,169	32 %	$ 4,217	6 %
Europe	124,070	54 %	129,335	59 %	(5,265)	-4 %
Asia Pacific	28,833	13 %	19,879	9 %	8,954	45 %
Total	$227,289	100%	$219,383	100%	$ 7,906	4 %

Sales in the Americas for fiscal 2016 increased by 6% compared to fiscal 2015, as a result of year-end promotional activities following the IMTS in September 2016, as well as the impact of twelve months of Milltronics sales in fiscal 2016 compared to only three months of sales activity from the acquisition of the Milltronics product line in July 2015 until the end of fiscal 2015. Sales in the Americas for fiscal 2016 included $17.9 million of sales from the Milltronics product line, compared to $6.7 million in fiscal 2015. European sales for fiscal 2016 decreased by 4% compared to fiscal 2015 and included a negative currency impact of 5% when translating foreign sales to U.S. dollars for financial reporting purposes. The slight year-over-year growth in European sales for fiscal 2016, excluding the effect of the negative currency impact, was driven by increased shipments of higher-performance machines in Germany, France and Italy. Asian Pacific sales for fiscal 2016 increased by 45% compared to fiscal 2015 and included a negative currency impact of 3% when translating foreign sales to U.S. dollars for financial reporting purposes. The year-over-year increase in Asian Pacific sales for fiscal 2016 was primarily attributable to twelve months of Takumi sales included in fiscal 2016 compared to only three months of sales activity from the acquisition of the Takumi product line in July 2015 until the end of fiscal 2015. Asian Pacific sales for fiscal 2016 included $14.6 million of sales from the Takumi product line, compared to $3.3 million for fiscal 2015.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product group and services for the fiscal years ended October 31, 2016 and 2015 (in thousands):

	Fiscal Year Ended October 31,				Increase/ Decrease	
	2016		2015		Amount	%
Computerized Machine Tools*	$195,618	86 %	$189,712	87 %	$ 5,906	3 %
Computer Control Systems and Software†	2,078	1 %	3,085	1 %	(1,007)	-33 %
Service Parts	21,908	10 %	19,375	9 %	2,533	13 %
Service Fees	7,685	3 %	7,211	3 %	474	7 %
Total	$227,289	100%	$219,383	100%	$ 7,906	4 %

* Amounts shown include sales of Milltronics and Takumi computerized machine tools to third parties since the respective dates of those acquisitions.

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

Sales of computerized machine tools and service parts increased during fiscal 2016 by 3% and 13%, respectively, compared to fiscal 2015 primarily due to the impact of twelve months of Milltronics and Takumi sales in fiscal 2016 compared to only three months of sales activity from the acquisitions of the Milltronics and Takumi product lines in July 2015 until the end of fiscal 2015, as well as year-end promotional activities following the IMTS in September 2016. Sales of computer control systems and software decreased by 33% during fiscal 2016 compared to fiscal 2015 as a result of a reduction in sales for the Autobend® product line in the Americas and the United Kingdom. Service fees revenue increased during fiscal 2016 by 7% compared to fiscal 2015 primarily due to increased repair needs from customers in the Americas, the United Kingdom and France.

Orders and Backlog. Orders for fiscal 2016 were $219.2 million, a decrease of $4.0 million, or 2%, compared to fiscal 2015 and included a negative currency impact of $6.5 million, or 3%, when translating foreign orders to U.S. dollars for financial reporting purposes.

The following table sets forth new orders booked by geographic region for fiscal years ended 2016 and 2015 (dollars in thousands):

	Fiscal Year Ended October 31,				Increase/Decrease	
	2016		2015		Amount	%
Americas	$70,944	32 %	$72,021	32 %	$ (1,077)	-1 %
Europe	121,519	56 %	126,511	57 %	(4,992)	-4 %
Asia Pacific	26,759	12 %	24,654	11 %	2,105	9 %
Total	$219,222	100%	$223,186	100%	$ (3,964)	-2 %

Orders in the Americas for fiscal 2016 were $70.9 million, a decrease of $1.1 million, or 1%, compared to fiscal 2015, reflecting an overall softer market and the impact of pricing pressures in this region, partially offset by the impact of twelve months of Milltronics sales in fiscal 2016 compared to only three months in fiscal 2015. Orders in the Americas for fiscal 2016 included $15.7 million of orders from the Milltronics product line, compared to $10.1 million in fiscal 2015, of which approximately $3.9 million of orders were existing backlog orders acquired with the Milltronics product line in July 2015. European orders for fiscal 2016 were $121.5 million, a decrease of $5.0 million, or 4%, compared to fiscal 2015, primarily due to the negative impact of currency when translating foreign orders to U.S. dollars for financial reporting purposes. Asian Pacific orders for fiscal 2016 were $26.8 million, an increase of $2.1 million, or 9%, compared to fiscal 2015 and included a negative currency impact of $1.1 million, or 5%, when translating foreign orders to U.S. dollars for financial reporting purposes. The year-over-year increase in Asian Pacific orders were due primarily to increased customer demand for the Takumi product line in China. Asian Pacific orders for fiscal 2016 included $12.7 million of orders from the Takumi product line, compared to $10.6 million in fiscal 2015, of which approximately $8.6 million of orders were existing backlog orders acquired with the Takumi product line in July 2015.

Backlog was $32.3 million at October 31, 2016 compared to $41.2 million at October 31, 2015. We do not believe backlog is a useful measure of past performance or indicative of future performance. Backlog orders as of October 31, 2016 are expected to be fulfilled in fiscal 2017.

Gross Profit. Gross profit for fiscal 2016 was $70.4 million, or 31% of sales, which was consistent with gross profit for fiscal 2015 of $69.1 million, or 31% of sales.

Operating Expenses. Selling, general and administrative expenses for fiscal 2016 were $50.8 million, or 22% of sales, compared to $45.3 million, or 21% of sales, for fiscal 2015. The year-over-year increase in operating expenses for fiscal 2016 was primarily due to increased trade show expenses, increased employee support costs for global sales operations, and incremental annualized operating expenses associated with the acquisitions of the Milltronics and Takumi product lines since July 2015.

Operating Income. Operating income for fiscal 2016 was $19.6 million, or 9% of sales, compared to $23.8 million, or 11% of sales, in fiscal 2015. The year-over-year reduction in operating income was primarily attributable to increased operating expenses associated with increased trade show expenses, increased employee support costs for global sales operations, and incremental operating expenses associated with the acquisitions of the Milltronics and Takumi product lines since July 2015.

Other Expense, Net. Other expense, net for fiscal 2016 increased by $0.5 million from fiscal 2015 due mainly to higher foreign currency losses experienced in 2016 and the elimination of a one-time out-of-period income adjustment recorded in fiscal 2015.

Provision for Income Taxes. Our effective tax rate for fiscal 2016 was 30% in comparison to 31% for fiscal 2015. The decrease in the effective income tax rate for fiscal 2016 was due primarily to changes in the geographic mix of income or loss among tax jurisdictions.

Net Income. Net income for fiscal 2016 was $13.3 million, or $1.99 per diluted share, a decrease of $2.9 million, or 18%, from fiscal 2015 net income of $16.2 million, or $2.44 per diluted share.

Liquidity and Capital Resources

At October 31, 2017, we had cash and cash equivalents of $66.3 million compared to $41.2 million at October 31, 2016. The increase in cash and cash equivalents was primarily a result of a reduction in inventories and accounts receivable year-over-year when excluding the negative impact of foreign currency of $7.0 million when translating foreign assets into U.S. dollars for financial reporting purposes. Approximately 64% of our $66.3 million of cash and cash equivalents is held in the U.S. The balance is 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 (including cash and cash equivalents) was $175.5 million at October 31, 2017 compared to $160.4 million at October 31, 2016. The increase in working capital was primarily due to the increase in cash, inventories, and accounts receivable. Inventories were $119.9 million at October 31, 2017, compared to $117.0 million at October 31, 2016. Inventory turns at October 31, 2017 were 1.5 compared to 1.4 turns at October 31, 2016.

Capital expenditures were $4.4 million in fiscal 2017 compared to $4.2 million in fiscal 2016. Capital expenditures for fiscal 2017 were primarily for software development costs, purchases of factory equipment for production facilities, and purchases of general software and equipment for selling facilities. We funded these expenditures with cash flows from operations.

On December 6, 2016, we entered into a fourth amendment to our U.S. credit agreement to, among other things, increase the unsecured revolving credit facility from $12.5 million to $15.0 million, to increase the cash dividend allowance from $4.0 million per calendar year to $5.0 million per calendar year, and to extend the scheduled maturity date to December 31, 2018. The U.S. credit agreement, as amended, provides for the issuance of up to $5.0 million in letters of credit. We also amended the U.S. credit agreement to increase the minimum working capital and minimum tangible net worth requirements from $90.0 million to $105.0 million and $120.0 million to $125.0 million, respectively.

Borrowings under the U.S. credit agreement bear interest either at a LIBOR-based rate or a floating rate, in each case with an interest rate floor of 0.00%. The floating rate equals the greatest of (a) a one month LIBOR-based rate plus 1.00% per annum, (b) the federal funds effective rate plus 0.50% per annum, (c) the prevailing prime rate, and (d) 0.00%. The rate we must pay for the unutilized portion of the U.S. credit agreement is 0.05% per annum.

The U.S. credit agreement contains customary financial covenants, including covenants (1) restricting us from making certain investments, loans, advances and acquisitions (but permitting us to make investments in subsidiaries of up to $5.0 million), (2) requiring that we maintain a minimum working capital of $105.0 million, and (3) requiring that we maintain a minimum tangible net worth of $125.0 million. The U.S. credit agreement permits us to pay cash dividends in an amount not to exceed $5.0 million per calendar year, so long as we are not in default before and after giving effect to such dividends.

We have a £1.0 million revolving credit facility in the United Kingdom and a €1.5 million revolving credit facility in Germany. On February 16, 2017, we amended our credit facility in China to decrease the credit facility from 40.0 million Chinese Yuan to 20.0 million Chinese Yuan (approximately $3.0 million) and renewed the facility with an expiration date of February 15, 2018. We had $1.5 million of borrowings under our China credit facility as of each of October 31, 2017 and 2016. We had no other debt or borrowings under any of our other credit facilities at either of those dates. At October 31, 2017, we were in compliance with the covenants contained in all of our credit facilities and had $19.6 million of available borrowing capacity under those facilities.

We believe our cash position and borrowing capacity under our credit facilities provides adequate liquidity to fund our operations over the next twelve months, pay quarterly cash dividends and execute our strategic plan for product innovation and targeted penetration of developing markets. We continue to receive and review information concerning businesses and assets, including intellectual property assets, available for potential acquisition.

Contractual Obligations and Commitments

The following is a table of contractual obligations and commitments as of October 31, 2017 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Short-term debt	$1,507	$ 1,507	$—	$—	$ —
Operating leases	7,968	3,316	2,979	1,210	463
Other	3,851	—	133	—	3,718
Total	$13,326	$ 4,823	$3,112	$1,210	$ 4,181

In addition to the contractual obligations and commitments disclosed above, we also have a variety of other obligations for the procurement of materials and services, none of which subject us to any material non-cancelable commitments. While some of these obligations arise under long-term supply agreements, we are not committed under these agreements to accept or pay for requirements that are not needed to meet our production needs. We have no material minimum purchase commitments or “take-or-pay” type agreements or arrangements. Unrecognized tax benefits in the amount of approximately $1.1 million, excluding any interest and penalties, have been excluded from the table above because we are unable to determine a reasonably reliable estimate of the timing of future payment.

We expect capital spending in fiscal 2018 to be approximately $8.7 million, which includes investments for capitalized software and capital equipment for all of our production and selling facilities. We expect to fund these commitments with cash on hand and cash generated from operations.

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 Financial Accounting Standards Board (“FASB”) guidance for accounting for guarantees (codified in Accounting Standards Codification (“ASC”) 460). As of October 31, 2017, we had 27 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 has the risk of ownership. The customer does not obtain title, however, until it has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue liabilities under these guarantees at fair value, which amounts are insignificant.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles. The preparation of financial statements in conformity with those accounting principles requires us to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Those judgments and estimates have a significant effect on the financial statements because they result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ from those estimates. Our accounting policies, including those described below, are frequently evaluated as our judgment and estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances.

Revenue Recognition - We 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, because persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed and determinable and collectability is reasonably assured. Our computerized machine tools are general purpose computer controlled machine tools that are typically used in stand-alone operations. Transfer of ownership and risk of loss are not contingent upon contractual customer acceptance. Prior to shipment, we test each machine to ensure the machine's compliance with standard operating specifications.

Depending upon geographic location, after shipment, a machine may be installed at the customer's facilities 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 to be inconsequential and perfunctory.

Service fees from maintenance contracts are deferred and recognized in earnings on a pro rata basis over the term of the contract. Sales related to software products are recognized when shipped in conformity with U.S. Generally Accepted Accounting Principles as promulgated by FASB related to software revenue recognition that requires that at the time of shipment, persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed and determinable and collectability is reasonably assured. The software does not require production, modification or customization.

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

Income Taxes – We account for income taxes and the related accounts under the asset and liability method. Deferred tax assets and liabilities are measured using enacted income tax rates in each jurisdiction in effect for the year in which the temporary differences are expected to be recovered or settled. These deferred tax assets are reduced by a valuation allowance, which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our judgment regarding the realization of deferred tax assets may change due to future profitability and market conditions, changes in U.S. or foreign tax laws and other factors. These changes, if any, may require material adjustments to these deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

The determination of our provision for income taxes requires judgment, the use of estimates and the interpretation and application of complex tax laws. Our provision for income taxes reflects a combination of income earned and taxed at the federal and state level in the U.S., as well as in various foreign jurisdictions. We have not provided for any U.S. income taxes on the undistributed earnings of our foreign subsidiaries based upon our determination that such earnings will be indefinitely reinvested abroad. Undistributed earnings of our wholly-owned foreign subsidiaries at October 31, 2017 were approximately $92.9 million. In the event these earnings are later distributed to the U.S., such distributions would likely result in additional U.S. tax that may be offset, at least in part, by associated foreign tax credits.

In addition to the risks to the effective tax rate described above, the future effective tax rate reflected in forward-looking statements is based on currently effective tax laws. Significant changes in those laws could materially affect these estimates.

We recognize uncertain tax positions when it is more likely than not that the tax position will be sustained upon examination by relevant taxing authorities, based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Impairment of Long-Lived Assets – We are required periodically to review the recoverability of certain assets, including property, plant and equipment, intangible assets and goodwill, based on projections of anticipated future cash flows, including future profitability assessments of various product lines. We estimate cash flows using internal budgets based on recent sales data.

Capitalized Software Development Costs – Costs incurred to develop computer software products and significant enhancements to software features of existing products are capitalized as required by FASB guidance relating to accounting for the costs of computer software to be sold, leased, or otherwise marketed, and such capitalized costs are amortized over the estimated product life of the related software. The determination as to when in the product development cycle technological feasibility has been established, and the expected product life, require judgments and estimates by management and can be affected by technological developments, innovations by competitors and changes in market conditions affecting demand. We periodically review the carrying values of these assets and make judgments as to ultimate realization considering the above-mentioned risk factors.

Derivative Financial Instruments – Critical aspects of our accounting policy for derivative financial instruments that we designate as hedging instruments include conditions that require that critical terms of a hedging instrument are essentially the same as a hedged forecasted transaction. Another important element of our policy demands that formal documentation be maintained as required by FASB guidance relating to accounting for derivative instruments and hedging activities. Failure to comply with these conditions would result in a requirement to recognize changes in market value of hedge instruments in earnings. We routinely monitor significant estimates, assumptions, and judgments associated with derivative instruments, and compliance with formal documentation requirements.

Stock Compensation – We account for share-based compensation according to FASB guidance relating to share-based payments, which requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors based on estimated fair values on the grant date. This guidance requires that we estimate the fair value of share-based awards on the date of grant and recognize as expense the value of the portion of the award that is ultimately expected to vest over the requisite service period. In the fourth quarter of fiscal 2017, we elected to early adopt Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation (Topic 718), which simplifies several areas of accounting for share-based compensation arrangements, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The impact of this adoption is further described in Note 15 of Notes to Consolidated Financial Statements.

Item 7A. 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 October 31, 2017, we had $1.5 million of borrowings under our China credit facility. We had no other debt or borrowings under any of our other credit facilities.

Foreign Currency Exchange Risk

In fiscal 2017, we derived approximately 69% of our revenues from customers located outside of the Americas. 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 October 31, 2017, which are designated as cash flow hedges under FASB guidance related to accounting for derivative instruments and hedging activities, were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate		Contract Amount at Forward Rates in U.S. Dollars Contract Date	October 31, 2017	Maturity Dates
Sale Contracts:						
Euro	26,850,000	1.1435		30,704,120	31,567,343	Nov 2017 - Oct 2018
Sterling	6,400,000	1.2973		8,302,715	8,539,006	Nov 2017 - Oct 2018
Purchase Contracts:						
New Taiwan Dollar	931,000,000	29.99	*	31,041,613	31,154,872	Nov 2017 - Oct 2018

*New Taiwan Dollars per U.S. Dollar

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Forward contracts for the sale or purchase of foreign currencies as of October 31, 2017, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables and are not designated as hedges under this guidance denominated in foreign currencies, were as follows:

Forward Contracts	Notional Amount in Foreign Currency	Weighted Avg. Forward Rate		Contract Amount at Forward Rates in U.S. Dollars Contract Date	October 31, 2017	Maturity Dates
Sale Contracts:						
Euro	21,771,037	1.1837		25,770,030	25,607,633	Nov 2017 - Oct 2018
Pound Sterling	1,280,915	1.3274		1,700,276	1,703,319	Nov 2017 - Dec 2017
South African Rand	11,804,200	0.0699		824,777	814,338	Nov 2017 - Apr 2018
Purchase Contracts:						
New Taiwan Dollar	978,926,016	29.93	*	32,706,852	32,605,176	Nov 2017 - Mar 2018

* 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 entered into a forward contract with a notional amount of €3.0 million in November 2016. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under the FASB guidance related to the accounting for derivatives instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment, net of tax, in Accumulated other comprehensive loss in the same manner as the underlying hedged net assets. This forward contract matured in November 2017 and we entered into a new forward contract for the same notional amount that is set to mature in November 2018. As of October 31, 2017, we had $809,000 of realized gains and $140,000 of realized losses, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss, related to these forward contracts.

Forward contracts designated as net investment hedges under this guidance as of October 31, 2017 were as follows:

Forward Contracts	Notional Amount **in Foreign Currency**	Weighted Avg. **Forward Rate**	**Contract Amount at Forward Rates in U.S. Dollars Contract Date**	**October 31, 2017**	Maturity Date
Sale Contracts:					
Euro	3,000,000	1.0935	3,280,500	3,497,342	Nov 2017

Management's Annual Report on Internal Control over Financial Reporting

To the Shareholders and

Board of Directors

of Hurco Companies, Inc.

Management of Hurco Companies, Inc. (the "Company") has assessed the effectiveness of the Company's internal control over financial reporting as of October 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Management is responsible for the Company's financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting.

Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In management's opinion, the Company's internal control over financial reporting as of October 31, 2017, was effective based on the criteria specified above.

Our independent registered accounting firm, RSM US LLP ("RSM"), which also audited our consolidated financial statements, audited the effectiveness of our internal control over financial reporting as of October 31, 2017. RSM has issued their attestation report, which is included in Part II, Item 8 of this Annual Report on Form 10-K.

/s/ Michael Doar
Michael Doar,
Chairman and Chief Executive Officer

/s/ Sonja K. McClelland
Sonja K. McClelland
Executive Vice President, Secretary,
Treasurer and Chief Financial Officer

Indianapolis, Indiana
January 5, 2018

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Item 8. <u>**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**</u>

Report of Independent Registered Public Accounting Firm

To the Shareholders and

Board of Directors

of Hurco Companies, Inc.

We have audited the accompanying consolidated balance sheet of Hurco Companies, Inc. and subsidiaries as of October 31, 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hurco Companies, Inc. and subsidiaries as of October 31, 2017, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hurco Companies, Inc.'s and subsidiaries' internal control over financial reporting as of October 31, 2017, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated January 5, 2018 expressed an unqualified opinion on the effectiveness of Hurco Companies, Inc. and subsidiaries' internal control over financial reporting.

/s/ RSM US LLP

Indianapolis, Indiana
January 5, 2018

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Report of Independent Registered Public Accounting Firm

To the Shareholders and

Board of Directors

of Hurco Companies, Inc.

We have audited the accompanying consolidated balance sheet of Hurco Companies, Inc. as of October 31, 2016 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended October 31, 2016. Our audits also included the financial statement schedule listed at Item 15(a) for each of the two years in the period ended October 31, 2016. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hurco Companies, Inc. at October 31, 2016 and the consolidated results of its operations and its cash flows for each of the two years in the period ended October 31, 2016 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for each of the two years in the period ended October 31, 2016, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Indianapolis, Indiana
January 6, 2017, except for Note 15, as to which the date is January 5, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and

Board of Directors

of Hurco Companies, Inc.

We have audited Hurco Companies, Inc. and subsidiaries' internal control over financial reporting as of October 31, 2017, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Hurco Companies, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hurco Companies, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 31, 2017, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Hurco Companies, Inc. and subsidiaries as of and for the year ended October 31, 2017, and our report dated January 5, 2018 expressed an unqualified opinion.

/s/ RSM US LLP

Indianapolis, Indiana
January 5, 2018

HURCO COMPANIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended October 31,		
	2017	2016	2015
	(In thousands, except per share amounts)		
Sales and service fees	$ 243,667	$ 227,289	$ 219,383
Cost of sales and service	173,103	156,849	150,292
Gross profit	70,564	70,440	69,091
Selling, general and administrative expenses	49,661	50,824	45,287
Operating income	20,903	19,616	23,804
Interest expense	91	72	198
Interest income	41	40	76
Investment income	138	149	78
Income from equity investments	505	466	474
Other expense, net	780	1,314	681
Income before income taxes	20,716	18,885	23,553
Provision for income taxes	5,601	5,593	7,339
Net income	$ 15,115	$ 13,292	$ 16,214
Income per common share – basic	$ 2.27	$ 2.01	$ 2.46
Weighted average common shares outstanding – basic	6,615	6,569	6,543
Income per common share – diluted	$ 2.25	$ 1.99	$ 2.44
Weighted average common shares outstanding – diluted	6,680	6,642	6,602
Dividends paid per share	$ 0.39	$ 0.35	$ 0.31

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

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HURCO COMPANIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended October 31,		
	2017	2016	2015
	(In thousands)		
Net Income	$15,115	$13,292	$16,214
Other comprehensive income (loss):			
Translation gain (loss) of foreign currency financial statements	4,916	(1,441)	(6,333)
(Gain) / loss on derivative instruments reclassified into operations, net of tax of $(745), $(906), and $(431), respectively	(1,354)	(1,647)	(784)
Gain / (loss) on derivative instruments, net of tax of $(390), $787, and $712, respectively	(709)	1,431	1,291
Total other comprehensive income (loss)	2,853	(1,657)	(5,826)
Comprehensive income	$17,968	$11,635	$10,388

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

HURCO COMPANIES, INC.

CONSOLIDATED BALANCE SHEETS

	As of October 31,	
	2017	2016
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,307	$ 41,217
Accounts receivable, less allowance for doubtful accounts of $639 in 2017 and $664 in 2016	50,094	48,631
Inventories, net	119,948	117,025
Derivative assets	596	1,725
Prepaid assets	7,913	8,207
Other	1,557	1,576
Total current assets	246,415	218,381
Property and equipment:		
Land	841	841
Building	7,352	7,352
Machinery and equipment	25,652	23,515
Leasehold improvements	3,503	3,487
	37,348	35,195
Less accumulated depreciation and amortization	(25,167)	(22,898)
Total property and equipment, net	12,181	12,297
Non-current assets:		
Software development costs, less accumulated amortization	6,226	4,926
Goodwill	2,440	2,314
Intangible assets, net	1,076	1,150
Deferred income taxes	6,176	6,138
Investments and other assets, net	7,131	6,743
Total non-current assets	23,049	21,271
Total assets	$ 281,645	$ 251,949
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 45,127	$ 35,210
Accounts payable-related parties	2,511	1,990
Accrued expenses and other	18,240	17,231
Accrued warranty expenses	1,772	1,523
Derivative liabilities	1,732	538
Short-term debt	1,507	1,476
Total current liabilities	70,889	57,968
Non-current liabilities:		

Deferred income taxes	3,821	4,294
Accrued tax liability	133	963
Deferred credits and other	3,717	3,249
Total non-current liabilities	7,671	8,506
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, 6,799,006 and 6,720,453 shares issued; and 6,641,197 and 6,573,103 shares outstanding, as of October 31, 2017 and October 31, 2016, respectively	664	657
Additional paid-in capital	61,344	59,119
Retained earnings	149,267	136,742
Accumulated other comprehensive loss	(8,190)	(11,043)
Total shareholders’ equity	203,085	185,475
Total liabilities and shareholders’ equity	$ 281,645	$ 251,949

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

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HURCO COMPANIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended October 31,		
	2017	2016	2015
	(In thousands)		
Cash flows from operating activities:			
Net income	$15,115	$13,292	$16,214
Adjustments to reconcile net income to net cash provided by (used for) operating activities, net of acquisitions:			
Provision for doubtful accounts	(25)	(75)	(139)
Deferred income taxes	1,108	(225)	(1,013)
Equity in income of affiliates	(505)	(466)	(474)
Foreign currency (gain) loss	(851)	1,850	3,223
Unrealized (gain) loss on derivatives	(411)	393	147
Depreciation and amortization	3,616	3,868	3,222
Stock-based compensation	1,698	1,607	1,193
Taxes paid related to net settlement of restricted shares	295	146	239
Change in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	563	(8,141)	3,666
(Increase) decrease in inventories	1,638	(13,881)	2,852
(Increase) decrease in prepaid expenses	80	809	383
Increase (decrease) in accounts payable	8,529	(6,001)	(1,028)
Increase (decrease) in accrued expenses	627	(90)	(962)
Net change in derivative assets and liabilities	964	(245)	1,081
Other	(2,069)	442	179
Net cash provided by (used for) operating activities	30,372	(6,717)	28,783
Cash flows from investing activities:			
Proceeds from sale of property and equipment	—	264	62
Purchase of property and equipment	(2,181)	(1,972)	(3,127)
Software development costs	(2,264)	(2,205)	(1,406)
Other investments	417	—	308
Acquisition of business, net of cash acquired	—	—	(17,650)
Net cash provided by (used for) investing activities	(4,028)	(3,913)	(21,813)
Cash flows from financing activities:			
Proceeds from exercise of common stock options	534	—	257
Dividends paid	(2,590)	(2,310)	(2,034)
Tax benefit from exercise of stock options	—	—	119
Taxes paid related to net settlement of restricted shares	(295)	(146)	(239)
Repayment on short-term debt	—	—	(1,605)
Net cash provided by (used for) financing activities	(2,351)	(2,456)	(3,502)

Effect of exchange rate changes on cash and cash equivalents	1,097	(934)	(2,077)
Net increase (decrease) in cash and cash equivalents	25,090	(14,020)	1,391
Cash and cash equivalents at beginning of year	41,217	55,237	53,846
Cash and cash equivalents at end of year	66,307	41,217	55,237
Supplemental disclosures:			
Cash paid for:			
Interest	$66	$56	$156
Income taxes, net	$4,867	$4,328	$9,890

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

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HURCO COMPANIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except shares outstanding)	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, October 31, 2014	6,508,880	$ 651	$ 55,974	$ 111,580	($ 3,560)	$ 164,645
Net income	—	—	—	16,214	—	16,214
Other comprehensive income (loss)	—	—	—	—	(5,826)	(5,826)
Exercise of common stock options	15,300	1	256	—	—	257
Stock-based compensation expense	27,538	3	1,190	—	—	1,193
Tax benefit (expense) from stock option activities	—	—	119	—	—	119
Dividends paid	—	—	—	(2,034)	—	(2,034)
Balances, October 31, 2015	6,551,718	$ 655	$ 57,539	$ 125,760	($ 9,386)	$ 174,568
Net income	—	—	—	13,292	—	13,292
Other comprehensive income (loss)	—	—	—	—	(1,657)	(1,657)
Exercise of common stock options	—	—	—	—	—	-
Stock-based compensation expense	21,385	2	1,605	—	—	1,607