HURCO COMPANIES INC
Form 10-Q
June 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 30, 2015 or

.. Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________.

Commission File No. 0-9143

HURCO COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Indiana	**35-1150732**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Technology Way **Indianapolis, Indiana**	**46268**
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code **(317) 293-5309**

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The number of shares of the Registrant's common stock outstanding as of June 2, 2015 was 6,551,718.

HURCO COMPANIES, INC.

April 2015 Form 10-Q Quarterly Report

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

HURCO COMPANIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	April 30		April 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Sales and service fees	$50,183	$53,731	$101,155	$104,701
Cost of sales and service	33,624	37,102	68,049	74,153
Gross profit	16,559	16,629	33,106	30,548
Selling, general and administrative expenses	10,850	11,206	21,304	21,806
Operating income	5,709	5,423	11,802	8,742
Interest expense	57	54	126	131
Interest income	22	16	43	32
Investment income	6	5	71	36
Other (income) expense, net	(159)	269	148	285
Income (loss) before taxes	5,839	5,121	11,642	8,394
Provision for income taxes	1,878	1,585	3,915	2,489
Net income (loss)	$3,961	$3,536	$7,727	$5,905
Income per common share				
Basic	$0.60	$0.54	$1.17	$0.90

Diluted	$0.60	$0.54	$1.17	$0.90
Weighted average common shares outstanding				
Basic	6,547	6,498	6,535	6,487
Diluted	6,589	6,531	6,578	6,520
Dividends paid per share	$0.08	$0.07	$0.15	$0.12

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

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HURCO COMPANIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended April 30		Six Months Ended April 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Net income	$3,961	$3,536	$7,727	$5,905
Other comprehensive income (loss):				
Translation of foreign currency financial statements	1,020	1,227	(4,036)	514
(Gain) / loss on derivative instruments reclassified into operations, net of tax $4, $117, $204 and $264, respectively	8	225	372	481
Gain / (loss) on derivative instruments, net of tax $163, $(412), $1,019 and $(666), respectively	296	(770)	1,852	(1,211)
Total other comprehensive income (loss)	1,324	682	(1,812)	(216)
Comprehensive income	$5,285	$4,218	$5,915	$5,689

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

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HURCO COMPANIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per-share data)

	April 30, 2015 (Unaudited)	**October 31, 2014** (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,720	$ 53,846
Accounts receivable, net	35,460	45,435
Inventories, net	92,446	95,992
Deferred income taxes	714	2,062
Derivative assets	3,518	3,127
Prepaid assets	10,312	8,927
Other	1,593	1,365
Total current assets	208,763	210,754
Property and equipment:		
Land	782	782
Building	7,314	7,314
Machinery and equipment	19,620	19,432
Leasehold improvements	3,362	3,523
	31,078	31,051
Less accumulated depreciation and amortization	(19,733)	(19,546)
	11,345	11,505
Software development costs, less accumulated amortization	3,644	3,519
Goodwill	2,360	2,606
Intangible assets, net	1,385	1,635
Investments and other assets, net	6,899	6,912
	$ 234,396	$ 236,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 37,775	$ 42,718
Accrued expenses and other	14,173	18,060
Accrued warranty expenses	2,090	2,048
Derivative liabilities	1,116	705
Short-term debt	3,226	3,272
Total current liabilities	58,380	66,803
Non-current liabilities:		
Deferred income taxes	1,221	993
Accrued tax liability	966	1,054
Deferred credits and other	3,425	3,436

Total non-current liabilities	5,612	5,483
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, 6,650,517 and 6,589,918 shares issued; and 6,551,718 and 6,508,880 shares outstanding, as of April 30, 2015 and October 31, 2014, respectively	655	651
Additional paid-in capital	56,796	55,974
Retained earnings	118,325	111,580
Accumulated other comprehensive loss	(5,372)	(3,560)
Total shareholders' equity	170,404	164,645
	$ 234,396	$ 236,931

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

HURCO COMPANIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended April 30		Six Months Ended April 30	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income	$3,961	$3,536	$7,727	$5,905
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Provision for doubtful accounts	32	31	(20)	(51)
Deferred income taxes	(511)	(17)	(840)	(14)
Equity in income of affiliates	(47)	(81)	(90)	(165)
Depreciation and amortization	721	816	1,447	1,551
Foreign currency (gain) loss	494	(802)	3,306	(800)
Unrealized (gain) loss on derivatives	3,193	391	568	528
Stock-based compensation	312	146	569	392
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	1,814	(2,652)	7,509	(1,156)
(Increase) decrease in inventories	542	(689)	182	(23)
(Increase) decrease in prepaid expenses	585	(332)	(346)	(1,324)
Increase (decrease) in accounts payable	(3,932)	(2,527)	(3,696)	1,668
Increase (decrease) in accrued expenses	(960)	1,113	(2,986)	(556)
Net change in derivative assets and liabilities	(28)	221	72	108
Other	(178)	131	1,081	(2)
Net cash provided by (used for) operating activities	5,998	(715)	14,483	6,061
Cash flows from investing activities:				
Purchase of property and equipment	(733)	(615)	(1,054)	(951)
Software development costs	(358)	(240)	(561)	(423)
Other investments	(12)	(9)	(167)	(215)
Proceeds from sale of equipment	—	—	51	126
Net cash provided by (used for) investing activities	(1,103)	(864)	(1,731)	(1,463)
Cash flows from financing activities:				
Proceeds of exercise of common stock options	66	299	257	300
Dividends paid	(525)	(456)	(982)	(780)
Repayment of short-term debt	—	(3)	—	(386)
Net cash provided by (used for) financing activities	(459)	(160)	(725)	(866)
Effect of exchange rate changes on cash	429	420	(1,153)	138

Net increase (decrease) in cash and cash equivalents	4,865	(1,319)	10,874	3,870
Cash and cash equivalents at beginning of period	59,855	47,993	53,846	42,804
Cash and cash equivalents at end of period	$64,720	$46,674	$64,720	$46,674

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

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HURCO COMPANIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended April 30, 2015 and 2014

(In thousands, except shares outstanding)	Common Stock Shares Outstanding	**Amount**	Additional **Paid-in Capital**	**Retained Earnings**	**Accumulated Other** Comprehensive Income (Loss)	**Total**
Balances, October 31, 2013	6,465,054	$ 647	$ 54,698	$ 98,130	$ (1,984)	$ 151,491
Net income	—	—	—	5,905	—	5,905
Other comprehensive loss	—	—	—	—	(216)	(216)
Stock-based compensation	23,520	2	390	—	—	392
Exercise of common stock option	16,306	2	298	—	—	300
Dividends paid	—	—	—	(780)	—	(780)
Balances, April 30, 2014 (Unaudited)	6,504,880	$ 651	$ 55,386	$ 103,255	$ (2,200)	$ 157,092
Balances, October 31, 2014	6,508,880	$ 651	$ 55,974	$ 111,580	$ (3,560)	$ 164,645
Net income	—	—	—	7,727	—	7,727
Other comprehensive loss	—	—	—	—	(1,812)	(1,812)
Stock-based compensation	27,538	3	566	—	—	569
Exercise of common stock options	15,300	1	256	—	—	257
Dividends paid	—	—	—	(982)	—	(982)
Balances, April 30, 2015 (Unaudited)	6,551,718	$ 655	$ 56,796	$ 118,325	$ (5,372)	$ 170,404

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

The unaudited Condensed Consolidated Financial Statements include the accounts of Hurco Companies, Inc. and its consolidated subsidiaries. As used in this report, unless the context indicates otherwise, the terms “we”, “us”, “our” and similar language refer to Hurco Companies, Inc. and its consolidated subsidiaries as a whole.

We design and produce computerized machine tools, interactive computer control systems, machine tool components, and software for sale through our distribution network to the worldwide metal cutting market. We also provide software options, computer control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The condensed financial information as of April 30, 2015 and for the three and six months ended April 30, 2015 and April 30, 2014 is unaudited. However, in our opinion, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations, changes in shareholders’ equity and cash flows at the end of the interim periods. We suggest that you read these condensed consolidated financial statements in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2014.

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risk that we manage through the use of derivative instruments is foreign currency risk in which we enter into derivative instruments in the form of foreign currency forward exchange contracts with a major financial institution.

We enter into these forward exchange contracts to reduce the potential effects of foreign exchange rate movements on our net equity investment in one of our foreign subsidiaries, to reduce the impact on gross profit and net earnings from sales and purchases denominated in foreign currencies, and to reduce the impact on our net earnings of foreign currency fluctuations on receivables and payables denominated in foreign currencies which are different than the subsidiaries’ functional currency. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Canadian Dollars, South African Rand, Singapore

Dollars, Indian Rupee, Chinese Yuan, South Korean Won, Polish Zloty, and New Taiwan Dollars. We record all derivative instruments as assets or liabilities at fair value.

Derivatives Designated as Hedging Instruments

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

We had forward contracts outstanding as of April 30, 2015, denominated in Euros, Pounds Sterling and New Taiwan Dollars with set maturity dates ranging from May 2015 through April 2016. The contract amounts, expressed at forward rates in U.S. Dollars at April 30, 2015, were $28.4 million for Euros, $10.3 million for Pounds Sterling and $22.1 million for New Taiwan Dollars. At April 30, 2015, we had approximately $3.3 million of gains, net of tax, related to cash flow hedges deferred in Accumulated other comprehensive loss. Included in this amount were $1.6 million of unrealized gains, net of tax, related to cash flow hedge instruments that remain subject to currency fluctuation risk. The majority of these deferred gains will be recorded as an adjustment to Cost of sales and service in periods through April 2016, when the corresponding inventory that is the subject of the related hedge contracts is sold, as described above.

We are 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 2014. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under Financial Accounting Standards Board, or FASB, guidance related to the accounting for derivatives instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment in Accumulated other comprehensive loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matures in November 2015. As of April 30, 2015, we had $452,000 of realized gains and $229,000 of unrealized gains, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to these forward contracts.

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. These derivative instruments are not designated as hedges under the FASB guidance and, as a result, changes in their fair value are reported currently as Other (income) expense, net in the Condensed Consolidated Statements of Income consistent with the transaction gain or loss on the related receivables and payables denominated in foreign currencies.

We had forward contracts outstanding as of April 30, 2015, in Euros, Pounds Sterling, Canadian Dollars, the South African Rand, and the New Taiwan Dollar with set maturity dates ranging from May 2015 through October 2015. The contract amounts at forward rates in U.S. Dollars at April 30, 2015 totaled $39.7 million.

Fair Value of Derivative Instruments

We recognize the fair value of derivative instruments as assets and liabilities on a gross basis on our Condensed Consolidated Balance Sheets. As of April 30, 2015 and October 31, 2014, all derivative instruments were recorded at fair value on the balance sheets as follows (in thousands):

	April 30, 2015		October 31, 2014	
Derivatives	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Designated as hedging instruments:				
Foreign exchange forward contracts	Derivative assets	$3,265	Derivative assets	$2,596
Foreign exchange forward contracts	Derivative liabilities	$440	Derivative liabilities	$401
Not designated as hedging instruments:				
Foreign exchange forward contracts	Derivative assets	$253	Derivative assets	$531
Foreign exchange forward contracts	Derivative liabilities	$676	Derivative liabilities	$304

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

Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Changes in Shareholders’ Equity and Condensed Consolidated Statements of Income, net of tax, during the three months ended April 30, 2015 and 2014 (in thousands):

Derivatives	**Amount of Gain (Loss) Recognized in Other Comprehensive Income**		**Location of Gain (Loss) Reclassified from Other Comprehensive Income**	**Amount of Gain (Loss) Reclassified from Other Comprehensive Income**	
	Three Months Ended April 30			Three Months Ended April 30,	
	2015	2014		2015	2014
Designated as hedging instruments: (Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ 296	$ (770)	Cost of sales and service	$ (8)	$ (225)
Foreign exchange forward contract – Net investment	$ 9	$ (73)			

We did not recognize gains or losses as a result of hedges deemed ineffective for the three months ended April 30, 2015. We recognized a loss of $10,000 for the three months ended April 30, 2014 as a result of contracts closed early that were deemed ineffective for financial reporting purposes and did not qualify as cash flow hedges. We recognized the following gains and losses in our Condensed Consolidated Statements of Income during the three months ended April 30, 2015 and 2014 on derivative instruments not designated as hedging instruments:

Derivatives	**Location of Gain (Loss) Recognized in Operations**	**Amount of Gain (Loss) Recognized in Operations**	
		Three Months Ended April 30,	
		2015	2014

		(in thousands)	
Not Designated as Hedging Instruments:			
Foreign exchange forward contracts	Other (income) expense, net	$333	$(935)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the three months ended April 30, 2015 (in thousands):

	Foreign Currency Translation	Cash Flow Hedges	Total
Balance, January 31, 2015	$ (9,607)	$2,911	$(6,696)
Other comprehensive income (loss) before reclassifications	1,020	296	1,316
Reclassifications	—	8	8
Balance, April 30, 2015	$ (8,587)	$3,215	$(5,372)

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Derivative instruments had the following effects on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Changes in Shareholders' Equity and Condensed Consolidated Statements of Income, net of tax, during the six months ended April 30, 2015 and 2014 (in thousands):

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income Six Months Ended April 30, 2015	2014	Location of Gain (Loss) Reclassified from Other Comprehensive Income	Amount of Gain (Loss) Reclassified from Other Comprehensive Income Six Months Ended April 30, 2015	2014
Designated as hedging instruments: (Effective portion)					
Foreign exchange forward contracts – Intercompany sales/purchases	$ 1,852	$ (1,211)	Cost of sales and service	$ (372)	$ (481)
Foreign exchange forward contract – Net investment	$ 248	$ (53)			

We did not recognize gains or losses as a result of hedges deemed ineffective for the six months ended April 30, 2015. We recognized a loss of $29,000 for the six months ended April 30, 2014 as a result of contracts closed early that were deemed ineffective for financial reporting purposes and did not qualify as cash flow hedges. We recognized the following gains and losses in our Condensed Consolidated Statements of Income during the six months ended April 30, 2015 and 2014 on derivative instruments not designated as hedging instruments:

Derivatives	Location of Gain (Loss) Recognized in Operations	Amount of Gain (Loss) Recognized in Operations Six Months Ended April 30, 2015 (in thousands)	2014
Not designated as hedging instruments:			
Foreign exchange forward contracts	Other (income) expense, net	$ 3,045	$ (973)

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the six months ended April 30, 2015 (in thousands):

	Foreign Currency Translation	Cash Flow Hedges	Total
Balance, October 31, 2014	$ (4,551)	$ 991	$ (3,560)
Other comprehensive income (loss) before reclassifications	(4,036)	1,852	(2,184)
Reclassifications	—	372	372
Balance, April 30, 2015	$ (8,587)	$ 3,215	$ (5,372)

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3. EQUITY INCENTIVE PLAN

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

A summary of stock option activity for the six-month period ended April 30, 2015, is as follows:

	Stock Options	**Weighted Average Exercise Price**
Outstanding at October 31, 2014	128,189	$ 20.45
Options granted	—	—
Options exercised	(15,300)	$ 16.81
Options cancelled	—	—
Outstanding at April 30, 2015	112,889	$ 20.94

Summarized information about outstanding stock options as of April 30, 2015, that have already vested and those that are expected to vest, as well as stock options that are currently exercisable, are as follows:

	Options Already Vested and Expected to Vest	**Options Currently Exercisable**
Number of outstanding options	112,889	105,940
	5.75	5.30

Weighted average remaining contractual life (years)		
Weighted average exercise price per share	$ 20.94	$ 20.79
Intrinsic value of outstanding options	$ 1,324,000	$ 1,261,000

The intrinsic value of an outstanding stock option is calculated as the difference between the stock price as of April 30, 2015 and the exercise price of the option.

On January 6, 2015, the Compensation Committee approved a long-term incentive compensation arrangement for our executive officers in the form of restricted shares and performance shares awarded under the 2008 Plan. The awards were 25% time-based vesting and 75% performance-based vesting. The three-year performance period is fiscal 2015 through fiscal 2017.

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On this date, the Compensation Committee granted a total of 11,174 shares of time-based restricted shares to our executive officers. The restricted shares vest in thirds over three years from the date of grant provided the recipient remains employed through that date. The grant date fair value of the restricted shares was based upon the closing sales price of our common stock on the date of grant which was $32.22.

The Compensation Committee also granted a total target number of 16,740 performance shares to our executive officers designated as "Performance Shares – TSR". The shares were weighted as 40% of the overall long-term incentive compensation arrangement and will vest and be paid based upon our total shareholder return of our common stock over a three-year period, relative to the total shareholder return of the companies in a specified peer group over that period. Participants will have the ability to earn between 50% of the target number of shares for achieving threshold performance and 200% of the target number of shares for achieving maximum performance. The fair value of the market-based performance shares was $34.41 per share and was calculated using the Monte Carlo approach.

The Compensation Committee also granted a total target number of 15,643 performance shares to our executive officers designated as "Performance Shares – ROIC". These shares were weighted as 35% of the overall long-term incentive compensation arrangement and will vest and be paid based upon the achievement of pre-established goals related to our average return on invested capital over the three-year period. Participants will have the ability to earn between 50% of the target number of shares for achieving threshold performance and 200% of the target number of shares for achieving maximum performance. The grant date fair value of the ROIC performance shares was based on the closing sales price of our common stock on the grant date which was $32.22 per share.

On March 12, 2015, the Compensation Committee granted a total of 9,086 shares of restricted stock to our non-employee directors. The restricted stock vests in full one year from the date of grant provided the recipient remains on the board of directors through that date. The grant date fair value of restricted stock was based on the closing sales price of our common stock on the grant date which was $30.80 per share.

A reconciliation of the activity relating to outstanding restricted share awards made under the 2008 Plan and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at October 31, 2014	81,038	$ 23.83
Shares granted	52,643	32.67
Shares vested	(27,538)	23.08
Shares withheld	(7,344)	21.82
Unvested at April 30, 2015	98,799	$ 28.89

During the first six months of fiscal 2015 and 2014, we recorded $569,000 and $511,000, respectively, as stock-based compensation expense related to grants under the plans. As of April 30, 2015, there was an estimated $2.1 million of total unrecognized stock-based compensation cost that we expect to recognize by the end of the first quarter of fiscal 2018.

4. EARNINGS PER SHARE

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	2015		2014		2015		2014	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	$3,961	$3,961	$3,536	$3,536	$7,727	$7,727	$5,905	$5,905
Undistributed earnings allocated to participating shares	(23)	(23)	(28)	(28)	(45)	(45)	(47)	(47)
Net income applicable to common shareholders	$3,938	$3,938	$3,508	$3,508	$7,682	$7,682	$5,858	$5,858
Weighted average shares outstanding	6,547	6,547	6,498	6,498	6,535	6,535	6,487	6,487
Stock options	—	42	—	33	—	43	—	33
	6,547	6,589	6,498	6,531	6,535	6,578	6,487	6,520
Income per share	$0.60	$0.60	$0.54	$0.54	$1.17	$1.17	$0.90	$0.90

5. ACCOUNTS RECEIVABLE

Accounts receivable are net of allowances for doubtful accounts of $858,000 as of April 30, 2015 and $878,000 as of October 31, 2014.

6. INVENTORIES

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

	April 30,	**October 31,**
	2015	**2014**
Purchased parts and sub-assemblies	$ 22,125	$ 21,703
Work-in-process	13,926	14,236
Finished goods	56,395	60,053

$ 92,446	$ 95,992

7. SEGMENT INFORMATION

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

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8. GUARANTEES AND PRODUCT WARRANTIES

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of machines to customers that use financing. We follow Financial Accounting Standards Board, or FASB, guidance for accounting for guarantees (codified in ASC 460). As of April 30, 2015, we had 19 outstanding third party payment guarantees totaling approximately $1.5 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer has the risk of ownership. The customer does not obtain title, however, until it has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue liabilities under these guarantees at fair value, which amounts are insignificant.

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

	Six Months Ended	
	April 30, 2015	**April 30, 2014**
Balance, beginning of period	$2,048	$1,778
Provision for warranties during the period	1,739	1,510
Charges to the reserve	(1,641)	(1,510)
Impact of foreign currency translation	(56)	(3)
Balance, end of period	$2,090	$1,775

The year-over-year increase in our warranty reserve reflected higher sales volumes and anticipated claims of machines under warranty as well as the sale of a greater number of our higher-performance machines which have a higher cost per claim.

9. DEBT AGREEMENTS

On December 7, 2012, we entered into an agreement (the "U.S. credit agreement") with a financial institution that provided us with a $12.5 million unsecured revolving credit and letter of credit facility. The U.S. credit agreement permitted the issuance of up to $3.0 million in letters of credit. On May 9, 2014, the maximum amount for outstanding letters of credit under our U.S. credit agreement was increased from $3.0 million to $5.0 million.

On December 5, 2014, we amended our U.S. credit agreement to increase the cash dividend allowance from $3.0 million per calendar year to $4.0 million per calendar year and to extend the scheduled maturity date to December 7, 2016.

Borrowings under the U.S. credit agreement bear interest at a LIBOR-based rate or a floating rate of 1% above the prevailing prime rate. The floating rate will not be less than 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, and (c) the prevailing prime rate. The rate we must pay for that portion of the U.S. credit agreement which is not utilized is 0.05% per annum.

The U.S. credit agreement contains customary financial covenants, including a covenant that permits us to make investments in subsidiaries of up to $5.0 million and a minimum working capital of $90.0 million and a minimum tangible net worth of $120.0 million. The U.S. credit agreement permits us to pay cash dividends in an amount not to exceed $4.0 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 May 12, 2014, we established a Taiwan credit facility in the amount of 100.0 million New Taiwan Dollars (approximately $3.2 million) with an expiration date of May 12, 2015. We did not renew this Taiwan credit facility. We also have a 40.0 million Chinese Yuan (approximately $6.5 million) credit facility in China that was renewed on February 17, 2015 with an expiration date of February 17, 2016.

All of our credit facilities are unsecured.

We had $3.2 million and $3.3 million of borrowings under our China credit facility, which bears interest at 5.6% annually (variable rate), at April 30, 2015 and October 31, 2014, respectively. We had no other debt or borrowings under any of our other credit facilities at either of those dates. At April 30, 2015, we were in compliance with all covenants contained in the related credit agreements and, as of that date, we had unutilized credit facilities of $18.5 million.

10. INCOME TAXES

Our effective tax rate for the first six months of fiscal 2015 was 34% in comparison to 30% for the same period in fiscal 2014. The increase in the effective income tax rate was primarily due to changes in the geographic mix of income or loss between tax jurisdictions. We recorded income tax expense during the first six months of fiscal 2015 of $3.9 million compared to $2.5 million for the corresponding period in fiscal 2014, primarily as a result of an increase in pre-tax income period-over-period. We have not provided any U.S. income taxes on the undistributed earnings of our wholly-owned foreign subsidiaries based upon our determination that such earnings will be indefinitely reinvested. In the event these earnings are later distributed to our U.S. operations, such distributions would likely result in additional U.S. tax that may be offset, at least in part, by associated foreign tax credits.

Our unrecognized tax benefits were $1.1 million as of April 30, 2015 and $1.2 million as of October 31, 2014, and in each case included accrued interest.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of income tax expense. As of April 30, 2015, the gross amount of interest accrued, reported in Accrued expenses and other, was approximately $30,000, which did not include the federal tax benefit of interest deductions.

We file U.S. federal and state income tax returns, as well as tax returns in several foreign jurisdictions. The statutes of limitations with respect to unrecognized tax benefits will expire between July 2017 and July 2018.

11. FINANCIAL INSTRUMENTS

Estimated Fair Value Measurements of Financial Instruments

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

In accordance with this guidance, the following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value as of April 30, 2015 and October 31, 2014 (in thousands):

	Assets		Liabilities	
	April 30, 2015	October 31, 2014	April 30, 2015	October 31, 2014
Level 1				
Deferred Compensation	$1,304	$1,232	$-	$ -
Level 2				
Derivatives	$3,518	$3,127	$1,116	$ 705

Recurring Fair Value Measurements

Included in Level 1 assets are mutual fund investments under a nonqualified deferred compensation plan. We estimate the fair value of these investments on a recurring basis using market prices which are readily available.

Included in Level 2 fair value measurements are derivative assets and liabilities related to gains and losses on foreign currency forward exchange contracts entered into with a third party. We estimate the fair value of these derivatives on a recurring basis using foreign currency exchange rates obtained from active markets. Derivative instruments are reported in the accompanying consolidated financial statements at fair value. We have derivative financial instruments in the form of foreign currency forward exchange contracts as described in Note 2 of Notes to the Condensed Consolidated Financial Statements in which the U.S. Dollar equivalent notional amounts of these contracts was $106.0 million and $122.2 million at April 30, 2015 and October 31, 2014, respectively. The fair value of Derivative assets recorded on our Condensed Consolidated Balance Sheets was $3.5 million at April 30, 2015 and $3.1 million at October 31, 2014. The fair value of Derivative liabilities recorded on our Condensed Consolidated Balance Sheets was $1.1 million at April 30, 2015 and $705,000 at October 31, 2014.

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

Nonrecurring Fair Value Measurements

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

We review for goodwill impairment annually and whenever events or changes in circumstances indicate our carrying value may not be recoverable. The fair value of reporting units is determined using the income approach. The income approach focusses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, corporate tax structure and product offerings. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the reporting unit. These assets would generally be classified within Level 3, in the event that we were required to measure and record such assets at fair value within the consolidated financial statements.

We periodically evaluate the carrying value of long-lived assets to be held and used, including definite-lived and indefinite-lived intangible assets and property plant and equipment, when events or circumstances warrant such a review. Fair value is determined primarily using anticipated cash flows assumed by a market participant discounted at a rate commensurate with the risk involved and these assets would generally be classified within Level 3, in the event that we were required to measure and record such assets at fair value within the consolidated financial statements.

12. CONTINGENCIES AND LITIGATION

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

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an industrial technology company operating in a single segment. We design and produce computerized machine tools, featuring our proprietary computer control systems and software, for sale through our own distribution network to the worldwide metal cutting market. We also provide 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 the first six months of fiscal 2015, approximately 63% 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 9% of our revenues were attributable to customers in Asia, where we sell more of our entry-level, lower-priced machines, but where we also encounter greater price pressures.

We sell our products through more than 100 independent agents and distributors in countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in China, France, Germany, India, Italy, Poland, Singapore, South Africa, the United Kingdom and certain parts of the United States. The vast majority of our machine tools are manufactured to our specifications primarily by our wholly-owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML). Machine castings to support HML's production are manufactured at our facility in Ningbo, China. Components to support our SRT line of five-axis machining center, such as the direct drive spindle, swivel head and rotary table, are manufactured by our wholly-owned subsidiary in Italy, LCM Precision Technology S.r.l. (LCM).

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies—primarily the Euro, Pound Sterling and Chinese Yuan—in the countries in which those customers are located. Our product costs are incurred and paid primarily in the New Taiwan Dollar and the U.S. Dollar. Changes in currency exchange rates may have a material effect on our operating results and consolidated balance sheets as reported under U.S. Generally Accepted Accounting Principles. For example, when the U.S. Dollar 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 including the increases or decreases in those results as reported in our financial statements (which reflect translation to U.S. Dollars at exchange rates prevailing during the period covered by those financial statements) and also the effect that changes in exchange rates had on those results.

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

RESULTS OF OPERATIONS

Three Months Ended April 30, 2015 Compared to Three Months Ended April 30, 2014

Sales and Service Fees. Sales and service fees for the second quarter of fiscal 2015 were $50.2 million, a decrease of $3.5 million, or 7%, compared to the corresponding period in fiscal 2014. The quarter-over-quarter decrease in sales reflected growth of $2.7 million, or 5%, offset by the negative impact of currency of $6.3 million, or 12%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

The following two tables set forth net sales (in thousands) by geographic region and product category, respectively, for the second quarter of fiscal 2015 and 2014:

Sales and Service Fees by Geographic Region

	Three Months Ended April 30,				Change	
	2015		2014		Amount	%
North America	$13,735	27 %	$12,287	23 %	$1,448	12 %
Europe	32,113	64 %	35,037	65 %	(2,924)	-8 %
Asia Pacific	4,335	9 %	6,407	12 %	(2,072)	-32%
Total	$50,183	100%	$53,731	100%	$(3,548)	-7 %

North American sales increased during the second quarter of fiscal 2015 by 12% compared to the corresponding period in fiscal 2014, primarily driven by increased shipments of higher-performance machines. European sales for the second quarter of fiscal 2015 decreased by 8% compared to the corresponding period in fiscal 2014 and reflected sales growth of 9% offset by the negative impact of currency of 17% due to a weaker Euro and Pound Sterling when translating foreign sales to U.S. Dollars for financial reporting purposes. The quarter-over-quarter improvement in European sales was primarily driven by increased shipments of higher-performance machines in Germany and France. Asian Pacific sales for the second quarter of fiscal 2015 decreased by 32% compared to the corresponding period in fiscal 2014, primarily due to softening market conditions in China.

Sales and Service Fees by Product Category

	Three Months Ended April 30,				Change	
	2015		2014		Amount	%
Computerized Machine Tools	$42,950	86 %	$46,445	86 %	$(3,495)	-8%
Service Fees, Parts and Other	7,233	14 %	7,286	14 %	(53)	-1%
Total	$50,183	100%	$53,731	100%	$(3,548)	-7%

Orders. Orders for the second quarter of fiscal 2015 were $53.1 million, a decrease of $0.6 million, or 1%, compared to the corresponding period in fiscal 2014. Despite growth of $6.3 million, or 12%, the quarter-over-quarter decrease in orders reflected a negative currency impact of $6.9 million, or 13%, when translating foreign orders to U.S. Dollars for financial reporting purposes.

Orders for North America for the second quarter of fiscal 2015 were $15.7 million, an increase of $4.3 million, or 38%, compared to the corresponding period in fiscal 2014, primarily due to increased customer demand for higher-performance machines. European orders for the second quarter of fiscal 2015 were $33.7 million, a decrease of $4.2 million, or 11%, compared to the corresponding period in fiscal 2014. Despite growth of $2.4 million, or 6%, the quarter-over-quarter decrease in European orders reflected a negative impact of currency of $6.6 million, or 17%, due to a weaker Euro and Pound Sterling when translating foreign orders to U.S. Dollars for financial reporting purposes. The quarter-over-quarter improvement in European orders was primarily driven by increased customer demand for higher-performance machines in Germany, France and Italy. Orders for Asia Pacific for the second quarter of fiscal 2015 were $3.7 million, a decrease of $0.7 million, or 16% compared to the corresponding period in fiscal 2014, primarily due to softening market conditions in China.

Gross Profit. Gross profit for the second quarter of fiscal 2015 was $16.6 million, or 33% of sales, compared to $16.6 million, or 31% of sales, for the corresponding prior year period. The increase in gross margin was primarily attributable to increased sales of higher-performance machines in Europe and North America.

Operating Expenses. Selling, general and administrative expenses for the second quarter of fiscal 2015 were $10.9 million, or 22% of sales, compared to $11.2 million, or 21% of sales, in the corresponding period in fiscal 2014. Selling, general and administrative expenses were favorably impacted by approximately $1.0 million, or 2% of sales, when translating foreign expenses to U.S. Dollars for financial reporting purposes.

Operating Income. Operating income for the second quarter of fiscal 2015 was $5.7 million compared to $5.4 million for the corresponding period in fiscal 2014. The increase in operating income year-over-year was primarily due to increased sales of higher-performance machines in Europe and North America.

Other (Income) Expense, Net. Other income in the second quarter of fiscal 2015 increased by $0.4 million from the corresponding period in fiscal 2014 as a result of a dividend distribution from a related party, Hurco Automation Limited.

Income Taxes. Our effective tax rate for the second quarter of fiscal 2015 was 32% compared to 31% for the corresponding period in fiscal 2014. The increase in the effective income tax rate was primarily due to changes in the geographic mix of income or loss between tax jurisdictions. We recorded income tax expense during the second quarter of fiscal 2015 of $1.9 million compared to $1.6 million for the corresponding period in fiscal 2014.

Six Months Ended April 30, 2015 Compared to Six Months Ended April 30, 2014

Sales and Service Fees. Sales and service fees for the first six months of fiscal 2015 were $101.2 million, a decrease of $3.5 million, or 3%, compared to the corresponding period in fiscal 2014. The year-over-year decrease in sales, despite growth of $6.3 million, or 6%, was due to the negative impact of currency of $9.9 million, or 9%, when translating foreign sales to U.S. Dollars for financial reporting purposes.

The following tables set forth net sales (in thousands) by geographic region and product category for the first six months of fiscal 2015 and 2014.

Net Sales and Service Fees by Geographic Region

	Six Months Ended April 30,				Change	
	2015		2014		Amount	%
North America	$28,586	28 %	$28,580	27 %	$6	0 %
Europe	63,913	63 %	64,271	62 %	(358)	-1 %
Asia Pacific	8,656	9 %	11,850	11 %	(3,194)	-27%
Total	$101,155	100%	$104,701	100%	$(3,546)	-3 %

European sales for the first six months of fiscal 2015 decreased by 1% compared to the corresponding prior year period and reflected sales growth of 14% offset by the negative impact of currency of 15% due to a weaker Euro and Pound Sterling when translating foreign sales to U.S. Dollars for financial reporting purposes. The year-over-year improvement in European sales was driven by increased shipments of higher-performance machines across all European regions. Asian Pacific sales for the first six months of fiscal 2015 decreased by 27% compared to the corresponding period in fiscal 2014, primarily due to softening market conditions in China. North America sales for the first six months of fiscal 2015 were relatively unchanged compared to the corresponding prior year period.

Sales and Service Fees by Product Category

	Six Months Ended April 30,				Change	
	2015		2014		Amount	%
Computerized Machine Tools	$86,696	86 %	$90,978	87 %	$(4,282)	-5%
Service Fees, Parts and Other	14,459	14 %	13,723	13 %	736	5 %
Total	$101,155	100%	$104,701	100%	$(3,546)	-3%

Orders. Orders for the first six months of fiscal 2015 were $98.1 million, a decrease of $12.7 million, or 11%, compared to the corresponding prior year period. The year-over-year decrease in orders reflected a reduction of $2.8 million, or 2%, and a negative impact of currency of $9.9 million, or 9%, when translating foreign orders to U.S. Dollars for financial reporting purposes.

Orders for North America were $29.6 million for the first six months of fiscal 2015, an increase of $3.6 million, or 14%, compared to the corresponding prior year period, due to increased customer demand for higher-performance machines. European orders for the first six months of fiscal 2015 were $59.6 million, a decrease of $14.7 million, or 20%, compared to the corresponding prior year period. The year-over-year decrease in European orders reflected an order reduction of $5.2 million, or 7%, and a negative impact of currency of $9.4 million, or 13%, due to a weaker Euro and Pound Sterling when translating foreign orders to U.S. Dollars for financial reporting purposes. The year-over-year reduction in European sales was primarily driven by foreign currency weakness in the United Kingdom and fluctuating customer demand for electro-mechanical components and accessories manufactured by Hurco's Italian-based subsidiary, LCM Precision Technologies (LCM). Orders for Asia Pacific for the first six months of fiscal 2015 were $8.8 million, a decrease of $1.6 million, or 15%, compared to the corresponding period in fiscal 2014, primarily due to softening market conditions in China.

Gross Profit. Gross profit for the first six months of fiscal 2015 was $33.1 million, or 33% of sales, compared to $30.5 million, or 29% of sales, for the corresponding prior year period. The increase in gross profit was primarily attributable to increased sales of higher-performance machines in Europe.

Operating Expenses. Selling, general and administrative expenses for the first six months of fiscal 2015 were $21.3 million, or 21% of sales, compared to $21.8 million, or 21% of sales, in the corresponding period in fiscal 2014. Selling, general and administrative expenses were favorably impacted by approximately $1.3 million, or 1% of sales, when translating foreign expenses to U.S. Dollars for financial reporting purposes.

Operating Income. Operating income for the first six months of fiscal 2015 was $11.8 million compared to $8.7 million for the corresponding period in fiscal 2014. The increase in operating income year-over-year was primarily due to increased sales of higher-performance machines in Europe.

Other (Income) Expense, Net. Other expense in the first six months of fiscal 2015 decreased by $0.1 million from the corresponding period in fiscal 2014 as a result of a dividend distribution from a related party, Hurco Automation Limited.

Income Taxes. Our effective tax rate for the first six months of fiscal 2015 was 34% in comparison to 30% for the corresponding period in fiscal 2014. The increase in the effective income tax rate was primarily due to changes in the geographic mix of income or loss between tax jurisdictions. We recorded income tax expense during the first six months of fiscal 2015 of $3.9 million compared to $2.5 million for the corresponding period in fiscal 2014.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2015, we had cash and cash equivalents of $64.7 million, compared to $53.8 million at October 31, 2014. Approximately 59% of the $64.7 million of cash and cash equivalents is denominated in U.S. Dollars. 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, excluding cash and cash equivalents, was $85.7 million at April 30, 2015, compared to $90.1 million at October 31, 2014. The decrease in working capital, excluding cash and cash equivalents, was primarily due to decreases in accounts receivable and the impact of translating foreign currencies to U.S. Dollars for financial reporting purposes.

Capital expenditures of $1.6 million during the first six months of fiscal 2015 were primarily for software development costs and capital improvements in existing facilities. We funded these expenditures with cash on hand.

At April 30, 2015, we had $3.2 million of borrowings outstanding under our China credit facility. We had no other debt or borrowings under any of our other credit facilities. At April 30, 2015, we had an aggregate of $18.5 million available for borrowing under our credit facilities and were in compliance with all covenants.

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

We continue to receive and review information on businesses and assets for potential acquisition, including intellectual property assets, which are available for purchase.

CRITICAL ACCOUNTING POLICIES

Our accounting policies, which are described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, require management to make significant estimates and assumptions using information available at the time the estimates are made. These estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues, and expenses. If our future experience differs materially from these estimates and assumptions, our results of operations and financial condition would be affected. There were no material changes to our critical accounting policies during the first six months of fiscal 2015.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes related to contractual obligations and commitments from the information provided in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

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, or FASB, guidance for accounting for guarantees (codified in ASC 460). As of April 30, 2015, we had 19 outstanding third party payment guarantees totaling approximately $1.5 million. The terms of these guarantees are consistent with the underlying customer financing terms. Upon shipment of a machine, the customer has the risk of ownership. The customer does not obtain title, however, until it has paid for the machine. A retention of title clause allows us to recover the machine if the customer defaults on the financing. We accrue liabilities under these guarantees at fair value, which amounts are insignificant.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

- The cyclical nature of the machine tool industry;
- Uncertain economic conditions, which may adversely affect overall demand, particularly in Europe;
- The risks of our international operations;
- The limited number of our manufacturing sources;
- The effects of changes in currency exchange rates;
- Our dependence on new product development;
- Possible obsolescence of our technology and the need to make technological advances;
- Competition with larger companies that have greater financial resources;
- Increases in the prices of raw materials, especially steel and iron products;
- Acquisitions that could disrupt our operations and affect operating results;
- Impairment of our assets;
- Negative or unforeseen tax consequences;
- The need to protect our intellectual property assets;
- Our ability to integrate acquisitions;
- Uncertainty concerning our ability to use tax loss carryforwards;
- Breaches of our network and system security measures;
- The effect of the loss of members of senior management and key personnel; and
- Governmental actions, initiatives and regulations, including import and export restrictions and tariffs.

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest on borrowings on our credit facilities are variable and tied to prevailing domestic and foreign interest rates. At April 30, 2015, we had $3.2 million of borrowings outstanding under our China credit facility. We had no other debt or borrowings under any of our other credit facilities.

Foreign Currency Exchange Risk

In the first six months of fiscal 2015, we derived approximately 72% of our revenues from foreign markets. All of our computerized machine tools and computer control systems, as well as certain proprietary service parts, are sourced by our U.S.-based engineering and manufacturing division and re-invoiced to our foreign sales and service subsidiaries, primarily in their functional currencies.

Our products are sourced from foreign suppliers or built to our specifications by either our wholly-owned subsidiaries in Taiwan, 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 also enter into foreign currency forward contracts to hedge a portion of our net investment denominated in Euro’s. 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 April 30, 2015, 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	April 30, 2015	Maturity Dates
Sale Contracts:						
Euro	25,150,000	1.2193		30,666,100	28,386,947	May 2015 – April 2016
Pound Sterling	6,730,000	1.5769		10,612,577	10,329,005	May 2015 – April 2016
Purchase Contracts:						
New Taiwan Dollar	675,000,000	30.453	*	22,165,209	22,072,346	May 2015 – April 2016

*NT Dollars per U.S. Dollar

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Forward contracts for the sale or purchase of foreign currencies as of April 30, 2015, which were entered into to protect against the effects of foreign currency fluctuations on receivables and payables and are not designated as hedges under this guidance denominated in foreign currencies, were as follows:

Forward Contracts	**Notional Amount in Foreign Currency**	**Weighted Avg. Forward Rate**		**Contract Amount at Forward Rates in U.S. Dollars**		**Maturity Dates**
				Contract Date	**April 30, 2015**	
Sale Contracts:						
Euro	20,895,532	1.0978		22,939,850	23,559,771	May 2015 – October 2015
Pound Sterling	636,425	1.5319		974,939	977,460	May 2015
Canadian Dollar	1,081,160	0.8285		895,741	892,218	October 2015
South African Rand	11,159,064	0.0817		911,390	909,057	October 2015
Purchase Contracts:						
New Taiwan Dollar	409,618,148	31.192	*	13,132,164	13,379,035	May 2015 – July 2015

* NT Dollars per U.S. Dollar

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we have maintained a forward contract with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro-denominated assets. We selected the forward method under FASB guidance related to the accounting for derivatives instruments and hedging activities. The forward method requires all changes in the fair value of the contract to be reported as a cumulative translation adjustment in Accumulated other comprehensive loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matures in November 2015. At April 30, 2015, we had $452,000 of realized gains and $229,000 of unrealized gains, net of tax, recorded as cumulative translation adjustments in Accumulated other comprehensive loss related to the hedging of our net investment in Euro-denominated assets. Forward contracts for the sale or purchase of foreign currencies as of April 30, 2015, which are designated as net investment hedges under this guidance were as follows:

	Notional Amount	Weighted Avg.	**Contract Amount at Forward Rates in**

Forward Contracts	in Foreign Currency	Forward Rate	U.S. Dollars Contract Date	April 30, 2015	Maturity Date
Sale Contracts:					
Euro	3,000,000	1.2476	3,742,800	3,387,960	November 2015

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Item 4. CONTROLS AND PROCEDURES

We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2015, pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the evaluation date.

There were no changes in our internal controls over financial reporting during the three months ended April 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time we are involved in various claims and lawsuits arising in the normal course of business. 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. Any claims that have been filed against us are properly reflected on our consolidated financial position and results of operations and we believe that the ultimate resolution of claims for any losses will not exceed our insurance policy coverages.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended October 31, 2014.

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

We did not repurchase any shares of our common stock in the second quarter of fiscal 2015.

Item 5. OTHER INFORMATION

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

Item 6. EXHIBITS

31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

HURCO COMPANIES, INC.

By: /s/ Sonja K. McClelland
Sonja K. McClelland
Vice President, Secretary, Treasurer
& Chief Financial Officer

June 5, 2015