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 July 31, 2011 or
¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________.

Commission File No. 0-9143

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

Indiana (State or other jurisdiction of incorporation or organization)	35-1150732 (I.R.S. Employer Identification Number)
One Technology Way Indianapolis, Indiana (Address of principal executive offices)	46268 (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 September 1, 2011 was 6,440,851.

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

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

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

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

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

	July 31 2011 (Unaudited)	October 31 2010 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$49,139	$48,255
Accounts receivable, net	30,407	20,114
Refundable taxes	4,383	5,093
Inventories, net	75,105	55,866
Deferred income taxes	2,804	2,467
Derivative assets	381	905
Other	5,763	3,508
Total current assets	167,982	136,208
Non-current assets:		
Property and equipment:		
Land	782	782
Building	7,116	7,116
Machinery and equipment	16,198	15,095
Leasehold improvements	2,366	2,183
	26,462	25,176
Less accumulated depreciation and amortization	(15,192)	(13,424)
	11,270	11,752
Software development costs, less accumulated amortization	5,274	6,042
Investments and other assets, net	6,209	6,344
	$190,735	$160,346
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$44,332	$30,394
Accrued expenses and other	13,447	8,132
Accrued warranty expenses	1,781	1,591
Derivative liabilities	2,017	2,123
Short-term debt	854	—
Total current liabilities	62,431	42,240
Non-current liabilities:		
Deferred income taxes	2,465	2,335
Deferred credits and other	1,124	1,031
Total liabilities	66,020	45,606
Shareholders' equity:		
Preferred stock: no par value per share, 1,000,000 shares authorized, no shares issued	—	—
Common stock: no par value, $.10 stated value per share, 13,250,000 shares authorized, 6,471,710 and 6,440,851 shares issued; and 6,440,851 and 6,440,851 shares outstanding,	644	644

as of July 31, 2011 and October 31, 2010, respectively		
Additional paid-in capital	52,476	52,144
Retained earnings	72,294	63,824
Accumulated other comprehensive loss	(699)	(1,872)
Total shareholders’ equity	124,715	114,740
	$190,735	$160,346

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

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

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

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

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

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

Stock-based compensation expense	—	—	332	—	—	332
Balances, July 31, 2011 (Unaudited)	6,440,851	$644	$52,476	$72,294	$ (699)	$124,715

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

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

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

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

Derivatives Designated as Hedging Instruments

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

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

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

Derivatives Not Designated as Hedging Instruments

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

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

Fair Value of Derivative Instruments

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

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

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

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

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

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

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

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

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

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