HURCO COMPANIES INC
Form 10-K
January 13, 2012

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, 2011 or

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

Commission File No. 0-9143

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

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

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

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, No Par Value (Title of Class)

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 at least the past 90 days. 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller Reporting Company ¨
(Do not check if a 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

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 ¨
The aggregate market value of the registrant's voting stock held by non-affiliates as of April 30, 2011 (the last day of our most recently completed second quarter) was $209,328,000.

The number of shares of the registrant's common stock outstanding as of January 3, 2012 was 6,441,351.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for its 2012 Annual Meeting of Shareholders (Part III).

Disclosure Concerning Forward-looking Statements

Certain statements made in this annual report on Form 10-K may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include the risks identified in Item 1A.

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an industrial technology company. We design, manufacture and sell computerized machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal working industry through a worldwide sales, service and distribution network. Although 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. As used in this report, the words “we”, “us”, “our”, “Hurco” and the “Company” refer 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, USA. Sales, application engineering and service subsidiaries are located in Canada, China, France, Germany, India, Italy, Poland, Singapore, South Africa, and the United Kingdom. We have manufacturing operations in Taiwan and China, and distribution facilities in the USA, the Netherlands, and Taiwan.

Our strategy is to design, manufacture and sell a comprehensive line of computerized machine tools that incorporate our proprietary, interactive, computer control technology for the global metalworking market. Our technology is designed to enhance the machine tool user's productivity through ease of operation and higher levels of machine performance (speed, accuracy and surface finish quality). We use an open system software architecture that permits our computer control systems and software to be produced and employed using standard PC hardware. We have emphasized a “user-friendly” design that employs both interactive conversational and graphical programming software. We routinely expand our product offering 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. Combined with a strong worldwide demand for machine tools, our introduction of new, technologically advanced products and expansion into new markets resulted in significant growth prior to the recent recession and in fiscal 2011.

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Industry

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

Although, industry association data for the U.S. machine tool market is available, that market only accounts for approximately 5% 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 and American Machine Tool Distributor Association, 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 and reports 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 for foreign markets is available, 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 is based on government reports that may lag 6 to 12 months and therefore is unreliable for forecasting purposes.

Demand for capital equipment can fluctuate significantly during periods of changing economic conditions as we experienced during the recent global recession that began in early fiscal 2009. We experienced a return to higher levels of demand in fiscal 2011. 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 30 to 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 are available to many other industries for market analysis and forecasting purposes.

Products

Our core products consist of general purpose computerized machine tools for the metal cutting industry. These are, principally, vertical machining centers (mills) and turning centers (lathes), with which our proprietary software and computer control systems are fully integrated. 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. 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.

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:

Net Sales and Service Fees by Product Category

(Dollars in thousands)	Year ended October 31,								
	2011			2010			2009		
Computerized Machine Tools	$ 156,736	86.9	%	$ 88,184	83.3	%	$ 75,213	82.7	%
	3,322	1.8	%	2,347	2.2	%	2,546	2.8	%

Computer Control Systems and Software *										
Service Parts		14,836	8.2	%	10,798	10.2	%	8,851	9.7	%
Service Fees		5,506	3.1	%	4,564	4.3	%	4,406	4.8	%
Total	$	180,400	100	%	$ 105,893	100	%	$ 91,016	100	%

*Amounts shown do not include computer control systems sold as integrated components of computerized machine tools.

Computerized Machine Tools – Machining and Turning Centers

We design, manufacture and sell computerized machine tools 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 a liquid crystal display (LCD), 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 to enable 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
- incorporate fast moving changes in technology into their operations to keep their competitive edge
- integrate 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 becomes minutes instead of hours.

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 enables our customers to create parts with higher accuracy at faster speeds. We continue to add technology to our control design as it becomes available.

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

*Windows® is a registered trademark of Microsoft Corporation.

VM Product Line

The VM product line consists of moderately priced vertical machining centers for the entry-level market. Their design premise of a 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 three sizes with X-axis (horizontal) travels of 26, 40, and 50 inches. The base list prices of the VM machines range from $55,000 to $170,000.

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 fourteen models in seven sizes with X-axis travels of 24, 30, 42, 50, 60, 64, and 84 inches. The base list prices of VMX machines range from $70,000 to $300,000.

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Five-Axis Product Line

The five-axis product line is targeted at manufacturers seeking to produce complex multi-sided parts 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. Due to growing market demand for increased processing efficiency, we continued to focus on five-axis technology in fiscal 2011. In total, we have nine five-axis machining centers to offer customers. The base list prices of the five-axis machines range from $120,000 to $350,000.

TM/TMM Product Line

Since its introduction in fiscal 2005, we have continued to expand the TM turning center (horizontal slant-bed lathe) product line. The TM series is designed for entry-level job shops and contract manufacturers seeking efficient processing of small to medium lot sizes. There are six TM models: the TM6, TM8, TM10, TM18L, and two new models, the TM12 and TM18. 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. We offer two TMM models. The base list prices of the TM/TMM machines range from $50,000 to $350,000.

TMX Product Line

The TMX product line consists of six high performance turning centers. Two of the models are equipped with an additional axis and motorized live tooling, and two models have an additional spindle. The base list prices of TMX turning centers range from $100,000 to $250,000.

Specialty Product Lines

This category includes three product series: the dual column DCX Series, the zone VTXZ Series, and the horizontal HTX Series. The zone VTXZ machining center is designed for production flexibility. The VTXZ can work as a dual work zone machine to support continuous production or a single zone to produce long, structural parts. Both the DCX Series and VTXZ Series are designed to facilitate production of large parts and molds often required by the aerospace and energy industries. The horizontal machining center (HTX) is also included in this category as it facilitates efficient and accurate machining of complex production parts. The base list prices of these machines range from $300,000 to $450,000.

Computer Control Systems and Software

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.

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Software Products

In addition to our standard computer control features, we offer software option products for two-dimensional programming. These products are sold to users of our computerized machine tools equipped with our twin touch-screen or single touch-screen consoles featuring WinMax® control software. The options include: Swept Surface, SelectSurface Finish Quality (SFQ), DXF Transfer, UltiMonitorTM, UltiMotionTM, UltiPocketTM, Conversational Part and Tool Probing, Advanced Verification Graphics, and Simultaneous Five-Axis Contouring.

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

SelectSurface Finish Quality (SFQ) lets the customer control surface finish quality and run time in one easy step.

The DXF Transfer software option can increase operator productivity because it eliminates manual data entry of part features by transferring AutoCADTM 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, enabling 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.

UltiMotion uses software-based motion control which is more efficient than conventional hardware-based motion control. This software-based motion control system provides significant cycle time reductions, minimizes machine jerk, and increases the quality of the part's surface finish.

UltiPocketTM 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 Advanced Verification Graphics feature significantly reduces both scrap and programming time because it provides customers with a three-dimensional solid rendering of the part, including dynamic rotation. This feature allows a customer to view the rendered part from any angle without needing to redraw it.

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.

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 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 to our specifications primarily by our wholly owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML). HML conducts final assembly operations and is supported by a network of contract suppliers of components and sub-assemblies who manufacture components for our products in accordance with our proprietary designs, quality standards and cost specifications. Our manufacturing facility in Ningbo, China, focuses on the machining of castings to support HML's production in Taiwan as well as producing VM and TM machines specifically for the Chinese market.

We have a contract manufacturing agreement for computer control systems with Hurco Automation, Ltd., 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 our minority-owned affiliate 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 sell our products through more than 100 independent agents and distributors throughout North America, Europe and Asia. Although some distributors carry competitive products, we are the primary line for the majority of our distributors globally. We also have direct sales personnel in Canada, China, France, Germany, India, Italy, Poland, Singapore, South Africa, the United Kingdom and certain parts of the United States, which are among the world's principal machine tool consuming markets.

Approximately 95% of the worldwide demand for computerized machine tools and computer control systems is outside the United States. In fiscal 2011, more than 70% of our revenues were from overseas customers. 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 metal parts manufacturers, and specialized production application or prototype departments within large manufacturing companies. Industries served include aerospace, defense, medical equipment, energy, automotive/transportation, electronics and computer equipment.

We also sell our Autobend® computer control systems to original equipment manufacturers of new metal fabrication machine tools who 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 who integrate them with those machines as part of the retrofitting operation, and to end-users who 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 that will require replacement with more advanced technology

- the industrial development of emerging markets in Asia and Eastern Europe
- 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 Deckel Maho Gildemeister Group (DMG), Mori Seiki Co., Ltd., Mazak, Haas Automation, Inc., Hardinge Inc., Doosan, Okuma Machinery Works Ltd., Milltronics, and MAG Industrial Automation Systems.

We strive to compete effectively 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 our products to be proprietary. Various features of our 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 in the future.

Research and Development

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

Fiscal Year	Non-capitalized research and development	Capitalized software development
2011	$ 2,500	$ 1,100
2010	2,200	1,200
2009	2,500	2,000

Employees

We had approximately 520 full-time employees at the end of fiscal 2011, none of whom were 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 about geographic areas in which we sell our products is set forth 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 make available on this website, free of charge, access to our annual, quarterly and current reports and other documents filed by us with the Securities and Exchange Commission (SEC) as soon as reasonably practical after the filing date. These reports can also be obtained at the SEC's Public Reference Room at 100 F Street, NE Washington, DC 20549.

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 busi