HURCO COMPANIES INC
Form 10-Q
September 08, 2017

**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, 2017 or

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

Commission File No. 0-9143

**HURCO COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

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

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

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

The number of shares of the Registrant's common stock outstanding as of September 1, 2017 was 6,624,197.

**HURCO COMPANIES, INC.**

Form 10-Q Quarterly Report for Fiscal Quarter Ended July 31, 2017

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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 July 31, | | Nine Months Ended July 31, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **(Unaudited)** | | **(Unaudited)** | |
| Sales and service fees | $ 60,770 | $ 52,403 | $ 167,736 | $ 160,935 |
| Cost of sales and service | 43,230 | 36,268 | 120,541 | 110,492 |
| Gross profit | 17,540 | 16,135 | 47,195 | 50,443 |
| Selling, general and administrative expenses | 12,395 | 12,042 | 35,276 | 35,946 |
| Operating income | 5,145 | 4,093 | 11,919 | 14,497 |
| Interest expense | 21 | 23 | 66 | 72 |
| Interest income | 14 | 12 | 32 | 34 |
| Investment income | 5 | 4 | 85 | 110 |
| Other (income) expense, net | (98) | 246 | 193 | 226 |
| Income before taxes | 5,241 | 3,840 | 11,777 | 14,343 |
| Provision for income taxes | 1,353 | 1,120 | 3,363 | 4,054 |
| Net income | $ 3,888 | $ 2,720 | $ 8,414 | $ 10,289 |
| Income per common share | | | | |
| Basic | $ 0.58 | $ 0.41 | $ 1.26 | $ 1.56 |

| | | | | |
|---|---|---|---|---|
| Diluted | $ 0.58 | $ 0.40 | $ 1.25 | $ 1.54 |
| Weighted average common shares outstanding | | | | |
| Basic | 6,624 | 6,573 | 6,608 | 6,567 |
| Diluted | 6,695 | 6,645 | 6,674 | 6,639 |
| **Dividends paid per share** | $ 0.10 | $ 0.09 | $ 0.29 | $ 0.26 |

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

**HURCO COMPANIES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | (Unaudited) | |
| Net income | $ 3,888 | $ 2,720 | $ 8,414 | $ 10,289 |
| Other comprehensive income (loss): | | | | |
| Translation of foreign currency financial statements | 3,263 | (1,428) | 5,419 | (416) |
| (Gain) / loss on derivative instruments reclassified into operations, net of tax of $(310), $(126), $(369) and $(937), respectively | (562) | (229) | (670) | (1,703) |
| (Loss)/ gain on derivative instruments, net of tax of ($842), $703, ($609) and $391, respectively | (1,531) | 1,277 | (1,107) | 710 |
| Total other comprehensive income (loss) | 1,170 | (380) | 3,642 | (1,409) |
| Comprehensive income | $ 5,058 | $ 2,340 | $ 12,056 | $ 8,880 |

*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)

| | **July 31, 2017 (Unaudited)** | **October 31, 2016 (Audited)** |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 61,145 | $ 41,217 |
| Accounts receivable, net | 39,258 | 48,631 |
| Inventories, net | 128,231 | 117,025 |
| Derivative assets | 382 | 1,725 |
| Prepaid assets | 8,007 | 8,207 |
| Other | 2,445 | 1,576 |
| Total current assets | 239,468 | 218,381 |
| Property and equipment: | | |
| Land | 841 | 841 |
| Building | 7,352 | 7,352 |
| Machinery and equipment | 25,599 | 23,515 |
| Leasehold improvements | 3,665 | 3,487 |
| | 37,457 | 35,195 |
| Less accumulated depreciation and amortization | (25,112 ) | (22,898 ) |
| Total property and equipment | 12,345 | 12,297 |
| Non-current assets: | | |
| Software development costs, less accumulated amortization | 5,888 | 4,926 |
| Goodwill | 2,477 | 2,314 |
| Intangible assets, net | 1,118 | 1,150 |
| Deferred income taxes | 6,318 | 6,138 |
| Investments and other assets, net | 6,863 | 6,743 |
| Total non-current assets | 22,664 | 21,271 |
| Total assets | $ 274,477 | $ 251,949 |
| | | |
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 48,560 | $ 37,200 |
| Accrued expenses and other | 12,950 | 17,231 |
| Accrued warranty expenses | 1,701 | 1,523 |
| Derivative liabilities | 4,698 | 538 |
| Short-term debt | 1,487 | 1,476 |
| Total current liabilities | 69,396 | 57,968 |
| Non-current liabilities: | | |
| Deferred income taxes | 3,253 | 4,294 |

| | | |
|---|---|---|
| Accrued tax liability | 1,168 | 963 |
| Deferred credits and other | 3,692 | 3,249 |
| Total non-current liabilities | 8,113 | 8,506 |
| | | |
| Shareholders' equity: | | |
| Preferred stock: no par value per share, 1,000,000 shares authorized, no shares issued | — | — |
| Common stock: no par value, $.10 stated value per share, 12,500,000 shares authorized, 6,782,006 and 6,720,453 shares issued; and 6,624,197 and 6,573,103 shares outstanding, as of July 31, 2017 and October 31, 2016, respectively | 663 | 657 |
| Additional paid-in capital | 60,470 | 59,119 |
| Retained earnings | 143,236 | 136,742 |
| Accumulated other comprehensive loss | (7,401 ) | (11,043 ) |
| Total shareholders' equity | 196,968 | 185,475 |
| Total liabilities and shareholders' equity | $ 274,477 | $ 251,949 |

*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, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | (Unaudited) | |
| Cash flows from operating activities: | | | | |
| Net income | $ 3,888 | $ 2,720 | $ 8,414 | $ 10,289 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | | | |
| Provision for doubtful accounts | 7 | (12) | (4) | (57) |
| Deferred income taxes | 32 | (153) | (515) | 756 |
| Equity in (income) loss of affiliates | (131) | (114) | (323) | (372) |
| Depreciation and amortization | 936 | 962 | 2,718 | 2,896 |
| Foreign currency (gain) loss | (2,745) | 1,585 | (1,381) | 377 |
| Unrealized (gain) loss on derivatives | 2,050 | (892) | 1,523 | (340) |
| Stock-based compensation | 441 | 424 | 1,088 | 1,183 |
| Change in assets and liabilities: | | | | |
| (Increase) decrease in accounts receivable | (1,700) | 2,231 | 11,274 | 4,192 |
| (Increase) decrease in inventories | (5,017) | (5,620) | (4,624) | (21,893) |
| (Increase) decrease in prepaid expenses | 324 | 424 | 551 | (1,281) |
| Increase (decrease) in accounts payable | 3,943 | (2,980) | 9,415 | (580) |
| Increase (decrease) in accrued expenses | (35) | 222 | (4,669) | (2,953) |
| Net change in deferred tax assets and liabilities | (1,346) | 311 | (1,140) | (817) |
| Net change in derivative assets and liabilities | 1,051 | (665) | 1,418 | 42 |
| Other | 254 | 494 | (56) | 575 |
| Net cash provided by (used for) operating activities | 1,952 | (1,063) | 23,689 | (7,983) |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | (668) | (456) | (1,666) | (1,601) |
| Proceeds from sale of equipment | — | 28 | — | 264 |
| Software development costs | (593) | (527) | (1,701) | (1,649) |
| Net cash provided by (used for) investing activities | (1,261) | (955) | (3,367) | (2,986) |
| Cash flows from financing activities: | | | | |
| Dividends paid | (667) | (592) | (1,920) | (1,712) |
| Proceeds of exercise of common stock options | — | — | 269 | — |
| Repayment of short-term debt | — | — | — | — |
| Net cash provided by (used for) financing activities | (667) | (592) | (1,651) | (1,712) |

| | | | | |
|---|---|---|---|---|
| Effect of exchange rate changes on cash | 507 | (514 ) | 1,257 | (355 ) |
| Net increase (decrease) in cash and cash equivalents | 531 | (3,124 ) | 19,928 | (13,036 ) |
| Cash and cash equivalents at beginning of period | 60,614 | 45,325 | 41,217 | 55,237 |
| Cash and cash equivalents at end of period | $ 61,145 | $ 42,201 | $ 61,145 | $ 42,201 |

*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, 2017 and 2016**

| **(In thousands, except shares outstanding)** | **Common Stock** | | **Additional** | | **Accumulated Other** | |
|---|---|---|---|---|---|---|
| | **Shares Outstanding** | **Amount** | **Paid-in Capital** | **Retained Earnings** | **Comprehensive Income (Loss)** | **Total** |
| Balances, October 31, 2015 | 6,551,718 | $ 655 | $ 57,539 | $ 125,760 | $ (9,386) | $ 174,568 |
| Net income | — | — | — | 10,289 | — | 10,289 |
| Other comprehensive income (loss) | — | — | — | — | (1,409) | (1,409) |
| Stock-based compensation | 21,385 | 2 | 1,181 | — | — | 1,183 |
| Dividends paid | — | — | — | (1,712) | — | (1,712) |
| **Balances, July 31, 2016** (Unaudited) | 6,573,103 | $ 657 | $ 58,720 | $ 134,337 | $ (10,795) | $ 182,919 |
| Balances, October 31, 2016 | 6,573,103 | $ 657 | $ 59,119 | $ 136,742 | $ (11,043) | $ 185,475 |
| Net income | — | — | — | 8,414 | — | 8,414 |
| Other comprehensive income (loss) | — | — | — | — | 3,642 | 3,642 |
| Exercise of common stock options | 12,164 | 1 | 268 | — | — | 269 |
| Stock-based compensation | 38,930 | 5 | 1,083 | — | — | 1,088 |
| Dividends paid | — | — | — | (1,920) | — | (1,920) |
| **Balances, July 31, 2017** (Unaudited) | 6,624,197 | $ 663 | $ 60,470 | $ 143,236 | $ (7,401) | $ 196,968 |

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

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

The condensed financial information as of July 31, 2017 and for the three and nine months ended July 31, 2017 and July 31, 2016 is unaudited. However, in our opinion, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations, changes in shareholders’ equity and cash flows for and at the end of the interim periods. We suggest that you read these condensed consolidated financial statements in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2016.

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

We enter into these forward exchange contracts to reduce the potential effects of foreign exchange rate movements on our net equity investment in one of our foreign subsidiaries, to reduce the impact on gross profit and net earnings from sales and purchases denominated in foreign currencies, and to reduce the impact on our net earnings of foreign currency fluctuations on receivables and payables denominated in foreign currencies that are different than the subsidiaries' functional currency. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Indian Rupee, South African Rand, Singapore Dollars, Chinese Yuan, Polish Zloty, and New Taiwan Dollars. We record all derivative instruments as assets or liabilities at fair value.

Derivatives Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts periodically to hedge certain forecasted inter-company sales and purchases denominated in the following foreign currencies: the Pound Sterling, Euro and New Taiwan Dollar. The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments and are recorded in the Condensed Consolidated Balance Sheets at fair value in Derivative assets and Derivative liabilities. The effective portion of the gains and losses resulting from the changes in the fair value of these hedge contracts is deferred in Accumulated other comprehensive loss and recognized as an adjustment to Cost of sales and service in the period that the corresponding inventory sold that is the subject of the related hedge contract is recognized, thereby providing an offsetting economic impact against the corresponding change in the U.S. Dollar value of the inter-company sale or purchase being hedged. The ineffective portion of gains and losses resulting from the changes in the fair value of these hedge contracts is 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, 2017, denominated in Euros, Pounds Sterling and New Taiwan Dollars with set maturity dates ranging from August 2017 through July 2018. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2017, were $32.9 million for Euros, $10.3 million for Pounds Sterling and $30.7 million for New Taiwan Dollars. At July 31, 2017, we had approximately $504,000 of losses, net of tax, related to cash flow hedges deferred in Accumulated other comprehensive loss. Included in this amount were $1.4 million of 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 2018, when the corresponding inventory that is the subject of the related hedge contracts is sold, as described above.

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we entered into a forward contract with a notional amount of €3.0 million in November 2016. 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 2017. As of July 31, 2017, we had $809,000 of realized gains and $186,000 of unrealized losses, 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 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 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 July 31, 2017, denominated in Euros, Pounds Sterling, South African Rand, and New Taiwan Dollar with set maturity dates ranging from August 2017 through November 2017. The contract amounts, expressed at forward rates in U.S. Dollars at July 31, 2017 totaled $55.7 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 July 31, 2017 and October 31, 2016, all derivative instruments were recorded at fair value on the balance sheets as follows (in thousands):

| | July 31, 2017 | | October 31, 2016 | |
|---|---|---|---|---|
| Derivatives | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Designated as Hedging Instruments: | | | | |
| Foreign exchange forward contracts | Derivative assets | $352 | Derivative assets | $1,721 |
| Foreign exchange forward contracts | Derivative liabilities | $2,782 | Derivative liabilities | $173 |
| Not Designated as Hedging Instruments: | | | | |
| Foreign exchange forward contracts | Derivative assets | $30 | Derivative assets | $4 |
| Foreign exchange forward contracts | Derivative liabilities | $1,916 | Derivative liabilities | $365 |

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 July 31, 2017 and 2016 (in thousands):

| Derivatives | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) | | Location of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) | Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) | |
|---|---|---|---|---|---|
| | Three Months Ended July 31, | | | Three Months Ended July 31, | |
| | 2017 | 2016 | | 2017 | 2016 |
| Designated as Hedging Instruments: (Effective portion) | | | | | |
| Foreign exchange forward contracts – Intercompany sales/purchases | $ (1,531 ) | $ 1,277 | Cost of sales and service | $ 562 | $ 229 |
| Foreign exchange forward contract – Net investment | $ (172 ) | $ 59 | | | |

We recognized losses of $58,000 and $17,000 for the three months ended July 31, 2017 and 2016, respectively, as a result of hedges 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 July 31, 2017 and 2016 on derivative instruments not designated as hedging instruments (in thousands):

| Derivatives | **Location of Gain (Loss) Recognized in Operations** | **Amount of Gain (Loss) Recognized in Operations** |
|---|---|---|

| | | Three Months Ended July 31, | |
|---|---|---|---|
| | | 2017 | 2016 |
| Not Designated as Hedging Instruments: | | | |
| Foreign exchange forward contracts | Other (income) expense, net | $ (2,402) | $ 1,156 |

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the three months ended July 31, 2017 (in thousands):

| | Foreign Currency Translation | Cash Flow Hedges | Total |
|---|---|---|---|
| Balance, April 30, 2017 | $ (10,169) | $ 1,598 | $ (8,571) |
| Other comprehensive income (loss) before reclassifications | 3,263 | (1,531) | 1,732 |
| Reclassifications | — | (562) | (562) |
| Balance, July 31, 2017 | $ (6,906) | $ (495) | $ (7,401) |

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 nine months ended July 31, 2017 and 2016 (in thousands):

| Derivatives | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) | | Location of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) | Amount of Gain (Loss) Reclassified from Other Comprehensive Income (Loss) | |
|---|---|---|---|---|---|
| | **Nine Months Ended** | | | **Nine Months Ended** | |
| | **July 31,** | | | **July 31** | |
| | 2017 | 2016 | | 2017 | 2016 |
| Designated as Hedging Instruments: (Effective portion) | | | | | |
| Foreign exchange forward contracts – Intercompany sales/purchases | $ (1,107 ) | $ 710 | Cost of sales and service | $ 670 | $ 1,703 |
| Foreign exchange forward contract – Net investment | $ (142 ) | $ (21 ) | | | |

We recognized gains of $110,000 and $15,000 for the nine months ended July 31, 2017 and 2016, respectively, as a result of hedges 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 nine months ended July 31, 2017 and 2016 on derivative instruments not designated as hedging instruments (in thousands):

| Derivatives | **Location of Gain (Loss) Recognized in Operations** | **Amount of Gain (Loss) Recognized in Operations** | |
|---|---|---|---|
| | | **Nine Months Ended** | |
| | | **July 31,** | |
| | | 2017 | 2016 |
| Not designated as hedging instruments: | | | |
| Foreign exchange forward contracts | Other (income) expense, net | $ (1,447 ) | $ 56 |

The following table presents the changes in the components of Accumulated other comprehensive loss, net of tax, for the nine months ended July 31, 2017 (in thousands):

| | Foreign Currency Translation | Cash Flow Hedges | Total |
|---|---|---|---|
| Balance, October 31, 2016 | $ (12,325) | $ 1,282 | $ (11,043) |
| Other comprehensive income (loss) before reclassifications | 5,419 | (1,107) | 4,312 |
| Reclassifications | — | (670) | (670) |
| Balance, July 31, 2017 | $ (6,906) | $ (495) | $ (7,401) |

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## 3. EQUITY INCENTIVE PLAN

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

The Compensation Committee of our Board of Directors has the authority to determine the officers, directors and key employees who will be granted awards under the 2016 Equity Plan; designate the number of shares subject to each award; determine the terms and conditions upon which awards will be granted; and prescribe the form and terms of award agreements. We have granted restricted shares and performance units under the 2016 Equity Plan that are currently outstanding, and we have granted stock options, restricted shares and performance shares under the 2008 Plan that are currently outstanding. No stock option may be exercised more than ten years after the date of grant or such shorter period as the Compensation Committee may determine at the date of grant. The market value of a share of our common stock, for purposes of the 2016 Equity Plan, is the closing sale price as reported by the Nasdaq Global Select Market on the date in question or, if not a trading day, on the last preceding trading date.

A summary of stock option activity for the nine-month period ended July 31, 2017, is as follows:

| | **Stock Options** | **Weighted Average Exercise Price** |
|---|---|---|
| Outstanding at October 31, 2016 | 107,889 | $ 20.25 |
| Options granted | — | — |
| Options exercised | (12,164 ) | 22.11 |
| Options cancelled | — | — |
| Outstanding at July 31, 2017 | 95,725 | $ 20.01 |

Summarized information about outstanding stock options as of July 31, 2017, that have already vested and are currently exercisable, are as follows:

| | Options Already Vested and Currently Exercisable |
|---|---|
| Number of outstanding options | 95,725 |
| Weighted average remaining contractual life (years) | 3.48 |
| Weighted average exercise price per share | $ 20.01 |
| Intrinsic value of outstanding options | $ 1,253,000 |

The intrinsic value of an outstanding stock option is calculated as the difference between the stock price as of July 31, 2017 and the exercise price of the option.

On January 5, 2017, the Compensation Committee determined the degree to which the long-term incentive compensation arrangement approved for the fiscal 2014-2016 performance period was attained, and the resulting payout level relative to the target amount for each of the metrics that were established by the Compensation Committee in 2014. As a result, the Compensation Committee determined that a total of 30,683 performance shares were earned by our executive officers, which performance shares vested on January 5, 2017. The vesting date fair value of the performance shares was based on the closing sales price of our common stock on the vesting date, which was $33.90 per share. All related stock-based compensation cost for these vested performance shares was expensed accordingly during the three year performance period ending October 31, 2016.

On January 5, 2017, the Compensation Committee also approved a long-term incentive compensation arrangement for our executive officers in the form of restricted shares and performance stock units ("PSUs") under the 2016 Equity Plan, which will be payable in shares of our common stock if earned and vested. The awards were 25% time-based vesting and 75% performance-based vesting. The three-year performance period for the PSUs is fiscal 2017 through fiscal 2019.

On that date, the Compensation Committee granted a total of 14,747 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 $33.90 per share.

On January 5, 2017, the Compensation Committee also granted a total target number of 18,496 PSUs to our executive officers designated as "PSU – TSR". These PSUs were weighted as approximately 40% of the overall 2017 executive long-term incentive compensation arrangement and will vest and be paid based upon the total shareholder return of our common stock over the three-year period of fiscal 2017-2019, relative to the total shareholder return of the companies in a specified peer group over that period. Participants will have the ability to earn between 50% of the target number of the PSUs – TSR for achieving threshold performance and 200% of the target number of the PSUs – TSR for achieving maximum performance. The grant date fair value of the PSUs – TSR was $43.25 per PSU and was calculated using the Monte Carlo approach.

On January 5, 2017, the Compensation Committee also granted a total target number of 20,647 PSUs to our executive officers designated as "PSU – ROIC". These PSUs were weighted as approximately 35% of the overall 2017 executive long-term incentive compensation arrangement and will vest and be paid based upon the achievement of pre-established goals related to our average return on invested capital over the three-year period of fiscal 2017-2019. Participants will have the ability to earn between 50% of the target number of the PSUs - ROIC for achieving threshold performance and 200% of the target number of the PSUs - ROIC for achieving maximum performance. The grant date fair value of the PSUs – ROIC was based on the closing sales price of our common stock on the grant date, which was $33.90 per share.

On March 9, 2017, the Compensation Committee granted a total of 14,920 shares of time-based restricted stock to our non-employee directors. The restricted shares vest in full one year from the date of grant provided the recipient remains on the board of directors through that date. The grant date fair value of the restricted shares was based on the closing sales price of our common stock on the grant date, which was $26.80 per share.

A reconciliation of the Company's restricted stock, performance share and PSU activity and related information for the nine-month period ended July 31, 2017 is as follows:

| | **Number of Shares or Units** | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested at October 31, 2016 | 147,350 | $ 28.79 |
| Shares or units granted | 71,011 | 34.61 |
| Shares or units vested | (38,930 ) | 26.98 |
| Shares or units cancelled | (7,678 ) | 29.98 |
| Shares withheld | (13,944 ) | 25.89 |
| Unvested at July 31, 2017 | 157,809 | $ 32.05 |

During the nine months of fiscal 2017 and 2016, we recorded $1.1 million and $1.2 million, respectively, as stock-based compensation expense related to grants under our equity plans. As of July 31, 2017, there was an estimated $2.4 million of total unrecognized stock-based compensation cost that we expect to recognize by the end of the first quarter of fiscal 2020.

## 4. EARNINGS PER SHARE

Per share results have been computed based on the average number of common shares outstanding over the period in question. The computation of basic and diluted net income 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):