

## **HURCO COMPANIES, INC. CORPORATE GOVERNANCE PRINCIPLES**

The following Corporate Governance Principles ("Principles") have been adopted by the Board of Directors of Hurco Companies, Inc. (the "Company"), to assist the Board in the exercise of its responsibilities. These Principles reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing shareholder value over the long term. These Principles are in addition to, and are not intended to change or interpret, any federal or state law or regulation, including the Indiana Business Corporation Law, and the organizational documents of the Company. These Principles are subject to modification from time to time by the Board based upon recommendations from the Nominating and Governance Committee.

### **Board Composition**

#### **1. Board Membership Criteria**

Directors are expected to have relevant experience, judgment and integrity, be able to make independent inquiries, understand the business environment of the Company and be willing to devote adequate time to Board duties. No one may be nominated or stand for election as a Director of the Company who is or will be over the age of 72 as of the day of his or her election, unless the Nominating and Corporate Governance Committee determines to waive the maximum age requirement for such person to serve as a Director.

#### **2. Selection of New Director Candidates**

Based on the recommendation of the Nominating and Governance Committee, the Board shall determine the nominees for election and for filling any vacancies on the Board.

The Nominating and Governance Committee is responsible for seeking individuals qualified to become directors for recommendation to the Board. The Committee examines, among other things, the following qualifications and skills of director candidates: their business or professional experience, their integrity and judgment, their records of public service, their ability to devote sufficient time to the affairs of the Company, their diversity (including background, occupation, experience, geography, gender, race, ethnicity and other demographics), and the needs of the Board for certain skills or experiences. The Nominating and Governance Committee also believes that all nominees should be individuals of substantial accomplishment with demonstrated leadership capabilities.

The Nominating and Governance Committee will consider candidates recommended by shareholders. A shareholder who wishes to recommend a director candidate for consideration by the Nominating and Governance Committee should send such recommendation to the Secretary of the Company, One Technology Way, Indianapolis, Indiana 46268, who will forward it to the Committee. Any such recommendation should include a description of the candidate's qualifications for board service, the candidate's written consent to be considered for nomination

and to serve if nominated and elected, and addresses and telephone numbers for contacting the shareholder and the candidate for more information. A shareholder who wishes to nominate an individual as a director candidate at the annual meeting of shareholders, rather than recommend the individual to the Nominating and Governance Committee as a nominee, must comply with the advance notice requirements set forth in the Company's By-Laws.

### **3. Size of Boards and Mix of Inside and Outside Directors**

The Nominating and Governance Committee will periodically review the appropriate size of the Board and make any recommendation to the Board. The Board may change the size of the Board from time to time, consistent with the Company's By-Laws.

As required by the rules of The Nasdaq Stock Market LLC ("Nasdaq"), independent directors must constitute a majority of the directors. The Board is willing to have members of management, including the Chief Executive Officer, serve as directors; however, the Board believes that independent directors should continue to constitute a substantial majority. Board membership is not necessary or a prerequisite to any higher management position.

### **4. Independence Definition**

In determining which members of the Board of Directors are "independent," the Board shall use the definition contained in the corporate governance requirements of Nasdaq as in effect from time to time. In addition, a director will not qualify to serve on either the Company's Audit Committee or Compensation Committee if the director does not meet applicable Nasdaq requirements or rules of the Securities and Exchange Commission that impose additional independence requirements for service on those committees.

Each director should promptly report to the Board any change in the employment or other affiliations of the director or the director's family members that could result in a related person transaction or otherwise affect the director's independence.

### **5. Selection of Chairman of the Board**

The Board shall determine the leadership structure of the Board from time to time. The Board shall choose its Chairman based upon the Board's view of what is in the best interests of the Company at any given point in time, based on the recommendation of the Nominating and Governance Committee. Therefore, the Board does not have a policy on whether or not the role of the Chairman and Chief Executive Officer should be separate or combined and, if it is to be separate, whether the Chairman should be selected from the non-employee directors or be an employee. In the event that the Chairman of the Board is not an independent director, the non-management members of the Board will designate a "Presiding Independent Director."

## **6. Designation of "Presiding Independent Director"**

In the event the Chairman of the Board is not an independent director, the independent members of the Board will designate one of them to serve as a Presiding Independent Director. The responsibilities of the Presiding Independent Director are to: (1) chair executive sessions of the independent directors; (2) serve as the principal liaison between the independent directors on the one hand and the full Board and senior management on the other; and (3) work with the Chairman of the Board to finalize the information flow to the Board, the content of meeting agendas and proposed meeting schedules.

## **7. Term Limits**

The Board does not believe that term limits for directors are in the best interests of the shareholders. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into business operations and, therefore, provide an increasing contribution to the Board. As an alternative to term limits, the Nominating and Governance Committee will review each director's continuation on the Board when his or her term is scheduled to expire. This will allow each director the opportunity to conveniently confirm his or her desire to continue as a member of the Board.

## **8. Other Directorships and Committee Memberships**

Directors are encouraged to limit the number of other public company boards on which they serve to three or fewer, taking into account potential board attendance, participation and effectiveness on these boards. Directors should advise the Chairman of the Board and the Chair of the Nominating and Governance Committee before accepting an invitation to serve on another public company board. Members of the Audit Committee and Compensation Committee should be discouraged from serving on a number of similar committees of other public companies that would affect their ability to function effectively on the Board and its committees.

## **9. Changes in Director Professional Circumstances**

Directors are expected to report to the Chair of the Nominating and Governance Committee when they experience a significant change in their business or professional affiliation or responsibility, and shall, at such time, promptly offer to tender his or her resignation as a director for consideration by the Board. The Nominating and Governance Committee will determine whether the director continues to adequately meet the requirements for service on the Board of Directors and will make a recommendation to the Board regarding such tendered resignation. An employee director shall promptly offer his or her resignation as a director for consideration by the Board upon termination of his or her active service as an employee of the Company.

## **10. Tender of Resignation in Certain Circumstances**

If, as of the record date for a meeting at which directors are to be elected, the number of director nominees to be considered at the meeting does not exceed the number of directors to be elected, then if a nominee for director who is an incumbent director does not receive more "for"

votes than “withhold” votes with respect to his or her election, such director shall promptly (within no more than 10 calendar days after the certification of the election results) tender his or her resignation to the Board, subject to acceptance by the Board. The Nominating and Governance Committee shall make a recommendation to the Board on whether to accept or reject the tendered resignation, or whether other action should be taken. The Board, taking into account the recommendation of the Nominating and Governance Committee, shall, within 90 days of the certification of the shareholder director election at issue, determine the appropriate responsive action with respect to the tendered resignation. Promptly after the Board takes action on a resignation tendered under this Section, the Company will issue a press release regarding the Board’s response thereto. The Nominating and Governance Committee, in making its recommendation, and the Board, in making its decision, may each consider any factors or other recommendations that it considers relevant and appropriate. The incumbent director who tenders his or her resignation shall not participate in the Nominating and Governance Committee’s recommendation, or the Board’s decision, with respect to that director. If the resignation is not accepted, such director shall continue to serve until the next annual meeting of shareholders and until his or her successor has been elected and qualified, or unless he or she is removed or he or she resigns or dies or becomes so incapacitated he or she can no longer perform any of his or her duties as a director. If the resignation is accepted, the Board may decide to fill any resulting vacancy or decrease the number of directors.

## **Board Responsibilities**

### **11. Director Responsibilities**

The basic responsibility of the directors of the Company is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders. In discharging their obligations, directors should be able to rely on the honesty and integrity of senior management and its outside advisors and auditors. The directors should also be entitled to have the protection of reasonable directors' and officers' liability insurance and shall be entitled to the benefits of indemnification to the fullest extent permitted by law and the organizational documents of the Company.

### **12. Continuing Education**

Directors are encouraged to attend continuing education opportunities relating to issues of corporate governance and other matters relevant to the committees they serve on.

### **13. Executive Sessions of Independent Directors**

Independent directors will meet in executive sessions typically before or after scheduled meetings of the Board, at least twice a year. If the Chairman of the Board is not an independent director, the Presiding Independent Director, or if absent, the Chair of the Nominating and Governance Committee, shall preside at the executive sessions.

#### **14. Self-Evaluation**

The Board should conduct a self-evaluation on a periodic basis to determine whether they and their committees are functioning effectively. The Nominating and Governance Committee shall be responsible for developing and implementing a process by which all directors may comment on performance in an effective and confidential manner. The Nominating and Governance Committee should report annually to the Board with an assessment of the Board's performance. The Nominating and Governance Committee shall lead the evaluation of Board members by examining such factors as experience, effectiveness, business judgment, integrity, time and commitment, shareholdings, teamwork and independence.

#### **15. Communication with the Board; Board Interaction with Institutional Investors, Press and Customers**

The Board has implemented a process by which shareholders of the Company may send communications to the attention of the Board or a subset thereof, such as non-management directors or individual directors.

Any shareholder desiring to communicate with the Board, or one or more specific members thereof, should communicate in a writing addressed to Hurco Companies, Inc., Board of Directors, c/o Secretary, One Technology Way, Indianapolis, Indiana 46268. The Secretary of the Company has been instructed by the Board to promptly forward all such communications to the specified addressees thereof.

The Board believes that, except in extraordinary circumstances, management should speak for the Company and that directors should refer any inquiries from institutional investors, the press or customers to management.

#### **16. Conflicts of Interest**

In accordance with the Company's Code of Business Conduct and Ethics, directors are expected to avoid any action, position or interest that conflicts with an interest of the Company, or gives the appearance of a conflict. The Company annually solicits information from directors in order to monitor potential conflicts of interest and directors are expected to be mindful of their fiduciary obligations. When faced with a situation involving a potential conflict of interest, directors are encouraged to seek advice from management or Company counsel. Directors shall recuse themselves and not participate in the discussion and voting on any matter presented at a Board meeting if they believe that they have a personal interest or a conflict of interest. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to resign his or her position as a director.

## **Meeting Procedures**

### **17. Attendance at Meetings**

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. It should be noted that current SEC rules require disclosure of any director who attends less than 75% of Board and applicable committee meetings in a year. Directors are also expected to attend the annual meeting of shareholders.

### **18. Agenda Items for Board Meetings**

The Chairman of the Board has the ultimate authority to establish the agenda for each meeting of the Board. As noted above, the Presiding Independent Director, if there be one, should work with the Chairman to determine the information flow to the Board, the content of agendas and proposed meeting schedules. Each Board member is free to suggest the inclusion of items on the agenda, as well as free to raise at any meeting subjects that are not specifically on the agenda for that meeting.

At the beginning of the year, the Chairman will establish a schedule of agenda subjects to be discussed during the year (to the degree this can be foreseen). The Board will review the Company's annual financial plan, strategic plan and the principal issues that the Company will face in the future during at least one Board meeting each year.

### **19. Board Material Distributed in Advance**

Information and data that are important to the Board's understanding of the business will be distributed in writing before each Board meeting and to each committee before such committee meets. Management should make every attempt to see that this material is concise, informative and clear. Directors are expected to review this material prior to the meeting.

### **20. Confidentiality of Information**

In order to facilitate open discussion, the Board believes it is critical for deliberations and the information it receives or reviews to be kept confidential. Directors are expected to maintain strict confidentiality of such discussions and information.

## **Committee Matters**

### **21. Standing Committees**

The Board will have at all times an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. The purposes and responsibilities of each of these committees are outlined in their respective written committee charters. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate. The Audit Committee, Compensation Committee and Nominating and Governance Committee shall be composed entirely of independent directors.

## **22. Assignment and Rotation of Committee Members**

The Nominating and Governance Committee is responsible for making recommendations to the Board with respect to the assignment of directors to various committees and with respect to the Chairs of each committee. After reviewing the Nominating and Governance Committee's recommendations, the Board shall be responsible for appointing the Chairs and members to the committees on an annual basis or more often as needed.

The Nominating and Governance Committee shall annually review the committee assignments and shall consider the rotation of Chairs and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and the viewpoints of the various directors.

## **23. Frequency of Committee Meetings**

The committees shall meet at least as often as described in the committee's charter. In addition each committee Chair, in consultation with committee members and management, will determine whether and when to have additional meetings of such committee.

## **24. Agenda Items for Committee Meetings**

The Chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda for each meeting.

At the beginning of each year, each committee will establish a schedule of agenda subjects to be discussed for the ensuing year (to the degree these can be foreseen). This forward agenda will also be shared with the Board.

## **Compensation**

### **25. Director Compensation**

The Compensation Committee will conduct a periodic review of non-employee director compensation, including in relation to other companies, and has the authority to retain any compensation consultant to be used to assist in the evaluation of director compensation. The Compensation Committee will recommend to the Board any changes to the compensation programs for non-employee directors, including cash and equity elements, and the Board will determine any changes to the form and amount of compensation for non-employee directors.

All directors are entitled to receive reimbursement for travel and other expenses incurred in attending Board or committee meetings.

## **Access and Advisors**

### **26. Board Access to Management and Employees**

Directors should have full and free access to the Company's management and employees.

Any meetings or contacts with employees other than executive officers or routine communications as part of committee functions that a director wishes to initiate should typically be arranged through the Chief Executive Officer.

Furthermore, the Board welcomes regular attendance at Board meetings of senior officers. The Board also encourages management, from time to time, to bring managers into Board meetings who: (a) can provide additional insight concerning the items being discussed because of personal involvement in these areas, and/or (b) have future potential such that management believes they should be given exposure to the Board.

## **27. Independent Advisors**

The Board and each standing committee has the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining approval of any officer of the Company in advance except that only the Audit Committee may retain the Company's outside auditors. Committees are expected to use their best judgment in determining when such engagements are necessary. Any committee that engages such advisor shall promptly notify the Chief Executive Officer of such engagement. A report will be made regarding the reason for the engagement at the next Board meeting.

## **Leadership Development**

### **28. Evaluation of Chief Executive Officer**

The Compensation Committee will evaluate the Chief Executive Officer's performance annually, and the evaluation should be communicated to the Chief Executive Officer and to the Board. The evaluation should be based on objective criteria including performance of the business, establishment of long-term strategies, accomplishment of long-term strategic objectives and development of management.

### **29. Succession Planning**

The Nominating and Governance Committee will report to the Board on succession planning for the Chief Executive Officer and other senior management positions. The Board will periodically consider and evaluate potential successors to the Chief Executive Officer and other senior management positions, including taking into account input from the Chief Executive Officer.

## **Other Policies**

### **30. Stock Ownership Guidelines for Designated Officers and Non-Management Directors**

Executive officers and any other members of senior management designated by the Board as being subject to these guidelines (collectively, the "Designated Officers") are expected to acquire and maintain ownership of shares of Company common stock (including unvested time-based full-value equity awards, such as restricted stock units or restricted stock, but excluding unearned performance-based equity awards or unexercised stock options) having an aggregate market value that is at least equal to five times annual base salary for the Chief Executive Officer, three times



annual base salary for the President and two times annual base salary for all other Designated Officers.

In furtherance of complying with the guidelines, Designated Officers are expected to retain ownership of all Net Shares (as defined below) acquired with respect to awards granted under the Company's equity incentive plan, until the requisite ownership has been achieved. Net Shares means shares of common stock acquired as a result of the exercise or vesting of any awards granted to such person, reduced by any shares sold or tendered by the recipient to pay all or any portion of the exercise price or tax withholding requirements or other costs of ownership and any shares retained by the Company to satisfy all or any portion of an exercise price or tax withholding requirements attributable to such awards.

If a Designated Officer fails to comply with these guidelines, the Compensation Committee of the Board may determine that such person is not eligible for awards under the Company's equity incentive plan until such time when he or she is in compliance.

Non-management directors are expected to acquire and maintain ownership of common stock of the Company (including unvested time-based full-value equity awards, such as restricted stock units or restricted stock, but excluding unearned performance-based equity awards or unexercised stock options) having an aggregate market value that is at least equal to the value of two times the annual stock-based compensation grant made to non-management directors.

Shares of common stock subject to pledges or security interests shall not be considered as owned in determining compliance with the foregoing guidelines.

The Compensation Committee of the Board of Directors shall be responsible for interpreting and reviewing compliance with these guidelines with respect to the Designated Officers, and the Nominating and Corporate Governance Committee shall be responsible for interpreting and reviewing compliance with respect to the non-management directors.