

DIEBOLD INC  
Form 10-Q  
October 30, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014  
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 number 1-4879

Diebold, Incorporated  
(Exact name of registrant as specified in its charter)

Ohio 34-0183970  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification Number)

5995 Mayfair Road, PO Box 3077, North Canton, Ohio 44720-8077  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (330) 490-4000

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  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

Number of shares of common stock outstanding as of October 24, 2014 was 64,628,979.

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
FORM 10-Q

INDEX

PART I – <u>FINANCIAL INFORMATION</u>	<u>3</u>
ITEM 1: <u>FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED BALANCE SHEETS – September 30, 2014 (Unaudited) and December 31, 2013</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) – Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>4</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited) – Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) – Nine Months Ended September 30, 2014 and 2013</u>	<u>6</u>
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)</u>	<u>7</u>
ITEM 2: <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>27</u>
ITEM 3: <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>40</u>
ITEM 4: <u>CONTROLS AND PROCEDURES</u>	<u>40</u>
PART II – <u>OTHER INFORMATION</u>	<u>42</u>
ITEM 1: <u>LEGAL PROCEEDINGS</u>	<u>42</u>
ITEM 1A: <u>RISK FACTORS</u>	<u>43</u>
ITEM 2: <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>43</u>
ITEM 3: <u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>43</u>
ITEM 4: <u>MINE SAFETY DISCLOSURES</u>	<u>43</u>
ITEM 5: <u>OTHER INFORMATION</u>	<u>43</u>
ITEM 6: <u>EXHIBITS</u>	<u>44</u>
<u>SIGNATURES</u>	<u>45</u>
<u>EXHIBIT INDEX</u>	<u>46</u>

---

## PART I – FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$240,433	\$230,709
Short-term investments	133,800	242,988
Trade receivables, less allowances for doubtful accounts of \$28,916 and \$24,872, respectively	597,954	447,239
Inventories	519,799	376,462
Deferred income taxes	89,965	110,165
Prepaid expenses	22,271	22,031
Prepaid income taxes	13,791	21,245
Other current assets	169,713	104,511
Total current assets	1,787,726	1,555,350
Securities and other investments	81,269	82,591
Property, plant and equipment, at cost	605,659	599,094
Less accumulated depreciation and amortization	444,100	438,199
Property, plant and equipment, net	161,559	160,895
Goodwill	176,566	179,828
Deferred income taxes	64,480	39,461
Finance lease receivables	99,755	74,516
Other assets	87,067	90,850
Total assets	\$2,458,422	\$2,183,491
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Notes payable	\$83,612	\$43,791
Accounts payable	295,063	210,399
Deferred revenue	259,794	234,607
Payroll and other benefits liabilities	99,050	93,845
Other current liabilities	339,868	311,094
Total current liabilities	1,077,387	893,736
Long-term debt	555,020	480,242
Pensions and other benefits	109,840	118,674
Post-retirement and other benefits	19,619	19,282
Deferred income taxes	8,858	9,150
Other long-term liabilities	46,396	41,592
Commitments and contingencies	—	—
Equity		
Diebold, Incorporated shareholders' equity		
Preferred shares, no par value, 1,000,000 authorized shares, none issued	—	—
Common shares, \$1.25 par value, 125,000,000 authorized shares, 79,228,957 and 78,618,517 issued shares, 64,624,720 and 64,068,047 outstanding shares,	99,036	98,273

respectively

Additional capital	415,144	385,321	
Retained earnings	751,011	722,743	
Treasury shares, at cost (14,604,237 and 14,550,470 shares, respectively)	(557,095)	(555,252)	)
Accumulated other comprehensive loss	(86,835)	(54,321)	)
Total Diebold, Incorporated shareholders' equity	621,261	596,764	
Noncontrolling interests	20,041	24,051	
Total equity	641,302	620,815	
Total liabilities and equity	\$2,458,422	\$2,183,491	

See accompanying notes to condensed consolidated financial statements.

3

---

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited)  
 (in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales				
Services	\$416,533	\$405,238	\$1,209,731	\$1,200,672
Products	351,498	300,186	980,050	845,376
	768,031	705,424	2,189,781	2,046,048
Cost of sales				
Services	290,366	290,121	849,196	904,167
Products	277,082	242,498	789,074	681,646
	567,448	532,619	1,638,270	1,585,813
Gross profit	200,583	172,805	551,511	460,235
Selling and administrative expense	129,938	111,683	371,236	394,401
Research, development and engineering expense	24,466	21,957	66,173	66,404
Impairment of assets	—	70,000	—	70,642
Gain on sale of assets, net	(540 )	(582 )	(13,098 )	(3,421 )
	153,864	203,058	424,311	528,026
Operating profit (loss)	46,719	(30,253 )	127,200	(67,791 )
Other income (expense)				
Investment income	7,968	6,695	26,614	21,060
Interest expense	(8,384 )	(7,918 )	(23,142 )	(22,027 )
Foreign exchange gain (loss), net	988	2,977	(10,373 )	(1,453 )
Miscellaneous, net	571	355	444	(434 )
Income (loss) before taxes	47,862	(28,144 )	120,743	(70,645 )
Income tax expense	12,907	(7,940 )	37,781	67,293
Net income (loss)	34,955	(20,204 )	82,962	(137,938 )
Net income (loss) attributable to noncontrolling interests	1,935	1,486	(1,499 )	2,233
Net income (loss) attributable to Diebold, Incorporated	\$33,020	\$(21,690 )	\$84,461	\$(140,171 )
Basic weighted-average shares outstanding	64,615	63,825	64,494	63,648
Diluted weighted-average shares outstanding	65,293	63,825	65,102	63,648
Net income (loss) attributable to Diebold, Incorporated				
Basic earnings (loss) per share	\$0.51	\$(0.34 )	\$1.31	\$(2.20 )
Diluted earnings (loss) per share	\$0.51	\$(0.34 )	\$1.30	\$(2.20 )
See accompanying notes to condensed consolidated financial statements.				

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME  
(unaudited)  
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$34,955	\$(20,204)	\$82,962	\$(137,938)
Other comprehensive (loss) income, net of tax:				
Translation adjustment	(52,560)	(6,269)	(31,754)	(52,771)
Foreign currency hedges (net of tax \$1,313, \$(239), \$(610) and \$1,198, respectively)	2,437	(445)	(1,135)	2,223
Interest rate hedges:				
Net gain recognized in other comprehensive income (net of tax \$122, \$35, \$294 and \$327, respectively)	228	66	547	608
Reclassification adjustment for amounts recognized in net income (net of tax \$(28), \$(26), \$(86) and \$(85), respectively)	(51)	(48)	(160)	(159)
	177	18	387	449
Pension and other post-retirement benefits:				
Net actuarial loss amortization (net of tax \$280, \$922, \$844 and \$5,054, respectively)	526	1,940	1,575	8,875
Net prior service benefit amortization (net of tax \$(33), \$(90), \$(100) and \$(167), respectively)	(62)	(171)	(186)	(301)
Net actuarial gain occurring during the period (net of tax \$0, \$25,469, \$0 and \$25,469, respectively)	—	45,539	—	45,539
Curtailment loss (net of tax \$0, \$17,992, \$0 and \$18,452, respectively)	—	34,558	—	35,257
	464	81,866	1,389	89,370
Unrealized gain (loss) on securities, net:				
Net income (loss) recognized in other comprehensive income (net of tax \$31, \$144, \$(752) and \$1,199, respectively)	63	277	(1,404)	2,327
Reclassification adjustment for amounts recognized in net income (net of tax \$67, \$(522), \$(188) and \$(587), respectively)	127	(1,012)	(350)	(1,139)
	190	(735)	(1,754)	1,188
Other	—	8	—	22
Other comprehensive (loss) income, net of tax	(49,292)	74,443	(32,867)	40,481
Comprehensive (loss) income	(14,337)	54,239	50,095	(97,457)
Less: comprehensive income (loss) attributable to noncontrolling interests	2,136	1,507	(1,852)	2,588
Comprehensive (loss) income attributable to Diebold, Incorporated	\$(16,473)	\$52,732	\$51,947	\$(100,045)

See accompanying notes to condensed consolidated financial statements.

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flow from operating activities:		
Net income (loss)	\$82,962	\$(137,938)
Adjustments to reconcile net income (loss) to cash flow used in operating activities:		
Depreciation and amortization	55,405	64,085
Share-based compensation	15,978	14,070
Excess tax benefits from share-based compensation	(270)	(378)
Devaluation of Venezuelan balance sheet	12,101	1,584
Gain on sale of assets, net	(13,098)	(3,421)
Impairment of assets	—	70,642
Cash flow from changes in certain assets and liabilities:		
Trade receivables	(164,710)	(41,789)
Inventories	(156,281)	(79,492)
Prepaid expenses	(1,877)	11,481
Prepaid income taxes	7,452	(20,987)
Other current assets	(46,438)	(42,544)
Accounts payable	87,634	(10,660)
Deferred revenue	30,433	5,168
Deferred income tax	(6,480)	40,164
Finance lease receivables	(59,271)	(12,405)
Certain other assets and liabilities	45,725	83,378
Net cash used in operating activities	(110,735)	(59,042)
Cash flow from investing activities:		
Payments for acquisitions, net of cash acquired	(11,749)	—
Proceeds from maturities of investments	406,623	379,889
Proceeds from sale of investments	39,586	22,711
Payments for purchases of investments	(339,772)	(363,710)
Proceeds from sale of assets	17,680	4,353
Capital expenditures	(33,554)	(25,648)
Collections on purchased finance receivables	—	6,105
Increase in certain other assets	(13,828)	(10,006)
Net cash provided by investing activities	64,986	13,694
Cash flow from financing activities:		
Dividends paid	(56,193)	(55,469)
Debt issuance costs	(1,368)	—
Revolving debt borrowings, net	124,012	11,007
Other debt borrowings	133,848	38,591
Other debt repayments	(141,581)	(112,140)
Distributions to noncontrolling interest holders	(2,158)	(6,380)
Excess tax benefits from share-based compensation	270	378
Issuance of common shares	14,440	10,264

Edgar Filing: DIEBOLD INC - Form 10-Q

Repurchase of common shares	(1,843	) (3,660	)
Net cash provided by (used in) financing activities	69,427	(117,409	)
Effect of exchange rate changes on cash and cash equivalents	(13,954	) (114	)
Increase (decrease) in cash and cash equivalents	9,724	(162,871	)
Cash and cash equivalents at the beginning of the period	230,709	368,792	
Cash and cash equivalents at the end of the period	\$240,433	\$205,921	
See accompanying notes to condensed consolidated financial statements.			

6

---



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

NOTE 1: CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Diebold, Incorporated and its subsidiaries (collectively, the Company) have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States (GAAP); however, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. In addition, some of the Company's statements in this Quarterly Report on Form 10-Q may involve risks and uncertainties that could significantly impact expected future results. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of results to be expected for the full year. The Company has reclassified the presentation of certain prior-year information to conform to the current presentation.

The Company's Venezuelan operations consist of a fifty-percent owned subsidiary, which is consolidated. Venezuela is measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. On March 24, 2014, the Venezuelan government announced a currency exchange mechanism, SICAD 2, which yielded an exchange rate significantly higher than the rates established through the other regulated exchange mechanisms.

Management has determined that it is unlikely that the Company will be able to convert bolivars under a currency exchange other than SICAD 2. On March 31, 2014, the Company remeasured its Venezuelan balance sheet using the SICAD 2 rate of 50.86 compared to the previous official government rate of 6.30, resulting in a decrease of \$6,051 to the Company's cash balance and net losses of \$12,101 that were recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2014. In addition, as a result of the currency devaluation, the Company recorded a \$4,073 lower of cost or market adjustment related to its service inventory within service cost of sales in the condensed consolidated statements of operations in the first quarter of 2014. In the future, if the Company converts bolivars at a rate other than the SICAD 2 rate, the Company may realize additional gains or losses that would be recorded in the statements of operations. The Company's Venezuelan operations represented less than one percent of the Company's total assets as of September 30, 2014 and less than one percent of net sales for both the three and nine months ended September 30, 2014. The Company does not expect its Venezuelan operations to be a significant component of its consolidated revenue or operating profit for the remainder of 2014.

In the second quarter of 2014, the Company divested its Diebold Eras, Incorporated (Eras) subsidiary for a sale price of \$20,000, including installment payments of \$1,000 on the first and second year anniversary dates of the closing. This sale resulted in a gain of \$13,709 recognized within gain on sale of assets, net in the condensed consolidated statement of operations. Revenue and operating profit in the nine months ended September 30, 2014 related to this divested subsidiary were \$6,011 and \$2,970, respectively, and are included within the North America (NA) segment. Net income before taxes related to this divested subsidiary are included in continuing operations and were \$0 and \$1,138 for the three months ended September 30, 2014 and 2013, respectively, and \$2,978 and \$3,221 for the nine months ended September 30, 2014 and 2013, respectively.

In the third quarter of 2013, the Company acquired 100 percent of the equity interests of Cryptera A/S (Cryptera), a supplier of the Company's encrypting PIN pad technology and a world leader in the research and development of secure payment technologies. This acquisition is expected to position the Company as a significant original equipment manufacturer of secure payment technologies and is expected to allow the Company to own more of the intellectual property related to its ATMs. The total purchase price was approximately \$13,000, including a 10 percent deferred cash payment payable on the first anniversary of the acquisition. The results of operations for Cryptera are included in the Europe, Middle East and Africa (EMEA) segment within the Company's condensed consolidated financial statements from the date of the acquisition.

#### Recently Adopted Accounting Guidance

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11), which requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (NOL) or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. The adoption of this update did not have a material impact on the financial statements of the Company.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08), which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. In the second quarter of 2014, the Company elected to early adopt ASU 2014-08. The adoption of this update did not have a material impact on the financial statements of the Company.

Recently Issued Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 2: EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is based on the weighted-average number of common shares outstanding. Diluted earnings (loss) per share includes the dilutive effect of potential common shares outstanding. Under the two-class method of computing earnings (loss) per share, non-vested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's participating securities include restricted stock units (RSUs), deferred shares and shares that were vested, but deferred by the employee. The Company calculated basic and diluted earnings (loss) per share under both the treasury stock method and the two-class method. For the three and nine months ended September 30, 2014 and 2013, there was no impact in the per share amounts calculated under the two methods. Accordingly, the treasury stock method is disclosed below.

The following represents amounts used in computing earnings (loss) per share and the effect on the weighted-average number of shares of dilutive potential common shares:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
Numerator:				
Income (loss) used in basic and diluted earnings per share:				
Net income (loss) attributable to Diebold, Incorporated	\$33,020	\$(21,690 )	\$84,461	\$(140,171 )
Denominator (in thousands):				
Weighted-average number of common shares used in basic earnings per share	64,615	63,825	64,494	63,648
Effect of dilutive shares (1)	678	—	608	—
Weighted-average number of shares used in diluted earnings per share	65,293	63,825	65,102	63,648
Net income (loss) attributable to Diebold, Incorporated:				
Basic earnings (loss) per share	\$0.51	\$(0.34 )	\$1.31	\$(2.20 )
Diluted earnings (loss) per share	\$0.51	\$(0.34 )	\$1.30	\$(2.20 )
Anti-dilutive shares (in thousands):				
Anti-dilutive shares not used in calculating diluted weighted-average shares	917	2,846	1,163	3,057

(1) Incremental shares of 479 thousand and 560 thousand were excluded from the computation of diluted earnings (loss) per share for the three and nine months ended September 30, 2013, respectively, because their effect is anti-dilutive due to the net loss attributable to Diebold, Incorporated.



Table of Contents

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 3: EQUITY

The following table presents changes in shareholders' equity attributable to Diebold, Incorporated and the noncontrolling interests:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Diebold, Incorporated shareholders' equity				
Balance at beginning of period	\$650,838	\$620,122	\$596,764	\$791,474
Comprehensive (loss) income attributable to Diebold, Incorporated	(16,473 )	52,732	51,947	(100,045 )
Common shares	42	172	763	895
Additional capital	5,931	3,850	29,823	23,439
Treasury shares	(288 )	(1,692 )	(1,843 )	(3,660 )
Dividends paid	(18,789 )	(18,550 )	(56,193 )	(55,469 )
Balance at end of period	\$621,261	\$656,634	\$621,261	\$656,634
Noncontrolling interests				
Balance at beginning of period	\$17,905	\$32,965	\$24,051	\$35,348
Comprehensive income (loss) attributable to noncontrolling interests	2,136	1,507	(1,852 )	2,588
Distributions to noncontrolling interest holders	—	(13,448 )	(2,158 )	(16,912 )
Balance at end of period	\$20,041	\$21,024	\$20,041	\$21,024

## NOTE 4: ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the changes in the Company's accumulated other comprehensive loss (AOCI), net of tax, by component for the three months ended September 30, 2014:

	Translation	Foreign Currency Hedges	Interest Rate Hedges	Pension and Other Post-retirement Benefits	Unrealized Gain on Securities, Net	Other	Accumulated Other Comprehensive Loss
Balance at June 30, 2014	\$ 18,951	\$(5,456 )	\$(750 )	\$ (51,102 )	\$735	\$280	\$ (37,342 )
Other comprehensive (loss) income before reclassifications (1)	(52,761 )	2,437	228	—	63	—	(50,033 )
Amounts reclassified from AOCI	—	—	(51 )	464	127	—	540
Net current-period other comprehensive (loss) income	(52,761 )	2,437	177	464	190	—	(49,493 )
Balance at September 30, 2014	\$(33,810 )	\$(3,019 )	\$(573 )	\$ (50,638 )	\$925	\$280	\$ (86,835 )

(1) Other comprehensive (loss) income before reclassifications within the translation component excludes \$201 of translation attributable to noncontrolling interests.





Table of Contents

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The following table summarizes the changes in the Company's AOCI, net of tax, by component for the nine months ended September 30, 2014:

	Translation	Foreign Currency Hedges	Interest Rate Hedges	Pension and Other Post-retirement Benefits	Unrealized Gain (Loss) on Securities, Net	Other	Accumulated Other Comprehensive Loss
Balance at January 1, 2014	\$ (2,409 )	\$ (1,884 )	\$ (960 )	\$ (52,027 )	\$ 2,679	\$ 280	\$ (54,321 )
Other comprehensive (loss) income before reclassifications (1)	(31,401 )	(1,135 )	547	—	(1,404 )	—	(33,393 )
Amounts reclassified from AOCI	—	—	(160 )	1,389	(350 )	—	879
Net current-period other comprehensive (loss) income	(31,401 )	(1,135 )	387	1,389	(1,754 )	—	(32,514 )
Balance at September 30, 2014	\$ (33,810 )	\$ (3,019 )	\$ (573 )	\$ (50,638 )	\$ 925	\$ 280	\$ (86,835 )

(1) Other comprehensive (loss) income before reclassifications within the translation component excludes \$(353) of translation attributable to noncontrolling interests.

The following table summarizes the details about amounts reclassified from AOCI:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014	Affected Line Item in the Statement of Operations
Interest rate hedges (net of tax of \$(28) and \$(86), respectively)	(51 )	(160 )	Interest expense
Pension and post-retirement benefits:			
Net actuarial loss amortization (net of tax of \$280 and \$844, respectively)	526	1,575	(1)
Net prior service benefit amortization (net of tax of \$(33) and \$(100), respectively)	(62 )	(186 )	(1)
	464	1,389	
Unrealized gain (loss) on securities, net (net of tax of \$67 and \$(188), respectively)	127	(350 )	Investment income
Total reclassifications for the period	\$540	\$879	

(1) Pension and other post-retirement benefits AOCI components are included in the computation of net periodic benefit cost (refer to note 12 to the condensed consolidated financial statements).

NOTE 5: SHARE-BASED COMPENSATION

The Company's share-based compensation payments to employees are recognized based on their grant-date fair values during the period in which the employee is required to provide services in exchange for the award. Share-based compensation is recognized as a component of selling and administrative expense. Total share-based compensation expense was \$5,599 and \$3,100 for the three months ended September 30, 2014 and 2013, respectively, and \$15,978 and \$14,070 for the nine months ended September 30, 2014 and 2013, respectively. Share-based compensation expense for the nine months ended September 30, 2013 included accelerated expense of \$2,982 related to executive severance.

Table of Contents

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

Options outstanding and exercisable as of September 30, 2014 under the Company's 1991 Equity and Performance Incentive Plan (as Amended and Restated as of April 13, 2009) (the 1991 Plan) and changes during the nine months ended September 30, 2014, were as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
	(in thousands)	(per share)	(in years)	
Outstanding at January 1, 2014	1,954	\$39.63		
Expired or forfeited	(335)	) 51.73		
Exercised	(445)	) 32.89		
Granted	454	34.20		
Outstanding at September 30, 2014	1,628	37.23	6	\$2,981
Options exercisable at September 30, 2014	891	40.31	4	1,599
Options vested and expected to vest at September 30, 2014 (2)	1,601	37.31	6	2,914

The aggregate intrinsic value (the difference between the closing price of the Company's common shares on the last trading day of the third quarter of 2014 and the exercise price, multiplied by the number of "in-the-money" options) (1) that would have been received by the option holders had all option holders exercised their options on September 30, 2014. The amount of aggregate intrinsic value will change based on the fair market value of the Company's common shares.

(2) The options expected to vest are the result of applying the pre-vesting forfeiture rate assumption to total outstanding non-vested options.

The following table summarizes information on non-vested RSUs and performance shares for the nine months ended September 30, 2014:

	Number of Shares	Weighted-Average Grant-Date Fair Value
	(in thousands)	(per share)
RSUs:		
Non-vested at January 1, 2014	499	\$ 32.28
Forfeited	(52)	) 32.91
Vested	(132)	) 32.73
Granted (1)	327	35.25
Non-vested at September 30, 2014	642	33.65
Performance Shares (2):		
Non-vested at January 1, 2014	542	\$ 37.10
Forfeited	(172)	) 39.63
Granted (3)	777	38.08
Non-vested at September 30, 2014	1,147	37.38
(1)		

The RSUs granted during the nine months ended September 30, 2014 include 35 thousand one-year RSUs to non-employee directors under the 1991 Plan. These RSUs have a weighted-average grant-date fair value of \$39.35. Non-vested performance shares are based on a maximum potential payout. Actual shares granted at the end of the performance period may be less than the maximum potential payout level depending on achievement of performance share objectives. Performance shares are based on certain annual management objectives, as determined by the Board of Directors.

(2) The maximum performance shares granted during the nine months ended September 30, 2014 include 482 thousand shares that vest proportionately over a three-year period and have a weighted-average grant-date fair value of \$35.49.

As of September 30, 2014, there were 143 thousand non-employee director deferred shares vested and outstanding.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 6: INCOME TAXES

The effective tax rate on income was 27.0 percent for the three months ended September 30, 2014 and the effective tax rate on the loss was 28.2 percent for the three months ended September 30, 2013. The third quarter 2014 rate was lower than the statutory rate because of earnings in lower-tax jurisdictions and tax benefits from discrete items recorded in the quarter. The reduced third quarter 2013 tax rate differed from the statutory rate mainly as a result of the non-deductible portion of the Company's Brazil goodwill impairment recorded during a quarter with overall losses.

The effective tax rate on income was 31.3 percent for the nine months ended September 30, 2014 and the effective tax rate on the loss was (95.3) percent for the nine months ended September 30, 2013. The tax rate for the nine months ended September 30, 2014 includes a benefit from the release of a valuation allowance against excess capital losses offset by the negative impact of tax on foreign entities not permanently reinvested and the December 31, 2013 expiration of the Federal Research and Development Tax Credit and the Look-Thru Rule for Related Controlled Foreign Corporations under Section 954(c)(6) of the Internal Revenue Code of 1986, as amended. The negative tax rate for 2013 resulted from tax expense related to the repatriation of previously undistributed earnings and the establishment of a valuation allowance on deferred tax assets in the Company's Brazilian manufacturing facility. During the second quarter of 2014, the Internal Revenue Service (IRS) completed its examination of the Company's U.S. federal income tax returns for the years 2008-2010 and issued a Revenue Agent's Report (RAR) that includes various proposed adjustments, including adjustments related to transfer pricing. The net tax deficiency, excluding interest, associated with the RAR is \$6,300 after net operating loss utilization. In May 2014, the Company filed a protest challenging proposed adjustments contained in the RAR and will pursue resolution of these issues with the Appeals Division of the IRS. The Company believes it has adequately provided for any related uncertain tax positions.

## NOTE 7: INVESTMENTS

The Company's investments, primarily in Brazil, consist of certificates of deposit and U.S. dollar indexed bond funds, which are classified as available-for-sale and stated at fair value based upon quoted market prices and net asset values, respectively. Unrealized gains and losses are recorded in AOCI. Realized gains and losses are recognized in investment income and are determined using the specific identification method. Realized (losses) gains from the sale of securities were \$(194) and \$1,533 for the three months ended September 30, 2014 and 2013, respectively, and \$538 and \$1,726 for the nine months ended September 30, 2014 and 2013, respectively. Proceeds from the sale of available-for-sale securities were \$39,586 and \$22,711 during the nine months ended September 30, 2014 and 2013, respectively.

The Company's investments, excluding cash surrender value of insurance contracts of \$71,607 and \$72,214 as of September 30, 2014 and December 31, 2013, respectively, consisted of the following:

	Cost Basis	Unrealized Gain	Fair Value
As of September 30, 2014			
Short-term investments:			
Certificates of deposit	\$133,779	\$21	\$133,800
Long-term investments:			
Assets held in a rabbi trust	\$9,142	\$520	\$9,662

As of December 31, 2013

Edgar Filing: DIEBOLD INC - Form 10-Q

Short-term investments:			
Certificates of deposit	\$215,010	\$—	\$215,010
U.S. dollar indexed bond funds	25,263	2,715	27,978
	\$240,273	\$2,715	\$242,988
Long-term investments:			
Assets held in a rabbi trust	\$10,085	\$292	\$10,377

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 8: ALLOWANCE FOR CREDIT LOSSES

**Trade Receivables** The Company evaluates the collectability of trade receivables based on a percentage of sales related to historical loss experience. The Company will also record periodic adjustments for known events such as specific customer circumstances and changes in the aging of accounts receivable balances. After all efforts at collection have been unsuccessful, the account is deemed uncollectible and is written off.

**Financing Receivables** The Company evaluates the collectability of notes and finance lease receivables (collectively, financing receivables) on a customer-by-customer basis and evaluates specific customer circumstances, aging of invoices, credit risk changes, payment patterns and historical loss experience. When the collectability is determined to be at risk based on the above criteria, the Company records the allowance for credit losses, which represents the Company's current exposure less estimated reimbursement from insurance claims. After all efforts at collection have been unsuccessful, the account is deemed uncollectible and is written off.

The following table summarizes the Company's allowance for credit losses for the nine months ended September 30, 2014 and 2013:

	Finance Leases	Notes Receivable	Total
Allowance for credit losses			
Balance at January 1, 2014	\$439	\$4,134	\$4,573
Provision for credit losses	162	—	162
Write-offs	(235)	) —	(235)
Balance at September 30, 2014	\$366	\$4,134	\$4,500
Balance at January 1, 2013	\$525	\$2,047	\$2,572
Provision for credit losses	8	—	8
Recoveries	3	—	3
Write-offs	(90)	) (2,047)	) (2,137)
Balance at September 30, 2013	\$446	\$—	\$446

The Company's allowance of \$4,500 and \$446 at September 30, 2014 and 2013, respectively, all resulted from individual impairment evaluation. As of September 30, 2014, finance leases and notes receivable individually evaluated for impairment were \$166,572 and \$18,053, respectively. As of September 30, 2013, finance leases and notes receivable individually evaluated for impairment were \$88,216 and \$16,343, respectively. As of September 30, 2014 and December 31, 2013, the Company's finance lease receivables in Brazil were \$111,762 and \$33,283, respectively. The increase related to customer financing arrangements within the education ministry.

The Company records interest income and any fees or costs related to financing receivables using the effective interest method over the term of the lease or loan. The Company reviews the aging of its financing receivables to determine past due and delinquent accounts. Credit quality is reviewed at inception and is re-evaluated as needed based on customer-specific circumstances. Receivable balances 60 days to 89 days past due are reviewed and may be placed on nonaccrual status based on customer-specific circumstances. Receivable balances are placed on nonaccrual status upon reaching greater than 89 days past due. Upon receipt of payment on nonaccrual financing receivables, interest income is recognized and accrual of interest is resumed once the account has been made current or the specific circumstances have been resolved.

As of September 30, 2014 and December 31, 2013, the recorded investment in past-due financing receivables on nonaccrual status was \$2,960 and \$1,670, respectively, and there were no recorded investments in finance receivables past due 90 days or more and still accruing interest. The recorded investment in impaired notes receivable was \$4,134 as of September 30, 2014 and December 31, 2013 and was fully reserved.



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The following table summarizes the Company's aging of past-due notes receivable balances:

	September 30, 2014	December 31, 2013
30-59 days past due	\$—	\$85
60-89 days past due	—	—
> 89 days past due (1)	1,518	—
Total past due	\$1,518	\$85

(1) Past-due notes receivable balances greater than 89 days as of September 30, 2014 are fully reserved.

## NOTE 9: INVENTORIES

Major classes of inventories are summarized as follows:

	September 30, 2014	December 31, 2013
Finished goods	\$268,767	\$167,577
Service parts	135,486	132,508
Raw materials and work in process	115,546	76,377
Total inventories	\$519,799	\$376,462

## NOTE 10: GOODWILL AND OTHER ASSETS

Goodwill Goodwill is reviewed annually for impairment in the fourth quarter. There have been no impairment indicators identified in any of the reporting units during the nine months ended September 30, 2014. During the third quarter of 2013, the Company performed an other-than-annual assessment for its Brazil reporting unit based on a two-step impairment test as a result of a reduced earnings outlook for the Brazil business unit. The Company concluded that the goodwill within the Brazil reporting unit was partially impaired and recorded a \$70,000 pre-tax, non-cash goodwill impairment charge. In connection with the 2013 fourth quarter annual goodwill impairment test, the Company concluded the Asia Pacific (AP) reporting unit had excess fair value of approximately \$23,000 or eight percent when compared to its carrying amount. The amount of goodwill in the Company's AP reporting unit was \$41,544 and \$41,307 as of September 30, 2014 and December 31, 2013, respectively. As of December 31, 2013, the Domestic and Canada and Latin America (LA) reporting units had excess fair value significantly greater than their carrying amounts.

Other Assets Included in other assets are net capitalized software development costs of \$37,244 and \$40,235 as of September 30, 2014 and December 31, 2013, respectively. Amortization expense on capitalized software included in product cost of sales was \$4,543 and \$5,369 for the three months ended September 30, 2014 and 2013, respectively, and \$13,467 and \$16,620 for the nine months ended September 30, 2014 and 2013, respectively. Other long-term assets also consist of patents, trademarks and other intangible assets. Where applicable, other assets are stated at cost and, if applicable, are amortized ratably over the relevant contract period or the estimated life of the assets. Fees to renew or extend the term of the Company's intangible assets are expensed when incurred.

Impairment of long-lived assets is recognized when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the expected future undiscounted cash flows are less than the carrying amount of the asset group, an impairment loss may be recognized at that time to reduce the asset to the lower of its fair value or its net book value.



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 11: DEBT

Outstanding debt balances were as follows:

	September 30, 2014	December 31, 2013
Notes payable:		
Uncommitted lines of credit	\$82,758	\$43,062
Other	854	729
	\$83,612	\$43,791
Long-term debt:		
Credit facility	\$315,013	\$239,000
Senior notes	225,000	225,000
Industrial development revenue bonds	11,900	11,900
Other	3,107	4,342
	\$555,020	\$480,242

As of September 30, 2014, the Company had various international short-term uncommitted lines of credit with borrowing limits of \$124,096. The weighted-average interest rate on outstanding borrowings on the short-term uncommitted lines of credit as of September 30, 2014 and December 31, 2013 was 2.91 percent and 3.24 percent, respectively. The decrease in the weighted-average interest rate is attributable to the change in mix of borrowings in foreign entities. Short-term uncommitted lines mature in less than one year. The amount available under the short-term uncommitted lines at September 30, 2014 was \$41,337.

In August 2014, the Company amended and extended its credit facility. As of September 30, 2014, the Company has increased its borrowing limits under its new credit facility from \$500,000 to \$520,000. The amended and extended credit facility expires in August 2019 and did not change any of the covenants related to the previous agreement. Under the terms of the amended and extended credit facility, the Company has the ability, subject to various approvals, to increase the borrowing limits by \$250,000. Up to \$50,000 of the revolving credit facility is available under a swing line sub-facility. The weighted-average interest rate on outstanding credit facility borrowings as of September 30, 2014 and December 31, 2013 was 1.48 percent and 1.36 percent, respectively, which is variable based on the London Interbank Offered Rate (LIBOR). The amount available under the credit facility as of September 30, 2014 was \$204,987.

In March 2006, the Company issued senior notes in an aggregate principal amount of \$300,000 with a weighted-average fixed interest rate of 5.50 percent. The Company entered into a derivative transaction to hedge interest rate risk on \$200,000 of the senior notes, which was treated as a cash flow hedge. This reduced the effective interest rate from 5.50 percent to 5.36 percent. The Company funded the repayment of \$75,000 of the senior notes at maturity in March 2013 using borrowings under its revolving credit facility. The maturity dates of the remaining senior notes are staggered, with \$175,000 and \$50,000 due in 2016 and 2018, respectively.

In 1997, industrial development revenue bonds were issued on behalf of the Company. The proceeds from the bond issuances were used to construct new manufacturing facilities in the United States. The Company guaranteed the payments of principal and interest on the bonds by obtaining letters of credit. The bonds were issued with a 20-year original term and are scheduled to mature in 2017. Each industrial development revenue bond carries a variable interest rate, which is reset weekly by the remarketing agents. The weighted-average interest rate on the bonds was 0.28 percent and 0.36 percent as of September 30, 2014 and December 31, 2013, respectively.

The Company's financing agreements contain various restrictive financial covenants, including net debt to capitalization and net interest coverage ratios. As of September 30, 2014, the Company was in compliance with the financial and other covenants in its debt agreements.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 12: BENEFIT PLANS

The Company has qualified pension plans covering certain U.S. employees that have been closed to new participants since 2003. Plans that cover salaried employees provide pension benefits based on the employee's compensation during the ten years before retirement. The Company's funding policy for salaried plans is to contribute annually based on actuarial projections and applicable regulations. Plans covering hourly employees and union members generally provide benefits of stated amounts for each year of service. The Company's funding policy for hourly plans is to make at least the minimum annual contributions required by applicable regulations. Employees of the Company's operations in countries outside of the United States participate to varying degrees in local pension plans, which in the aggregate are not significant.

The Company has non-qualified pension plans to provide supplemental retirement benefits to certain officers. Benefits are payable at retirement based upon a percentage of the participant's compensation, as defined.

In July 2013, the Company's board of directors approved freezing certain pension and SERP plan benefits effective as of December 31, 2013 for U.S.-based salaried employees. The Company recognized the plan freeze in the three months ended September 30, 2013 as a curtailment, since it eliminates for a significant number of participants the accrual of defined benefits for all of their future services. The impact of the curtailment includes the one-time accelerated recognition of outstanding unamortized pre-tax prior service cost of \$809 within general and administrative expense and a pre-tax reduction in AOCI of \$52,550, attributable to the decrease in long-term pension liabilities. This curtailment event triggered a re-measurement for the affected benefit plans as of July 31, 2013 using a discount rate of 5.06 percent. The process for establishing the discount rate was consistent with the process utilized at our annual plan re-measurement date. The re-measurement resulted in a further reduction of long-term pension liabilities and AOCI (pre-tax) related to the actuarial gain occurring during the year of \$71,008

In addition to providing pension benefits, the Company provides post-retirement healthcare and life insurance benefits (referred to as other benefits) for certain retired employees. Eligible employees may be entitled to these benefits based upon years of service with the Company, age at retirement and collective bargaining agreements. Currently, the Company has made no commitments to increase these benefits for existing retirees or for employees who may become eligible for these benefits in the future. Currently there are no plan assets and the Company funds the benefits as the claims are paid.

The following table sets forth the net periodic benefit cost for the Company's defined benefit pension plans and other benefits for the three months ended September 30:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Components of net periodic benefit cost				
Service cost	\$732	\$2,647	\$—	\$—
Interest cost	5,751	6,865	157	157
Expected return on plan assets	(6,450)	) (9,017	) —	—
Amortization of prior service benefit	(39	) (136	) (56	) (122
Recognized net actuarial loss	756	2,529	50	105
Curtailment loss (1)	—	809	—	—
Net periodic pension benefit cost	\$750	\$3,697	\$151	\$140



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The following table sets forth the net periodic benefit cost for the Company's defined benefit pension plans and other benefits for the nine months ended September 30:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Components of net periodic benefit cost				
Service cost	\$2,196	\$9,308	\$—	\$—
Interest cost	17,251	20,778	471	471
Expected return on plan assets	(19,348	) (26,622	) —	—
Amortization of prior service benefit	(117	) (99	) (169	) (366
Recognized net actuarial loss	2,268	13,385	151	317
Curtailment loss (1)	—	1,968	—	—
Net periodic pension benefit cost	\$2,250	\$18,718	\$453	\$422

(1) Curtailment loss during the first nine months ended September 30, 2013 resulted from the departure of certain executive officers and was recorded within selling and administrative expense in the condensed consolidated statement of operations.

Contributions

In the third quarter of 2014, the Company made a voluntary contribution to its qualified pension plan of \$5,000. For the nine months ended September 30, 2014 and 2013, contributions of \$8,674 and \$2,662, respectively, were made to the qualified and non-qualified pension plans.

NOTE 13: GUARANTEES AND PRODUCT WARRANTIES

In 1997, industrial development revenue bonds were issued on behalf of the Company. The Company guaranteed the payments of principal and interest on the bonds (refer to note 11) by obtaining letters of credit. The carrying value of the bonds was \$11,900 as of September 30, 2014 and December 31, 2013.

The Company provides its global operations guarantees and standby letters of credit through various financial institutions for suppliers, customers, regulatory agencies and insurance providers. If the Company is not able to make payment or fulfill contractual obligations, the suppliers, customers, regulatory agencies and insurance providers may draw on the pertinent bank. At September 30, 2014, the maximum future payment obligations related to these various guarantees totaled \$96,534, of which \$27,985 represented standby letters of credit to insurance providers, and no associated liability was recorded. At December 31, 2013, the maximum future payment obligations relative to these various guarantees totaled \$87,104, of which \$26,035 represented standby letters of credit to insurance providers, and no associated liability was recorded.

The Company provides its customers a manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. As of September 30, 2014 and 2013, the Company's warranty liability balances were \$106,977 and \$75,487, respectively. The increase in warranty is largely attributable to sales to the education ministry in our Brazil segment.

Changes in the Company's warranty liability balance are illustrated in the following table:

	2014	2013
Balance at January 1	\$83,199	\$81,751
Current period accruals (1)	62,082	34,300
Current period settlements	(38,304	) (40,564

Balance at September 30	\$106,977	\$75,487
(1) Includes the impact of foreign exchange rate fluctuations.		



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Obligations

At September 30, 2014, the Company had purchase commitments due within one year of \$4,807 for materials through contract manufacturing agreements at negotiated prices.

Indirect Tax Contingencies

The Company accrues non income-tax liabilities for indirect tax matters when management believes that a loss is probable and

the amounts can be reasonably estimated, while contingent gains are recognized only when realized. In the event any losses are

sustained in excess of accruals, they are charged against income. In evaluating indirect tax matters, management takes into consideration factors such as historical experience with matters of similar nature, specific facts and circumstances, and the likelihood of prevailing. Management evaluates and updates accruals as matters progress over time. It is reasonably possible that some of the matters for which accruals have not been established could be decided unfavorably to the Company and could require recognizing future expenditures. Also, statutes of limitations could expire without the Company paying the taxes for matters for which accruals have been established, which could result in the recognition of future gains upon reversal of these accruals at that time.

At September 30, 2014, the Company was a party to several routine indirect tax claims from various taxing authorities globally that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the Company's financial position or results of operations. In management's opinion, the condensed consolidated financial statements would not be materially affected by the outcome of these indirect tax claims and/or proceedings or asserted claims.

In addition to these routine indirect tax matters, the Company was a party to the proceedings described below:

In August 2012, one of the Company's Brazilian subsidiaries was notified of a tax assessment of approximately R\$270,000, including penalties and interest, regarding certain Brazilian federal indirect taxes (Industrialized Products Tax, Import Tax, Programa de Integração Social and Contribution to Social Security Financing) for 2008 and 2009. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify certain indirect tax incentives. On September 10, 2012, the Company filed its administrative defenses with the tax authorities. This proceeding is currently pending an administrative level decision, which could negatively impact Brazilian federal indirect taxes in other years that remain open under statute. It is reasonably possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's condensed consolidated financial statements.

In response to an order by the administrative court, the tax inspector provided further analysis with respect to the initial assessment in December 2013, which has now been accepted by the initial administrative court, that indicates a potential exposure that is significantly lower than the initial tax assessment received in August 2012. However, this matter remains subject to ongoing administrative proceedings and appeals. Accordingly, the Company cannot provide any assurance that its exposure pursuant to the initial assessment will be lowered significantly or at all. The Company continues to defend itself in the administrative proceedings.

In connection with the Brazilian indirect tax assessment, in May 2013, the U.S. Securities and Exchange Commission (SEC) requested that the Company retain certain documents and produce certain records relating to the assessment, to which the Company complied. However, in September 2014, the Company was notified by the SEC that it had closed its inquiry relating to the assessment.

In addition, the Company is challenging a customs ruling in Thailand seeking to retroactively collect customs duties on previous imports of Automated Teller Machines (ATM). Management believes that the customs authority's attempt to retroactively assess customs duties is in contravention of World Trade Organization agreements and, accordingly, is challenging the ruling. In July 2014, the Central Tax Court in Thailand dismissed the Company's complaint; however, the Company will be appealing this decision, and management continues to believe that the Company has a valid legal position for supporting its challenge. Accordingly, the Company has not accrued any amount for this contingency; however, the Company cannot provide any assurance that it will not ultimately be subject to a retroactive assessment.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

At September 30, 2014 and December 31, 2013, the Company had an accrual of approximately \$26,000 related to the Brazilian indirect tax matter disclosed above.

A loss contingency is reasonably possible if it has a more than remote but less than probable chance of occurring. Although management believes the Company has valid defenses with respect to its indirect tax positions, it is reasonably possible that a loss could occur in excess of the estimated accrual, for which the Company estimated the aggregate risk at September 30, 2014 to be up to approximately \$395,000 for its material indirect tax matters, of which approximately \$355,000 and \$26,000, respectively, relates to the Brazilian indirect tax matter and Thailand customs matter disclosed above. The aggregate risk related to indirect taxes is adjusted as the applicable statutes of limitations expire.

**Legal Contingencies**

At September 30, 2014, the Company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the Company's financial position or results of operations. In addition, the Company has indemnification obligations with certain former employees, and costs associated with these indemnifications are expensed as incurred. In management's opinion, the Company's condensed consolidated financial statements would not be materially affected by the outcome of these legal proceedings, commitments or asserted claims.

**NOTE 15: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company uses derivatives to mitigate the economic consequences associated with fluctuations in currencies and interest rates.

**Foreign Exchange**

**Net Investment Hedges** The Company has international subsidiaries with net balance sheet positions that generate cumulative translation adjustments within AOCI. The Company uses derivatives to manage potential changes in value of its net investments in Brazil. The Company uses the forward-to-forward method for its quarterly retrospective and prospective assessments of hedge effectiveness. No ineffectiveness results if the notional amount of the derivative matches the portion of the net investment designated as being hedged because the Company uses derivative instruments with underlying exchange rates consistent with its functional currency and the functional currency of the hedged net investment. Changes in value that are deemed effective are accumulated in AOCI where they will remain until they are reclassified to income together with the gain or loss on the entire investment upon substantial liquidation of the subsidiary. The fair value of the Company's net investment hedge contracts was \$(3,070) and \$313 as of September 30, 2014 and December 31, 2013, respectively. The net (loss) gain recognized in AOCI on net investment hedge derivative instruments was \$(3,750) and \$684 in the three months ended September 30, 2014 and 2013, respectively, and \$1,745 and \$(3,421) in the nine months ended September 30, 2014 and 2013, respectively.

**Non-Designated Hedges** A substantial portion of the Company's operations and revenues are international. As a result, changes in foreign exchange rates can create substantial foreign exchange gains and losses from the revaluation of non-functional currency monetary assets and liabilities. The Company's policy allows the use of foreign exchange forward contracts with maturities of up to 24 months to mitigate the impact of currency fluctuations on those foreign currency asset and liability balances. The Company elected not to apply hedge accounting to its foreign exchange forward contracts. Thus, spot-based gains/losses offset revaluation gains/losses within foreign exchange gain (loss), net and forward-based gains/losses represent interest expense. The fair value of the Company's non-designated foreign exchange forward contracts was \$8,041 and \$705 as of September 30, 2014 and December 31, 2013, respectively.

Edgar Filing: DIEBOLD INC - Form 10-Q

The following table summarizes the gain (loss) recognized on non-designated foreign-exchange derivative instruments for the three and nine months ended September 30:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest expense	\$(1,415 )	\$(2,099 )	\$(4,384 )	\$(4,726 )
Foreign exchange gain (loss), net	9,180	(680 )	10,706	10,275
	\$7,765	\$(2,779 )	\$6,322	\$5,549

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

**Interest Rate**

**Cash Flow Hedges** The Company has variable rate debt that is subject to fluctuations in interest related cash flows due to changes in market interest rates. The Company's policy allows derivative instruments designated as cash flow hedges that fix a portion of future variable-rate interest expense. As of September 30, 2014, the Company had two pay-fixed receive-variable interest rate swaps, with a total notional amount of \$50,000, to hedge against changes in the LIBOR benchmark interest rate on a portion of the Company's LIBOR-based borrowings. Changes in value that are deemed effective are accumulated in AOCI and reclassified to interest expense when the hedged interest is accrued. To the extent that it becomes probable that the Company's variable rate borrowings will not occur, the gains or losses on the related cash flow hedges will be reclassified from AOCI to interest expense. The fair value of the Company's interest rate contracts was \$(1,478) and \$(2,351) as of September 30, 2014 and December 31, 2013, respectively. In December 2005 and January 2006, the Company executed cash flow hedges by entering into receive-variable and pay-fixed interest rate swaps, with a total notional amount of \$200,000, related to the senior notes issuance in March 2006. Amounts previously recorded in AOCI related to the pre-issuance cash flow hedges will continue to be reclassified on a straight-line basis through February 2016.

The gain recognized on designated cash flow hedge derivative instruments was \$350 and \$101 for the three months ended September 30, 2014 and 2013, respectively, and \$841 and \$935 for the nine months ended September 30, 2014 and 2013, respectively. Gains and losses related to interest rate contracts that are reclassified from AOCI are recorded in interest expense on the statements of operations. The Company anticipates reclassifying \$930 from AOCI to interest expense within the next 12 months.

**NOTE 16: RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES****Restructuring Charges**

The following table summarizes the impact of the Company's restructuring charges on the condensed consolidated statements of operations:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cost of sales – services	\$514	\$2,124	\$1,353	\$8,983
Cost of sales – products	—	212	68	429
Selling and administrative expense	414	1,859	5,366	9,375
Research, development and engineering expense	—	151	(26	) 2,617
Total	\$928	\$4,346	\$6,761	\$21,404



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The following table summarizes the Company's restructuring charges by reporting segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Severance				
North America (NA)	\$928	\$962	\$3,625	\$14,373
Asia Pacific (AP)	—	953	307	1,557
Europe, Middle East and Africa (EMEA)	—	505	587	762
Latin America (LA)	—	268	1,242	268
Brazil	—	1,101	937	3,747
Total Severance	928	3,789	6,698	20,707
Other				
NA	—	224	—	224
EMEA	—	333	63	473
Total Other	—	557	63	697
Total	\$928	\$4,346	\$6,761	\$21,404

During the first quarter of 2013, the Company announced a multi-year realignment plan. Certain aspects of this plan were previously disclosed under the Company's global realignment plan and global shared services plan. This multi-year realignment focuses on globalizing the Company's service organization and creating a unified center-led global organization for research and development, as well as transforming the Company's general and administrative cost structure. Restructuring charges of \$928 and \$4,346 for the three months ended September 30, 2014 and 2013, respectively, and \$6,761 and \$21,404 for the nine months ended September 30, 2014 and 2013, respectively, related to the Company's multi-year realignment plan. Restructuring charges for the nine months ended September 30, 2014 primarily related to a business process outsourcing initiative. As of September 30, 2014, the Company anticipates additional restructuring costs of \$4,000 to \$6,000 to be incurred through the end of 2014, primarily within NA and EMEA. The Company anticipates additional cost in the multi-year realignment plan through at least 2015. As management finalizes certain aspects of the realignment plan, the anticipated future costs related to this plan are subject to change. As of September 30, 2014, cumulative total restructuring costs for the multi-year realignment plan were \$64,218, \$2,425, \$5,534, \$1,694 and \$8,635 in NA, AP, EMEA, LA and Brazil, respectively.

The following table summarizes the Company's restructuring accrual balances and related activity:

	2014	2013
Balance at January 1	\$35,289	\$11,844
Liabilities incurred	6,761	21,404
Liabilities paid/settled	(35,854)	(27,239)
Balance at September 30	\$6,196	\$6,009
Impairment and Other Charges		

During the third quarter of 2013, the Company recorded a \$70,000 pre-tax, non-cash goodwill impairment charge related to its

Brazil segment (refer to note 10).

Other charges consist of items that the Company has determined are non-routine in nature and are not expected to recur in future operations. Net non-routine expenses of \$(3,546) and \$(3,953) impacted the three months ended September 30, 2014 and 2013, respectively. Net non-routine income (expenses) of \$7,528 and \$(57,697) impacted the nine months ended September 30, 2014 and 2013, respectively. Non-routine income for the first nine months of 2014 related primarily to a \$13,709 pre-tax gain from the sale of the Eras, recognized in gain on sale of assets, net in the condensed consolidated statements of operations. Non-routine expenses for the first nine months of 2013 included \$28,000 of additional pre-tax losses related to the settlement of the global Foreign Corrupt Practices Act (FCPA) investigation, a \$17,245 pre-tax charge related to settlement of the securities legal action



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

and executive severance costs, including accelerated share-based compensation expense of \$2,982 (pre-tax) all recognized in selling and administrative expense, partially offset by non-routine income of \$2,191 related to a pre-tax gain from the sale of certain U.S. manufacturing operations to a long-time supplier recognized in gain on sale of assets, net in the condensed consolidated statements of operations.

**NOTE 17: FAIR VALUE OF ASSETS AND LIABILITIES**

The Company measures its financial assets and liabilities using one or more of the following three valuation techniques:

Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – Amount that would be required to replace the service capacity of an asset (replacement cost).

Income approach – Techniques to convert future amounts to a single present amount based upon market expectations.

The hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is divided into three levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – Unobservable inputs for which there is little or no market data.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets and Liabilities Recorded at Fair Value

Assets and liabilities subject to fair value measurement are as follows:

	September 30, 2014			December 31, 2013		
	Fair Value	Fair Value Measurements Using		Fair Value	Fair Value Measurements Using	
		Level 1	Level 2		Level 1	Level 2
<b>Assets</b>						
<b>Short-term investments:</b>						
Certificates of deposit	\$133,800	\$133,800	\$—	\$215,010	\$215,010	\$—
U.S. dollar indexed bond funds	—	—	—	27,978	—	27,978
Assets held in rabbi trusts	9,662	9,662	—	10,377	10,377	—
Foreign exchange forward contracts	5,151	—	5,151	1,382	—	1,382
<b>Total</b>	<b>\$148,613</b>	<b>\$143,462</b>	<b>\$5,151</b>	<b>\$254,747</b>	<b>\$225,387</b>	<b>\$29,360</b>
<b>Liabilities</b>						
Deferred compensation	\$9,662	\$9,662	\$—	\$10,377	\$10,377	\$—
Foreign exchange forward contracts	180	—	180	364	—	364
Interest rate swaps	1,478	—	1,478	2,351	—	2,351
<b>Total</b>	<b>\$11,320</b>	<b>\$9,662</b>	<b>\$1,658</b>	<b>\$13,092</b>	<b>\$10,377</b>	<b>\$2,715</b>

The Company uses the end of period when determining the timing of transfers between levels. During the nine months ended September 30, 2014, there were no transfers between levels.

**Short-Term Investments** The Company has investments in certificates of deposit that are recorded at cost, which approximates fair value. Additionally, the Company has investments in U.S. dollar indexed bond funds that are classified as available-for-sale and stated at fair value. U.S. dollar indexed bond funds are reported at net asset value, which is the practical expedient for fair value as determined by banks where funds are held.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

**Assets Held in Rabbi Trusts / Deferred Compensation** The fair value of the assets held in rabbi trusts (refer to note 7) are derived from investments in a mix of money market, fixed income and equity funds managed by Bank of America/Merrill Lynch. The related deferred compensation liability is recorded at fair value.

**Foreign Exchange Forward Contracts** A substantial portion of the Company's operations and revenues are international. As a result, changes in foreign exchange rates can create substantial foreign exchange gains and losses from the revaluation of non-functional currency monetary assets and liabilities. The foreign exchange contracts are valued using the market approach based on observable market transactions of forward rates.

**Interest Rate Swaps** The Company has variable rate debt and is subject to fluctuations in interest-related cash flows due to changes in market interest rates. The Company's policy allows it to periodically enter into derivative instruments designated as cash flow hedges to fix some portion of future variable rate-based interest expense. The Company executed two pay-fixed receive-variable interest rate swap to hedge against changes in the LIBOR benchmark interest rate on a portion of the Company's LIBOR-based borrowings. The fair value of the swap is determined using the income approach and is calculated based on LIBOR rates at the reporting date.

**Assets and Liabilities Not Measured at Fair Value on a Recurring Basis**

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also measures certain assets and liabilities at fair value on a nonrecurring basis. Our non-financial assets, including goodwill, intangible assets and property, plant and equipment, are measured at fair value when there is an indication of impairment. These assets are recorded at fair value, determined using level 3 inputs, only when an impairment charge is recognized.

**Assets and Liabilities Recorded at Carrying Value**

The fair value of the Company's cash and cash equivalents, trade receivables and accounts payable, approximates the carrying value due to the relative short maturity of these instruments.

The fair value and carrying value of the Company's debt instruments are summarized as follows:

	September 30, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes payable	\$83,612	\$83,612	\$43,791	\$43,791
Long-term debt	561,280	555,020	489,499	480,242
Total debt instruments	\$644,892	\$638,632	\$533,290	\$524,033

The fair value of the Company's industrial development revenue bonds are measured using unadjusted quoted prices in active markets for identical assets categorized as level 1 inputs. The fair value of the Company's current notes payable and credit facility debt instruments approximates the carrying value due to the relative short maturity of the revolving borrowings under these instruments. The fair values of the Company's long-term senior notes were estimated using market observable inputs for the Company's comparable peers with public debt, including quoted prices in active markets, market indices and interest rate measurements, considered level 2 inputs.



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

## NOTE 18: SEGMENT INFORMATION

The Company's segments are comprised of five geographic segments: NA, AP, EMEA, LA and Brazil. The five geographic segments sell and service financial self-service and security systems around the globe, as well as elections, lottery and information technology solutions in Brazil, through wholly-owned subsidiaries, majority-owned joint ventures and independent distributors in most major countries.

Certain information not routinely used in the management of the segments, information not allocated back to the segments or information that is impractical to report is not shown. Total assets are not allocated to segments and are not included in the assessment of segment performance and therefore are excluded from the segment information disclosed below.

The following tables represent information regarding the Company's segment information and provides a reconciliation between segment operating profit (loss) and the condensed consolidated financial statements:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue summary by segment				
NA	\$361,420	\$356,943	\$1,024,893	\$1,056,184
AP	135,036	116,102	361,527	346,660
EMEA	99,882	81,854	302,337	232,471
LA	54,089	56,899	146,529	161,182
Brazil	117,604	93,626	354,495	249,551
Total customer revenues	\$768,031	\$705,424	\$2,189,781	\$2,046,048
Intersegment revenues				
NA	\$17,760	\$20,938	\$51,049	\$59,280
AP	22,195	36,159	69,404	75,579
EMEA	22,767	8,437	42,610	34,635
LA	119	—	364	3
Total intersegment revenues	\$62,841	\$65,534	\$163,427	\$169,497
Segment operating profit				
NA	\$69,920	\$68,107	\$199,114	\$175,282
AP	20,809	16,657	50,865	46,297
EMEA	14,491	10,816	47,820	24,565
LA	10,673	7,773	17,273	20,327
Brazil	7,960	7,299	21,606	5,765
Total segment operating profit	\$123,853	\$110,652	\$336,678	\$272,236
Corporate charges not allocated to segments (1)	(72,660)	(62,606)	(210,245)	(190,284)
Asset impairment charges	—	(70,000)	—	(70,642)
Restructuring charges	(928)	(4,346)	(6,761)	(21,404)
Net non-routine (expense) income	(3,546)	(3,953)	7,528	(57,697)
	(77,134)	(140,905)	(209,478)	(340,027)

Edgar Filing: DIEBOLD INC - Form 10-Q

Operating profit (loss) \$46,719 \$(30,253 ) \$127,200 \$(67,791 )

(1) Corporate charges not allocated to segments include headquarter-based costs associated with manufacturing administration, procurement, human resources, finance and accounting, global development/engineering, global strategy/mergers and acquisitions, global information technology, tax, treasury and legal.

Table of Contents

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Segment depreciation and amortization expense				
NA	\$1,961	\$2,594	\$7,093	\$9,574
AP	2,025	2,081	5,777	5,848
EMEA	1,020	956	3,123	2,871
LA	834	830	2,368	2,584
Brazil	2,627	1,771	6,499	6,200
Total segment depreciation and amortization expense	8,467	8,232	24,860	27,077
Corporate depreciation and amortization expense	10,219	13,659	30,545	37,008
Total depreciation and amortization expense	\$18,686	\$21,891	\$55,405	\$64,085

	September 30, 2014	December 31, 2013
Segment property, plant and equipment, at cost		
NA	\$125,647	\$137,669
AP	49,814	46,117
EMEA	39,225	40,715
LA	24,623	24,470
Brazil	56,676	65,148
Total segment property, plant and equipment, at cost	295,985	314,119
Corporate property plant and equipment, at cost, not allocated to segments	309,674	284,975
Total property, plant and equipment, at cost	\$605,659	\$599,094

The following table presents information regarding the Company's revenue by service and product solution:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue summary by service and product solution				
Financial self-service:				
Services	\$310,691	\$291,529	\$901,828	\$874,983
Products	239,675	233,623	657,943	681,566
Total financial self-service	550,366	525,152	1,559,771	1,556,549
Security:				
Services	105,842	113,706	307,903	325,695
Products	52,199	40,496	145,605	115,364
Total security	158,041	154,202	453,508	441,059
Total financial self-service & security	708,407	679,354	2,013,279	1,997,608
Brazil other	59,624	26,070	176,502	48,440
	\$768,031	\$705,424	\$2,189,781	\$2,046,048

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

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

OVERVIEW

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and accompanying notes that appear elsewhere in this Quarterly Report on Form 10-Q.

Introduction

Diebold, Incorporated and its subsidiaries (collectively, the Company) is a global leader in providing integrated services and software, financial self-service (FSS) delivery and security systems to primarily the financial, commercial, retail and other markets. Founded in 1859, the Company currently has approximately 16,000 employees with representation in more than 90 countries worldwide. The Company unveiled its multi-year turnaround strategy, Diebold 2.0, at the Investment Community Conference in November 2013. The objective of Diebold 2.0 is to transform the Company into a world-class, services-led and software enabled provider of secure, convenient and efficient solutions for its customers. The turnaround strategy will follow a "Crawl, Walk, Run" approach, which requires the core business operations to be stabilized in the "Crawl" phase and build the foundation for future growth in the "Walk" and "Run" phases. Four core pillars provide the Company a clear path toward reaching this multi-year objective:

• Reduce its cost structure and improve its near-term delivery and execution.

• Generate increased free cash flow in order to fund the investments necessary to drive profitable growth, while preserving the ability to return value to shareholders in the form of reliable dividends and, as appropriate, share repurchases.

• Attract and retain the talent necessary to drive innovation and the focused execution of the transformation strategy.

• Return the Company to a sustainable, profitable growth trajectory.

The Company sees opportunities to leverage its capabilities in services, software and innovation to meet the needs of its rapidly evolving markets. The Company has sharpened its focus on executing its core strategies in FSS and electronic security. This includes making the appropriate investments to deliver growth within these areas, especially in research, development and engineering expense. In addition, the Company remains committed to a disciplined risk assessment process, focused on proactively identifying and mitigating potential risks to the Company's continued success.

Diebold 2.0 - Turnaround Strategy

Diebold 2.0 is built on four core pillars: cost, cash, talent and growth. Underpinned by the four core pillars, the turnaround strategy encompasses eight specific actions to achieve top-tier performance and generate sustainable, profitable growth.

Eight-Point Program:

1. Establish a Competitive Cost Structure

Reducing the Company's fixed cost envelope and driving operational rigor is fundamental. The \$150,000 multi-year realignment plan launched in 2013 will drive efficiency while reducing general and administrative costs and the cost of goods sold.

2. Drive Sustainable Improvement in Cash Flow

The Company is committed to improving cash generation in order to increase shareholder value and fuel the investments necessary to grow the business. An emphasis on working capital improvements and cash generation now extends far beyond the finance organization - it is a main-stage requirement in every operation in every region.

3. Improve Sales Effectiveness



The Company's sales teams must enhance skills, tools and coverage to reach more prospects more effectively. For example, the global deployment of Salesforce.com will enhance the ability to plan, forecast and allocate resources more productively.

**4. Increase Speed and Agility**

Streamlining the management structure will drive greater accountability, accelerate decision-making and facilitate the transition to a truly global business. Change is being viewed as an enabler of progress and not as a disrupter.

**5. Instill a Winning Culture Grounded in Execution**

The message being driven to every member of the organization: The Company is not merely to participate in a market, but to succeed, and win through a culture built upon accountability and execution. As an example, the Company has taken steps to better align employee compensation with Company performance.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

6. Collaborate With Customers and Partners to Drive Innovative Solutions

The Company must accelerate new ideas through teamwork with capable partners and collaboration with customers. For example, the India-originated Diebold 429 Automated Teller Machine (ATM) solution reduced development time and costs while at the same time meeting defined market needs.

7. Further Leverage Services and Software

The Company expects the commoditization of hardware to continue, the size and importance of the software stack to increase, and our expertise in services and system integration to be a key differentiator. The objective is to further expand the percentage of sales derived from services and software, which is expected to exceed 60 percent during the transformation.

8. Generate Long-Term, Profitable Growth

The seven actions defined above are designed to put the Company on a sustainable, profitable growth trajectory. A commitment to operational rigor, improved analytics and data-driven decision-making is expected to position the Company to benefit from secular trends in outsourcing and mobility, expand its electronic security business and drive both organic and inorganic growth.

As part of the transformation, the Company engaged Accenture to provide finance and accounting, human resources and procurement business process outsourcing services. The Company's multi-year outsourcing agreement focuses on creating one global delivery model that enhances the quality, controls and efficiency of the Company's integrated global business processes. The Company plans to utilize Accenture's industry leading practices, technologies and global delivery network to establish more synchronized operational controls, improve operational transparency, lower spending and reduce costs. Reinvestment of the Company's savings into transformation initiatives with Accenture were marginal in the first half of 2014 and have increased in the third quarter of 2014.

Solutions

The Company leverages its strong base of maintenance and advanced services to deliver comprehensive outsourcing and managed services. Banks are continuously being challenged to reduce costs while increasing operational efficiencies. Through outsourced services, banks entrust the management of their ATM and security operations to the Company, allowing their staffs to focus on core competencies. Furthermore, the Company's outsourcing and managed services offering provides banks and credit unions with the leading-edge technology they need to stay competitive in the marketplace. As a leader in outsourcing services, the Company is poised to capitalize on the secular outsourcing trends in the marketplace. Several years ago, the Company launched its outsourcing and managed services business in North America and has grown this business from \$5,000 to over \$200,000 in annual revenue with over 22,500 units under contract.

Another demand driver in the global ATM marketplace is branch transformation. The concept of branch transformation is to help financial institutions reduce their costs by migrating routine transactions, typically done inside the branch, to lower-cost automated channels, including the ATM as well as adding convenience and additional security for the banks' customers. One area of branch transformation that continues to gain traction is deposit automation. Among the largest U.S. national banks, there has been extensive deployment of deposit automation-enabled terminals. Today, approximately 25 percent of ATMs globally are configured for automated deposits.

Another solution the Company offers as part of its branch transformation efforts is Concierge Video Services™, most recently launched in North America. The solution provides consumers with on-demand access to bank call center representatives right at the ATM for sales or bank account maintenance support. In addition to delivering a personal touch outside of regular business hours, Concierge Video Services™ ultimately assists financial institutions by

maximizing operational efficiencies, improving the consumer experience and enhancing the overall consumer relationship.

Mobile integration is another emerging trend in the FSS space, as consumers look for multiple ways to interact with their financial institutions. In July 2013, Diebold introduced its cardless Mobile Cash Access solution, which allows consumers to stage a transaction with their mobile device and complete it at the ATM without the need for a card.

This capability provides consumers with a more convenient and secure option, while giving financial institutions the opportunity to offer their own branded mobile wallet solution.

A new technology that enhances security for customers is Diebold's ActivEdge card reader. This is the ATM industry's first complete anti-skimming card reader that prevents all known forms of skimming, the most prevalent type of ATM crime, as well

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

as other forms of ATM fraud. ActivEdge can help financial institutions avoid skimming-related fraud losses which, according to the ATM Industry Association, total more than \$2 billion annually worldwide. ActivEdge requires users to insert cards into the reader via the long edge, instead of the traditional short edge. We believe by shifting a card's angle 90 degrees, ActivEdge prevents modern skimming devices from reading the card's full magnetic strip, eliminating the devices' ability to steal card data.

Another opportunity for a successful outsourcing and managed services approach relates to security challenges and the systems to address them, which have grown increasingly complex. This has created a strong business case among financial institutions and commercial customers for outsourcing and managed service solutions, particularly in the areas of monitoring, services and software management. Today, the Company is bringing its expertise back into the financial sector and pursuing other areas, namely the commercial market, with a focused effort to secure large, complex and technologically demanding projects. The Company has customer-focused teams that possess high levels of logical and enterprise security expertise that are required in this business. The Company is also leveraging best practices and some of the best talent to continue building upon its security outsourcing and managed services business.

As it relates to security, the Company recently introduced a new online security management tool in North America, called SecureStat®, that streamlines how customers manage their security operations. At the core of the solution is a personalized dashboard that utilizes customizable, distinct widgets to provide a snapshot of a user's entire security platform, including locations, security systems and devices. In addition, SecureStat® can unify security services and disparate systems, while providing a single interface for real-time administration of security operations across an enterprise. SecureStat® is a great example of the software-driven platforms the Company is investing in to strengthen its services offering and differentiate itself in the marketplace.

Moving forward, the Company intends to create shareholder value by leveraging the opportunities it sees within the area of branch transformation, growing its services, outsourcing and software capabilities, further building out its electronic security business and taking advantage of key commercial trends around the world. Many opportunities lie ahead, and the Company will continue to invest in developing new services, software and security solutions that align with the needs of its core markets.

Multi-Year Realignment Plan

The Company is committed to its previously announced multi-year realignment plan aimed at establishing a competitive cost structure throughout the organization. The Company has currently identified targeted savings of \$150,000 that are expected to be fully realized by the end of 2015 and is working to accelerate the cost savings efforts beyond this target longer term. The Company expects to reinvest a portion of the savings to drive long-term growth. Areas of reinvestment include: research and development of innovative new customer solutions; improving and updating the Company's information technology systems and infrastructure; transforming the general and administrative back-office functions; and strengthening sales coverage and marketing, processes and tools. In addition, some of the savings should offset price erosion, wage inflation in emerging markets and volatile commodity prices in the Company's core business. Given these factors, the Company anticipates that approximately 50 percent of the savings will positively impact operating profit. In addition to the cost savings impact, the Company expects that the plan will enhance its competitive position by focusing on globalizing the Company's service organization, creating a unified center-led global organization for research and development as well as transforming the Company's general and administrative cost structure. Restructuring charges associated with the multi-year realignment plan were \$928

and \$4,346 for the three months ended September 30, 2014 and 2013, respectively. Restructuring charges associated with the multi-year realignment plan were \$6,761 and \$21,404 for the nine months ended September 30, 2014 and 2013, respectively. Restructuring charges for the three and nine months ended September 30, 2014 primarily related to severance costs of employees due to the Company's business process outsourcing initiative with Accenture.

#### Business Drivers

The business drivers of the Company's future performance include, but are not limited to:

- timing of self-service equipment upgrades and/or replacement cycles, including deposit automation in mature markets such as the United States;
- demand for products and solutions related to bank branch transformation opportunities;
- demand for services, including outsourcing and managed services;
- demand for security products and services for the financial and commercial sectors; and
- high levels of deployment growth for new self-service products in emerging markets, such as Asia Pacific.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

RESULTS OF OPERATIONS

Net income attributable to Diebold, Incorporated for the three months ended September 30, 2014 was \$33,020 or \$0.51 per share, an increase of \$54,710 and \$0.85 per share, respectively, from the same period in 2013. Total revenue for the three months ended September 30, 2014 was \$768,031, an increase of \$62,607 compared to the same period in 2013. Net income attributable to Diebold, Incorporated for the nine months ended September 30, 2014 was \$84,461 or \$1.30 per share, an increase of \$224,632 and \$3.50 per share, respectively, from the same period in 2013. Total revenue for the nine months ended September 30, 2014 was \$2,189,781, an increase of \$143,733 compared to the same period in 2013.

The first nine months of 2014 included a \$13,709 pre-tax gain from the sale of the Company's Diebold Eras, Incorporated (Eras) subsidiary. Cryptera A/S (Cryptera) was acquired for a purchase price of approximately \$13,000 and is included in the Europe, Middle East and Africa (EMEA) segment within the Company's condensed consolidated financial statements from July 1, 2014, the date of acquisition.

The first nine months of 2013 included \$28,000 of pre-tax losses related to the settlement of the global Foreign Corrupt Practices Act (FCPA) investigation, a \$17,245 pre-tax charge related to settlement of the securities legal action and executive severance costs, including accelerated share-based compensation expense of \$2,982 (pre-tax) all recognized in selling and administrative expense, partially offset by non-routine income of \$2,191 related to a pre-tax gain from the sale of certain U.S. manufacturing operations to a long-time supplier recognized in gain on sale of assets, net in the condensed consolidated statements of operations. The Company also recorded a \$70,000 pre-tax, non-cash goodwill impairment charge related to its Brazil segment in the third quarter of 2013 in the condensed consolidated statements of operations.

The Company's Venezuelan operations consist of a fifty-percent owned subsidiary, which is consolidated. Venezuela is measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. On March 24, 2014, the Venezuelan government announced a currency exchange mechanism, SICAD 2, which yielded an exchange rate significantly higher than the rates established through the other regulated exchange mechanisms. Management has determined that it is unlikely that the Company will be able to convert bolivars under a currency exchange other than SICAD 2. On March 31, 2014, the Company remeasured its Venezuelan balance sheet using the SICAD 2 rate of 50.86 compared to the previous official government rate of 6.30, resulting in a decrease of \$6,051 to the Company's cash balance and net losses of \$12,101 that were recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2014. In addition, as a result of the currency devaluation, the Company recorded a \$4,073 lower of cost or market adjustment related to its service inventory within service cost of sales in the condensed consolidated statements of operations in the first quarter of 2014. In the future, if the Company converts bolivars at a rate other than the SICAD 2 rate, the Company may realize additional gains or losses that would be recorded in the statement of operations. The Company's Venezuelan operations represented less than one percent of the Company's total assets as of September 30, 2014 and less than one percent of net sales for both the three and nine months ended September 30, 2014. The Company does not expect its Venezuelan operations to be a significant component of its consolidated revenue or operating profit for the remainder of 2014.

The following discussion of the Company's financial condition and results of operations provides information that will assist in understanding the financial statements and the changes in certain key items in those financial statements. The following discussion should be read in conjunction with the condensed consolidated financial statements and the accompanying notes that appear elsewhere in this Quarterly Report.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2014			
	Dollars	% of Net sales	Dollars	% of Net sales	Dollars	% of Net sales	Dollars	% of Net sales
Net sales	\$768,031	100.0	\$705,424	100.0	\$2,189,781	100.0	\$2,046,048	100.0
Gross profit	200,583	26.1	172,805	24.5	551,511	25.2	460,235	22.5
Operating expenses	153,864	20.0	203,058	28.8	424,311	19.4	528,026	25.8
Operating profit (loss)	46,719	6.1	(30,253 )	(4.3 )	127,200	5.8	(67,791 )	(3.3 )
Net income (loss)	34,955	4.6	(20,204 )	(2.9 )	82,962	3.8	(137,938 )	(6.7 )
Net income (loss) attributable to noncontrolling interests	1,935	0.3	1,486	0.2	(1,499 )	(0.1 )	2,233	0.1
Net income (loss) attributable to Diebold, Incorporated	33,020	4.3	(21,690 )	(3.1 )	84,461	3.9	(140,171 )	(6.9 )

Three and Nine Months Ended September 30, 2014 Comparisons to Three and Nine Months Ended September 30, 2013

## Net Sales

The following table represents information regarding our net sales:

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	2014	2013	% Change	2014	2013	% Change
Total financial self-service	\$550,366	\$525,152	4.8	\$1,559,771	\$1,556,549	0.2
Total security	158,041	154,202	2.5	453,508	441,059	2.8
Brazil other	59,624	26,070	128.7	176,502	48,440	264.4
Total customer revenue	\$768,031	\$705,424	8.9	\$2,189,781	\$2,046,048	7.0

FSS sales in the third quarter of 2014 increased \$25,214 or 4.8 percent compared to the same period of 2013, including net unfavorable currency impact of \$2,941 or 0.6 percent. FSS sales in the first nine months of 2014 were flat compared to the same period of 2013, including net unfavorable currency impact of \$30,617 or 2.0 percent related mainly to the Brazilian real and Indian rupee. The following results include the impact of foreign currency:

North America (NA) FSS sales in the third quarter of 2014 were flat compared to the prior year comparable period. FSS sales in the nine months ended September 30, 2014 compared to the same period of 2013 decreased \$53,407 or 7.9 percent primarily from lower volume within the U.S. national bank business due in part to a large non-recurring project that favorably impacted 2013, partially offset by improvement between years in the U.S. regional bank space.

Asia Pacific (AP) FSS sales in the three and nine months ended September 30, 2014 increased \$14,760 and \$13,928 or 13.2 and 4.2 percent, respectively, due to growth in China. FSS sales in the first nine months of 2014 compared to

the same period of 2013 also benefited from improvement in India partially offset by a decline in Indonesia due to a large order in the prior year.

Europe, Middle East and Africa (EMEA) FSS sales in the three and nine months ended September 30, 2014 increased \$18,262 and \$70,094 or 22.4 and 30.2 percent, respectively, with the primary driver being growth in Western Europe. The increase in the nine months ended September 30, 2014 and 2013 also related to higher volume in Africa.

Latin America (LA) FSS sales in the third quarter of 2014 were flat compared to the prior year comparable period. The nine months ended September 30, 2014 decreased \$3,232 or 2.6 percent compared to the same period of 2013 because



Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

of a decline in Venezuela resulting from the currency control policy of the Venezuelan government and a decline in Colombia partially offset by higher volume in Mexico.

Brazil FSS sales in the three and nine months ended September 30, 2014 decreased \$8,978 and \$24,160 or 14.2 and 22.7 percent, respectively, due to lower product sales volume. Brazil FSS sales in the first nine months of 2014 compared to the same period of 2013 included net unfavorable currency impact of \$14,385 or 7.2 percent.

Security sales increased in the three and nine months ended September 30, 2014 compared to the same periods in 2013 due to growth in the electronic security business, which was partially offset by a decline in the physical security business. From a regional perspective, total security sales increased in the third quarter of 2014 compared to the same period of 2013 due to growth in AP and NA partially offset by a decrease in LA resulting from the electronic security business. In the first nine months of 2014, total security sales increased in relation to the prior year comparable period as growth in NA was offset in part by a decrease in LA resulting from the electronic security business.

Brazil other increased in the three and nine months ended September 30, 2014 compared to the same periods in 2013 due to lottery sales volume offset in part by a decline in election systems sales. In addition, the first nine months of 2014 were favorably impacted by deliveries of information technology (IT) equipment to the education ministry. These deliveries are not expected to recur in 2015.

## Gross Profit

The following table represents information regarding our gross profit:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2014	2013	% Change	2014	2013	% Change
Gross profit - services	\$126,167	\$115,117	9.6	\$360,535	\$296,505	21.6
Gross profit - products	74,416	57,688	29.0	190,976	163,730	16.6
Total gross profit	\$200,583	\$172,805	16.1	\$551,511	\$460,235	19.8
Gross margin – services	30.3	% 28.4	%	29.8	% 24.7	%
Gross margin – products	21.2	% 19.2	%	19.5	% 19.4	%
Total gross margin	26.1	% 24.5	%	25.2	% 22.5	%

The increases in service gross margin in the three and nine months ended September 30, 2014 were primarily driven by NA, which benefited from lower employee-related expense associated with restructuring initiatives implemented as part of the Company's service transformation efforts, including the ongoing benefit from its pension freeze and voluntary early retirement program. Total service gross margin in the three and nine months ended September 30, 2014 compared to the same periods in 2013 were also favorably impacted by a higher net margin among the international regions, with the main drivers being LA and EMEA in the third quarter of 2014 while Brazil was the principal contributor in the first nine months of 2014. Service gross profit included total restructuring charges and non-routine expenses of \$514 and \$2,378 in the three months ended September 30, 2014 and 2013, respectively, and \$1,353 and \$9,815 in the nine months ended September 30, 2014 and 2013, respectively.

The increase in product gross margin for the third quarter of 2014 compared to the same period in 2013 resulted mainly from margin improvements in LA partially driven by Mexico and EMEA largely due to higher volume and

product mix. Product gross margin for the first nine months of 2014 was flat compared to the prior year comparable period.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

## Operating Expenses

The following table represents information regarding our operating expenses:

	Three Months Ended			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2014	2013		2014	2013	
Selling and administrative expense	\$ 129,938	\$ 111,683	16.3	\$ 371,236	\$ 394,401	(5.9 )
Research, development and engineering expense	24,466	21,957	11.4	66,173	66,404	(0.3 )
Impairment of assets	—	70,000	N/M	—	70,642	N/M
Gain on sale of assets, net	(540 )	(582 )	N/M	(13,098 )	(3,421 )	N/M
Total operating expenses	\$ 153,864	\$ 203,058	(24.2 )	\$ 424,311	\$ 528,026	(19.6 )

The increase in selling and administrative expense in the third quarter of 2014 compared to the same period of 2013 resulted primarily from reinvestment of the Company's savings into transformation initiatives. The decrease in selling and administrative expense in the first nine months of 2014 compared to the same period of 2013 resulted primarily from lower non-routine expenses and restructuring charges of \$57,526 coupled with favorable currency impact partially offset by reinvestment of the Company's savings into transformation initiatives.

Selling and administrative expense included non-routine expenses of \$3,547 and \$3,700 in the three months ended September 30, 2014 and 2013, respectively, and \$6,182 and \$59,699 in the nine months ended September 30, 2014 and 2013, respectively. The primary components of non-routine expenses in the three and nine months ended September 30, 2013 were additional charges of \$28,000 related to the settlement of the FCPA investigation and \$17,500 for the settlement of the securities legal action. Additionally, the non-routine expenses for the nine months ended September 30, 2013 included executive severance costs of \$9,300. Selling and administrative expense included restructuring charges of \$414 and \$1,859 in the three months ended September 30, 2014 and 2013, respectively, and \$5,365 and \$9,374 in the nine months ended September 30, 2014 and 2013, respectively.

Research, development and engineering expense as a percent of net sales in the three and nine months ended September 30, 2014 were 3.2 percent and 3.0 percent, respectively, compared with the same periods in 2013, which were 3.1 percent and 3.2 percent, respectively. The increase in research, development and engineering costs in the third quarter of 2014 compared to the third quarter of 2013 resulted mainly from higher spend related to development efforts to support the Company's innovation in future products and services combined with the acquisition of Cryptera in the third quarter of 2014. The first nine months of 2013 included restructuring charges of \$2,617.

The Company recorded a \$70,000 pre-tax, non-cash goodwill impairment charge in the third quarter of 2013 due to deteriorating macro-economic outlook, structural changes to an auction-based purchasing environment and new competitors entering the market over the past several quarters, management reduced its earnings outlook for the Brazil business unit during the third quarter of 2013. As a result, the Company performed an other-than-annual assessment for its Brazil reporting unit based on a two-step impairment test and concluded that the goodwill within the Brazil reporting unit was partially impaired.

During the second quarter of 2014, the Company divested Eras, resulting in a gain on sale of assets of \$13,709.

During the first quarter of 2013, the Company recognized a gain on assets of \$2,191 resulting from the sale of certain U.S. manufacturing operations to a long-time supplier.

## Operating Profit (Loss)

The following table represents information regarding our operating profit (loss):

Edgar Filing: DIEBOLD INC - Form 10-Q

	Three Months Ended			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2014	2013		2014	2013	
Operating profit (loss)	\$46,719	\$(30,253 )	(254.4 )	\$127,200	\$(67,791 )	(287.6 )
Operating profit (loss) margin	6.1	% (4.3 )%		5.8	% (3.3 )%	

The increase in operating profit for the three and nine months ended September 30, 2014 compared to the same periods in 2013 resulted from a reduction in operating expense mainly due to lower non-routine charges, an improvement in service margin and

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

higher product sales, offset in part by higher spend partially attributable to reinvestment of the Company's savings into transformation strategies.

## Other Income (Expense)

The following table represents information regarding our other income (expense):

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2014	2013	% Change	2014	2013	% Change
Investment income	\$7,968	\$6,695	19.0	\$26,614	\$21,060	26.4
Interest expense	(8,384 )	(7,918 )	5.9	(23,142 )	(22,027 )	5.1
Foreign exchange gain (loss), net	988	2,977	(66.8 )	(10,373 )	(1,453 )	613.9
Miscellaneous, net	571	355	60.8	444	(434 )	(202.3 )
Other income (expense), net	\$1,143	\$2,109	(45.8 )	\$(6,457 )	\$(2,854 )	126.2

The increase in investment income in the three and nine months ended September 30, 2014 compared with the same periods in 2013 was driven by Brazil due to leasing portfolio growth. The foreign exchange loss, net for the first nine months of 2014 and 2013 included \$12,101 and \$1,584, respectively, related to the devaluation of the Venezuelan currency.

## Net Income (Loss)

The following table represents information regarding our net income (loss):

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2014	2013	% Change	2014	2013	% Change
Net income (loss)	\$34,955	\$(20,204 )	N/M	\$82,962	\$(137,938 )	N/M
Percent of net sales	4.6 %	(2.9 )%		3.8 %	(6.7 )%	
Effective tax rate	27.0 %	28.2 %		31.3 %	(95.3 )%	

The increase in net income in the three and nine months ended September 30, 2014 compared to the same periods in 2013 was driven by higher operating profit related mainly to significantly lower non-routine expense, an improvement in service margin and higher product sales. These benefits were offset in part by higher spend partially attributable to reinvestment of the Company's savings into transformation initiatives. In addition, the third quarter of 2014 was unfavorably impacted by higher income taxes compared to the same period of 2013, whereas the first nine months of 2014 benefited from lower taxes compared to the same period in 2013.

The effective tax rate on income was 27.0 percent for the three months ended September 30, 2014 and the effective tax rate on the loss was 28.2 percent for the three months ended September 30, 2013. The third quarter 2014 rate was lower than the statutory rate because of earnings in lower-tax jurisdictions and tax benefits from discrete items recorded in the quarter. The reduced third quarter 2013 tax rate differed from the statutory rate mainly as a result of the non-deductible portion of the Company's Brazil goodwill impairment recorded during a quarter with overall losses.

The effective tax rate on income was 31.3 percent for the nine months ended September 30, 2014 and the effective tax rate on the loss was (95.3) percent for the nine months ended September 30, 2013. The tax rate for the nine months ended September 30, 2014 includes a benefit from the release of a valuation allowance against excess capital losses offset by the negative impact of tax on foreign entities not permanently reinvested and the December 31, 2013 expiration of the Federal Research and Development Tax Credit and the Look-Thru Rule for Related Controlled

Foreign Corporations under Section 954(c)(6) of the Internal Revenue Code of 1986, as amended. The negative tax rate for 2013 was a result of several factors, including tax expense related to the repatriation of previously undistributed earnings and the establishment of a valuation allowance on deferred tax assets in the Company's Brazilian manufacturing facility.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

## Segment Revenue and Operating Profit Summary

The following tables represent information regarding our revenue and operating profit by reporting segment:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
North America:	2014	2013	% Change	2014	2013	% Change
Revenue	\$361,420	\$356,943	1.3	\$1,024,893	\$1,056,184	(3.0)
Segment operating profit	69,920	68,107	2.7	199,114	175,282	13.6
Segment operating profit margin	19.3	% 19.1	%	19.4	% 16.6	%

NA revenue increased in the third quarter of 2014 compared to the same period in 2013 due to higher electronic security sales partially offset by a decrease in the physical security business. Operating profit increased due to an improvement in service margin and higher service revenue partially offset by an increase in operating expense resulting mainly from higher commission expense and additional sales associates. The service margin increase was primarily driven by lower employee-related expense resulting from restructuring initiatives in addition to the ongoing benefit from the Company's pension freeze and voluntary early retirement program.

NA revenue decreased in the first nine months of 2014 compared to the same period in 2013 due to lower FSS sales resulting from decreased product volume in the U.S. national bank sector partially due to the beneficial impact of a large non-recurring project in the prior year. NA revenue also declined due to lower physical security sales between years offset by higher electronic security revenue. Operating profit increased despite the net sales decline due to an improvement in service margin primarily driven by lower employee-related expense resulting from restructuring initiatives in addition to the ongoing benefit from the Company's pension freeze and voluntary early retirement program.

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
Asia Pacific:	2014	2013	% Change	2014	2013	% Change
Revenue	\$135,036	\$116,102	16.3	\$361,527	\$346,660	4.3
Segment operating profit	20,809	16,657	24.9	50,865	46,297	9.9
Segment operating profit margin	15.4	% 14.3	%	14.1	% 13.4	%

AP revenue in the three and nine months ended September 30, 2014 included net unfavorable currency impacts of \$410 and \$12,398, respectively. Including the impact of foreign currency, revenue in the third quarter of 2014 compared to the same period in 2013 increased due primarily to growth in China. For the first nine months of 2014, revenue increased mainly from growth in India and China partially offset by a decrease in Indonesia because of a large order in the comparable period of 2013. Operating profit in the third quarter of 2014 compared to the same period of 2013 increased due to higher volume and improved service margin performance partially offset by a decline in product gross margin and higher operating expense. Operating profit in the first nine months of 2014 also increased from the comparable period in 2013 for these reasons with the exception of a reduction in operating expense.

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
Europe, Middle East and Africa:	2014	2013	% Change	2014	2013	% Change

Edgar Filing: DIEBOLD INC - Form 10-Q

Revenue	\$99,882	\$81,854	22.0	\$302,337	\$232,471	30.1
Segment operating profit	14,491	10,816	34.0	47,820	24,565	94.7
Segment operating profit margin	14.5	% 13.2	%	15.8	% 10.6	%

EMEA revenue in the three and nine months ended September 30, 2014 increased primarily from higher sales volume in Western Europe while the first nine months of 2014 experienced growth from increased sales in Africa. The overall volume increase contributed to the operating profit improvement in the three and nine months ended September 30, 2014 compared to the comparable prior periods in 2013, combined with a gain in product gross margin due to higher volume and product mix partially offset by



Table of Contents

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS as of September 30, 2014

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

(unaudited)

(dollars in thousands, except per share amounts)

operating expense due in part to the acquisition of Cryptera. Operating profit in the first nine months of 2014 was also favorably impacted by improved service margin performance.

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
Latin America:	2014	2013	% Change	2014	2013	% Change
Revenue	\$54,089	\$56,899	(4.9)	\$146,529	\$161,182	(9.1)
Segment operating profit	10,673	7,773	37.3	17,273	20,327	(15.0)
Segment operating profit margin	19.7	% 13.7	%	11.8	% 12.6	%

LA revenue decreased in the third quarter of 2014 compared to the same period of 2013 due to a decline in the electronic security business. LA revenue decreased in the first nine months of 2014 compared to the same period of 2013 due to a decline in sales concentrated mainly in Colombia and Venezuela, partially offset by FSS growth in Mexico. The Venezuela decrease resulted principally from the adverse impact of currency control policy measures instituted by the Venezuelan government. Operating profit in the third quarter in 2014 compared to the same period of 2013 increased mainly due to higher total gross margin partially offset by lower service revenue primarily resulting from the Venezuelan currency devaluation. For the first nine months of 2014 compared to the first nine months of 2013, operating profit was negatively impacted by lower total revenue as well as higher operating expense partially offset by an increase in product gross margin. Service margin was flat year over year despite a lower of cost or market adjustment of \$4,073 in the first nine months of 2014 as a result of the Venezuelan currency devaluation.

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
Brazil:	2014	2013	% Change	2014	2013	% Change
Revenue	\$117,604	\$93,626	25.6	\$354,495	\$249,551	42.1
Segment operating profit	7,960	7,299	9.1	21,606	5,765	274.8
Segment operating profit margin	6.8	% 7.8	%	6.1	% 2.3	%

Brazil revenue increased in the third quarter of 2014 compared to the same period of 2013 due to lottery sales volume partially offset by a decline in FSS revenue and election systems sales. Brazil revenue increased in the first nine months of 2014 compared to same period of 2013, including a net unfavorable currency impact of \$17,203. The constant currency revenue improvement related to lottery sales volume and deliveries of IT equipment to the education ministry in the first quarter of 2014 partially offset by a decrease in elections systems sales and FSS volume. Operating profit increased in the three and nine months ended September 30, 2014 compared to the same periods in 2013 as a result of the higher product sales volume offset by an increase in operating expenses mainly due to higher employee-related expense and consulting fees. Operating profit in the first nine months also benefited from service margin improvement related to cost savings initiatives.

Refer to note 18 to the condensed consolidated financial statements for further details of segment revenue and operating profit.

## LIQUIDITY AND CAPITAL RESOURCES

Capital resources are obtained from income retained in the business, borrowings under the Company's senior notes, committed and uncommitted credit facilities, long-term industrial revenue bonds and operating and capital leasing

arrangements. Management expects that the Company's capital resources will be sufficient to finance planned working capital needs, research and development activities, investments in facilities or equipment, pension contributions, the payment of dividends on the Company's common shares and any repurchases of the Company's common shares for at least the next 12 months. As of September 30, 2014, \$370,900 or 99.1 percent of the Company's cash and cash equivalents and short-term investments reside in international tax jurisdictions. Repatriation of these funds could be negatively impacted by potential payments for foreign and domestic taxes. The Company has \$134,383 that is available for repatriation with no additional tax expense as the Company has already provided for such taxes. Part of the Company's growth strategy is to pursue strategic acquisitions. The Company has made acquisitions in the past and intends to make acquisitions in the future. The Company intends to finance any future acquisitions with either cash and short-term investments, cash provided from operations, borrowings under available credit facilities, proceeds from debt or equity offerings and/or the issuance of common shares.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

The Company's global liquidity as of September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014	December 31, 2013
Cash and cash equivalents	\$240,433	\$230,709
Additional cash availability from:		
Short-term uncommitted lines of credit	41,337	63,747
Five-year credit facility	204,987	261,000
Short-term investments	133,800	242,988
Total global liquidity	\$620,557	\$798,444

The following table summarizes the results of our condensed consolidated statement of cash flows for the nine months ended September 30:

Net cash flow (used in) provided by:	2014	2013
Operating activities	\$(110,735)	\$(59,042)
Investing activities	64,986	13,694
Financing activities	69,427	(117,409)
Effect of exchange rate changes on cash and cash equivalents	(13,954)	(114)
Net decrease in cash and cash equivalents	\$9,724	\$(162,871)

Net cash used in operating activities was \$110,735 for the nine months ended September 30, 2014, an increase of \$51,693 from \$59,042 for the same period in 2013. Cash flows from operating activities are generated primarily from operating income and managing the components of working capital. Cash flows from operating activities during the nine months ended September 30, 2014, compared to the same period of 2013, were positively impacted by a \$220,900 increase in net income. Cash flows from operating activities are also impacted by changes in the components of our working capital, which vary based on normal activities with our customers and vendors. As compared to the nine months ended September 30, 2013, cash flow during the corresponding period in 2014 was adversely impacted by an increase in our trade receivables of \$122,921, which results, in part to growth in our revenue. Trade receivables as of December 31, 2013, were down \$41,134 compared to December 31, 2012, as a result of strong cash collections in the fourth quarter of 2013. The cash flow effect of the change in inventories corresponds with the change in accounts payable. This change is a result of our investment in inventory to support planned customer demand. The cash flow impact associated with deferred revenue largely represents prepayments received on service contracts and product sales. Finance lease receivables increased in the nine months ended September 30, 2014 primarily due to increases in customer financing arrangements mostly in Brazil.

Net cash provided by investing activities was \$64,986 for the nine months ended September 30, 2014 compared to net cash used in investing activities of \$13,694 for the same period in 2013. The \$51,292 change was mostly related to a \$67,547 increase in net investment activity primarily in Brazil to fund our finance leasing arrangement with the Brazilian education ministry, an increase of \$13,327 in proceeds from the sale of assets primarily related to the sale of Eras in the second quarter of 2014 and a decrease of \$11,749 relating to cash payments for the Cryptera acquisition.

Net cash provided by financing activities was \$69,427 for the nine months ended September 30, 2014 compared to net cash used in investing activities of \$117,409 for the same period in 2013. The change was primarily due to a \$177,453 change in debt repayments and borrowings year over year and \$4,176 in issuances of common shares related to share-based compensation activity.

Effect of exchange rate changes on cash and cash equivalents was negatively impacted by \$6,051 related to the currency devaluation in Venezuela for the nine months ended September 30, 2014.

As of September 30, 2014, the Company had various international short-term uncommitted lines of credit with borrowing limits of \$124,096. The weighted-average interest rate on outstanding borrowings on the short-term

uncommitted lines of credit as of September 30, 2014 and December 31, 2013 was 2.91 percent and 3.24 percent, respectively. The decrease in the weighted-average interest rate is attributable to the change in mix of borrowings in foreign entities. Short-term uncommitted lines mature in less than one year. The amount available under the short-term uncommitted lines at September 30, 2014 was \$41,337.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

In August 2014, the Company amended and extended its credit facility. As of September 30, 2014, the Company has increased its borrowing limits under its new credit facility from \$500,000 to \$520,000. The amended and extended credit facility expires in August 2019 and did not change any of the covenants related to the previous agreement. Under the terms of the amended and extended credit facility, the Company has the ability, subject to various approvals, to increase the borrowing limits by \$250,000. Up to \$50,000 of the revolving credit facility is available under a swing line sub-facility. The weighted-average interest rate on outstanding credit facility borrowings as of September 30, 2014 and December 31, 2013 was 1.48 percent and 1.36 percent, respectively, which is variable based on the London Interbank Offered Rate (LIBOR). The amount available under the credit facility as of September 30, 2014 was \$204,987.

In March 2006, the Company issued senior notes in an aggregate principal amount of \$300,000 with a weighted-average fixed interest rate of 5.50 percent. The Company entered into a derivative transaction to hedge interest rate risk on \$200,000 of the senior notes, which was treated as a cash flow hedge. This reduced the effective interest rate from 5.50 percent to 5.36 percent. The Company funded the repayment of \$75,000 of the senior notes at maturity in March 2013 using borrowings under its revolving credit facility. The maturity dates of the remaining senior notes are staggered, with \$175,000 and \$50,000 due in 2016 and 2018, respectively.

In 1997, industrial development revenue bonds were issued on behalf of the Company. The proceeds from the bond issuances were used to construct new manufacturing facilities in the United States. The Company guaranteed the payments of principal and interest on the bonds by obtaining letters of credit. The bonds were issued with a 20-year original term and are scheduled to mature in 2017. Each industrial development revenue bond carries a variable interest rate, which is reset weekly by the remarketing agents. The weighted-average interest rate on the bonds was 0.28 percent and 0.36 percent as of September 30, 2014 and December 31, 2013, respectively.

The Company's financing agreements contain various restrictive financial covenants, including net debt to capitalization and net interest coverage ratios. As of September 30, 2014, the Company was in compliance with the financial and other covenants in its debt agreements.

**Dividends** The Company paid dividends of \$56,193 and \$55,469 in the nine months ended September 30, 2014 and 2013, respectively. Quarterly dividends were \$0.2875 per share for both periods.

**Contractual Obligations** In the first nine months of 2014, the Company entered into purchase commitments due within one year for materials through contract manufacturing agreements for a total negotiated price. As of September 30, 2014, these additional contracts have remaining obligations of \$764.

Except for the contract manufacturing agreements noted above, all contractual cash obligations with initial and remaining terms in excess of one year and contingent liabilities remained generally unchanged at September 30, 2014 compared to December 31, 2013.

**Off-Balance Sheet Arrangements** The Company enters into various arrangements not recognized in the condensed consolidated balance sheets that have or could have an effect on its financial condition, results of operations, liquidity, capital expenditures or capital resources. The principal off-balance sheet arrangements that the Company enters into are guarantees, operating leases and sales of finance receivables. The Company provides its global operations guarantees and standby letters of credit through various financial institutions to suppliers, regulatory agencies and insurance providers. If the Company is not able to make payment, the suppliers, regulatory agencies and insurance providers may draw on the pertinent bank. Refer to note 13 to the condensed consolidated financial statements for further details of guarantees. The Company has sold finance receivables to financial institutions while continuing to service the receivables. The Company records these sales by removing finance receivables from the condensed consolidated balance sheets and recording gains and losses in the condensed consolidated statements of income.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's condensed consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include revenue recognition, the valuation of trade, finance lease receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, guarantee obligations and assumptions used in the calculation of income taxes, pension and post-retirement benefits and customer incentives, among others. These estimates and assumptions are based on management's best

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS as of September 30, 2014  
DIEBOLD, INCORPORATED AND SUBSIDIARIES  
(unaudited)  
(dollars in thousands, except per share amounts)

estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors. Management monitors the economic conditions and other factors and will adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Management believes there have been no significant changes during the nine months ended September 30, 2014 to the items that the Company disclosed as its critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**FORWARD-LOOKING STATEMENT DISCLOSURE**

In this Quarterly Report on Form 10-Q, statements that are not reported financial results or other historical information are "forward-looking statements." Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. These forward-looking statements relate to, among other things, the Company's future operating performance, the Company's share of new and existing markets, the Company's short- and long-term revenue and earnings growth rates, and the Company's implementation of cost-reduction initiatives and measures to improve pricing, including the optimization of the Company's manufacturing capacity.

The use of the words "will," "believes," "anticipates," "expects," "intends" and similar expressions is intended to identify forward-looking statements that have been made and may in the future be made by or on behalf of the Company. Although the Company believes that these forward-looking statements are based upon reasonable assumptions regarding, among other things, the economy, its knowledge of its business, and on key performance indicators that impact the Company, these forward-looking statements involve risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in or implied by the forward-looking statements. The Company is not obligated to update forward-looking statements, whether as a result of new information, future events or otherwise.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Some of the risks, uncertainties and other factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements include, but are not limited to:

- competitive pressures, including pricing pressures and technological developments;
- changes in the Company's relationships with customers, suppliers, distributors and/or partners in its business ventures;
- changes in political, economic or other factors such as currency exchange rates, inflation rates, recessionary or expansive trends, taxes and regulations and laws affecting the worldwide business in each of the Company's operations, including Brazil, where a significant portion of the Company's revenue is derived;
- global economic conditions, including any additional deterioration and disruption in the financial markets, including the bankruptcies, restructurings or consolidations of financial institutions, which could reduce the Company's customer base and/or adversely affect its customers' ability to make capital expenditures, as well as adversely impact the availability and cost of credit;
- acceptance of the Company's product and technology introductions in the marketplace;
- the Company's ability to maintain effective internal controls;
- changes in the Company's intention to further repatriate cash and cash equivalents and short-term investments residing in international tax jurisdictions, which could negatively impact foreign and domestic taxes;
- unanticipated litigation, claims or assessments, as well as the outcome/impact of any current/pending litigation, claims or assessments, including with respect to the Company's Brazil tax dispute or Thailand customs disputes;
- variations in consumer demand for FSS technologies, products and services;

potential security violations to the Company's information technology systems;  
the investment performance of the Company's pension plan assets, which could require the Company to increase its pension contributions, and significant changes in healthcare costs, including those that may result from government action;  
the amount and timing of repurchases of the Company's common shares, if any; and  
the Company's ability to achieve benefits from its cost-reduction initiatives and other strategic changes, including its multi-year realignment plan and other restructuring actions, as well as its business process outsourcing initiative.



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's Venezuelan operations consist of a fifty-percent owned subsidiary, which is consolidated. Venezuela is measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. On March 24, 2014, the Venezuelan government announced a currency exchange mechanism, SICAD 2, which yielded an exchange rate significantly higher than the rates established through the other regulated exchange mechanisms.

Management has determined that it is unlikely that the Company will be able to convert bolivars under a currency exchange other than SICAD 2. On March 31, 2014, the Company remeasured its Venezuelan balance sheet using the SICAD 2 rate of 50.86 compared to the previous official government rate of 6.3, resulting in a decrease of \$6,051 to the Company's cash balance and net losses of \$12,101 that were recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2014. In addition, as a result of the currency devaluation, the Company recorded a \$4,073 lower of cost or market adjustment related to its service inventory within service cost of sales in the condensed consolidated statements of operations in the first quarter of 2014. In the future, if the Company converts bolivars at a rate other than the SICAD 2 rate, the Company may realize additional gains or losses that would be recorded in the statements of operations. The Company's Venezuelan operations represented less than one percent of the Company's total assets as of September 30, 2014 and less than one percent of net sales for both the three and nine months ended September 30, 2014. The Company does not expect its Venezuelan operations to be a significant component of its consolidated revenue or operating profit for the remainder of 2014.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Except for the currency devaluation noted above, there have been no material changes in this information since December 31, 2013.

ITEM 4: CONTROLS AND PROCEDURES

This Quarterly Report includes the certifications of our chief executive officer (CEO) and chief financial officer (CFO) required by Rule 13a-14 of the Exchange Act of 1934 (the Exchange Act). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Based on the performance of procedures by management, designed to ensure the reliability of financial reporting, management believes that the unaudited condensed consolidated financial statements fairly present, in all material respects, the Company's financial position, results of operations and cash flows as of the dates, and for the periods presented. Refer to note 1 in the notes to the condensed consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report, management, under the supervision and with the participation of the CEO and CFO, conducted an evaluation of disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2014 due to the material weakness described below.

A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weakness in our internal control over financial reporting as of September 30, 2014:

India System Adoption and Account Reconciliation Process: The Company concluded that controls pertaining to the reconciliation process that could materially impact financial reporting in its Indian subsidiary were not operating effectively because of the lack of full adoption of revised processes necessitated by a newly implemented enterprise resource planning system.

Because of the material weakness identified above, a reasonable possibility exists that a material misstatement in the Company's condensed consolidated financial statements will not be prevented or detected on a timely basis.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

As previously reported under “Item 4 - Controls and Procedures” in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, management concluded that our internal control over financial reporting was not effective based on the material weakness related to controls over Brazil indirect taxes and communication. Management believes it has remediated this material weakness since the filing of that report.

**Controls over Brazil Indirect Taxes and Communication:** As of September 30, 2014, the Company’s management believes that there is sufficient support to conclude that the previously reported material weakness related to internal controls over Brazil indirect taxes and communication has been remediated. During 2014, management completed remediation efforts to: 1) enhance the design and operating effectiveness of control procedures pertaining to manufacturing and supply chain processes relating to indirect tax incentives in its Brazilian subsidiary; 2) redefine and strengthen the roles and responsibilities within its Brazilian subsidiary, including the reporting structure, with respect to the indirect tax compliance program including hiring an Administrative Director who is responsible for managing indirect tax compliance; and 3) formalize and strengthen communication by operational management to regional and corporate management.

**Remediation of Material Weakness**

The remediation efforts outlined below are intended to address the identified material weakness in internal control over financial reporting.

**India System Adoption and Account Reconciliation Process:** Management's remediation plan consists of the following:

- Conduct a review of account reconciliation processes to align those processes with system functionality to reduce the risk of future errors.
- Conduct additional focused training on the Company’s account reconciliation policies and procedures to reinforce discipline and improve operating effectiveness.

During the quarter ended March 31, 2014, the Company began the implementation of its plan to identify and correct the issues within its reconciliation process. This process continued during the third quarter of 2014. The Company has focused its policies and procedures to reinforce the discipline and operating effectiveness of the Indian enterprise resource planning system. Additionally, cross-functional training has taken place to reinforce the necessary process discipline and enhanced policies and procedures are being developed.

There is no assurance that these efforts will remediate the material weakness and that additional remediation efforts might not be necessary. At this time, the Company anticipates the remediation efforts related to the material weakness will be fully implemented by the end of 2014.

During the quarter ended September 30, 2014, there were no changes, other than the above remediation efforts, to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
FORM 10-Q as of September 30, 2014

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

(dollars in thousands)

At September 30, 2014, the Company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the Company's financial position or results of operations. In addition, the Company has indemnification obligations with certain former employees and costs associated with these indemnifications are expensed as incurred. In management's opinion, the Company's condensed consolidated financial statements would not be materially affected by the outcome of those legal proceedings, commitments or asserted claims.

In addition to the routine legal proceedings noted above, the Company was a party to the legal proceedings described below at September 30, 2014:

Indirect Tax Contingencies

In August 2012, one of the Company's Brazilian subsidiaries was notified of a tax assessment of approximately R\$270,000, including penalties and interest, regarding certain Brazilian federal indirect taxes (Industrialized Products Tax, Import Tax, Programa de Integração Social and Contribution to Social Security Financing) for 2008 and 2009. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify certain indirect tax incentives. On September 10, 2012, the Company filed its administrative defenses with the tax authorities. This proceeding is currently pending an administrative level decision, which could negatively impact Brazilian federal indirect taxes in other years that remain open under statute. It is reasonably possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's condensed consolidated financial statements.

In response to an order by the administrative court, the tax inspector provided further analysis with respect to the initial assessment in December 2013, which has now been accepted by the initial administrative court, that indicates a potential exposure that is significantly lower than the initial tax assessment received in August 2012. However, this matter remains subject to ongoing administrative proceedings and appeals. Accordingly, the Company cannot provide any assurance that its exposure pursuant to the initial assessment will be lowered significantly or at all. The Company continues to defend itself in the administrative proceedings.

In connection with the Brazilian indirect tax assessment, in May 2013, the U.S. Securities and Exchange Commission (SEC) requested that the Company retain certain documents and produce certain records relating to the assessment, to which the Company complied. However, in September 2014, the Company was notified by the SEC that it had closed its inquiry relating to the assessment.

In addition, the Company is challenging a customs ruling in Thailand seeking to retroactively collect customs duties on previous imports of Automated Teller Machines (ATM). Management believes that the customs authority's attempt to retroactively assess customs duties is in contravention of World Trade Organization agreements and, accordingly, is challenging the ruling. In July 2014, the Central Tax Court in Thailand dismissed the Company's complaint; however, the Company will be appealing this decision, and management continues to believe that the Company has a valid legal position for supporting its challenge. Accordingly, the Company has not accrued any amount for this contingency; however, the Company cannot provide any assurance that it will not ultimately be subject to a retroactive assessment.



Table of Contents

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

## ITEM 1A: RISK FACTORS

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change to this information since December 31, 2013.

## ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information concerning the Company's share repurchases made during the third quarter of 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (2)
July	7,013	\$33.23	—	2,426,177
August	370	\$39.49	—	2,426,177
September	1,012	\$40.34	—	2,426,177
Total	8,395	\$34.37	—	

(1) All shares were surrendered or deemed surrendered to the Company in connection with the Company's share-based compensation plans.

The total number of shares repurchased as part of the publicly announced share repurchase plan since its inception was 13,450,772 as of September 30, 2014. The plan was approved by the Board of Directors in

(2) 1997. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans. The plan has no expiration date. The following table provides a summary of Board of Directors approvals to repurchase the Company's outstanding common shares:

	Total Number of Shares Approved for Repurchase
1997	2,000,000
2004	2,000,000
2005	6,000,000
2007	2,000,000
2011	1,876,949
2012	2,000,000
	15,876,949

## ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5: OTHER INFORMATION

None.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2014

ITEM 6: EXHIBITS

- 3.1(i) Amended and Restated Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.1(i) to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1994 (Commission File No. 1-4879)
- 3.1(ii) Amended and Restated Code of Regulations – incorporated by reference to Exhibit 3.1(ii) to Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (Commission File No. 1-4879)
- 3.2 Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.2 to Registrant’s Form 10-Q for the quarter ended March 31, 1996 (Commission File No. 1-4879)
- 3.3 Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.3 to Registrant’s Form 10-K for the year ended December 31, 1998 (Commission File No. 1-4879)
- 10.1 First Amendment to Credit Agreement and Guaranty – incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 2, 2014 (Commission File No. 1-4879)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
FORM 10-Q as of September 30, 2014

SIGNATURES

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

DIEBOLD, INCORPORATED

Date: October 30, 2014

By: /s/ Andreas W. Mattes  
Andreas W. Mattes  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: October 30, 2014

By: /s/ Christopher A. Chapman  
Christopher A. Chapman  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)



Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES  
FORM 10-Q as of September 30, 2014

EXHIBIT INDEX

EXHIBIT NO. DOCUMENT DESCRIPTION

3.1(i)	Amended and Restated Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.1(i) to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1994 (Commission File No. 1-4879)
3.1(ii)	Amended and Restated Code of Regulations – incorporated by reference to Exhibit 3.1(ii) to Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (Commission File No. 1-4879)
3.2	Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.2 to Registrant’s Form 10-Q for the quarter ended March 31, 1996 (Commission File No. 1-4879)
3.3	Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.3 to Registrant’s Form 10-K for the year ended December 31, 1998 (Commission File No. 1-4879)
10.1	First Amendment to Credit Agreement and Guaranty – incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 2, 2014 (Commission File No. 1-4879)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document