DIEBOLD INC
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012
OR
o 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 incorporation or organization)	(IRS Employer 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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	x	Accelerated filer	o	Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

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

Number of shares of common stock outstanding as of July 27, 2012 was 63,212,049.

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PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS
DIEBOLD, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$320,541	$333,920
Short-term investments	270,859	286,853
Trade receivables, less allowances for doubtful accounts of $23,144 and $22,128, respectively	451,038	414,969
Inventories	486,089	440,900
Deferred income taxes	109,097	114,250
Prepaid expenses	31,206	31,452
Other current assets	132,168	110,011
Total current assets	1,800,998	1,732,355
Securities and other investments	74,946	74,869
Property, plant and equipment, at cost	635,422	642,256
Less accumulated depreciation and amortization	455,739	449,562
Property, plant and equipment, net	179,683	192,694
Goodwill	245,163	253,063
Deferred income taxes	89,522	91,090
Other assets	179,017	173,372
Total assets	$2,569,329	$2,517,443
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable	$61,717	$21,722
Accounts payable	229,371	221,964
Deferred revenue	243,074	241,992
Payroll and other benefits liabilities	61,904	79,854
Other current liabilities	244,335	258,685
Total current liabilities	840,401	824,217
Long-term debt	630,037	606,154
Pensions and other benefits	135,837	148,399
Postretirement and other benefits	23,222	23,196
Deferred income taxes	30,186	32,029
Other long-term liabilities	26,885	25,188
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, 77,591,365 and 76,840,956 issued shares, 63,188,535 and 62,513,615 outstanding shares, respectively	96,989	96,051
Additional capital	348,574	327,805

Retained earnings	1,026,562	991,210
Treasury shares, at cost (14,402,830 and 14,327,341 shares, respectively)	(550,633)	(547,737)
Accumulated other comprehensive income	(70,755)	(40,343)
Total Diebold, Incorporated shareholders' equity	850,737	826,986
Noncontrolling interests	32,024	31,274
Total equity	882,761	858,260
Total liabilities and equity	$2,569,329	$2,517,443

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales				
Services	$396,909	$388,951	$793,774	$753,325
Products	346,279	273,431	647,905	523,214
	743,188	662,382	1,441,679	1,276,539
Cost of sales				
Services	294,092	288,123	579,488	564,013
Products	263,527	204,769	483,382	393,632
	557,619	492,892	1,062,870	957,645
Gross profit	185,569	169,490	378,809	318,894
Selling and administrative expense	118,803	122,051	238,598	243,162
Research, development and engineering expense	20,172	19,375	38,973	38,799
Impairment of assets	6,701	2,962	6,701	2,962
	145,676	144,388	284,272	284,923
Operating profit	39,893	25,102	94,537	33,971
Other income (expense)				
Investment income	8,039	9,669	19,994	20,567
Interest expense	(7,461)	(9,515)	(15,069)	(18,188)
Foreign exchange gain, net	1,102	1,492	1,647	446
Miscellaneous, net	431	1,434	341	1,457
Income from continuing operations before taxes	42,004	28,182	101,450	38,253
Taxes on income	14,212	6,580	27,693	12,505
Income from continuing operations	27,792	21,602	73,757	25,748
Income from discontinued operations, net of tax	—	529	—	518
Net income	27,792	22,131	73,757	26,266
Net income attributable to noncontrolling interests	1,290	1,327	2,092	2,961
Net income attributable to Diebold, Incorporated	$26,502	$20,804	$71,665	$23,305
Basic weighted-average shares outstanding	63,064	65,028	62,899	65,393
Diluted weighted-average shares outstanding	64,035	65,482	63,795	65,842
Basic earnings per share				
Income from continuing operations, net of tax	$0.42	$0.31	$1.14	$0.35
Income from discontinued operations, net of tax	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	$0.42	$0.32	$1.14	$0.36
Diluted earnings per share				
Income from continuing operations, net of tax	$0.41	$0.31	$1.12	$0.34
Income from discontinued operations, net of tax	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	$0.41	$0.32	$1.12	$0.35
Amounts attributable to Diebold, Incorporated				

Income from continuing operations, net of tax	$26,502	$20,275	$71,665	$22,787
Income from discontinued operations, net of tax	—	529	—	518
Net income attributable to Diebold, Incorporated	$26,502	$20,804	$71,665	$23,305

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$27,792	$22,131	$73,757	$26,266
Other comprehensive income, net of tax:				
Foreign currency hedges and translation	(66,033)	34,149	(40,468)	49,094
Interest rate hedges:				
Net (loss) gain recognized in other comprehensive income	(101)	(262)	69	(222)
Less: reclassification adjustment for net gains included in net income	76	78	170	167
	(177)	(340)	(101)	(389)
Pension and other postretirement benefits:				
Net actuarial loss amortization	4,305	2,491	8,637	4,994
Net prior service cost (benefit) amortization	(65)	(65)	(129)	(129)
Other	5	(894)	10	(2,604)
	4,245	1,532	8,518	2,261
Unrealized gain (loss), net on securities:				
Net gain (loss) recognized in other comprehensive income	3,333	(1,167)	2,917	(2,004)
Less: reclassification adjustment for net gain (loss) included in net income	1,180	(1,304)	1,508	(1,468)
	2,153	137	1,409	(536)
Other comprehensive (loss) income, net of tax	(59,812)	35,478	(30,642)	50,430
Comprehensive (loss) income	(32,020)	57,609	43,115	76,696
Less: comprehensive income attributable to noncontrolling interests	1,068	1,659	1,862	3,564
Comprehensive (loss) income attributable to Diebold, Incorporated	$(33,088)	$55,950	$41,253	$73,132

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
Cash flow from operating activities:		
Net income	$73,757	$26,266
Adjustments to reconcile net income to cash flow from operating activities:		
Depreciation and amortization	38,795	39,034
Share-based compensation	5,704	6,617
Excess tax benefits from share-based compensation	(1,591)	(1,390)
Impairment of assets	6,701	2,962
Equity in earnings of an investee	(592)	(859)
Cash flow from changes in certain assets and liabilities:		
Trade receivables	(44,841)	(28,284)
Inventories	(54,882)	(36,452)
Prepaid expenses	84	3,055
Other current assets	(32,583)	(34,952)
Accounts payable	10,406	(13,392)
Deferred revenue	1,908	8,611
Certain other assets and liabilities	(36,836)	(71,190)
Net cash used in operating activities	(33,970)	(99,974)
Cash flow from investing activities:		
Proceeds from sale of discontinued operations	—	2,520
Proceeds from maturities of investments	156,491	139,020
Proceeds from sale of investments	16,157	26,761
Payments for purchases of investments	(176,404)	(135,798)
Proceeds from sale of assets	283	182
Capital expenditures	(20,669)	(23,687)
Collections on purchased finance receivables	7,072	12,976
Increase in certain other assets	(4,549)	(9,183)
Net cash (used in) provided by investing activities	(21,619)	12,791
Cash flow from financing activities:		
Dividends paid	(36,313)	(37,090)
Debt issuance costs	—	(1,733)
Debt borrowings	430,260	350,679
Debt repayments	(366,773)	(227,563)
Distributions of affiliates earnings to noncontrolling interest holders	(1,112)	(1,045)
Excess tax benefits from share-based compensation	1,591	1,390
Issuance of common shares	16,003	4,017
Repurchase of common shares	(2,896)	(57,591)
Net cash provided by financing activities	40,760	31,064
Effect of exchange rate changes on cash and cash equivalents	1,450	6,201
Decrease in cash and cash equivalents	(13,379)	(49,918)
Cash and cash equivalents at the beginning of the period	333,920	328,658
Cash and cash equivalents at the end of the period	$320,541	$278,740

See accompanying notes to condensed consolidated financial statements.

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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 U.S. generally accepted accounting principles (GAAP); however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which 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, 2011. 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 six months ended June 30, 2012 are not necessarily indicative of results to be expected for the full year.

RECENTLY ADOPTED ACCOUNTING GUIDANCE

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income (ASU 2011-05), which eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders’ equity. The amendments in this standard require that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, in December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (ASU 2011-12), which indefinitely defers the requirement in ASU 2011-05 to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The Company has provided the required statements of comprehensive income for the three and six months ended June 30, 2012 and 2011.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amended Accounting Standards Codification 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Disclosure requirements have been expanded to include additional information about transfers between level 1 and level 2 of the fair value hierarchy and level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. Additionally, ASU 2011-04 clarifies the FASB’s intent about the application of existing fair value measurements including: (a) the application of the highest and best use valuation premise concepts; (b) measuring the fair value of an instrument classified in a reporting entity's stockholders' equity; and (c) quantitative information required for fair value measurements categorized within level 3. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements; however, the Company provided additional disclosure as required by ASU 2011-04 in note 16.

RECENTLY ISSUED ACCOUNTING GUIDANCE

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which requires certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. The adoption of this update will not have an impact on the financial statements of the Company.

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(unaudited)
(dollars in thousands, except per share amounts)

NOTE 2: EARNINGS PER SHARE
Basic earnings per share is based on the weighted-average number of common shares outstanding. Diluted earnings per share includes the dilutive effect of potential common shares outstanding. Under the two-class method of computing earnings 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 per share under both the treasury stock method and the two-class method. For the three and six months ended June 30, 2012 and 2011, 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 per share and the effect on the weighted-average number of shares of dilutive potential common shares:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Income used in basic and diluted earnings per share:				
Income from continuing operations, net of tax	$26,502	$20,275	$71,665	$22,787
Income from discontinued operations, net of tax	—	529	—	518
Net income attributable to Diebold, Incorporated	$26,502	$20,804	$71,665	$23,305
Denominator (in thousands):				
Weighted-average number of common shares used in basic earnings per share	63,064	65,028	62,899	65,393
Effect of dilutive shares	971	454	896	449
Weighted-average number of shares used in diluted earnings per share	64,035	65,482	63,795	65,842
Basic earnings per share:				
Net income from continuing operations	$0.42	$0.31	$1.14	$0.35
Income from discontinued operations	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	$0.42	$0.32	$1.14	$0.36
Diluted earnings per share:				
Net income from continuing operations	$0.41	$0.31	$1.12	$0.34
Income from discontinued operations	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	$0.41	$0.32	$1.12	$0.35
Anti-dilutive shares (in thousands):				
Anti-dilutive shares not used in calculating diluted weighted-average shares	1,980	2,092	1,985	2,057

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NOTE 3: EQUITY
The following table presents changes in shareholders' equity attributable to Diebold, Incorporated and the noncontrolling interests:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Diebold, Incorporated shareholders' equity				
Balance at beginning of period	$894,047	$947,030	$826,986	$961,155
Comprehensive (loss) income attributable to Diebold, Incorporated	(33,088)	55,950	41,253	73,132
Common shares	252	43	938	580
Additional capital	7,756	2,865	20,769	11,122
Treasury shares	(11)	(36,140)	(2,896)	(57,591)
Dividends declared and paid	(18,219)	(18,440)	(36,313)	(37,090)
Balance at end of period	$850,737	$951,308	$850,737	$951,308
Noncontrolling interests				
Balance at beginning of period	$30,956	$30,254	$31,274	$28,659
Comprehensive income attributable to noncontrolling interests	1,068	1,659	1,862	3,564
Distributions to noncontrolling interest holders	—	(735)	(1,112)	(1,045)
Balance at end of period	$32,024	$31,178	$32,024	$31,178

NOTE 4: SHARE-BASED COMPENSATION
The Company’s share-based compensation payments to employees are recognized in the statement of income 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 $1,907 and $3,181 for the three months ended June 30, 2012 and 2011, respectively, and $5,704 and $6,617 for the six months ended June 30, 2012 and 2011, respectively.

Options outstanding and exercisable as of June 30, 2012 under the Company’s 1991 Equity and Performance Incentive Plan (as Amended and Restated as of April 13, 2009) and changes during the six months ended June 30, 2012, 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, 2012	3,201	$36.70		
Expired or forfeited	(447)	$37.24		
Exercised	(532)	$30.05		
Granted	570	$34.98		
Outstanding at June 30, 2012	2,792	$37.53	6	$9,293
Options exercisable at June 30, 2012	1,669	$40.83	4	$4,470
	2,761	$37.59	6	$9,152

Options vested and expected to vest (2) at June 30, 2012

(1) The aggregate intrinsic value (the difference between the closing price of the Company's common shares on the last trading day of the second quarter of 2012 and the exercise price, multiplied by the number of "in-the-money" options) that would have been received by the option holders had all option holders exercised their options on June 30, 2012. 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.

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(unaudited)
(dollars in thousands, except per share amounts)

The following table summarizes information on non-vested RSUs, performance shares and deferred shares for the six months ended June 30, 2012:

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value
RSUs:		
Non-Vested at January 1, 2012	717	$ 30.69
Forfeited	(44)	$ 30.43
Vested	(127)	$ 24.84
Granted	235	$ 35.31
Non-Vested at June 30, 2012	781	$ 33.05
Performance Shares (1):		
Non-Vested at January 1, 2012	727	$ 34.70
Forfeited	(216)	$ 31.01
Vested	(86)	$ 29.25
Granted	301	$ 44.25
Non-Vested at June 30, 2012	726	$ 40.40
Director Deferred Shares:		
Non-Vested at January 1, 2012	19	$ 33.98
Vested	(19)	$ 33.98
Granted	28	$ 40.54
Non-Vested at June 30, 2012	28	$ 40.54
Vested at June 30, 2012	115	$ 33.90
Outstanding at June 30, 2012	143	$ 35.22

(1) 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.

NOTE 5: INCOME TAXES

The effective tax rate on continuing operations for the three months ended June 30, 2012 was 33.8 percent compared to 23.3 percent for the same period of 2011. The 10.5 percentage point increase is attributable to the growth of income during 2012 in regions with higher tax rates. Additionally, a non-recurring discrete item related to state tax benefits reduced the effective tax rate for the three months ended June 30, 2011.

The effective tax rate on continuing operations for the six months ended June 30, 2012 was 27.3 percent compared to 32.7 percent for the same period of 2011. The 5.4 percentage point decrease was mainly due to operating losses in certain Europe, Middle East and Africa (EMEA) jurisdictions for which no tax benefit was recognized in the 2011 effective tax rate. The impact was significant on the 2011 tax rate because these operating losses were relatively large when compared to consolidated income from continuing operations before taxes for the period.

NOTE 6: 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 OCI. Realized gains and losses are recognized in investment

income and are determined using the specific identification method. Realized gains (losses), net from the sale of securities were $1,180 and $(1,304) for the three months ended June 30, 2012 and 2011, respectively, and $1,508 and $(1,468) for the six months ended June 30, 2012 and 2011, respectively. Proceeds from the sale of available-for-sale securities were $16,157 and $26,761 during the six months ended June 30, 2012 and 2011, respectively.

DIEBOLD, INCORPORATED AND SUBSIDIARIES
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(unaudited)
(dollars in thousands, except per share amounts)

The Company's investments, excluding cash surrender value of insurance contracts of $68,053 and $67,699 as of June 30, 2012 and December 31, 2011, respectively, consist of the following:

	Cost Basis	Unrealized Gain (Loss)	Fair Value
As of June 30, 2012			
Short-term investments:			
Certificates of deposit	$245,989	$—	$245,989
U.S. dollar indexed bond funds	22,123	2,747	24,870
	$268,112	$2,747	$270,859
Long-term investments:			
Assets held in a rabbi trust	$6,765	$128	$6,893
As of December 31, 2011			
Short-term investments:			
Certificates of deposit	$269,033	$—	$269,033
U.S. dollar indexed bond funds	16,482	1,338	17,820
	$285,515	$1,338	$286,853
Long-term investments:			
Assets held in a rabbi trust	$7,428	$(258)	$7,170

NOTE 7: ALLOWANCE FOR CREDIT LOSSES

Trade Receivables The Company evaluates the collectability of trade receivables based on (1) a percentage of sales related to historical loss experience and current trends and (2) 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 and 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 and recorded investment in financing receivables for the six months ended June 30, 2012:

	Finance Leases	Notes Receivable	Total
Allowance for credit losses			
Balance at January 1, 2012	$210	$2,047	$2,257
Provision for credit losses	247	—	247
Recoveries	41	—	41
Write-offs	—	—	—
Balance at June 30, 2012	$498	$2,047	$2,545
Allowance resulting from individual impairment evaluation	$498	$2,047	$2,545
Allowance resulting from collective impairment evaluation	—	—	—

Financing receivables individually evaluated for impairment	$95,753	$13,829	$109,582
Financing receivables collectively evaluated for impairment	—	—	—

The following table summarizes the Company’s allowance for credit losses and recorded investment in financing receivables for the six months ended June 30, 2011:

	Finance Leases	Notes Receivable	Total
Allowance for credit losses			
Balance at January 1, 2011	$ 378	$ 470	$ 848
Provision for credit losses	9	1,652	1,661
Recoveries	94	5,454	5,548
Write-offs	(354)	(5,956)	(6,310)
Balance at June 30, 2011	$ 127	$ 1,620	$ 1,747
Allowance resulting from individual impairment evaluation	$ 127	$ 1,620	$ 1,747
Allowance resulting from collective impairment evaluation	—	—	—
Financing receivables individually evaluated for impairment	$ 117,205	$ 16,540	$ 133,745
Financing receivables collectively evaluated for impairment	—	—	—

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 June 30, 2012 and December 31, 2011, the recorded investment in past-due finance lease receivables on nonaccrual status was $4,928 and $1,740, respectively. The recorded investment in finance lease receivables past due 90 days or more and still accruing interest was $98 and $114 as of June 30, 2012 and December 31, 2011, respectively. The recorded investment in impaired notes receivable as of June 30, 2012 and December 31, 2011 was $2,047 and $2,047, respectively, and was fully reserved. The following table summarizes the Company’s aging of past-due notes receivable balances:

	June 30, 2012	December 31, 2011
30-59 days past due	$—	$—
60-89 days past due	—	—
> 89 days past due	1,633	1,495
Total past due	$ 1,633	$ 1,495

NOTE 8: INVENTORIES

Major classes of inventories are summarized as follows:

	June 30, 2012	December 31, 2011
Finished goods	$ 210,081	$ 188,571
Service parts	163,422	152,597
Raw materials and work in process	112,586	99,732

Total inventories	$486,089	$440,900

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NOTE 9: OTHER ASSETS

Included in other assets are net capitalized software development costs of $50,884 and $51,117 as of June 30, 2012 and December 31, 2011, respectively. Amortization expense on capitalized software of $4,231 and $4,832 was included in product cost of sales for the three months ended June 30, 2012 and 2011, respectively, and $8,601 and $9,408 for the six months ended June 30, 2012 and 2011, 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. The Company recorded $2,962 of software intangible asset impairment charges within Diebold North America (DNA) continuing operations in the second quarter of 2011.

Investment in Affiliate Investment in the Company’s non-consolidated affiliate is accounted for under the equity method and consists of a 50 percent ownership in Shanghai Diebold King Safe Company, Ltd. The balance of this investment as of June 30, 2012 and December 31, 2011 was $12,053 and $11,461, respectively, and fluctuated based on equity earnings and dividends. Equity earnings from the non-consolidated affiliate are included in miscellaneous, net in the condensed consolidated statements of income and were $345 and $434 for the three months ended June 30, 2012 and 2011, respectively, and $592 and $859 for the six months ended June 30, 2012 and 2011, respectively.

NOTE 10: DEBT

Outstanding debt balances were as follows:

	June 30, 2012	December 31, 2011
Notes payable:		
Uncommitted lines of credit	$61,538	$21,572
Other	179	150
	$61,717	$21,722
Long-term debt:		
Credit facility	$315,000	$291,000
Senior notes	300,000	300,000
Industrial development revenue bonds	11,900	11,900
Other	3,137	3,254
	$630,037	$606,154

As of June 30, 2012, the Company had various international short-term uncommitted lines of credit with borrowing limits of $108,932. The weighted-average interest rate on outstanding borrowings on the short-term uncommitted lines of credit as of June 30, 2012 and December 31, 2011 was 2.59 percent and 4.23 percent, respectively. The decline 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 June 30, 2012 was $47,394.

In June 2011, the Company entered into a five-year credit facility, which replaced its previous credit facility. As of June 30, 2012, the Company had borrowing limits under the credit facility totaling $500,000. Under the terms of the credit facility agreement, 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 subfacility. The

weighted-average interest rate on outstanding credit facility borrowings as of June 30, 2012 and December 31, 2011 was 1.24 percent and 1.49 percent, respectively, which is variable based on the London Interbank Offered Rate (LIBOR). The amount available under the credit facility as of June 30, 2012 was $185,000.

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 maturity dates of the senior notes are staggered, with $75,000, $175,000 and $50,000 becoming due in 2013, 2016 and 2018, respectively. Additionally, 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. As of June 30, 2012, although due within twelve months, $75,000 of the senior notes remain classified

as long-term debt because of the Company's intent and ability to fund the repayment using amounts available under its credit facility, unless an alternative source of financing with more favorable terms is available upon maturity.

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 0.86 percent and 0.77 percent as of June 30, 2012 and December 31, 2011, respectively.

The Company’s debt agreements contain various restrictive financial covenants, including net debt to capitalization and net interest coverage ratios. As of June 30, 2012, the Company was in compliance with the financial covenants in its debt agreements.

NOTE 11: BENEFIT PLANS

The Company has pension plans covering certain U.S. employees that have been closed to new participants since July 1, 2003. Plans that cover certain 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 certain 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 U.S. participate to varying degrees in local pension plans, which in the aggregate are not significant.

In addition to providing pension benefits, the Company provides 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. 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 June 30:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Components of net periodic benefit cost				
Service cost	$2,861	$2,713	$—	$—
Interest cost	7,958	7,872	203	232
Expected return on plan assets	(10,206)	(10,184)	—	—
Amortization of prior service cost (benefit)	64	64	(129)	(129)
Recognized net actuarial loss	4,183	2,394	122	97
Net periodic pension benefit cost	$4,860	$2,859	$196	$200

The following table sets forth the net periodic benefit cost for the Company’s defined benefit pension plans and other benefits for the six months ended June 30:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Components of net periodic benefit cost				
Service cost	$5,723	$5,426	$—	$—

Interest cost	15,916	15,744	407	465
Expected return on plan assets	(20,411)	(20,367)	—	—
Amortization of prior service cost (benefit)	129	129	(258)	(258)
Recognized net actuarial loss	8,394	4,800	243	194
Net periodic pension benefit cost	$9,751	$5,732	$392	$401

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Cash Flows
There have been no significant changes to the 2012 plan year contribution amounts previously disclosed. For the six months ended June 30, 2012 and 2011, contributions of $13,780 and $21,500, respectively, were made to the qualified and non-qualified pension plans.

NOTE 12: 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 10) by obtaining letters of credit. The carrying value of the bonds was $11,900 as of June 30, 2012 and December 31, 2011.
The Company provides its global operations guarantees and standby letters of credit through various financial institutions to 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 June 30, 2012, the maximum future payment obligations related to these various guarantees totaled $76,321, of which $23,435 represented standby letters of credit to insurance providers, and no associated liability was recorded. At December 31, 2011, the maximum future payment obligations relative to these various guarantees totaled $71,321, of which $22,623 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.
Changes in the Company’s warranty liability balance are illustrated in the following table:

	2012	2011
Balance at January 1	$63,355	$78,313
Current period accruals (a)	29,867	30,066
Current period settlements	(26,371)	(34,058)
Balance at June 30	$66,851	$74,321

(a) includes the impact of foreign exchange rate fluctuations

NOTE 13: COMMITMENTS AND CONTINGENCIES
At June 30, 2012, 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 are 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 legal proceedings, commitments or asserted claims. In addition to these routine legal proceedings, the Company was a party to a securities action, which is described in note 15 of the consolidated financial statements contained in the Company’s annual report on Form 10-K for the year ended December 31, 2011.

During the second quarter of 2010, while conducting due diligence in connection with a potential acquisition in Russia, the Company identified certain transactions and payments by its subsidiary in Russia (primarily during 2005 to 2008) that potentially implicate the Foreign Corrupt Practices Act (FCPA), particularly the books and records provisions of the FCPA. As a result, the Company conducted a global internal review and collected information related to its global FCPA compliance. In the fourth quarter of 2010, the Company identified certain transactions within its Asia Pacific operation that occurred over the past several years that may also potentially implicate the

FCPA. The Company continues to monitor its ongoing compliance with the FCPA.

The Company has voluntarily self-reported its findings to the SEC and the U.S. Department of Justice (DOJ) and is cooperating with these agencies in their review. The Company was previously informed that the SEC's inquiry had been converted to a formal, non-public investigation. The Company also received a subpoena for documents from the SEC and a voluntary request for documents from the DOJ in connection with the investigation. As of June 30, 2012, the Company's accrued estimated loss related to the potential outcome of this matter is not considered material to the condensed consolidated financial statements. Because the SEC and DOJ investigations are ongoing, there can be no assurance that their review will not find evidence of additional transactions that potentially implicate the FCPA. The Company has recently begun initial discussions with the government toward a possible resolution to this matter. At this time, the Company cannot predict the results of the government investigations, and resolution of

these matters with the SEC and the DOJ could result in changes in management's estimates of losses, which could be material to the Company's consolidated financial statements.

NOTE 14: 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 OCI. 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 OCI 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 $4,037 and $1,768 as of June 30, 2012 and December 31, 2011, respectively. The gain recognized in OCI on net investment hedge derivative instruments was $4,295 and $2,269 in the three and six months ended June 30, 2012, 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 loss, net and forward-based gains/losses represent interest expense. The fair value of the Company's non-designated foreign exchange forward contracts was $(1,212) and $(1,558) as of June 30, 2012 and December 31, 2011, respectively.

The following table summarizes the (loss) gain recognized on non-designated foreign-exchange derivative instruments:

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Statement Location	2012	2011	2012	2011
Interest expense	$(1,275)	$(2,027)	$(2,666)	$(3,876)
Foreign exchange gain (loss), net	3,033	4,479	599	(1,738)
	$1,758	$2,452	$(2,067)	$(5,614)

INTEREST RATE

Cash Flow Hedges 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 derivative instruments designated as cash flow hedges that fix a portion of future variable-rate interest expense. As of June 30, 2012, the Company has 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 OCI 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 OCI to interest expense.

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 OCI related to the pre-issuance cash flow hedges will continue to be reclassified on a straight-line basis through February 2016.

The fair value of the Company’s interest rate contracts was $(3,733) and $(3,796) as of June 30, 2012 and December 31, 2011, respectively.
Gains and losses related to interest rate contracts that are reclassified from accumulated OCI are recorded in interest expense on the statement of income. The Company anticipates reclassifying $849 from OCI to interest expense within the next 12 months.

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NOTE 15: RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES
Restructuring Charges
The following table summarizes the impact of the Company’s restructuring charges (accrual adjustments) on the condensed consolidated statements of income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Cost of sales – services	$(196)	$2,555	$(865)	$8,629
Cost of sales – products	100	251	105	374
Selling and administrative expense	813	1,667	3,200	7,271
Research, development and engineering expense	—	12	—	12
Total	$717	$4,485	$2,440	$16,286

The following table summarizes the Company’s net restructuring charges (accrual adjustments) within continuing operations for its DNA and Diebold International (DI) reporting segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
DNA				
Severance	$450	$802	$1,557	$795
DI				
Severance	164	2,844	292	14,449
Other (1)	103	839	591	1,042
Total	$717	$4,485	$2,440	$16,286

(1) Other costs in the DI segment include legal fees, accelerated depreciation and lease termination fees.

Restructuring charges of $377 and $2,100 for the three and six months ended June 30, 2012, respectively, related to the Company’s global shared services plan, which entails expanding the Company's current information technology (IT) center in India to create a global shared services center that provides centralized IT and financial services for the Company. Expanding the shared services center requires transferring IT and financial services-related jobs residing in other geographies. As of June 30, 2012, the Company anticipates additional restructuring costs of $1,200 in 2012 and up to $8,300 in future periods. As management concludes on certain aspects of the global shared services plan, the anticipated future costs related to this plan are subject to change.

Restructuring (accrual adjustments) charges of $(34) and $3,452 for the three months ended June 30, 2012 and 2011, respectively, and $296 and $15,032 for the six months ended June 30, 2012 and 2011, respectively, related to the Company’s plan for the EMEA reorganization, which realigns resources and leveraged the existing shared services center. As of June 30, 2012, the Company anticipates additional restructuring costs of $2,600 during the remainder of 2012 and an additional $400 into 2013 related to this plan.

Other net restructuring charges were $374 and $1,033 for the three months ended June 30, 2012 and 2011, respectively, and $44 and $1,254 for the six months ended June 30, 2012 and 2011, respectively.

The following table summarizes the Company’s cumulative total restructuring costs for the significant plans:

	Global Shared Services	EMEA Reorganization
Costs incurred to date:		

DNA	$1,930	$—
DI	170	19,746
Total costs incurred to date	$2,100	$19,746

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

Balance at January 1, 2012	$10,136
Liabilities incurred	2,440
Liabilities paid	(3,587)
Balance at June 30, 2012	$8,989

Impairment and Other Charges

In the second quarter of 2012, the Company recorded an impairment charge within DNA of $6,701 related to a portion of its global enterprise resource planning (ERP) system. Previously capitalized software and software-related costs were impaired due to changes in the ERP implementation plan related to configuration and design. In the second quarter of 2011, the Company recorded $2,962 of software intangible asset impairment charges within DNA.

Other charges consist of items that the Company determines are non-routine in nature. Net non-routine expense of $1,267 and $10,479 were included in selling and administrative expense for the six months ended June 30, 2012 and 2011, respectively. Net non-routine expenses for 2012 and 2011 consisted primarily of legal and compliance costs related to the FCPA investigation.

NOTE 16: 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.

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Assets and Liabilities Recorded at Fair Value
Assets and liabilities subject to fair value measurement are as follows:

	June 30, 2012			December 31, 2011		
		Fair Value Measurements Using			Fair Value Measurements Using	
	Fair Value	Level 1	Level 2	Fair Value	Level 1	Level 2
Assets						
Short-term investments:						
Certificates of deposit	$245,989	$245,989	$—	$269,033	$269,033	$—
U.S. dollar indexed bond funds	24,870	—	24,870	17,820	—	17,820
Assets held in a rabbi trust	6,893	6,893	—	7,170	7,170	—
Foreign exchange forward contracts	3,960	—	3,960	2,193	—	2,193
Total	$281,712	$252,882	$28,830	$296,216	$276,203	$20,013
Liabilities						
Deferred compensation	$6,893	$6,893	$—	$7,170	$7,170	$—
Foreign exchange forward contracts	1,135	—	1,135	1,983	—	1,983
Interest rate swaps	3,733	—	3,733	3,796	—	3,796
Total	$11,761	$6,893	$4,868	$12,949	$7,170	$5,779

The Company uses the end of period when determining the timing of transfers between levels. During the six months ended June 30, 2012 and 2011, 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.
Assets Held in a Rabbi Trust / Deferred Compensation The fair value of the assets held in a rabbi trust is derived from investments in a mix of money market, fixed income and equity funds managed by Vanguard. 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 is to periodically enter into derivative instruments designated as cash flow hedges to fix some portion of future variable rate based interest expense. The Company has a 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 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:

	June 30, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes payable	$61,717	$61,717	$21,722	$21,722
Long-term debt	641,112	630,037	612,551	606,154
Total debt instruments	$702,829	$691,754	$634,273	$627,876

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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 was 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.

NOTE 17: SEGMENT INFORMATION
The Company’s segments are comprised of two sales channels: DNA and DI. The DNA segment sells and services financial and retail systems in the United States and Canada. The DI segment sells and services financial and retail systems over the remainder of the globe as well as voting and lottery solutions in Brazil.
The reconciliation between segment information and the condensed consolidated financial statements is disclosed. Revenue summaries by geographic area and product and service solutions are also disclosed. Certain information not routinely used in the management of the DNA and DI segments are not allocated back to the segments. Items not allocated are as follows: investment income; interest expense; equity in the net income of investees accounted for by the equity method; income tax expense or benefit; foreign exchange gains and losses; miscellaneous, net; and discontinued operations. The Company has reclassified the presentation of prior-year operating profit (loss) to conform to the current year presentation due to changes in corporate allocations.

The following table presents information regarding the Company’s segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
DNA				
Customer revenues	$398,897	$337,992	$798,817	$643,956
Intersegment revenues	13,294	20,362	26,901	39,988
Operating profit	36,004	23,172	91,301	39,324
Capital expenditures	7,315	5,106	12,600	10,885
Depreciation	9,645	7,362	16,540	14,121
Property, plant and equipment, at cost	457,904	463,850	457,904	463,850
Total assets	1,072,470	1,028,612	1,072,470	1,028,612
DI				
Customer revenues	344,291	324,390	642,862	632,583
Intersegment revenues	15,704	12,934	34,479	28,200
Operating profit (loss)	3,889	1,930	3,236	(5,353)
Capital expenditures	1,057	7,679	8,069	12,802
Depreciation	3,268	5,225	9,655	10,449
Property, plant and equipment, at cost	177,518	205,090	177,518	205,090
Total assets	1,496,859	1,567,986	1,496,859	1,567,986
TOTAL				
Customer revenues	743,188	662,382	1,441,679	1,276,539
Intersegment revenues	28,998	33,296	61,380	68,188
Operating profit	39,893	25,102	94,537	33,971
Capital expenditures	8,372	12,785	20,669	23,687

Depreciation	12,913	12,587	26,195	24,570
Property, plant and equipment, at cost	635,422	668,940	635,422	668,940
Total assets	2,569,329	2,596,598	2,569,329	2,596,598

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The following table presents information regarding the Company’s revenue by geographic region:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Diebold North America	$398,897	$337,992	$798,817	$643,956
Diebold International:				
Latin America including Brazil	163,329	124,206	300,997	277,094
Asia Pacific	96,149	96,122	192,349	180,011
Europe, Middle East and Africa	84,813	104,062	149,516	175,478
Total Diebold International	344,291	324,390	642,862	632,583
Total customer revenues	$743,188	$662,382	$1,441,679	$1,276,539

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Financial self-service:				
Services	$295,587	$285,337	$595,522	$549,793
Products	294,105	225,078	555,172	423,718
Total financial self-service	589,692	510,415	1,150,694	973,511
Security				
Services	101,248	103,602	198,088	203,520
Products	42,780	44,431	80,813	87,844
Total security	144,028	148,033	278,901	291,364
Total financial self-service & security	733,720	658,448	1,429,595	1,264,875
Election and lottery systems	9,468	3,934	12,084	11,664
Total customer revenues	$743,188	$662,382	$1,441,679	$1,276,539

NOTE 18: DISCONTINUED OPERATIONS
Included in income from discontinued operations were accrual adjustment benefits and costs related to the Company's U.S.-based elections systems business.

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

OVERVIEW

Management's discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes that appear elsewhere in this quarterly report.

Introduction

Diebold, Incorporated is a global leader in providing integrated self-service delivery and security systems and services primarily to the financial, commercial, government, and retail markets. Founded in 1859, the Company today has more than 16,000 employees with representation in nearly 90 countries worldwide.

In 2011, the Company accelerated its transformation into a world-class, software-led services provider aligned with the security, convenience and efficiency needs of its customers. Three essential pillars provide the Company a clear path toward reaching this future:

- A strategy that leverages its leadership in software-led services, attuned with the needs of the Company's core global markets for financial self-service (FSS) and security solutions.
- The financial capacity to implement that strategy and fund the investments necessary to drive growth, while preserving the ability to return value to shareholders in the form of reliable, growing dividends and, as appropriate, share repurchases.
- A disciplined risk assessment process, focused on proactively identifying and mitigating potential risks to the Company's continued success.

The strategy to leverage the Company's capabilities in services, software and innovation is beginning to pay dividends and is meeting the needs of the Company's rapidly evolving markets. The Company believes this positions it for continued momentum in 2012 using its software-led services strategy and leading edge technology.

During the second quarter of 2012, the Company once again had strong performance in North America as deposit automation and integrated services continued to grow. In addition, the Company's Europe, Middle East and Africa (EMEA) operation achieved profitability during the quarter. Given the strong start to the year and the continued underlying strength in its markets, the Company has increased confidence in its ability to generate growth as it continues to build software-led services capabilities.

Income from continuing operations attributable to Diebold, Incorporated, net of tax, for the three months ended June 30, 2012 was $26,502 or $0.41 per share, an increase of $6,227 and $0.10 per share, respectively, from the same period in 2011. Total revenue for the three months ended June 30, 2012 was $743,188, an increase of $80,806 compared to the same period in 2011.

Income from continuing operation attributable to Diebold, Incorporated, net of tax, for the six months ended June 30, 2012 was $71,665 or $1.12 per share, an increase of $48,878 and $0.78 per share, respectively, from the same period in 2011. Total revenue for the six months ended June 30, 2012 was $1,441,679 an increase of $165,140 compared to the same period in 2011.

Vision and strategy

The Company's vision is to be recognized as the essential partner in creating and implementing ideas that optimize convenience, efficiency and security. This vision is the guiding principle behind the transformation to becoming a more software-led services company. Services comprise more than 50 percent of revenue. This percentage is expected to continue to grow over time as the Company continues to build on its strong base of maintenance and advanced services to deliver world-class integrated services.

Several years ago, the Company launched its Diebold Integrated Services® outsourcing business in North America. Initially the scale was small, generating about $5,000 in contract value in year one. In the ensuing years, the Company has achieved substantial growth in this business. During 2011, new integrated services contracts were signed

exceeding $500,000 in total contract value compared with $150,000 in 2010. In the first six months of 2012, new integrated services contracts signed reached nearly $180,000, an increase of over 40 percent from the same period of 2011. In the second quarter of 2012, Australia's Suncorp Bank signed a five-year integrated services agreement to deploy OpteView® Resolve™ across more than 700 of the bank's ATMs as well as migrate the bank's multi-vendor ATM fleet to Agilis® 3 software.

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In addition to service and integrated services, another demand driver in the global ATM marketplace continues to be deposit automation, or the process of depositing a cash or check into an ATM without the use of an envelope. Among the largest U.S. national banks there has been extensive deployment of deposit automation-enabled terminals, and the Company saw continued demand from this space during the second quarter of 2012. However, only approximately 25 percent of bank ATMs globally are currently configured for automated deposits, representing further opportunities for Diebold as banks continue to upgrade their ATM fleets with deposit automation capabilities.

In its security business, the Company has an equal, if not greater, potential for a successful integrated services approach. Security challenges and the systems to address them have grown increasingly complex. This environment has created a greater appetite among financial institutions and other customers for outsourcing solutions, particularly in the areas of monitoring, services and software. Today, the Company is bringing its expertise back into the financial sector with a focused effort on bank branch and large, complex and technologically demanding projects. The Company has created new customer-focused teams that possess the high levels of specialized expertise in logical and enterprise security required in this business. The Company is leveraging best practices, and some of its best talent, from its FSS integrated services business to build the foundation for a new security outsourcing business. During the second quarter of 2012, nearly $10,000 in security integrated services contracts were signed, a sequential increase of almost 150 percent from the first quarter of 2012, and the pipeline for additional integrated services opportunities continues to grow.

Moving forward, the Company intends to create shareholder value by leveraging its growing advantage in software and services capabilities, taking advantage of key market opportunities around the world and further leveraging opportunities in the security business. Many opportunities lie ahead, and the Company will continue to invest in developing new software, services and security solutions, particularly in emerging markets.

Cost savings initiatives, restructuring, impairment and other charges

Over the past several years, the Company’s SmartBusiness (SB) initiatives have led to rationalization of product development, streamlined procurement, realignment of the Company’s manufacturing footprint and improved logistics. Building on that success, the Company's SB 300 initiatives in 2011 shifted the focus from reducing cost of sales to lowering operating expenses and are targeted to achieve an additional $100,000 in efficiencies by the end of 2013. The Company is committed to making the strategic decisions that not only streamline operations, but also enhance its ability to serve its customers. The Company remains confident in its ability to continue to execute on cost-reduction initiatives, deliver solutions that help improve customers’ businesses and create shareholder value. The Company incurred pre-tax net restructuring charges of $717 and $4,485 during the three months ended June 30, 2012 and and 2011, respectively, and $2,440 and $16,286 during the six months ended June 30, 2012 and and 2011, respectively. Restructuring charges in 2012 and 2011 primarily related to the Company's global shared services plan and the Company’s plan for the EMEA reorganization, respectively. The global shared services plan entails expanding the Company's current information technology (IT) center in India to create a global shared services center that provides centralized IT and financial services for the Company. Expanding the shared services center requires transferring global back-office work that resides in other geographies.

In the second quarter of 2012, the Company recorded an impairment charge of $6,701 related to a portion of its global enterprise resource planning (ERP) system. Previously capitalized software and software-related costs were impaired due to changes in the ERP implementation plan related to configuration and design. In the second quarter of 2011, the Company recorded $2,962 of software intangible asset impairment charges.

Other charges consist of items that the Company determines are non-routine in nature. Net non-routine expense of $1,267 and $10,479 impacted the six months ended June 30, 2012 and 2011, respectively. Net non-routine expenses for 2012 and 2011consisted primarily of legal and compliance costs related to the Global Foreign Corrupt Practices Act (FCPA) investigation.

Business Drivers

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

- demand for new service offerings, including integrated services and outsourcing;
- demand for security products and services for the financial sectors;
- timing of self-service equipment upgrades and/or replacement cycles, including deposit automation in mature markets such as the United States; and
- high levels of deployment growth for new self-service products in emerging markets, such as Asia Pacific.

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RESULTS OF OPERATIONS

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.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	Dollars	% of Net sales	Dollars	% of Net sales	Dollars	% of Net sales	Dollars	% of Net sales
Net sales	$743,188	100.0	$662,382	100.0	$1,441,679	100.0	$1,276,539	100.0
Gross profit	185,569	25.0	169,490	25.6	378,809	26.3	318,894	25.0
Operating expenses	145,676	19.6	144,388	21.8	284,272	19.7	284,923	22.3
Operating profit	39,893	5.4	25,102	3.8	94,537	6.6	33,971	2.7
Income from continuing operations	27,792	3.7	21,602	3.3	73,757	5.1	25,748	2.0
Income from discontinued operations, net of tax	—	—	529	0.1	—	—	518	—
Net income attributable to noncontrolling interests	1,290	0.2	1,327	0.2	2,092	0.1	2,961	0.2
Net income attributable to Diebold, Incorporated	26,502	3.6	20,804	3.1	71,665	5.0	23,305	1.8

Second Quarter 2012 Comparisons to Second Quarter 2011

Net Sales

The following table represents information regarding our net sales for the three months ended June 30:

	2012	2011	$ Change	% Change
Net sales	$743,188	$662,382	$80,806	12.2

FSS sales in the second quarter of 2012 improved $79,277 or 15.5 percent compared to the same period of 2011. The increase in FSS sales included a net unfavorable currency impact of $31,863 or 7.7 percent, of which approximately 44 percent related to the Brazilian real. The following division highlights include the impact of foreign currency. Diebold North America (DNA) sales increased $67,422 or 32.8 percent due to growth within the U.S. regional and national bank business. Customers in the U.S. bank business continue to focus on deposit automation technology, while the growth in regional activity associated with meeting regulatory requirements has slowed with the passing of the Americans with Disabilities Act compliance deadline. Diebold International (DI) sales increased by $11,855 or 3.9 percent related to the following: Latin America, including Brazil, increased $31,154 or 28.2 percent, Asia Pacific remained flat, and EMEA decreased $19,157 or 18.4 percent. The increase in Latin America, including Brazil, was driven by higher volume in Brazil coupled with growth in Mexico and Central America. Asia Pacific benefited from higher volumes in China, offset with an unfavorable currency impact and lower volume in other geographies. The decrease in EMEA was driven by the unfavorable currency impact coupled with lower volume in the Middle East compared to the same period of the prior year.

Security solutions sales in the second quarter of 2012 decreased by $4,005 or 2.7 percent compared to the same period of 2011. DNA decreased $6,517 or 4.9 percent compared to the same period of the prior year, partially offset by improvement in DI of $2,512 or 15.9 percent. In DNA, financial security within the U.S. national banks continued to be a challenging environment with lower product volumes compared to the same period of the prior year. The improvement in DI was influenced by higher volume in Latin America, particularly in Colombia.

The Brazilian-based election and lottery systems sales increased by $5,534 in the second quarter of 2012 compared to the same period of 2011. The increase was driven by a $9,363 increase in election sales due to the cyclical purchasing decisions within the country, partially offset with a $3,829 decrease in lottery sales due to lower volume compared to the second quarter of 2011.

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Gross Profit
The following table represents information regarding our gross profit for the three months ended June 30:

	2012	2011	$ Change	% Change
Gross profit – services	$102,817	$100,828	$1,989	2.0
Gross profit – products	82,752	68,662	14,090	20.5
Total gross profit	$185,569	$169,490	$16,079	9.5
Gross margin – services	25.9 %	25.9 %		
Gross margin – products	23.9 %	25.1 %		
Total gross margin	25.0 %	25.6 %		

The service gross margin remained flat compared to the second quarter of 2011, primarily due to improvement in EMEA as a result of fewer restructuring charges in 2012, offset by lower margin in DNA attributable to the mix of services between periods. Total service gross margin for the second quarter of 2012 included $196 of net restructuring accrual adjustments compared to $2,555 of charges in the same period of 2011.

The decrease in product gross margin was driven by DI as pricing pressures continued in the Asia Pacific region, and challenges with customer and product mix in Latin America, including Brazil. Partially offsetting these decreases was increased FSS volume in the U.S. regional bank business, resulting in favorable DNA customer mix.
Operating Expenses
The following table represents information regarding our operating expenses for the three months ended June 30:

	2012	2011	$ Change	% Change
Selling and administrative expense	$118,803	$122,051	$(3,248)	(2.7)
Research, development and engineering expense	20,172	19,375	797	4.1
Impairment of assets	6,701	2,962	3,739	126.2
Total operating expenses	$145,676	$144,388	$1,288	0.9

Selling and administrative expense decreased $3,248 or 2.7 percent in the second quarter of 2012 compared to the same period of 2011. The improvement was due to $4,929 of favorable currency impact, lower non-routine expense, and lower restructuring charges, partially offset by higher compensation and benefits. Selling and administrative expense in the second quarter of 2012 and 2011 included non-routine expense of $343 and $4,709, respectively, of which the majority pertained to legal, consultative, audit and severance costs related to the FCPA investigation. In addition, selling and administrative expense included $813 and $1,667 of restructuring charges in the second quarter of 2012 and 2011, respectively. The majority of the 2012 restructuring charges related to the Company's global shared services plan, which entails expanding the Company's current information technology center in India, to create a global shared services center. The 2011 restructuring charges related mainly to the EMEA reorganization.

Research, development and engineering expense as a percent of net sales in the second quarter of 2012 and 2011 were 2.7 percent and 2.9 percent, respectively. The decrease as a percent of net sales was influenced by the significant growth in revenue, while the spend increase pertained to next generation product development efforts.

During the second quarter of 2012, the Company impaired previously capitalized software and software-related costs of $6,701 due to changes in the global ERP system implementation plan related to configuration and design. The impairment charge of $2,962 in the second quarter of 2011 resulted from a non-cash intangible asset impairment

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Operating Profit

The following table represents information regarding our operating profit for the three months ended June 30:

	2012		2011		$ Change/	% Change
Operating profit	$39,893		$25,102		$14,791	58.9
Operating profit margin	5.4	%	3.8	%		

The increase in operating profit in the second quarter of 2012 compared to the same period of 2011 was influenced largely by the growth in product and service revenue, partially offset with a lower product margin coupled with an increase in operating expenses. All of these items combined to produce a 1.6 percent increase in operating profit margin in the second quarter of 2012 compared to the same period of 2011.

Other Income (Expense)

The following table represents information regarding our other income (expense) for the three months ended June 30:

	2012		2011		$ Change		% Change	
Investment income	$8,039		$9,669		$(1,630	)	(16.9	)
Interest expense	(7,461	)	(9,515	)	(2,054	)	(21.6	)
Foreign exchange gain, net	1,102		1,492		(390	)	(26.1	)
Miscellaneous, net	431		1,434		(1,003	)	(69.9	)
Other income (expense)	$2,111		$3,080		(969	)	(31.5	)

Interest expense in the second quarter of 2012 was favorable compared to the same period of 2011 due to lower interest rates and lower fees. Investment income was down in the second quarter of 2012 driven mostly by the unfavorable currency impact in Latin America, including Brazil, when compared to the same period of 2011.

Income from Continuing Operations

The following table represents information regarding our income from continuing operations for the three months ended June 30:

	2012		2011		$ Change	% Change
Income from continuing operations	$27,792		$21,602		$6,190	28.7
Percent of net sales	3.7	%	3.3	%		
Effective tax rate	33.8	%	23.3	%		

The increase in net income from continuing operations in the second quarter of 2012 compared to the same period of 2011 was influenced by a higher operating margin, mostly related to the revenue growth and partially offset with the reduction in other income noted above. The 10.5 percentage point increase in the effective tax rate is attributable to the growth of income during 2012 in regions with higher tax rates. Additionally, a non-recurring discrete item related to state tax benefits reduced the effective tax rate for the second quarter of 2011.

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Segment Analysis and Operating Profit Summary
The following table represents information regarding our revenue by reporting segment for the three months ended June 30:

	2012	2011	$ Change	% Change
DNA	$398,897	$337,992	$60,905	18.0
DI	344,291	324,390	19,901	6.1
Total net sales	$743,188	$662,382	$80,806	12.2

The increase in DNA net sales was driven by continued growth in the FSS business, particularly related to higher product volume in both the U.S. regional and national bank business. The increase in product volume influenced growth in service installations and other software-led services related to these orders. Partially offsetting these increases, security product volume decreased in the U.S. national bank business.

The increase in DI net sales was influenced by a net unfavorable currency impact of $32,454, of which approximately 45 percent related to the Brazilian real. Operationally, DI realized higher FSS product volumes in Latin America, including Brazil, and Asia Pacific coupled with an increase in the Brazilian-based election system sales. These increases were partially offset with lower product and service volumes in EMEA.

The following table represents information regarding our operating profit by reporting segment for the three months ended June 30:

	2012	2011	$ Change	% Change
DNA	$36,004	$23,172	$12,832	55.4
DI	3,889	1,930	1,959	101.5
Total operating profit	$39,893	$25,102	$14,791	58.9

DNA operating profit for the second quarter of 2012 increased by $12,832 compared to the same period of 2011. The increase was driven primarily by higher FSS product volume in the U.S. regional bank business and improvement from related installation services. These increases were partially offset with an increase in operating expense related mostly to higher compensation and benefits costs and impairment charges.

DI operating profit for the second quarter of 2012 increased by $1,959 compared to the same period of 2011. Operational performance improved within EMEA, mainly due to customer and product mix, as the business continued to benefit from the restructuring efforts. Furthermore, fewer restructuring charges were incurred in the second quarter of 2012 related to the 2011 EMEA reorganization. Partially offsetting these improvements were pricing pressures in the Asia Pacific region, and challenges with customer and product mix in Latin America, including Brazil
Refer to note 17 to the condensed consolidated financial statements for further details of segment revenue and operating profit.

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Six Months Ended June 30, 2012 Comparisons to Six Months Ended June 30, 2011
Net Sales
The following table represents information regarding our net sales for the six months ended June 30:

	2012	2011	$ Change	% Change
Net sales	$1,441,679	$1,276,539	$165,140	12.9

FSS sales in the first six months of 2012 improved $177,183 or 18.2 percent compared to the same period of 2011. The increase in FSS sales included a net unfavorable currency impact of $42,728 or 5.4 percent, of which approximately 47 percent related to the Brazilian real. The following division highlights include the impact of foreign currency. DNA sales increased $172,140 or 45.3 percent a result of significant growth within the U.S. regional and national bank business due to continued focus on deposit automation technology. With the expiration of the Americans with Disabilities Act compliance deadline, the rate of growth in regional sales has slowed. DI sales increased by $5,043 or 0.9 percent related to the following: Latin America, including Brazil, increased $19,879 or 8.0 percent, Asia Pacific increased $10,994 or 6.4 percent, and EMEA decreased $25,830 or 14.7 percent. The increase in Latin America, including Brazil, was influenced by higher volume across most of the geographies. The improvement in Asia Pacific was driven mainly by higher volume in China. The decrease in EMEA was driven by an unfavorable currency impact coupled with lower volume in the Middle East compared to the same period of the prior year.

Security solutions sales in the first six months of 2012 decreased by $12,463 or 4.3 percent compared to the same period of 2011. DNA decreased $17,279 or 6.5 percent compared to the same period of the prior year, partially offset by improvement in DI of $4,816 or 17.5 percent. The DNA variance was driven by lower product volumes and associated services, within financial and other industries, as the environment continued to be challenging compared to the same period of the prior year. The DI variance was a result of higher volume in Latin America, mostly in Colombia, while the increase in Asia Pacific is attributed to India.

The Brazilian-based election and lottery systems sales increased by $420 in the first six months of 2012 compared to the same period of 2011. The increase was driven by a $9,838 increase in election sales due to the cyclical purchasing decisions within the country, partially offset with a $9,418 decrease in lottery sales due to lower volume compared to the first six months of 2011.

Gross Profit
The following table represents information regarding our gross profit for the six months ended June 30:

	2012		2011		$ Change	% Change
Gross profit – services	$214,286		$189,312		$24,974	13.2
Gross profit – products	164,523		129,582		34,941	27.0
Total gross profit	$378,809		$318,894		$59,915	18.8
Gross margin – services	27.0	%	25.1	%		
Gross margin – products	25.4	%	24.8	%		
Total gross margin	26.3	%	25.0	%		

The increase in service gross margin was driven by improvements in DNA and EMEA. The favorability in DNA was related to cost efficiencies in software-led, installation and maintenance services, a result of productivity improvements related to higher volumes and better resource leverage. The margin improvement within EMEA was influenced mostly by fewer restructuring charges in the first six months of 2012 compared to the same period of 2011

as well as realization of the benefits related to the EMEA reorganization in 2011. Total service gross margin for the first six months of 2012 included $865 of net restructuring accrual adjustments compared to $8,629 of charges in the same period of 2011.

The increase in product gross margin was driven by DNA, particularly the U.S. regional bank business, as the FSS business continued to benefit from the higher volume. Partially offsetting this improvement, DI declined due to customer and product mix within Latin America, including Brazil, as well as continued pricing pressure in the Asia Pacific region.

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Operating Expenses
The following table represents information regarding our operating expenses for the six months ended June 30:

	2012	2011	$ Change	% Change
Selling and administrative expense	$238,598	$243,162	$(4,564)	(1.9)
Research, development and engineering expense	38,973	38,799	174	0.4
Impairment of assets	6,701	2,962	3,739	126.2
Total operating expenses	$284,272	$284,923	$(651)	(0.2)

Selling and administrative expense decreased $4,564 or 1.9 percent in the first six months of 2012 compared to the same period of 2011. The improvement was due to lower non-routine expense, a favorable currency impact of $6,647, and lower restructuring charges, partially offset by higher compensation and benefits. Selling and administrative expense in the first six months of 2012 and 2011 included non-routine expense of $1,267 and $10,479, respectively, of which the majority pertained to legal, consultative, audit and severance costs related to the FCPA investigation. In addition, selling and administrative expense included $3,200 and $7,271 of restructuring charges in the first six months of 2012 and 2011, respectively. The majority of the 2012 restructuring charges related to the Company's global shared services plan, which entails expanding the Company's current information technology center in India to create a global shared services center. The 2011 restructuring charges related mainly to the EMEA reorganization.

During the second quarter of 2012, the Company impaired previously capitalized software and software-related costs of $6,701 due to changes in the global ERP system implementation plan related to configuration and design. The impairment charge of $2,962 in the first six months of 2011 resulted from a non-cash intangible asset impairment related to a prior acquisition.

Operating Profit
The following table represents information regarding our operating profit for the six months ended June 30:

	2012	2011	$ Change	% Change
Operating profit	$94,537	$33,971	$60,566	178.3
Operating profit margin	6.6%	2.7%		

The increase in operating profit in the first six months of 2012 compared to the same period of 2011 was influenced by significant growth in product and service revenue, improvement in both service and product gross margins, which generated a better rate of return, and the reduction in operating expenses noted above. All of these items combined to produce a 3.9 percent increase in operating profit margin in the first six months of 2012 compared to the same period of 2011.
Other Income (Expense)
The following table represents information regarding our other income (expense) for the six months ended June 30:

	2012	2011	$ Change	% Change
Investment income	$19,994	$20,567	$(573)	(2.8)
Interest expense	(15,069)	(18,188)	(3,119)	(17.1)
Foreign exchange gain, net	1,647	446	1,201	269.3
Miscellaneous, net	341	1,457	(1,116)	(76.6)
Other income (expense)	$6,913	$4,282	2,631	61.4

Interest expense in the first six months of 2012 was favorable compared to the same period of 2011 due to lower interest rates and fees. The improvement in foreign exchange was influenced by the realization of favorable currency positions.

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Income from Continuing Operations
The following table represents information regarding our income from continuing operations for the six months ended June 30:

	2012		2011		$ Change	% Change
Income from continuing operations	$73,757		$25,748		$48,009	186.5
Percent of net sales	5.1	%	2.0	%		
Effective tax rate	27.3	%	32.7	%		

The increase in net income from continuing operations in the first six months of 2012 compared to the same period of 2011 was influenced by revenue growth and cost efficiencies which improved the operating margin paired with the other income noted above. The 5.4 percentage point decrease in the effective tax rate was mainly due to operating losses in certain EMEA jurisdictions for which no tax benefit was recognized in the 2011 effective tax rate. The impact was significant on the 2011 tax rate because these operating losses were relatively large when compared to consolidated income from continuing operations before taxes for the period.
Segment Analysis and Operating Profit Summary
The following table represents information regarding our revenue by reporting segment for the six months ended June 30:

	2012	2011	$ Change	% Change
DNA	$798,817	$643,956	$154,861	24.0
DI	642,862	632,583	10,279	1.6
Total net sales	$1,441,679	$1,276,539	$165,140	12.9

The increase in DNA net sales was driven by continued growth in the FSS business, particularly related to higher product volume in both the U.S. regional and national bank business. The higher product volume influenced growth in service installations and other software-led services related to these orders. Partially offsetting these increases was a reduction in security product volume in the U.S. national bank business.

The increase in DI net sales was influenced by a net unfavorable currency impact of $43,531, of which approximately 49 percent related to the Brazilian real. Operationally, DI realized higher FSS product and service volumes in Latin America, including Brazil, and Asia Pacific coupled with an increase in the Brazilian-based election system sales. These increases were partially offset with lower product and service volumes in EMEA, as well as fewer lottery sales in Brazil.
The following table represents information regarding our operating profit (loss) by reporting segment for the six months ended June 30:

	2012	2011		$ Change	% Change
DNA	$91,301	$39,324		$51,977	132.2
DI	3,236	(5,353	)	8,589	160.5
Total operating profit	$94,537	$33,971		$60,566	178.3

DNA operating profit for the first six months of 2012 increased by $51,977 compared to the same period of 2011. The increase was driven primarily by higher FSS product volume in the U.S. regional bank business and improvement in other software-led services related to higher volume and better resource leverage. These increases were partially offset with an increase in operating expense related mostly to higher compensation and benefit costs and impairment charges, partially offset with lower non-routine expenses.

DI operating profit for the first six months of 2012 increased by $8,589 compared to the same period of 2011. The majority of the improvement was influenced by the lower restructuring charges in EMEA related to the 2011 reorganization. Furthermore, operational performance improved within EMEA, mainly due to customer and product mix, as the business continued to benefit from the restructuring efforts. Partially offsetting these improvements were challenges in customer and product mix in Latin America, including Brazil, while pricing pressures continued in the Asia Pacific region.

Refer to note 17 to the condensed consolidated financial statements for further details of segment revenue and operating profit.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS as of June 30, 2012
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

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, dividends and any repurchase of the Company's common shares for at least the next 12 months. As of June 30, 2012, $582,072 or 98.4 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 foreign and domestic 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.
The following table summarizes the results of our condensed consolidated statement of cash flows for the six months ended June 30:

	2012	2011
Net cash flow (used in) provided by:		
Operating activities	$(33,970)	$(99,974)
Investing activities	(21,619)	12,791
Financing activities	40,760	31,064
Effect of exchange rate changes on cash and cash equivalents	1,450	6,201
Net decrease in cash and cash equivalents	$(13,379)	$(49,918)

Net cash used in operating activities was $33,970 for the six months ended June 30, 2012, a decrease of $66,004 from $99,974 for the same period in 2011. 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 six months ended June 30, 2012, compared to the same period of 2011, were positively impacted by a $47,491 increase in net income, as well as favorable changes in other current assets, accounts payable and certain other assets and liabilities, including $7,720 decrease in contributions to the qualified and non-qualified pension plans, $9,285 of favorable changes in income taxes payable and $10,619 of favorable changes in warranty accruals. These changes were partially offset by unfavorable changes in trade receivables, inventories, prepaid expenses and deferred revenue.
Net cash used in investing activities was $21,619 for the six months ended June 30, 2012 compared to net cash provided by investing activities of $12,791 for the same period in 2011. The $34,410 change was primarily due to a $33,739 change in net investment activity, a $5,904 decrease in collections on purchased finance receivables and a decrease of $2,520 in proceeds from sale of discontinued operations, partially offset by decreases in capital expenditures and certain other assets.
Net cash provided by financing activities was $40,760 for the six months ended June 30, 2012, an increase of $9,696 from $31,064 for the same period in 2011. The change was primarily due to a decrease in share repurchases of $54,695 and an increase in the issuance of common shares related to share-based compensation activity of $11,986, partially offset by a $59,629 decrease in net borrowings.
As of June 30, 2012, the Company had various international short-term uncommitted lines of credit with borrowing limits of $108,932. Short-term uncommitted lines mature in less than one year. The amount available under the short-term uncommitted lines at June 30, 2012 was $47,394.
In June 2011, the Company entered into a five-year credit facility, which replaced its previous credit facility. As of June 30, 2012, the Company had borrowing limits under the credit facility totaling $500,000. Under the terms of the credit facility agreement, 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 subfacility. The weighted-average interest rate on outstanding credit facility borrowings as of June 30, 2012 and December 31, 2011 was 1.24 percent and 1.49 percent, respectively, which is variable based on the London Interbank Offered Rate (LIBOR). The amount available under the new credit facility as of June 30, 2012 was $185,000.

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 maturity dates of the senior notes are staggered, with $75,000, $175,000 and $50,000 becoming due in 2013, 2016 and 2018, respectively. Additionally, 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. As of June 30, 2012, although it is due within twelve months, $75,000 of the senior notes remain classified as long-term debt because of the Company's intent and ability to fund the repayment using amounts available under its credit facility, unless an alternative source of financing with more favorable terms is available upon maturity.

The Company’s debt agreements contain various restrictive financial covenants, including net debt to capitalization and net interest coverage ratios. As of June 30, 2012, the Company was in compliance with the financial covenants in its debt agreements.

Dividends The Company paid dividends of $36,313 and $37,090 in the six months ended June 30, 2012 and 2011, respectively. Quarterly dividends were $0.285 and $0.280 per share for 2012 and 2011, respectively.

Contractual Obligations In the first six months of 2012, the Company entered into direct purchasing agreements for a total negotiated price of $5,950. The following table summarizes the Company's approximate commitment to make future payments related to these agreements.

	Total	2012	2013
Direct purchasing agreements	$3,220	$920	$2,300

Except the direct purchasing agreements noted above, all contractual cash obligations with initial and remaining terms in excess of one year and contingent liabilities remained generally unchanged at June 30, 2012 compared to December 31, 2011.

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 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 12 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 and financing receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, guarantee obligations and assumptions used in the calculation of income taxes, pension and postretirement benefits and customer incentives, among others. These estimates and assumptions are based on management’s best 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 six months ended June 30, 2012 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, 2011.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of June 30, 2012
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

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, 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,” “plans,” “projects,” “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 disruptions in the financial markets, including bankruptcies, restructurings or consolidations of financial institutions, which could reduce our customer base and/or adversely affect our 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 repatriate cash and cash equivalents and short-term investments residing in international tax jurisdictions could negatively impact foreign and domestic taxes;
- unanticipated litigation, claims or assessments, as well as the impact of any current or pending lawsuits;
- variations in consumer demand for financial self-service 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 health care costs, including those that may result from government action;
- the amount and timing of repurchases of the Company’s common shares, if any;
- the outcome of the Company’s global FCPA review and any actions taken by government agencies in connection with the Company’s self disclosure, including the pending DOJ and SEC investigations; and
- the Company’s ability to achieve benefits from its cost-reduction initiatives and other strategic changes, including its restructuring actions.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to the Company's annual report on Form 10-K for the year ended December 31, 2011. There has been no material change in this information since December 31, 2011.

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. 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 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 effective as of June 30, 2012.

No change was made to the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

(dollars in thousands)

At June 30, 2012, 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 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 lawsuit described below at June 30, 2012:

Securities Action

On June 30, 2010, a shareholder filed a putative class action complaint in the United States District Court for the Northern District of Ohio alleging violations of the federal securities laws against the Company, certain current and former officers, and the Company's independent auditors (Louisiana Municipal Police Employees Retirement System v. KPMG et al., No. 10-CV-1461). The complaint seeks unspecified compensatory damages on behalf of a class of persons who purchased the Company's stock between June 30, 2005 and January 15, 2008 and fees and expenses related to the lawsuit. The complaint generally relates to the matters set forth in the court documents filed by the SEC in June 2010 finalizing the settlement of civil charges stemming from the investigation of the Company conducted by the Division of Enforcement of the SEC (SEC Settlement).

Management believes any possible loss or range of loss associated with the putative federal securities class action cannot be estimated.

Additionally, during the three months ended June 30, 2012, the Company resolved the lawsuit described below:

Shareholder Action
On October 19, 2010, an alleged shareholder of the Company filed a shareholder derivative lawsuit in the Stark County, Ohio, Court of Common Pleas, alleging claims on behalf of the Company against certain current and former officers and directors of the Company for breach of fiduciary duty, unjust enrichment and corporate waste (Levine v. Geswein et al., Case No. 2010-CV-3848). The complaint generally related to the matters set forth in the court documents filed by the SEC in June 2010 in connection with the SEC Settlement, and asserted that the defendants were liable to the Company for alleged damages associated with the SEC investigation, settlement, and related litigation. It also asserted that alleged misstatements in the Company's publicly issued financial statements caused the Company's common stock to trade at artificially inflated prices between 2004 and 2006, and that defendants harmed the Company by causing it to repurchase its common stock in the open market at inflated prices during that period. The complaint sought an award of money damages against the defendants and in favor of the Company in an unspecified amount, as well as unspecified equitable and injunctive relief and attorneys' fees and expenses.

In the first quarter of 2012, the parties to the shareholder derivative lawsuit agreed to a settlement that was subject to court approval. On May 11, 2012, the court approved the settlement, pursuant to which the Company agreed to institute or maintain certain corporate governance measures and the Company's insurers agreed to pay an attorneys' fee to counsel for the plaintiff.

Global Foreign Corrupt Practices Act (FCPA) Review
During the second quarter of 2010, while conducting due diligence in connection with a potential acquisition in Russia, the Company identified certain transactions and payments by its subsidiary in Russia (primarily during 2005 to 2008) that potentially implicate the FCPA, particularly the books and records provisions of the FCPA. As a result, the Company conducted a global internal review and collected information related to its global FCPA compliance. In the fourth quarter of 2010, the Company identified certain transactions within its Asia Pacific operation that occurred over the past several years that may also potentially implicate the FCPA. The Company continues to monitor its ongoing compliance with the FCPA.

The Company has voluntarily self-reported its findings to the SEC and the U.S. Department of Justice (DOJ) and is cooperating with these agencies in their review. The Company was previously informed that the SEC's inquiry had been converted to a formal, non-public investigation. The Company also received a subpoena for documents from the SEC and a voluntary request for documents from the DOJ in connection with the investigation. Because the SEC and DOJ investigations are ongoing, there can be no assurance that their review will not find evidence of additional transactions that potentially implicate the FCPA. The Company has recently begun initial discussions with the government toward a possible resolution to this matter. At this time, the Company cannot predict the results of the government investigations, and resolution of these matters with the SEC and the DOJ could result in changes in management's estimates of losses, which could be material to the Company's consolidated financial statements.

ITEM 1A: RISK FACTORS
Refer to the Company's annual report on Form 10-K for the year ended December 31, 2011.

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

Information concerning the Company's share repurchases made during the second quarter of 2012:

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)
April	647	$39.52	—	2,426,177
May	395	38.86	—	2,426,177
June	212	36.90	—	2,426,177
Total	1,254	38.87	—	

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

(2) The total number of shares repurchased as part of the publicly announced share repurchase plan since its inception was 13,450,772 as of June 30, 2012. The plan was approved by the Board of Directors in 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.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of June 30, 2012

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)
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 Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Principal 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

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: August 2, 2012	By:	/s/ Thomas W. Swidarski Thomas W. Swidarski President and Chief Executive Officer (Principal Executive Officer)
Date: August 2, 2012	By:	/s/ Bradley C. Richardson Bradley C. Richardson Executive Vice President and Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

EXHIBIT NO.	DOCUMENT DESCRIPTION
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