

DIEBOLD INC
Form 10-Q
October 29, 2015

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

Form 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____
Commission file number 1-4879

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

Ohio	34-0183970
(State or other jurisdiction of 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 ☒ No ☐

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
-------------------------	-------------------------------------	-------------------	--------------------------	-----------------------	--------------------------	---	--------------------------	---------------------------	--------------------------

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

Number of shares of common stock outstanding as of October 26, 2015 was 64,976,900.

DIEBOLD, INCORPORATED AND SUBSIDIARIES
Form 10-Q

Index

<u>Part I - Financial Information</u>	<u>3</u>
<u>Item 1: Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets - September 30, 2015 (Unaudited) and December 31, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income (Unaudited) – Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) – Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended September 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 4: Controls and Procedures</u>	<u>41</u>
<u>Part II - Other Information</u>	<u>42</u>
<u>Item 1: Legal Proceedings</u>	<u>42</u>
<u>Item 1A: Risk Factors</u>	<u>42</u>
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 3: Defaults Upon Senior Securities</u>	<u>42</u>
<u>Item 4: Mine Safety Disclosures</u>	<u>42</u>
<u>Item 5: Other Information</u>	<u>42</u>
<u>Item 6: Exhibits</u>	<u>43</u>
<u>Signatures</u>	<u>44</u>
<u>Exhibit Index</u>	<u>45</u>

Table of Contents

Part I – Financial Information

Item 1: Financial Statements

DIEBOLD, INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(dollars in millions, except per share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 198.5	\$ 322.0
Short-term investments	99.2	136.7
Trade receivables, less allowances for doubtful accounts of \$31.6 and \$23.0 at September 30, 2015 and December 31, 2014, respectively	565.6	477.9
Inventories	420.6	405.2
Deferred income taxes	108.2	111.0
Prepaid expenses	24.1	22.0
Prepaid income taxes	42.2	11.7
Other current assets	149.8	169.0
Total current assets	1,608.2	1,655.5
Securities and other investments	82.2	83.6
Property, plant and equipment, net of accumulated depreciation and amortization of \$434.3 and \$443.4 at September 30, 2015 and December 31, 2014, respectively	177.0	169.5
Goodwill	197.4	172.0
Deferred income taxes	85.4	86.5
Finance lease receivables	44.6	90.4
Other assets	80.3	84.6
Total assets	\$2,275.1	\$2,342.1
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable	\$ 80.9	\$ 25.6
Accounts payable	283.9	261.7
Deferred revenue	231.7	275.1
Payroll and other benefits liabilities	81.0	116.8
Other current liabilities	289.0	348.5
Total current liabilities	966.5	1,027.7
Long-term debt	618.3	479.8
Pensions and other benefits	198.2	211.0
Post-retirement and other benefits	20.9	20.8
Deferred income taxes	14.9	6.5
Other long-term liabilities	29.8	41.4
Commitments and contingencies		
Equity		
Diebold, Incorporated shareholders' equity		
Preferred shares, no par value, 1,000,000 authorized shares, none issued	—	—
Common shares, \$1.25 par value, 125,000,000 authorized shares, 79,690,226 and 79,238,759 issued shares, 64,996,239 and 64,632,400 outstanding shares at September 30, 2015 and December 31, 2014, respectively	99.6	99.0

Edgar Filing: DIEBOLD INC - Form 10-Q

Additional capital	431.8	418.1	
Retained earnings	746.9	762.2	
Treasury shares, at cost (14,693,987 and 14,606,359 shares at September 30, 2015 and December 31, 2014, respectively)	(560.2)	) (557.2)
Accumulated other comprehensive loss	(316.7	) (190.5)
Total Diebold, Incorporated shareholders' equity	401.4	531.6	
Noncontrolling interests	25.1	23.3	
Total equity	426.5	554.9	
Total liabilities and equity	\$2,275.1	\$2,342.1	
See accompanying notes to condensed consolidated financial statements.			

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(unaudited)

(in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales				
Services	\$404.4	\$416.5	\$1,208.5	\$1,209.7
Products	276.5	351.5	861.3	980.1
	680.9	768.0	2,069.8	2,189.8
Cost of sales				
Services	282.5	290.3	836.2	849.2
Products	231.1	277.1	703.5	789.1
	513.6	567.4	1,539.7	1,638.3
Gross profit	167.3	200.6	530.1	551.5
Selling and administrative expense	127.6	129.9	392.5	371.2
Research, development and engineering expense	20.0	24.5	66.2	66.2
Impairment of assets	—	—	18.9	—
Loss (gain) on sale of assets, net	0.1	(0.5)	(1.4)	(13.1)
	147.7	153.9	476.2	424.3
Operating profit	19.6	46.7	53.9	127.2
Other income (expense)				
Investment income	5.9	7.9	20.6	26.6
Interest expense	(8.5)	(8.3)	(24.1)	(23.1)
Foreign exchange gain (loss), net	1.3	1.0	(9.2)	(10.4)
Miscellaneous, net	(1.3)	0.5	(1.7)	0.4
Income before taxes	17.0	47.8	39.5	120.7
Income tax (benefit) expense	(5.9)	12.8	(1.7)	37.7
Net income	22.9	35.0	41.2	83.0
Net income (loss) attributable to noncontrolling interests	1.2	1.9	0.1	(1.5)
Net income attributable to Diebold, Incorporated	\$21.7	\$33.1	\$41.1	\$84.5
Basic weighted-average shares outstanding	65.0	64.6	64.9	64.5
Diluted weighted-average shares outstanding	65.6	65.3	65.5	65.1
Net income attributable to Diebold, Incorporated				
Basic earnings per share	\$0.33	\$0.51	\$0.63	\$1.31
Diluted earnings per share	\$0.33	\$0.51	\$0.63	\$1.30
Common dividends declared and paid per share	\$0.2875	\$0.2875	\$0.8625	\$0.8625
See accompanying notes to condensed consolidated financial statements.				

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Income

(unaudited)

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$22.9	\$35.0	\$41.2	\$83.0
Other comprehensive income (loss), net of tax				
Translation adjustment	(75.3	) (52.6	) (137.4	) (31.8
Foreign currency hedges (net of tax \$(2.2) \$(1.3), \$(4.0) and \$0.6, respectively)	4.0	2.5	7.3	(1.1
Interest rate hedges				
Net gain recognized in other comprehensive income (net of tax \$(0.1), \$(0.1), \$(0.3) and \$(0.3), respectively)	0.2	0.3	0.5	0.6
Reclassification adjustment for amounts recognized in net income (net of tax \$0.1, \$0.0, \$0.1 and \$0.1, respectively)	(0.1	) (0.1	) (0.2	) (0.2
	0.1	0.2	0.3	0.4
Pension and other post-retirement benefits				
Net actuarial loss amortization (net of tax \$(0.6), \$(0.3), \$(1.9) and \$(0.9), respectively)	1.1	0.6	3.4	1.6
Net prior service benefit amortization (net of tax \$0.0, \$0.0, \$0.0 and \$0.1, respectively)	—	(0.1	) (0.1	) (0.2
	1.1	0.5	3.3	1.4
Unrealized gain (loss) on securities, net				
Net gain (loss) recognized in other comprehensive income (net of tax \$0.0, \$0.0, \$0.0 and \$0.8, respectively)	—	0.1	—	(1.4
Reclassification adjustment for amounts recognized in net income (net of tax \$0.0, \$0.0, \$0.0 and \$0.2, respectively)	—	—	—	(0.4
	—	0.1	—	(1.8
Other comprehensive (loss) income, net of tax	(70.1	) (49.3	) (126.5	) (32.9
Comprehensive (loss) income	(47.2	) (14.3	) (85.3	) 50.1
Less: comprehensive income (loss) attributable to noncontrolling interests	0.5	2.2	(0.3	) (1.8
Comprehensive (loss) income attributable to Diebold, Incorporated	\$(47.7	) \$(16.5	) \$(85.0	) \$51.9

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)

	Nine Months Ended September 30,	
	2015	2014
Cash flow from operating activities		
Net income	\$41.2	\$83.0
Adjustments to reconcile net income to cash flow used in operating activities:		
Depreciation and amortization	49.2	55.4
Share-based compensation	10.9	16.0
Excess tax benefits from share-based compensation	(0.3)	(0.3)
Devaluation of Venezuela balance sheet	7.5	12.1
Gain on sale of assets, net	(1.4)	(13.1)
Impairment of assets	18.9	—
Changes in certain assets and liabilities, net of the effects of acquisitions		
Trade receivables	(133.3)	(164.7)
Inventories	(66.4)	(156.3)
Prepaid expenses	(2.8)	(1.9)
Prepaid income taxes	(30.5)	7.5
Other current assets	(17.7)	(46.4)
Accounts payable	39.3	87.6
Deferred revenue	(29.7)	30.4
Accrued salaries, wages and commissions	(23.4)	5.8
Deferred income taxes	9.0	(6.5)
Finance lease and notes receivables	6.0	(59.3)
Certain other assets and liabilities	3.4	40.0
Net cash used in operating activities	(120.1)	(110.7)
Cash flow from investing activities		
Payments for acquisitions, net of cash acquired	(59.4)	(11.7)
Proceeds from maturities of investments	101.0	406.6
Proceeds from sale of investments	—	39.6
Payments for purchases of investments	(107.1)	(339.8)
Proceeds from sale of assets	5.5	17.7
Capital expenditures	(42.9)	(33.6)
Increase in certain other assets	(2.9)	(13.8)
Net cash (used in) provided by investing activities	(105.8)	65.0
Cash flow from financing activities		
Dividends paid	(56.5)	(56.2)
Debt issuance costs	(0.7)	(1.4)
Revolving debt (repayments) borrowings, net	(36.4)	124.0
Term loan borrowings	230.0	—
Other debt borrowings	87.7	133.8
Other debt repayments	(91.2)	(141.5)
Distributions to noncontrolling interest holders	(0.2)	(2.2)
Excess tax benefits from share-based compensation	0.3	0.3
Issuance of common shares	3.4	14.4

Edgar Filing: DIEBOLD INC - Form 10-Q

Repurchase of common shares	(3.0	) (1.8)
Net cash provided by financing activities	133.4	69.4	
Effect of exchange rate changes on cash and cash equivalents	(31.0	) (14.0)
(Decrease) increase in cash and cash equivalents	(123.5	) 9.7	
Cash and cash equivalents at the beginning of the period	322.0	230.7	
Cash and cash equivalents at the end of the period	\$198.5	\$240.4	
See accompanying notes to condensed consolidated financial statements.			

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements
(unaudited)

(dollars in millions, except per share amounts)

Note 1: Consolidated Financial Statements

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

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. In addition, some of the Company's statements in this Quarterly Report on Form 10-Q may involve risks and uncertainties that could significantly impact expected future results. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of results to be expected for the full year. The Company has reclassified the presentation of certain prior-year information to conform to the current presentation.

In January 2015, the Company announced the realignment of its Brazil and Latin America (LA) businesses to drive greater efficiency and further improve customer service. Beginning with the first quarter of 2015, LA and Brazil operations were reported under one single reportable operating segment and comparative periods have been reclassified for consistency. The presentation of comparative periods also reflects the reclassification of certain global expenses from segment operating profit to corporate charges not allocated to segments due to the 2015 realignment activities.

On March 13, 2015, the Company acquired all of the equity interests of Phoenix Interactive Design, Inc. (Phoenix) for a total purchase price of approximately \$72.9, including \$12.6 of deferred cash payment payable over the next three years. Acquiring Phoenix, a world leader in developing innovative multi-vendor software solutions for automated teller machines (ATMs) and a host of other financial self-service (FSS) applications, is a foundational move to accelerate the Company's growth in the fast-growing managed services and branch automation spaces. The results of operations for Phoenix are primarily included in the North America (NA) reportable operating segment within the Company's condensed consolidated financial statements from the date of the acquisition. Preliminary purchase price allocations are subject to further adjustment until all pertinent information regarding the assets acquired and liabilities assumed are fully evaluated.

As of March 31, 2015, the Company agreed to sell its equity interest in its Venezuela joint venture to its joint venture partner and recorded a \$10.3 impairment of assets in the first quarter of 2015. On April 29, 2015, the Company closed the sale for the estimated fair market value and recorded a \$1.0 reversal of impairment of assets based on final adjustments in the second quarter of 2015, resulting in a \$9.3 impairment of assets for the six months ended June 30, 2015. The Company no longer has a consolidating entity in Venezuela but will continue to operate in Venezuela on an indirect basis.

Prior to the sale, the Company's Venezuela operations consisted of a fifty-percent owned subsidiary, which was consolidated. Venezuela was measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. On March 24, 2014, the Venezuela government announced a currency exchange mechanism, SICAD 2, which yielded an exchange rate significantly higher than the rates established through the other regulated exchange mechanisms. As of March 31, 2014, management determined it was unlikely the Company would be able to convert bolivars under a currency exchange other than SICAD 2 and the Company remeasured its

Venezuela balance sheet using the SICAD 2 rate of 50.86 compared to the previous official government rate of 6.30, which resulted in a decrease of \$6.1 to the Company's cash balance and net losses of \$12.1 that were recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2014. As a result of the currency devaluation, the Company recorded a \$4.1 lower of cost or market adjustment related to its service inventory within service cost of sales in the condensed consolidated statements of operations in the first quarter of 2014. On February 10, 2015, the Venezuela government introduced a new foreign currency exchange platform called the Marginal Currency System, or SIMADI, which replaced the SICAD 2 mechanism, yielding another significant increase in the exchange rate. As of March 31, 2015, management determined it was unlikely that the Company would be able to convert bolivars under a currency exchange other than SIMADI and remeasured its Venezuela balance sheet using the SIMADI rate of 192.95 compared to the previous SICAD 2 rate of 50.86, which resulted in a loss of \$7.5 recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2015.

In the second quarter of 2014, the Company divested its Diebold Eras, Incorporated (Eras) subsidiary for a sale price of \$20.0, including installment payments of \$1.0 on the first and second year anniversary dates of the closing. This sale resulted in a gain of \$13.7 recognized within gain on sale of assets, net in the condensed consolidated statement of operations. Revenue and operating

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements
(unaudited)

(dollars in millions, except per share amounts)

profit in the nine months ended September 30, 2014 related to this divested subsidiary were \$6.0 and \$3.0, respectively, and are included within the NA segment. Net income before taxes related to this divested subsidiary is included in continuing operations and was \$3.0 for the nine months ended September 30, 2014. There was no impact of Eras on the three months ended September 30, 2014.

In the third quarter of 2014, the Company acquired 100 percent of the equity interests of Cryptera A/S (Cryptera), a supplier of the Company's encrypting PIN pad technology and a world leader in the research and development of secure payment technologies. This acquisition positioned the Company as a significant original equipment manufacturer of secure payment technologies and allowed the Company to own more of the intellectual property related to its ATMs. The total purchase price was approximately \$13.0, including a 10 percent deferred cash payment payable on the first anniversary of the acquisition. The results of operations for Cryptera are included in the Europe, Middle East and Africa (EMEA) segment within the Company's condensed consolidated financial statements from the date of the acquisition.

Recently Issued Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard is effective for the Company on January 1, 2018. Early application is permitted on the original adoption date of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for the Company on January 1, 2016, with early adoption permitted. The adoption of ASU 2015-03 is not expected to have a material impact on the financial statements of the Company.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share or Its Equivalent (ASU 2015-07). The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The standard is effective for the Company on January 1, 2016, with early adoption permitted. The adoption of ASU 2015-07 is not expected to have a material impact on the financial statements of the Company.

In July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Plan (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (ASU 2015-12), which is a three-part update with the objective of simplifying benefit plan reporting to make the information presented more useful to the reader. Part I designates contract value as the only

required measure for fully benefit-responsive investment contracts (FBRIC). A FBRIC is a guaranteed investment contract between the plan and an issuer in which the issuer agrees to pay a predetermined interest rate and principal for a set amount deposited with the issuer. Part II simplifies the investment disclosure requirements for employee benefits plans. Part III provides an alternative measurement date for fiscal periods that do not coincide with a month-end date. This guidance is effective for fiscal years beginning after December 15, 2015. The amendments in Parts I and II of this standard are effective retrospectively. The standard is effective for the Company on January 1, 2016, with early adoption permitted. The adoption of ASU 2015-12 is not expected to have a material impact on the financial statements of the Company.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16). The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date and presented separately on the face of the income statement or disclosed in the notes by line item. The standard is effective for the Company on January 1, 2016, with early

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

adoption permitted. The adoption of ASU 2015-16 is not expected to have a material impact on the financial statements of the Company.

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 nine months ended September 30, 2015 and 2014, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator				
Income used in basic and diluted earnings per share				
Net income attributable to Diebold, Incorporated	\$21.7	\$33.1	\$41.1	\$84.5
Denominator (in millions)				
Weighted-average number of common shares used in basic earnings per share	65.0	64.6	64.9	64.5
Effect of dilutive shares	0.6	0.7	0.6	0.6
Weighted-average number of shares used in diluted earnings per share	65.6	65.3	65.5	65.1
Net income attributable to Diebold, Incorporated				
Basic earnings per share	\$0.33	\$0.51	\$0.63	\$1.31
Diluted earnings per share	\$0.33	\$0.51	\$0.63	\$1.30
Anti-dilutive shares (in millions)				
Anti-dilutive shares not used in calculating diluted weighted-average shares	1.5	0.9	1.5	1.2

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

Note 3: Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Diebold, Incorporated shareholders' equity				
Balance at beginning of period	\$465.6	\$650.8	\$531.6	\$596.8
Comprehensive (loss) income attributable to Diebold, Incorporated	(47.7)	(16.5)	(85.0)	51.9
Common shares	—	0.1	0.6	0.8
Additional capital	2.4	5.9	13.7	29.8
Treasury shares	(0.2)	(0.2)	(3.0)	(1.8)
Dividends paid	(18.7)	(18.8)	(56.5)	(56.2)
Balance at end of period	\$401.4	\$621.3	\$401.4	\$621.3
Noncontrolling interests				
Balance at beginning of period	\$24.6	\$17.9	\$23.3	\$24.0
Comprehensive income (loss) attributable to noncontrolling interests, net (1)	0.7	2.1	2.0	(1.9)
Distributions to noncontrolling interest holders	(0.2)	—	(0.2)	(2.1)
Balance at end of period	\$25.1	\$20.0	\$25.1	\$20.0

Comprehensive income (loss) attributable to noncontrolling interests of \$(0.1) for the nine months ended (1) September 30, 2015, respectively, is net of a \$2.1 Venezuela noncontrolling interest adjustment for the nine months ended September 30, 2015, respectively, to reduce the carrying value to the estimated fair market value.

Note 4: Accumulated Other Comprehensive Loss

The following table summarizes the changes in the Company's accumulated other comprehensive (loss) income (AOCI), net of tax, by component for the three months ended September 30, 2015:

	Translation	Foreign Currency Hedges	Interest Rate Hedges	Pension and Other Post-retirement Benefits	Other	Accumulated Other Comprehensive (Loss) Income
Balance at June 30, 2015	\$(137.3)	\$1.9	\$(0.3)	\$(111.8)	\$0.3	\$(247.2)
Other comprehensive (loss) income before reclassifications (1)	(74.7)	4.0	0.2	—	—	(70.5)
Amounts reclassified from AOCI	—	—	(0.1)	1.1	—	1.0
Net current-period other comprehensive (loss) income	(74.7)	4.0	0.1	1.1	—	(69.5)
Balance at September 30, 2015	\$(212.0)	\$5.9	\$(0.2)	\$(110.7)	\$0.3	\$(316.7)

(1) Other comprehensive (loss) income before reclassifications within the translation component excludes \$(0.6) of translation attributable to noncontrolling interests.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

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

	Translation	Foreign Currency Hedges	Interest Rate Hedges	Pension and Other Post-retirement Benefits	Unrealized Gain on Securities, Net	Other	Accumulated Other Comprehensive (Loss) Income
Balance at June 30, 2014	\$ 19.0	\$(5.5)	\$(0.8)	\$ (51.1)	\$ 0.8	\$ 0.3	\$ (37.3)
Other comprehensive (loss) income (loss) before reclassifications (1)	(52.8)	2.5	0.3	—	0.1	—	(49.9)
Amounts reclassified from AOCI	—	—	(0.1)	0.5	—	—	0.4
Net current-period other comprehensive (loss) income	(52.8)	2.5	0.2	0.5	0.1	—	(49.5)
Balance at September 30, 2014	\$(33.8)	\$(3.0)	\$(0.6)	\$ (50.6)	\$ 0.9	\$ 0.3	\$ (86.8)

(1) Other comprehensive (loss) income before reclassifications within the translation component excludes \$0.2 of translation attributable to noncontrolling interests.

The following table summarizes the changes in the Company's AOCI, net of tax, by component for the nine months ended September 30, 2015:

	Translation	Foreign Currency Hedges	Interest Rate Hedges	Pension and Other Post-retirement Benefits	Other	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2015	\$(74.9)	\$(1.4)	\$(0.5)	\$ (114.0)	\$ 0.3	\$ (190.5)
Other comprehensive (loss) income before reclassifications (1)	(137.1)	7.3	0.5	—	—	(129.3)
Amounts reclassified from AOCI	—	—	(0.2)	3.3	—	3.1
Net current-period other comprehensive (loss) income	(137.1)	7.3	0.3	3.3	—	(126.2)
Balance at September 30, 2015	\$(212.0)	\$ 5.9	\$(0.2)	\$ (110.7)	\$ 0.3	\$ (316.7)

(1) Other comprehensive (loss) income before reclassifications within the translation component excludes \$(0.3) of translation attributable to noncontrolling interests.

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

	Translation	Foreign Currency Hedges	Interest Rate Hedges	Pension and Other Post-retirement Benefits	Unrealized Gain on Securities, Net	Other	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2014	\$(2.4)	\$(1.9)	\$(1.0)	\$ (52.0)	\$ 2.7	\$ 0.3	\$ (54.3)
Other comprehensive (loss) income before reclassifications (1)	(31.4)	(1.1)	0.6	—	(1.4)	—	(33.3)

Edgar Filing: DIEBOLD INC - Form 10-Q

Amounts reclassified from AOCI	—	—	(0.2	)	1.4	(0.4	)	—	0.8			
Net current-period other comprehensive (loss) income	(31.4	)	(1.1	)	0.4	1.4	(1.8	)	—	(32.5)	
Balance at September 30, 2014	\$ (33.8	)	\$ (3.0	)	\$ (0.6	)	\$ (50.6	)	\$ 0.9	\$ 0.3	\$ (86.8)
(1) Other comprehensive (loss) income before reclassifications within the translation component excludes \$(0.4) of translation attributable to noncontrolling interests.												

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

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

	Three Months Ended		Nine Months Ended		
	2015	2014	2015	2014	
	Amount	Amount	Amount	Amount	Affected Line
	Reclassified	Reclassified	Reclassified	Reclassified	Item in the
	from AOCI	from AOCI	from AOCI	from AOCI	Statement of
					Income
Interest rate hedges	\$(0.1	) \$(0.1	) \$(0.2	) \$(0.2	Interest expense
Pension and post-retirement benefits:					
Net actuarial loss amortization (net of tax	1.1	0.6	3.4	1.6	(1)
\$(0.6), \$(0.3), \$(1.9) and \$(0.9), respectively)					
Net prior service benefit amortization (net of	—	(0.1	) (0.1	) (0.2	) (1)
tax \$0.0, \$0.0, \$0.0 and \$0.1, respectively)					
	1.1	0.5	3.3	1.4	
Unrealized loss on securities (net of tax \$0.0,	—	—	—	(0.4	) Investment
\$0.0, \$0.0 and \$0.2, respectively)					income
Total reclassifications for the period	\$1.0	\$0.4	\$3.1	\$0.8	

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

Note 5: Share-Based Compensation

The Company's share-based compensation payments to employees are recognized based on their grant-date fair values during the period in which the employee is required to provide services in exchange for the award. Share-based compensation is primarily recognized as a component of selling and administrative expense. Total share-based compensation expense was \$1.8 and \$5.6 for the three months ended September 30, 2015 and 2014, respectively. Total share-based compensation expense was \$10.9 and \$16.0 for the nine months ended September 30, 2015 and 2014, respectively.

Options outstanding and exercisable as of September 30, 2015 under the Company's 1991 Equity and Performance Incentive Plan (as Amended and Restated as of February 12, 2014) (the 1991 Plan) and changes during the nine months ended September 30, 2015 were as follows:

	Number of	Weighted-	Weighted-	Aggregate
	Shares	Average	Average	Intrinsic
		Exercise	Remaining	Value (1)
		Price	Contractual	
	(in millions)	(per share)	Term	
			(in years)	
Outstanding at January 1, 2015	1.6	\$37.11		
Expired or forfeited	(0.3	) \$49.85		
Exercised	(0.1	) \$30.05		
Granted	0.5	\$32.33		
Outstanding at September 30, 2015	1.7	\$34.18	7	\$0.2
Options exercisable at September 30, 2015	0.9	\$35.39	5	\$0.2
	1.7	\$34.23	7	\$0.2

Options vested and expected to vest at
September 30, 2015 (2)

- The aggregate intrinsic value (the difference between the closing price of the Company's common shares on the last trading day of the third quarter of 2015 and the exercise price, multiplied by the number of "in-the-money" options)
- (1) that would have been received by the option holders had all option holders exercised their options on September 30, 2015. 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.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

The following table summarizes information on non-vested RSUs and performance shares relating to employees and non-employee directors for the nine months ended September 30, 2015:

	Number of Shares (in millions)	Weighted-Average Grant-Date Fair Value (per share)
RSUs:		
Non-vested at January 1, 2015	0.7	\$ 33.72
Forfeited	(0.1)	) \$ 33.79
Vested	(0.2)	) \$ 34.22
Granted	0.5	\$ 32.75
Non-vested at September 30, 2015	0.9	\$ 32.52
Performance Shares:		
Non-vested at January 1, 2015	1.1	\$ 37.38
Forfeited	(0.3)	) \$ 36.28
Vested	(0.3)	) \$ 40.04
Granted	0.5	\$ 31.18
Non-vested at September 30, 2015	1.0	\$ 33.63

Performance shares are granted based on certain management objectives, as determined by the Board of Directors each year. Each performance share earned entitles the holder to one common share of the Company. The Company's performance shares include performance objectives that vest and are calculated after a three-year period as well as performance objectives that vest proportionately over a three-year period which are calculated annually. No shares are granted unless certain management threshold objectives are met.

As of September 30, 2015, there were 0.1 million non-employee director deferred shares vested and outstanding.

Note 6: Income Taxes

The effective tax rate was (34.7) percent and 26.8 percent on income for the three months ended September 30, 2015 and 2014, respectively. The effective tax rate was (4.3) percent and 31.2 percent on income for the nine months ended September 30, 2015 and 2014, respectively. The tax rate benefit for the three and nine months ended September 30, 2015 resulted from the repatriation of foreign earnings and the associated recognition of foreign tax credits and releases of uncertain tax positions due to the expiration of the statute of limitations. Additionally, the tax rate benefit for the nine months ended September 30, 2015 included the release of a valuation allowance and discrete tax items resulting from the sale of its Venezuela joint venture (refer to note 1) recorded primarily in the first quarter of 2015. The tax rate for the three months and nine months ended September 30, 2014 reflected the release of valuation allowance against excess capital losses utilized. Additionally, the tax rate for the nine months ended September 30, 2014 was negatively impacted by discrete tax expense on the repatriation of certain foreign earnings recorded in the first quarter of 2014.

Note 7: Investments

The Company's investments, primarily in Brazil, consist of certificates of deposit that are classified as available-for-sale and stated at fair value based upon quoted market prices. Unrealized gains and losses are recorded in AOCI. Realized gains and losses are recognized in investment income and are determined using the specific identification method. There were no realized gains from the sale of securities and proceeds from the sale of available-for-sale securities for the three and nine months ended September 30, 2015. Realized (losses) gains from the

sale of securities were \$(0.2) and \$0.5 for the three and nine months ended September 30, 2014. Proceeds from the sale of available-for-sale securities were \$39.6 during the nine months ended September 30, 2014.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

The Company's investments, excluding cash surrender value of insurance contracts of \$73.1 and \$73.8 as of September 30, 2015 and December 31, 2014, respectively, consisted of the following:

	Cost Basis	Unrealized Gain	Fair Value
As of September 30, 2015			
Short-term investments			
Certificates of deposit	\$99.2	\$—	\$99.2
Long-term investments			
Assets held in a rabbi trust	\$8.9	\$0.2	\$9.1
As of December 31, 2014			
Short-term investments			
Certificates of deposit	\$136.7	\$—	\$136.7
Long-term investments			
Assets held in a rabbi trust	\$9.3	\$0.5	\$9.8

Note 8: Allowance for Credit Losses

The following table summarizes the Company's allowance for credit losses for the nine months ended September 30, 2015 and 2014:

	Finance Leases	Notes Receivable	Total
Allowance for credit losses			
Balance at January 1, 2015	\$0.4	\$4.1	\$4.5
Provision for credit losses	0.3	—	0.3
Write-offs	(0.1)	) —	(0.1)
Balance at September 30, 2015	\$0.6	\$4.1	\$4.7
Balance at January 1, 2014	\$0.4	\$4.1	\$4.5
Provision for credit losses	0.2	—	0.2
Write-offs	(0.2)	) —	(0.2)
Balance at September 30, 2014	\$0.4	\$4.1	\$4.5

There were no significant changes in provision for credit losses, recoveries and write-offs during the nine months ended September 30, 2015 and 2014. In the nine months ended September 30, 2015 and 2014, the Company sold finance lease receivables of \$5.4 and \$22.1, respectively. As of September 30, 2015, finance leases and notes receivable individually evaluated for impairment were \$86.5 and \$13.5, respectively. As of September 30, 2014, finance leases and notes receivable individually evaluated for impairment were \$157.6 and \$18.1, respectively. As of September 30, 2015 and December 31, 2014, the Company's finance lease receivables in LA were \$66.5 and \$127.9, respectively. The decrease is related primarily to the strengthening U.S. dollar compared to the Brazil real and recurring customer payments for financing arrangements in LA.

The Company records interest income and any fees or costs related to financing receivables using the effective interest method over the term of the lease or loan. The Company reviews the aging of its financing receivables to determine past due and delinquent accounts. Credit quality is reviewed at inception and is re-evaluated as needed based on customer-specific circumstances. Receivable balances 60 days to 89 days past due are reviewed and may be placed on nonaccrual status based on customer-specific circumstances. Receivable balances are placed on nonaccrual status

upon reaching greater than 89 days past due. Upon receipt of payment on nonaccrual financing receivables, interest income is recognized and accrual of interest is resumed once the account has been made current or the specific circumstances have been resolved.

As of September 30, 2015 and December 31, 2014, the recorded investment in past-due financing receivables on nonaccrual status was \$1.9 and \$2.2, respectively, and there were no recorded investments in finance receivables past due 90 days or more and still accruing interest. The recorded investment in impaired notes receivable was \$4.1 as of September 30, 2015 and December 31, 2014 and was fully reserved.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

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

	September 30, 2015	December 31, 2014
30-59 days past due	\$—	\$0.1
60-89 days past due	—	—
> 89 days past due (1)	3.0	1.5
Total past due	\$3.0	\$1.6

(1) Past-due notes receivable balances greater than 89 days are fully reserved.

Note 9: Inventories

Major classes of inventories are summarized as follows:

	September 30, 2015	December 31, 2014
Finished goods	\$181.6	\$197.4
Service parts	150.4	125.6
Raw materials and work in process	88.6	82.2
Total inventories	\$420.6	\$405.2

Note 10: Goodwill and Other Assets

The changes in carrying amounts of goodwill within the Company's segments are summarized as follows:

	NA	AP	EMEA	LA	Total
Goodwill	\$112.1	\$41.3	\$168.7	\$148.5	\$470.6
Accumulated impairment losses	(13.2)	) —	(168.7)	) (108.8)	) (290.7)
Balance at January 1, 2014	\$98.9	\$41.3	\$—	\$39.7	\$179.9
Divestiture	(1.6)	) —	—	—	(1.6)
Currency translation adjustment	(0.2)	) (1.3)	) —	(4.8)	) (6.3)
Goodwill	\$110.3	\$40.0	\$168.7	\$143.7	\$462.7
Accumulated impairment losses	(13.2)	) —	(168.7)	) (108.8)	) (290.7)
Balance at December 31, 2014	\$97.1	\$40.0	\$—	\$34.9	\$172.0
Goodwill acquired	41.5	0.5	—	0.5	42.5
Currency translation adjustment	(3.6)	) (3.0)	) —	(10.5)	) (17.1)
Goodwill	148.2	37.5	168.7	133.7	488.1
Accumulated impairment losses	(13.2)	) —	(168.7)	) (108.8)	) (290.7)
Balance at September 30, 2015	\$135.0	\$37.5	\$—	\$24.9	\$197.4

During 2014, NA had a reduction to goodwill of \$1.6 relating to the sale of Eras. In March 2015, the Company acquired Phoenix, a world leader in developing innovative multi-vendor software solutions for ATMs and a host of other FSS applications. Preliminary goodwill and other intangible assets resulting from the acquisition were \$42.5 and \$26.8, respectively, and are primarily included in the NA reportable operating segment. The purchase price allocations are preliminary and subject to further adjustment until all pertinent information regarding the assets acquired and liabilities assumed are fully evaluated. The goodwill associated with the transaction is not deductible for income tax purposes.

There have been no impairment indicators identified during the nine months ended September 30, 2015.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

The following summarizes information on intangible assets by major category:

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internally-developed software	\$88.2	\$(46.5)	) \$41.7	\$102.1	\$(65.8)	) \$36.3
Other intangibles	52.6	(29.1)	) 23.5	52.2	(28.5)	) 23.7
Total	\$140.8	\$(75.6)	) \$65.2	\$154.3	\$(94.3)	) \$60.0

Intangible assets are included in other assets on the condensed consolidated balance sheets. Amortization expense on capitalized software included in product cost of sales was \$3.7 and \$4.6 for the three months ended September 30, 2015 and 2014, respectively, and \$11.3 and \$13.5 for the nine months ended September 30, 2015 and 2014, respectively.

The decrease in internally-developed software is primarily due to a \$9.1 impairment during the first quarter of 2015 of certain internally-developed software related to redundant legacy Diebold software as a result of the acquisition of Phoenix.

Note 11: Debt

Outstanding debt balances were as follows:

	September 30, 2015	December 31, 2014
Notes payable		
Uncommitted lines of credit	\$68.4	\$24.8
Term loan	11.5	—
Other	1.0	0.8
	\$80.9	\$25.6
Long-term debt		
Revolving credit facility	\$171.1	\$240.0
Senior notes	225.0	225.0
Term loan	215.6	—
Industrial development revenue bonds	4.4	11.9
Other	2.2	2.9
	\$618.3	\$479.8

As of September 30, 2015, the Company had various international short-term uncommitted lines of credit with borrowing limits of \$119.0. The weighted-average interest rate on outstanding borrowings on the short-term uncommitted lines of credit as of September 30, 2015 and December 31, 2014 was 2.95 percent and 2.96 percent, respectively. Short-term uncommitted lines mature in less than one year. The amount available under the short-term uncommitted lines at September 30, 2015 was \$50.6.

In June 2015, the Company entered into a Second Amendment to the Credit Agreement (Second Amendment), which provides for a term loan in the aggregate principal amount of \$230.0 with escalating quarterly principal payments and a balloon payment due upon maturity in August 2019. The weighted-average interest rate on the term loan as of September 30, 2015 was 1.75 percent, which is variable based on the London Interbank Offered Rate (LIBOR). The Second Amendment replaced the net debt to net capitalization financial covenant with a net debt to earnings before

interest, taxes, depreciation and amortization (EBITDA) financial covenant and, accordingly, modified the facility fee and interest rate pricing schedules. The Credit Agreement continues to provide a revolving credit facility with availability of up to \$520.0. The Company has the ability, subject to various approvals, to increase the borrowing limits by \$250.0. In August 2014, the Company entered into the First Amendment to the Credit Agreement and Guaranty (First Amendment), which increased its borrowing limits under the revolving credit facility from \$500.0 to \$520.0. The First Amendment also extended the maturity date of the revolving credit facility to August 2019. Up to \$50.0 of the revolving credit facility is available under a swing line sub-facility. The weighted-average interest rate on outstanding revolving credit facility borrowings as of September 30, 2015 and December 31, 2014 was 1.57 percent and 1.69 percent, respectively, which is variable based on the LIBOR. The amount available under the revolving credit facility as of September 30, 2015 was \$348.9. The Company incurred \$0.7 of fees related to the Second Amendment in June 2015, which are amortized as a component of interest expense

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

over the term of the facility. The Company incurred \$1.4 of fees related to the First Amendment in the third quarter of 2014, which are amortized as a component of interest expense over the term of the Credit Agreement.

In March 2006, the Company issued senior notes in an aggregate principal amount of \$300.0 with a weighted-average fixed interest rate of 5.50 percent. The Company entered into a derivative transaction to hedge interest rate risk on \$200.0 of the senior notes, which was treated as a cash flow hedge. This reduced the effective interest rate from 5.50 percent to 5.36 percent. The Company funded the repayment of \$75.0 of the senior notes at maturity in March 2013 using borrowings under its revolving credit facility. The maturity dates of the remaining senior notes are staggered, with \$175.0 and \$50.0 due in March 2016 and 2018, respectively. For \$175.0 of the Company's senior notes maturing in March 2016, management intends to fund the repayment through the revolving credit facility.

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 0.34 percent and 0.27 percent as of September 30, 2015 and December 31, 2014, respectively. During the third quarter of 2015, the Company repaid \$7.5 of the industrial development revenue bonds of which the remainder is expected to be repaid during the fourth quarter of 2015.

The Company's financing agreements contain various restrictive financial covenants, including net debt to capitalization, net debt to EBITDA and net interest coverage ratios. As of September 30, 2015, the Company was in compliance with the financial and other covenants in its debt agreements.

Note 12: Benefit Plans

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

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

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

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Components of net periodic benefit cost				

Edgar Filing: DIEBOLD INC - Form 10-Q

Service cost	\$0.9	\$0.7	\$—	\$—	
Interest cost	5.9	5.8	0.1	0.2	
Expected return on plan assets	(6.7	) (6.5) —	—	
Amortization of prior service benefit	—	—	—	(0.1)
Recognized net actuarial loss	1.7	0.8	0.1	0.1	
Net periodic pension benefit cost	\$1.8	\$0.8	\$0.2	\$0.2	

17

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

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

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Components of net periodic benefit cost				
Service cost	\$2.7	\$2.2	\$—	\$—
Interest cost	17.8	17.3	0.4	0.5
Expected return on plan assets	(20.2)	(19.4)	—	—
Amortization of prior service benefit	—	(0.1)	(0.1)	(0.2)
Recognized net actuarial loss	5.0	2.3	0.3	0.2
Net periodic pension benefit cost	\$5.3	\$2.3	\$0.6	\$0.5
Contributions				

There have been no changes to the expected 2015 plan year contribution amounts previously disclosed. In the first quarter of 2015, the Company made a voluntary contribution to its qualified pension plan of \$10.0. For the nine months ended September 30, 2015 and 2014, contributions of \$12.9 and \$8.7, respectively, were made to the qualified and non-qualified pension plans.

Note 13: Guarantees and Product Warranties

In 1997, industrial development revenue bonds were issued on behalf of the Company. The Company guaranteed the payments of principal and interest on the bonds (refer to note 11) by obtaining letters of credit. The carrying value of the bonds was \$4.4 and \$11.9 as of September 30, 2015 and December 31, 2014, respectively.

The Company provides its global operations guarantees and standby letters of credit through various financial institutions for suppliers, customers, regulatory agencies and insurance providers. If the Company is not able to make payment or fulfill contractual obligations, the suppliers, customers, regulatory agencies and insurance providers may draw on the pertinent bank. At September 30, 2015, the maximum future payment obligations related to these various guarantees totaled \$105.0, of which \$28.0 represented standby letters of credit to insurance providers, and no associated liability was recorded. At December 31, 2014, the maximum future payment obligations relative to these various guarantees totaled \$111.1, of which \$28.0 represented standby letters of credit to insurance providers, and no associated liability was recorded.

The Company provides its customers a manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. As of September 30, 2015 and 2014, the Company's warranty liability balances were \$77.3 and \$107.0, respectively. During 2014, the increase in warranty was largely attributable to sales related to Brazil other in LA. The currency translation adjustment is primarily due to the strengthening U.S. dollar compared to the Brazil real during 2015.

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

	2015	2014
Balance at January 1	\$113.3	\$83.2
Current period accruals	26.1	66.4
Current period settlements	(36.3)	(38.3)
Currency translation adjustment	(25.8)	(4.3)
Balance at September 30	\$77.3	\$107.0

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements
(unaudited)

(dollars in millions, except per share amounts)

Note 14: Commitments and Contingencies

Contractual Obligation

At September 30, 2015, the Company had purchase commitments due within one year totaling \$10.8 for materials through contract manufacturing agreements at negotiated prices.

Indirect Tax Contingencies

The Company accrues non-income-tax liabilities for indirect tax matters when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. In the event any losses are sustained in excess of accruals, they are charged against income. In evaluating indirect tax matters, management takes into consideration factors such as historical experience with matters of similar nature, specific facts and circumstances, and the likelihood of prevailing. Management evaluates and updates accruals as matters progress over time. It is reasonably possible that some of the matters for which accruals have not been established could be decided unfavorably to the Company and could require recognizing future expenditures. Also, statutes of limitations could expire without the Company paying the taxes for matters for which accruals have been established, which could result in the recognition of future gains upon reversal of these accruals at that time.

At September 30, 2015, the Company was a party to several routine indirect tax claims from various taxing authorities globally that were incurred in the normal course of business, which neither individually nor 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 consolidated financial statements would not be materially affected by the outcome of these indirect tax claims and/or proceedings or asserted claims.

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

In August 2012, one of the Company's Brazil subsidiaries was notified of a tax assessment of approximately R\$270.0, including penalties and interest, regarding certain Brazil federal indirect taxes (Industrialized Products Tax, Import Tax, Programa de Integração Social and Contribution to Social Security Financing) for 2008 and 2009. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify certain indirect tax incentives. On September 10, 2012, the Company filed its administrative defenses with the tax authorities. In response to an order by the administrative court, the tax inspector provided further analysis with respect to the initial assessment in December 2013 that indicates a potential exposure that is significantly lower than the initial tax assessment received in August 2012. This revised analysis has been accepted by the initial administrative court; however, this matter remains subject to ongoing administrative proceedings and appeals. Accordingly, the Company cannot provide any assurance that its exposure pursuant to the initial assessment will be lowered significantly or at all. In addition, this matter could negatively impact Brazil federal indirect taxes in other years that remain open under statute. It is reasonably possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's consolidated financial statements. The Company continues to defend itself in this matter.

At September 30, 2015 and December 31, 2014, the Company had an accrual related to the Brazil indirect tax matter disclosed above of approximately \$8.4 and \$12.5, respectively. The movement between periods relates to the currency fluctuation in the Brazil real.

Beginning in July 2014, the Company challenged customs rulings in Thailand seeking to retroactively collect customs duties on previous imports of ATMs. Management believes that the customs authority's attempt to retroactively assess customs duties is in contravention of World Trade Organization agreements and, accordingly, is challenging the rulings. In the third quarter of 2015, the Company received a prospective ruling from the United States Customs Border Protection which is consistent with our interpretation of the treaty in question. We are submitting that ruling

for consideration in our ongoing dispute with Thailand. The matters are currently in the appeals process and management continues to believe that the Company has a valid legal position in these appeals. Accordingly, the Company has not accrued any amount for this contingency; however, the Company cannot provide any assurance that it will not ultimately be subject to retroactive assessments.

A loss contingency is reasonably possible if it has a more than remote but less than probable chance of occurring. Although management believes the Company has valid defenses with respect to its indirect tax positions, it is reasonably possible that a loss could occur in excess of the estimated accrual. The Company estimated the aggregate risk at September 30, 2015 to be up to approximately \$166.9 for its material indirect tax matters, of which approximately \$118.3 and \$26.0, respectively, relates to the Brazil indirect tax matter and Thailand customs matter disclosed above. The aggregate risk related to indirect taxes is adjusted as the applicable statutes of limitations expire.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

Legal Contingencies

At September 30, 2015, the Company was a party to several lawsuits that were incurred in the normal course of business, which neither individually nor in the aggregate are considered material by management in relation to the Company's financial position or results of operations. In addition, the Company has indemnification obligations with certain former employees, and costs associated with these indemnifications are expensed as incurred. In management's opinion, the Company's condensed consolidated financial statements would not be materially affected by the outcome of these legal proceedings, commitments or asserted claims.

Note 15: Derivative Instruments and Hedging Activities

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

Foreign Exchange

Net Investment Hedges The Company has international subsidiaries with net balance sheet positions that generate cumulative translation adjustments within AOCI. The Company uses derivatives to manage potential changes in value of its net investments in LA. The Company uses the forward-to-forward method for its quarterly retrospective and prospective assessments of hedge effectiveness. No ineffectiveness results if the notional amount of the derivative matches the portion of the net investment designated as being hedged because the Company uses derivative instruments with underlying exchange rates consistent with its functional currency and the functional currency of the hedged net investment. Changes in value that are deemed effective are accumulated in AOCI where they will remain until they are reclassified to income together with the gain or loss on the entire investment upon substantial liquidation of the subsidiary. The fair value of the Company's net investment hedge contracts were \$0.3 and \$1.2 as of September 30, 2015 and December 31, 2014, respectively. The net gain (loss) recognized in AOCI on net investment hedge derivative instruments was \$6.2 and \$3.8 in the three months ended September 30, 2015 and 2014, respectively, and \$11.3 and \$(1.7) in the nine months ended September 30, 2015 and 2014, respectively.

Non-Designated Hedges A substantial portion of the Company's operations and revenues are international. As a result, changes in foreign exchange rates can create substantial foreign exchange gains and losses from the revaluation of non-functional currency monetary assets and liabilities. The Company's policy allows the use of foreign exchange forward contracts with maturities of up to 24 months to mitigate the impact of currency fluctuations on those foreign currency asset and liability balances. The Company elected not to apply hedge accounting to its foreign exchange forward contracts. Thus, spot-based gains/losses offset revaluation gains/losses within foreign exchange gain (loss), net and forward-based gains/losses represent interest expense. The fair value of the Company's non-designated foreign exchange forward contracts was \$1.8 and \$0.7 as of September 30, 2015 and December 31, 2014, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest expense	\$(1.4)	\$(1.4)	\$(3.5)	\$(4.4)
Foreign exchange gain (loss), net	6.6	9.1	9.5	10.7
	\$5.2	\$7.7	\$6.0	\$6.3

Interest Rate

Cash Flow Hedges The Company has variable rate debt that is subject to fluctuations in interest related cash flows due to changes in market interest rates. As of September 30, 2015, the Company had two pay-fixed receive-variable interest rate swaps, with a total notional amount of \$50.0, to hedge against changes in the LIBOR benchmark interest

rate on a portion of the Company's LIBOR-based borrowings. Changes in value that are deemed effective are accumulated in AOCI and reclassified to interest expense when the hedged interest is accrued. To the extent that it becomes probable that the Company's variable rate borrowings will not occur, the gains or losses on the related cash flow hedges will be reclassified from AOCI to interest expense. The fair value of the Company's interest rate contracts was \$(0.4) and \$(1.2) as of September 30, 2015 and December 31, 2014, respectively.

In December 2005 and January 2006, the Company executed cash flow hedges by entering into receive-variable and pay-fixed interest rate swaps, with a total notional amount of \$200.0, related to the senior notes issuance in March 2006. Amounts previously recorded in AOCI related to the pre-issuance cash flow hedges will continue to be reclassified on a straight-line basis through February 2016.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements
(unaudited)

(dollars in millions, except per share amounts)

The gain recognized on designated cash flow hedge derivative instruments was \$0.3 and \$0.4 for the three months ended September 30, 2015 and 2014, respectively, and \$0.8 and \$0.9 for the nine months ended September 30, 2015 and 2014, respectively. Gains and losses related to interest rate contracts that are reclassified from AOCI are recorded in interest expense on the statements of income. The Company anticipates reclassifying \$0.2 from AOCI to interest expense within the next 12 months.

Note 16: Restructuring and Other Charges

Restructuring Charges

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of sales – services	\$1.6	\$0.6	\$2.8	\$1.4
Cost of sales – products	0.1	—	1.4	0.1
Selling and administrative expense	5.9	0.4	13.1	5.3
Research, development and engineering expense	—	—	0.6	—
Total	\$7.6	\$1.0	\$17.9	\$6.8

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Severance				
North America (NA) (1)	\$4.7	\$1.0	\$9.4	\$3.7
Asia Pacific (AP)	0.7	—	0.9	0.3
Europe, Middle East and Africa (EMEA)	—	—	3.0	0.7
Latin America (LA)	2.2	—	4.6	2.1
Total severance	\$7.6	\$1.0	\$17.9	\$6.8

(1) NA includes corporate and global restructuring costs

During the first quarter of 2013, the Company announced a multi-year transformation plan. Certain aspects of this plan were previously disclosed under the Company's global realignment plan and global shared services plan. This multi-year transformation focuses on globalizing the Company's service organization and creating a unified center-led global organization for research and development, as well as transforming the Company's general and administrative cost structure. Restructuring charges of \$7.6 and \$1.0 for the three months ended September 30, 2015 and 2014, respectively, and \$17.9 and \$6.8 for the nine months ended September 30, 2015 and 2014, respectively, related to the Company's multi-year transformation plan. Restructuring charges for the nine months ended September 30, 2015 consisted primarily of severance costs related to the Company's transformation, business process outsourcing initiative, and executive layering. As of September 30, 2015, the Company anticipates additional restructuring costs of \$3.0 to \$4.1 to be incurred through the end of 2015, primarily within LA. As management finalizes certain aspects of the transformation plan, the anticipated future costs related to this plan are subject to change.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

The following table summarizes the Company's cumulative total restructuring costs for the multi-year transformation plan as of September 30, 2015:

	Severance	Other	Total
Cumulative total restructuring costs for the multi-year transformation plan			
NA (1)	\$71.2	\$2.0	\$73.2
AP	3.6	0.6	4.2
EMEA	4.7	0.9	5.6
LA	19.0	—	19.0
Total	\$98.5	\$3.5	\$102.0

(1) NA includes corporate and global restructuring costs

The following table summarizes the Company's restructuring accrual balances and related activity for the nine months ended September 30:

	2015	2014
Balance at January 1	\$7.8	\$35.3
Liabilities incurred	17.9	6.8
Liabilities paid/settled	(20.1)	(35.9)
Balance at September 30	\$5.6	\$6.2

Impairment and Other Charges

The Company recorded an impairment related to other intangibles in LA in the second quarter of 2015 and an impairment of \$9.1 related to redundant legacy Diebold internally-developed software as a result of the acquisition of Phoenix.

Other charges consist of items that the Company has determined are non-routine in nature and are not expected to recur in future operations. Net non-routine (expense) income of \$(4.4) and \$(3.6) impacted the three months ended September 30, 2015 and 2014, respectively. Net non-routine (expense) income of \$(14.4) and \$7.5 impacted the nine months ended September 30, 2015 and 2014, respectively. Non-routine expense for the nine months ended September 30, 2015 is primarily due to legal, indemnification and professional fees related to corporate monitor efforts. Additionally, potential acquisition and divestiture related costs of \$2.6 were incurred in the third quarter of 2015 included within selling and administrative expense. Non-routine income for the first nine months of 2014 included a \$13.7 pre-tax gain from the sale of Eras, recognized in gain on sale of assets, net in the condensed consolidated statements of income offset by legal, indemnification and professional fees related to corporate monitor efforts.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

Note 17: Fair Value of Assets and Liabilities

Assets and Liabilities Recorded at Fair Value

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

	September 30, 2015			December 31, 2014		
	Fair Value	Fair Value Measurements Using Level 1	Level 2	Fair Value	Fair Value Measurements Using Level 1	Level 2
Assets						
Short-term investments						
Certificates of deposit	\$99.2	\$99.2	\$—	\$136.7	\$136.7	\$—
Assets held in rabbi trusts	9.1	9.1	—	9.8	9.8	—
Foreign exchange forward contracts	2.1	—	2.1	2.9	—	2.9
Total	\$110.4	\$108.3	\$2.1	\$149.4	\$146.5	\$2.9
Liabilities						
Deferred compensation	\$9.1	\$9.1	\$—	\$9.8	\$9.8	\$—
Foreign exchange forward contracts	—	—	—	1.0	—	1.0
Interest rate swaps	0.4	—	0.4	1.2	—	1.2
Total	\$9.5	\$9.1	\$0.4	\$12.0	\$9.8	\$2.2

The Company uses the end of period when determining the timing of transfers between levels. During the nine months ended September 30, 2015, there were no transfers between levels.

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

	September 30, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes payable	\$80.9	\$80.9	\$25.6	\$25.6
Long-term debt	620.0	618.3	483.6	479.8
Total debt instruments	\$700.9	\$699.2	\$509.2	\$505.4

Note 18: Segment Information

The Company considers its operating structure and the information subject to regular review by its President and Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), to identify reportable operating segments. The CODM makes decisions, allocates resources and assesses performance by the following regions, which are also the Company's four reportable operating segments: NA, AP, EMEA and LA. The four geographic segments sell and service FSS and security systems around the globe, as well as elections, lottery and information technology solutions in Brazil other, through wholly-owned subsidiaries, majority-owned joint ventures and independent distributors in most major countries. Beginning in the first quarter of 2015, LA and Brazil operations are reported under one single reportable operating segment and comparative periods have been reclassified for consistency. The presentation of comparative periods also reflects the reclassification of certain global expenses from segment operating profit to corporate charges not allocated to segments due to the 2015 realignment activities.

Certain information not routinely used in the management of the segments, information not allocated back to the segments or information that is impractical to report is not shown. Segment operating profit is defined as revenues less

expenses identifiable to those segments. Segment operating income reconciles to consolidated income before income taxes by deducting corporate costs and other income or expense items that are not attributed to the segments (refer to note 16). Total assets are not allocated to segments and are not included in the assessment of segment performance and therefore are excluded from the segment information disclosed as follows.

23

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

The following tables represent information regarding the Company's segment information and provides a reconciliation between segment operating profit and the consolidated income before income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue summary by segment				
NA	\$361.4	\$361.5	\$1,092.7	\$1,025.0
AP	107.6	135.0	327.5	361.5
EMEA	89.5	99.8	282.4	302.3
LA	122.4	171.7	367.2	501.0
Total revenue	\$680.9	\$768.0	\$2,069.8	\$2,189.8
Intersegment revenue				
NA	\$21.6	\$18.0	\$66.5	\$52.1
AP	22.5	22.1	82.2	69.4
EMEA	18.3	22.8	53.5	42.6
LA	0.2	0.2	0.4	0.4
Total intersegment revenue	\$62.6	\$63.1	\$202.6	\$164.5
Segment operating profit				
NA	\$66.7	\$71.2	\$208.1	\$202.7
AP	14.2	20.8	46.7	50.9
EMEA	11.1	14.4	37.6	47.6
LA	4.8	18.7	21.1	38.9
Total segment operating profit	\$96.8	\$125.1	\$313.5	\$340.1
Corporate charges not allocated to segments (1)	(65.2	) (73.8	) (208.4	) (213.6
Asset impairment charges	—	—	(18.9) —
Restructuring charges	(7.6	) (1.0	) (17.9	) (6.8
Net non-routine (expense) income	(4.4	) (3.6	) (14.4	) 7.5
	(77.2	) (78.4	) (259.6	) (212.9
Operating profit	\$19.6	\$46.7	\$53.9	\$127.2
Other (expense) income	(2.6	) 1.1	(14.4	) (6.5
Income before taxes	\$17.0	\$47.8	\$39.5	\$120.7

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Segment depreciation and amortization expense				
NA	\$3.9	\$2.0	\$8.1	\$7.1

Edgar Filing: DIEBOLD INC - Form 10-Q

AP	1.7	2.0	5.1	5.8
EMEA	0.9	1.0	2.5	3.1
LA	1.4	3.5	5.3	8.9
Total segment depreciation and amortization expense	7.9	8.5	21.0	24.9
Corporate depreciation and amortization expense	8.1	10.2	28.2	30.5
Total depreciation and amortization expense	\$16.0	\$18.7	\$49.2	\$55.4

24

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

	September 30, 2015	December 31, 2014		
Segment property, plant and equipment, at cost				
NA	\$119.1	\$128.8		
AP	50.0	46.9		
EMEA	35.1	38.2		
LA	52.9	78.7		
Total segment property, plant and equipment, at cost	\$257.1	\$292.6		
Corporate property plant and equipment, at cost, not allocated to segments	354.2	320.3		
Total property, plant and equipment, at cost	\$611.3	\$612.9		
The following table presents information regarding the Company's revenue by service and product solution:				
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Financial self-service				
Services	\$293.3	\$310.7	\$883.9	\$901.8
Products	216.6	239.7	689.3	658.0
Total financial self-service	509.9	550.4	1,573.2	1,559.8
Security				
Services	111.1	105.8	324.6	307.9
Products	54.7	52.2	154.8	145.6
Total security	165.8	158.0	479.4	453.5
Total financial self-service and security	675.7	708.4	2,052.6	2,013.3
Brazil other	5.2	59.6	17.2	176.5
	\$680.9	\$768.0	\$2,069.8	\$2,189.8

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Notes to Condensed Consolidated Financial Statements
(unaudited)

(dollars in millions, except per share amounts)

Note 19: Subsequent Event

On October 25, 2015, the Company entered into a definitive Asset Purchase Agreement (Purchase Agreement) with a wholly owned subsidiary of Securitas AB (Securitas Electronic Security) to divest its electronic security business located in the United States and Canada for an aggregate purchase price of approximately \$350.0 in cash, 10.0 percent of which is contingent and payable over a twelve-month period beginning at closing based on the successful transition of certain customer relationships.

The closing purchase price is subject to a customary working capital adjustment. The Purchase Agreement provides for customary representations, warranties, covenants and agreements, including, among others, that each party will use commercially reasonable efforts to complete the transaction expeditiously.

The closing of the transaction is expected to occur in the first quarter of 2016 subject to the expiration or termination of any waiting period under certain antitrust filings and the satisfaction or waiver of other customary closing conditions.

The Company has also agreed to provide certain transition services to Securitas Electronic Security after the closing, including providing the Securitas Electronic Security a \$6.0 credit for such services.

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

Introduction

Diebold, Incorporated and its subsidiaries (collectively, the Company) provide the services, software and technology that connect people around the world with their money - bridging the physical and digital worlds of cash conveniently, securely and efficiently. Since its founding in 1859, Diebold has evolved to become a leading provider of exceptional self-service innovation, security and services to financial, retail, commercial and other markets. The Company has approximately 16,000 employees with business in more than 90 countries worldwide. The Company continues to execute its multi-year transformation, Diebold 2.0, with the primary objective of transforming the Company into a world-class, services-led and software-enabled Company, supported by innovative hardware, which automates the way people connect with their money.

Diebold 2.0 consists of four pillars:

• **Cost** - Streamline the cost structure and improve near-term delivery and execution.

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

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

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

The Company is committed to its multi-year transformation plan that is expected to occur in three phases: 1) Crawl, 2) Walk, and 3) Run. As part of the transformation, Diebold has identified targeted savings of \$200.0 that are expected to be fully realized by the end of 2017 and plans to reinvest approximately 50 percent of the cost savings to drive long-term growth. During the "Crawl" phase, the Company was primarily focused on taking cost out of the business and reallocating a portion of these savings as reinvestments in systems and processes. The Company engaged Accenture LLP (Accenture) in a multi-year outsourcing agreement to provide finance and accounting and procurement business process services. Cost savings, along with working capital improvements, resulted in significantly more free cash flow. With respect to talent, the Company attracted new leaders from top technology and services companies. Through increased collaboration with customers, the Company has also improved its growth trajectories in its Financial Self-Service (FSS) and Security businesses.

During the second half of 2015, the Company transitioned into the "Walk" phase of Diebold 2.0 whereby the Company will continue to build on each pillar of cost, cash, talent and growth. The main difference in the "Walk" phase will be a greater emphasis on increasing the mix of revenue from services and software, as well as shaping the Company's portfolio of businesses. As it relates to increasing the mix of services and software, the Company has recently sharpened its focus on pursuing and winning multi-vendor services contracts in North America to further diversify its portfolio of services offerings. The total number of non-Diebold automated teller machines (ATMs) signed under contract this year is more than 11,000, which gives the Company a solid platform for future growth. For the software business, the recent acquisition of Phoenix Interactive Design, Inc. (Phoenix) has significantly enhanced the Company's ability to capture more of the dynamic self-service market. The integration of Phoenix is tracking to plan and all of Diebold's global software activities are being coordinated through the new development center in London, Ontario.

As it relates to shaping the portfolio of businesses, the Company's announcements subsequent to the third quarter are consistent with its strategy of transforming into a world-class services-led, software-enabled Company, supported by innovative hardware. On October 25, 2015, the Company announced it entered into a definitive asset purchase agreement to divest its North America-based electronic security business for an aggregate purchase price of approximately \$350.0 in cash. Based on the successful transition of certain customer relationships, 10.0 percent of the purchase price is contingent and payable over a twelve-month period after closing. The Company has also agreed to provide certain transition services for a \$6.0 credit. The sale is subject to regulatory approvals and customary closing conditions, and is expected to be completed during the first quarter of 2016. Additionally, the Company is narrowing its scope in the Brazil other business to primarily focus on lottery and elections to help rationalize our solution set in that market. These decisions enable the Company to refocus its resources and better position itself to pursue growth opportunities in the dynamic self-service industry. On October 17, 2015 the Company disclosed that it entered into a non-binding term sheet agreement with Paderborn, Germany-based Wincor Nixdorf regarding the key parameters of a potential strategic business combination. Entry into a definitive agreement is still subject to material conditions, including the satisfactory completion of due diligence by both parties. There can be no assurance that any binding agreement will be reached.

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

Solutions

Diebold is a leader in managed and maintenance services with a dedicated service network serving our customers across the globe. The combination of Diebold's differentiated security, remote management and highly-trained field technicians has made Diebold the preferred choice for current and emerging self-service solutions. Through managed services, banks entrust the management of their ATM and security operations to Diebold, allowing their associates to focus on core competencies. Furthermore, the Company's managed services provides banks and credit unions with the leading-edge technology they need to stay competitive in the marketplace. In North America, Diebold is a leading ATM services provider to financial institutions with over 85,000 ATMs under maintenance contracts and 28,000 managed ATMs.

A significant demand driver in the global ATM marketplace is branch automation. The concept is to help financial institutions reduce their costs by migrating routine transactions, typically done inside the branch, to lower-cost automated channels, while also growing revenue, and adding convenience and security for the banks' customers. Diebold serves as a strategic partner to its customers by offering a complete branch automation solution - services, software and technology - that addresses the complete value chain of consult, design, build and operate. Diebold's Advisory Services team collaborates with our clients to help define the ideal customer experience, modify processes, refine existing staffing models and deploy technology to meet branch automation objectives. The Diebold 9900 in-lobby teller terminal (ILT) provides branch automation technology by combining the speed and accuracy of a self-service terminal with intelligence from the bank's core systems, as well as the ability to complete higher value transactions away from the teller line.

The Company also offers hardware-agnostic, omni-channel software solutions for ATMs and a host of other self-service applications. These offerings include highly configurable, enterprise-wide software that automates and migrates financial services across channels, changing the way financial products are delivered to consumers. Mobile integration is an emerging trend in branch automation, as consumers look for more convenient ways to interact with their financial institutions. To address this need, Diebold offers its innovative Mobile Cash Access software solution, which enables consumers to initiate ATM transactions with a mobile device. By eliminating the need for an ATM card, Mobile Cash Access dramatically speeds up transaction time and reduces the risk of card skimming, fraud and theft since sensitive customer information is never stored on the mobile device and is passed to the ATM via a secure VPN connection. Diebold has demonstrated success with this solution in North America (NA) and Europe, Middle East and Africa (EMEA).

As part of its branch automation solution, Diebold offers two-way video capabilities. The solution provides consumers with on-demand access to bank call center representatives at the ATM for sales or bank account maintenance support. In addition to delivering a personal touch outside of regular business hours, it ultimately assists financial institutions by maximizing operational efficiencies, improving the consumer experience and enhancing the overall consumer relationship.

An innovation that enhances security for customers is Diebold's ActivEdge™ secure card reader. This is the ATM industry's first complete anti-skimming, EMV compliant card reader that prevents all known forms of skimming, the most prevalent type of ATM crime. ActivEdge™ can assist financial institutions avoid skimming-related fraud losses which, according to the ATM Industry Association, totals more than \$2 billion annually worldwide. ActivEdge™ requires users to insert cards into the reader via the long edge, instead of the traditional short edge. The Company believes by shifting a card's angle 90 degrees, ActivEdge™ prevents modern skimming devices from reading the card's full magnetic strip, eliminating the devices' ability to steal card data.

The Company's SecureStat® online security management tool streamlines how customers manage their security operations. At the core of the solution is a personalized dashboard that provides a snapshot of a user's entire security platform, including locations, security systems and devices. SecureStat® can unify security services and disparate

systems, while providing a single interface for real-time administration of security operations across an enterprise. The Company will continue to invest in developing new services, software and security solutions that align with the needs of its customers. During the third quarter, Diebold added its high-performance cash-dispensing and full-function ATM models to its self-service platform. Over the past year, Diebold has unveiled three new lines of ATMs-standard market, extended branch and the high-performance line, which are designed to meet specific market and branch needs for customers.

Business Drivers

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

- demand for services and software, including managed services and professional services;
- timing of self-service equipment upgrades and/or replacement cycles;
- demand for products and solutions related to bank branch automation opportunities;

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

■ demand for security products and services for the financial and commercial sectors; and
■ high levels of deployment growth for new self-service products in emerging markets.

Significant Highlights

In January 2015, the Company announced the realignment of its Brazil and Latin America (LA) businesses to drive greater efficiency and further improve customer service. Beginning the first quarter of 2015, LA and Brazil operations were reported under one single reportable operating segment and comparative periods have been reclassified for consistency. The presentation of comparative periods also reflects the reclassification of certain global expenses from segment operating profit to corporate charges not allocated to segments due to the 2015 realignment activities.

On March 13, 2015, the Company acquired all of the equity interests of Phoenix for a total purchase price of approximately \$72.9, including \$12.6 of deferred cash payment payable over the next three years. Acquiring Phoenix, a world leader in developing innovative multi-vendor software solutions for ATMs and a host of other FSS applications, is a foundational move to accelerate the Company's growth in the fast-growing managed services and branch automation spaces. The results of operations for Phoenix are primarily included in the NA reportable operating segment within the Company's condensed consolidated financial statements from the date of the acquisition.

Preliminary purchase price allocations are subject to further adjustment until all pertinent information regarding the assets acquired and liabilities assumed are fully evaluated.

As of March 31, 2015, the Company agreed to sell its equity interest in its Venezuela joint venture to its joint venture partner and recorded a \$10.3 impairment of assets in the first quarter of 2015. On April 29, 2015, the Company closed the sale for the estimated fair market value and recorded a \$1.0 reversal of impairment of assets based on final adjustments in the second quarter of 2015, resulting in a \$9.3 impairment of assets for the nine months ended September 30, 2015. The Company no longer has a consolidating entity in Venezuela but will continue to operate in Venezuela on an indirect basis.

Prior to the sale, the Company's Venezuela operations consisted of a fifty-percent owned subsidiary, which was consolidated. Venezuela was measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. On March 24, 2014, the Venezuela government announced a currency exchange mechanism, SICAD 2, which yielded an exchange rate significantly higher than the rates established through the other regulated exchange mechanisms. As of March 31, 2014, management determined it was unlikely the Company would be able to convert bolivars under a currency exchange other than SICAD 2 and the Company remeasured its Venezuela balance sheet using the SICAD 2 rate of 50.86 compared to the previous official government rate of 6.30, which resulted in a decrease of \$6.1 to the Company's cash balance and net losses of \$12.1 that were recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2014. As a result of the currency devaluation, the Company recorded a \$4.1 lower of cost or market adjustment related to its service inventory within service cost of sales in the condensed consolidated statements of operations in the first quarter of 2014. On February 10, 2015, the Venezuela government introduced a new foreign currency exchange platform called the Marginal Currency System, or SIMADI, which replaced the SICAD 2 mechanism, yielding another significant increase in the exchange rate. As of March 31, 2015, management determined it was unlikely that the Company would be able to convert bolivars under a currency exchange other than SIMADI and remeasured its Venezuela balance sheet using the SIMADI rate of 192.95 compared to the previous SICAD 2 rate of 50.86, which resulted in a loss of \$7.5 recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2015.

In the second quarter of 2014, the Company divested Eras for a sale price of \$20.0, including installment payments of \$1.0 on the first and second year anniversary dates of the closing. This sale resulted in a gain of \$13.7 recognized within gain on sale of assets, net in the condensed consolidated statement of operations. Revenue and operating profit

in the nine months ended September 30, 2014 related to this divested subsidiary were \$6.0 and \$3.0, respectively, and are included within the NA segment. Net income before taxes related to this divested subsidiary is included in continuing operations and was \$3.0 for the nine months ended September 30, 2014. There was no impact of Eras on the three months ended September 30, 2014.

In the third quarter of 2014, the Company acquired 100 percent of the equity interests of Cryptera A/S (Cryptera), a supplier of the Company's encrypting PIN pad technology and a world leader in the research and development of secure payment technologies. This acquisition positioned the Company as a significant original equipment manufacturer of secure payment technologies and allowed the Company to own more of the intellectual property related to its ATMs. The total purchase price was approximately \$13.0, including a 10 percent deferred cash payment payable on the first anniversary of the acquisition. The results of operations for Cryptera are included in the EMEA segment within the Company's condensed consolidated financial statements from the date of the acquisition.

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

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 September 30, 2015		2014		Nine Months Ended September 30, 2015		2014	
	Dollars	% of Net sales	Dollars	% of Net sales	Dollars	% of Net sales	Dollars	% of Net sales
Net sales	\$680.9	100.0	\$768.0	100.0	\$2,069.8	100.0	\$2,189.8	100.0
Gross profit	\$167.3	24.6	\$200.6	26.1	\$530.1	25.6	\$551.5	25.2
Operating expenses	\$147.7	21.7	\$153.9	20.0	\$476.2	23.0	\$424.3	19.4
Operating profit	\$19.6	2.9	\$46.7	6.1	\$53.9	2.6	\$127.2	5.8
Net income	\$22.9	3.4	\$35.0	4.6	\$41.2	2.0	\$83.0	3.8
Net income (loss) attributable to noncontrolling interests	\$1.2	0.2	\$1.9	0.2	\$0.1	—	\$(1.5)	(0.1)
Net income attributable to Diebold, Incorporated Net Sales	\$21.7	3.2	\$33.1	4.3	\$41.1	2.0	\$84.5	3.9

The following table represents information regarding our net sales:

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	2015	2014	% Change	2015	2014	% Change
Financial self-service	\$509.9	\$550.4	(7.4)	\$1,573.2	\$1,559.8	0.9
Security	165.8	158.0	4.9	479.4	453.5	5.7
Brazil other	5.2	59.6	(91.3)	17.2	176.5	(90.3)
Total revenue	\$680.9	\$768.0	(11.3)	\$2,069.8	\$2,189.8	(5.5)

FSS sales in the third quarter of 2015 decreased \$40.5 or 7.4 percent compared to the same period of 2014, including net unfavorable currency impact of \$44.4 or 8.1 percent. FSS sales in the first nine months of 2015 increased \$13.4 or 0.9 percent compared to the same period of 2014, including net unfavorable currency impact of \$109.4 or 7.0 percent. The unfavorable currency impacts in the three and nine months ended September 30, 2015 were related mainly to the Brazil real and euro. The following results include the impact of foreign currency:

NA FSS sales in the three months ended September 30, 2015 decreased \$10.6 or 4.8 percent compared to the prior year period principally from lower product revenue in the U.S. regional bank space. FSS sales in the nine months ended September 30, 2015 compared to the same period of 2014 increased \$41.3 or 6.6 percent primarily due to higher volume in Canada from a large deposit automation upgrade project that began in the third quarter of 2014 in conjunction with the benefit of the Phoenix acquisition partially offset by lower product revenue within the U.S. national bank business.

Asia Pacific (AP) FSS sales in the three and nine months ended September 30, 2015 decreased \$21.7 and \$30.8 or 17.1 and 8.9 percent, respectively, compared to the prior year periods. Unfavorable currency impact of \$6.6 and \$10.9 negatively influenced the three and nine month periods, respectively. In addition, the decreases in both time periods of 2015 were largely attributable to a decline in product revenue stemming from lower volume primarily in China, where the government is encouraging banks to increase their use of domestic ATM suppliers. The decline in the nine months ended September 30, 2015 was partially offset by service revenue growth across most countries in the region due in part to higher professional service volume.

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

EMEA FSS sales in the three and nine months ended September 30, 2015 decreased \$10.4 and \$19.9 or 10.4 and 6.6 percent, respectively, compared to the prior year periods. Unfavorable currency impact of \$16.4 and \$50.4 adversely impacted the three and nine months ended September 30, 2015, respectively, principally driven by the weakening of the euro. Excluding the impact of foreign currency, the third quarter of 2015 increased \$6.0 primarily due to higher sales in the Middle East and Western Europe partially offset by lower volume in Africa distributors and South Africa. The nine months ended September 30, 2015, excluding the aforementioned unfavorable currency impact, increased \$30.5 from higher product and parts volume in the Middle East and the benefit of the Cryptera acquisition partially offset by lower revenue in Western Europe.

LA FSS sales in the three and nine months ended September 30, 2015 increased \$2.3 and \$22.8 or 2.3 and 8.0 percent, respectively, compared to the prior year periods. The primary growth contributor in both time periods was higher volume in Mexico from customers refreshing their existing install base and an increase in Colombia. Additionally, the nine month period benefited from volume increases in other countries, particularly in Brazil on a constant currency basis. Conversely, the three and nine months ended September 30, 2015 were adversely influenced by unfavorable currency impact in Brazil of \$19.2 and \$44.3, respectively. The nine months ended September 30, 2015 was also negatively impacted by lower service revenue in Venezuela as a result of the currency devaluation in the first quarter of 2015 and the subsequent sale of the Company's equity interest in the joint venture.

Security sales in the three and nine months ended September 30, 2015 increased \$7.7 and \$25.9 or 4.9 percent and 5.7 percent, respectively, compared to the same periods in 2014 due to growth in the electronic security business, which was partially offset by unfavorable currency impact and a slight decline in the physical security business. NA was the catalyst for the security revenue improvement in the three and nine months ended September 30, 2015 as the region increased \$10.5 and \$26.5 or 7.6 and 6.6 percent, respectively.

Brazil other sales in the three and nine months ended September 30, 2015 include unfavorable currency impact of \$21.5 and \$46.5, respectively. The three and nine months ended September 30, 2015 decreased due to a reduction in lottery sales compared to the same prior year periods. In addition, the nine months ended September 30, 2015 decreased from deliveries of information technology (IT) equipment to the Brazilian education ministry in the prior year. Market-specific economic and political factors continue to weigh on the purchasing environment driving lower volume in the country.

Incremental net sales from acquisitions, net of divestitures, for the three and nine months ended September 30, 2015 compared to the same periods in 2014 was \$0.3 and \$8.8, respectively.

Gross Profit

The following table represents information regarding our gross profit:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Gross profit - services	\$121.9	\$126.2	(3.4)	\$372.3	\$360.5	3.3
Gross profit - products	45.4	74.4	(39.0)	157.8	191.0	(17.4)
Total gross profit	\$167.3	\$200.6	(16.6)	\$530.1	\$551.5	(3.9)
Gross margin – services	30.1	% 30.3	%	30.8	% 29.8	%

Edgar Filing: DIEBOLD INC - Form 10-Q

Gross margin – products	16.4	%	21.2	%	18.3	%	19.5	%
Total gross margin	24.6	%	26.1	%	25.6	%	25.2	%

Service gross margin for the three months ended September 30, 2015 was relatively flat while the nine months ended September 30, 2015 improved over the prior year mainly due to broad-based improvements as a result of our service transformation efforts and improved mix of services. LA service gross margin in the nine months ended September 30, 2015 increased principally due to a lower of cost or market adjustment of \$4.1 in the first quarter of 2014 as a result of the Venezuela currency devaluation. Service gross profit included restructuring charges of \$1.6 and \$0.6 in the three months ended September 30, 2015 and 2014, respectively, and \$2.8 and \$1.4 in the nine months ended September 30, 2015 and 2014, respectively.

Table of Contents

Management's Discussion and Analysis of

Financial Conditions and Results of Operations as of September 30, 2015

DIEBOLD, INCORPORATED AND SUBSIDIARIES

(unaudited)

(dollars in millions, except per share amounts)

The decrease in product gross margin for the three and nine months ended September 30, 2015 compared to the same periods in 2014 was mainly due to an unfavorable blend of country revenue and product solution mix. In addition, product gross margin in both time periods of 2015 was adversely impacted by \$4.7 of inventory reserves related to the cancellation of certain projects in connection with the current Brazilian economic and political environment. Product gross profit included total restructuring charges and non-routine expenses of \$0.4 and \$2.2 in the three and nine months ended September 30, 2015, respectively, and minimal impact in the three and nine months ended September 30, 2014.

Incremental gross profit from acquisitions, net of divestitures, for the three and nine months ended September 30, 2015 compared to the same periods in 2014 was \$0.8 and \$11.7, respectively.

Operating Expenses

The following table represents information regarding our operating expenses:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Selling and administrative expense	\$127.6	\$129.9	(1.8)	\$392.5	\$371.2	5.7
Research, development and engineering expense	20.0	24.5	(18.4)	66.2	66.2	—
Impairment of assets	—	—	N/M	18.9	—	N/M
Loss (gain) on sale of assets, net	0.1	(0.5)	N/M	(1.4)	(13.1)	89.3
Total operating expenses	\$147.7	\$153.9	(4.0)	\$476.2	\$424.3	12.2

The decrease in selling and administrative expense in the three months ended September 30, 2015 compared to the same period of 2014 primarily resulted from favorable currency impact and lower operational spend. These benefits were partially offset by higher total restructuring and non-routine charges and an increase in the bad debt reserve of \$4.6 in the third quarter of 2015 related to the cancellation of a previously awarded government contract in connection with the current Brazilian economic and political environment. Selling and administrative expense in the nine months ended September 30, 2015 increased compared to the same prior year period as a result of higher operational spend from the Company's reinvesting of savings into transformation initiatives and the aforementioned increases in bad debt reserve, restructuring and non-routine charges. These were partially offset by the favorable impact from foreign currency. The impact from acquisitions, net of divestitures, was an increase in selling and administrative expense of \$3.6 and \$8.4 for the three and nine months ended September 30, 2015 compared to the same periods of 2014.

Selling and administrative expense included non-routine expenses of \$4.0 and \$3.6 in the three months ended September 30, 2015 and 2014, respectively, and \$13.5 and \$6.2 in the nine months ended September 30, 2015 and 2014, respectively. The primary component of the non-routine expenses in both years pertained to legal, indemnification and professional fees related to corporate monitor efforts. Additionally, potential acquisition and divestiture related costs of \$2.6 were incurred in the third quarter of 2015. Selling and administrative expense included restructuring charges of \$5.9 and \$0.4 in the three months ended September 30, 2015 and 2014, respectively, and \$13.1 and \$5.3 in the nine months ended September 30, 2015 and 2014, respectively. Restructuring charges in 2015 and 2014 consisted of the Company's transformation and business process outsourcing initiative. There were additional costs in 2015 associated with executive delayering.

Research, development and engineering expense as a percent of net sales in the three and nine months ended September 30, 2015 were 2.9 percent and 3.2 percent, respectively, compared with the same periods in 2014, which were 3.2 percent and 3.0 percent, respectively. The spend decrease in the three months ended September 30, 2015 was mainly due to higher labor and material costs incurred in the third quarter of 2014 as a result of activity related to the launch of new ATM models and enhanced modules. The nine months ended September 30, 2015 was flat to prior year as incremental expense associated with acquisitions of \$3.0 was offset primarily by favorable currency impact.

As of March 31, 2015, the Company agreed to sell its equity interest in its Venezuela joint venture to its joint venture partner and recorded a \$10.3 impairment of assets in the first quarter of 2015. On April 29, 2015, the Company closed the sale for the estimated fair market value and recorded a \$1.0 reversal of impairment of assets based on final adjustments in the second quarter of 2015,

Table of Contents

Management's Discussion and Analysis of
 Financial Conditions and Results of Operations as of September 30, 2015
 DIEBOLD, INCORPORATED AND SUBSIDIARIES
 (unaudited)
 (dollars in millions, except per share amounts)

resulting in a \$9.3 impairment of assets for the nine months ended September 30, 2015. The Company no longer has a consolidating entity in Venezuela but will continue to operate in Venezuela on an indirect basis. Additionally, the Company recorded an impairment related to other intangibles in LA in the second quarter of 2015 and an impairment of \$9.1 related to redundant legacy Diebold internally-developed software as a result of the acquisition of Phoenix in the first quarter of 2015.

The gain on sale of assets in the nine months ended September 30, 2015 was primarily due to the sale of a building in NA. During the second quarter of 2014, the Company divested its Eras subsidiary, resulting in a gain on sale of assets of \$13.7.

Operating Profit

The following table represents information regarding our operating profit:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Operating profit	\$19.6	\$46.7	(58.0)	\$53.9	\$127.2	(57.6)
Operating profit margin	2.9	% 6.1	%	2.6	% 5.8	%

The decrease in operating profit for the three months ended September 30, 2015 compared to the same period in 2014 was driven by a decline in revenue and gross profit associated with Brazil other solutions and China, where the government is encouraging banks to increase the use of domestic ATM suppliers. This was partially offset by lower operating expenses in the period.

The decrease in operating profit for the nine months ended September 30, 2015 compared to the same period in 2014 was mainly due to lower product revenue and higher net non-routine and restructuring charges, inclusive of impairment of assets and gain on sales of assets, partially offset by an improvement in service margin.

Other Income (Expense)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Investment income	\$5.9	\$7.9	(25.3)	\$20.6	\$26.6	(22.6)
Interest expense	(8.5)	(8.3)	(2.4)	(24.1)	(23.1)	(4.3)
Foreign exchange gain (loss), net	1.3	1.0	30.0	(9.2)	(10.4)	11.5
Miscellaneous, net	(1.3)	0.5	N/M	(1.7)	0.4	N/M
Other (expense) income, net	\$(2.6)	\$1.1	N/M	\$(14.4)	\$(6.5)	N/M

The decrease in investment income in both the three and nine months ended September 30, 2015, compared with the same periods in 2014, was driven primarily by unfavorable currency impact in Brazil. The foreign exchange gain (loss), net for the first nine months of 2015 and 2014 included \$7.5 and \$12.1, respectively, related to the devaluation of Venezuela currency.

Table of Contents

Management's Discussion and Analysis of
 Financial Conditions and Results of Operations as of September 30, 2015
 DIEBOLD, INCORPORATED AND SUBSIDIARIES
 (unaudited)
 (dollars in millions, except per share amounts)

Net Income

The following table represents information regarding our net income:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Net income	\$22.9	\$35.0	(34.6)	\$41.2	\$83.0	(50.4)
Percent of net sales	3.4	% 4.6	%	2.0	% 3.8	%
Effective tax rate	(34.7)	% 26.8	%	(4.3)	% 31.2	%

The tax rate benefit for the three and nine months ended September 30, 2015 resulted from the repatriation of foreign earnings and the associated recognition of foreign tax credits and releases of uncertain tax positions due to the expiration of the statute of limitations. Additionally, the tax rate benefit for the nine months ended September 30, 2015 included the release of a valuation allowance and discrete tax items resulting from the sale of its Venezuela joint venture recorded primarily in the first quarter. The tax rate for the three months and nine months ended September 30, 2014 reflected the release of valuation allowance against excess capital losses utilized. Additionally, the tax rate for the nine months ended September 30, 2014 was negatively impacted by discrete tax expense on the repatriation of certain foreign earnings recorded in the first quarter of 2014.

Segment Revenue and Operating Profit Summary

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
North America						
Revenue	\$361.4	\$361.5	—	\$1,092.7	\$1,025.0	6.6
Segment operating profit	\$66.7	\$71.2	(6.3)	\$208.1	\$202.7	2.7
Segment operating profit margin	18.5	% 19.7	%	19.0	% 19.8	%

NA revenue in the three months ended September 30, 2015 was flat to the prior year period as sustained growth in the electronic security business was offset by lower product revenue in the U.S. regional FSS business. Revenue in the nine months ended September 30, 2015 also benefited from electronic security growth in addition to higher volume in Canada from a deposit automation upgrade project that began in the third quarter of 2014. Operating profit decreased in the third quarter of 2015 principally due to an increase in operating expense supporting our transformation efforts. Operating profit in the nine months ended September 30, 2015 increased in comparison to the prior year period as a function of the aforementioned higher revenue offset by an increase in operating expense supporting our transformation efforts which negatively impacted operating profit margin.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Asia Pacific						
Revenue	\$107.6	\$135.0	(20.3)	\$327.5	\$361.5	(9.4)
Segment operating profit	\$14.2	\$20.8	(31.7)	\$46.7	\$50.9	(8.3)
Segment operating profit margin	13.2	% 15.4	%	14.3	% 14.1	%

AP revenue in the three and nine months ended September 30, 2015 decreased from the prior year comparable periods mainly as a result of a decline in product revenue stemming from lower volume particularly in China, where the government is encouraging banks to increase their use of domestic ATM suppliers. AP revenue for the three and nine months ended September 30, 2015 was also adversely impacted by unfavorable currency of \$7.4 and \$11.9, respectively. The decline in the nine months ended September 30, 2015 was partially offset by service revenue growth

across most countries in the region due in part to higher professional service volume. Operating profit in the three months ended September 30, 2015 compared to the same period of 2014 decreased from a combination of lower product volume and a decline in service gross profit. Operating profit in the nine months ended September 30, 2015 compared to the prior year decreased as a result of lower product volume and higher operating expenses partially offset by higher margin service revenue.

Table of Contents

Management's Discussion and Analysis of

Financial Conditions and Results of Operations as of September 30, 2015

DIEBOLD, INCORPORATED AND SUBSIDIARIES

(unaudited)

(dollars in millions, except per share amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Europe, Middle East and Africa Revenue	\$89.5	\$99.8	(10.3)	\$282.4	\$302.3	(6.6)
Segment operating profit	\$11.1	\$14.4	(22.9)	\$37.6	\$47.6	(21.0)
Segment operating profit margin	12.4	% 14.4	%	13.3	% 15.7	%

EMEA revenue in the three and nine months ended September 30, 2015 decreased compared to the prior year period largely due to unfavorable currency impact of \$16.4 and \$50.4, respectively. Excluding the impact from foreign currency, the increase of \$6.1 in the three months ended September 30, 2015 compared to the same period in 2014 was driven by higher parts sales and product volume in the Middle East as well as higher revenue in Western Europe, partially offset by lower volume in Africa distributors and South Africa. Excluding the impact from foreign currency, the increase of \$30.5 in the nine months ended September 30, 2015 compared to the same prior year period was driven by higher product volume and service parts sales in the Middle East as well as the benefit of the Cryptera acquisition offset in part by lower revenue in Western Europe. Operating profit declined in both time periods mainly due to the aforementioned unfavorable currency impact. In addition, the three months ended September 30, 2015 was negatively affected by revenue mix across the region while the nine months ended September 30, 2015 was negatively impacted by higher operating expenses due in part to incremental expense from the Cryptera acquisition.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Latin America Revenue	\$122.4	\$171.7	(28.7)	\$367.2	\$501.0	(26.7)
Segment operating profit	\$4.8	\$18.7	(74.3)	\$21.1	\$38.9	(45.8)
Segment operating profit margin	3.9	% 10.9	%	5.7	% 7.8	%

LA revenue decreased in the three and nine months ended September 30, 2015 compared to the same periods of 2014 due to unfavorable currency impact of \$42.0 and \$94.2, respectively, and market-specific economic and political factors in Brazil affecting the purchasing environment thereby driving lower Brazil other volume. In addition, revenue in the first nine months of 2015 declined due to deliveries of IT equipment to a Brazil education ministry in the prior year. These declines were partially offset by FSS revenue growth in both time periods, particularly in Mexico, and to a lesser extent higher electronic security revenue.

Operating profit in the three and nine months ended September 30, 2015 decreased from lower product volume combined with a decrease in product margin resulting in part from unfavorable country revenue and product mix. In addition, both time periods were unfavorably impacted by \$4.6 and \$4.7 in bad debt and inventory reserve increases, respectively. These increases primarily related to the cancellation of a previously awarded government contract in connection with the current Brazilian economic and political environment. Conversely, operating profit in three and nine months ended September 30, 2015 benefited from lower operating expense largely due to favorable currency impact while the nine months ended September 30, 2014 was unfavorably impacted by a lower of cost or market adjustment of \$4.1 in the first quarter of 2014 as a result of the Venezuela currency devaluation.

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

Liquidity and Capital Resources

The Company's total cash and cash availability as of September 30, 2015 and December 31, 2014 was as follows:

Edgar Filing: DIEBOLD INC - Form 10-Q

	September 30, 2015	December 31, 2014
Cash and cash equivalents	\$198.5	\$322.0
Additional cash availability from		
Short-term uncommitted lines of credit	50.6	115.2
Revolving credit facility	348.9	280.0
Short-term investments	99.2	136.7
Total cash and cash availability	\$697.2	\$853.9

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. For \$175.0

Table of Contents

Management's Discussion and Analysis of
 Financial Conditions and Results of Operations as of September 30, 2015
 DIEBOLD, INCORPORATED AND SUBSIDIARIES
 (unaudited)
 (dollars in millions, except per share amounts)

of the Company's senior notes maturing in March 2016, management intends to fund the repayment through its revolving credit facility. Management expects that the Company's capital resources will be sufficient to finance planned working capital needs, research and development activities, investments in facilities or equipment, pension contributions, the payment of dividends on the Company's common shares and any repurchases of the Company's common shares for at least the next 12 months. As of September 30, 2015, \$284.2 or 95.5 percent of the Company's cash and cash equivalents and short-term investments reside in international tax jurisdictions. Repatriation of these funds could be negatively impacted by potential payments for foreign and domestic taxes. The Company has \$138.3 that is available for repatriation with no additional tax expense as the Company has already provided for such taxes. Part of the Company's growth strategy is to pursue strategic acquisitions. The Company has made acquisitions in the past and intends to make acquisitions in the future. The Company intends to finance any future acquisitions with either cash and short-term investments, cash provided from operations, borrowings under available credit facilities, proceeds from debt or equity offerings and/or the issuance of common shares.

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

Net cash flow (used in) provided by:	2015	2014
Operating activities	\$(120.1)	\$(110.7)
Investing activities	(105.8)	65.0
Financing activities	133.4	69.4
Effect of exchange rate changes on cash and cash equivalents	(31.0)	(14.0)
Net (decrease) increase in cash and cash equivalents	\$(123.5)	\$9.7

Operating Activities

Cash flows from operating activities can fluctuate significantly from period to period as working capital needs and the timing of payments for income taxes, restructuring activities, pension funding and other items impact reported cash flows.

Net cash used in operating activities was \$120.1 for the nine months ended September 30, 2015, an increase of \$9.4 from \$110.7 for the same period in 2014.

The aggregate of trade accounts receivable, inventories and accounts payable used \$160.4 in operating cash flows during the nine months ended September 30, 2015, compared to \$233.4 used in the same period of 2014. In general, the amount of cash flow provided or used by the aggregate of trade accounts receivable, inventories and trade accounts payable depends upon how effectively the Company manages the cash conversion cycle, which effectively represents the number of days that elapse from the day it pays for the purchase of raw materials and components to the collection of cash from its customers and can be significantly impacted by the timing of collections and payments in a period. Accounts receivable is higher due to an increase from invoicing at the end of the quarter compared to the prior year. Inventory and accounts payable were relatively consistent year over year; however, during 2014 the Company increased inventory and accounts payable in order to meet demand primarily from the Brazil other business.

The aggregate of the other certain assets and liabilities used \$85.7 million of operating cash during the nine months ended September 30, 2015, compared to \$30.4 provided in the same period of 2014. The decrease in deferred revenue is due to higher installations when compared to advanced payments received. Additionally, the timing of cash payments for income taxes offset by payments of various employee-related liabilities drove the majority of this change.

Net income for the nine months ended September 30, 2015 decreased \$41.8 which is primarily attributable to the \$18.9 impairment of assets, the adverse impact of foreign currency compared to the same period of 2014, and the gain on sale of assets of \$13.7 in the second quarter of 2014 which resulted from the Company's divestiture of its Eras subsidiary. The impairment of assets related to the sale of the Company's equity interest in Venezuela as well as impairment of redundant legacy Diebold internally-developed software as a result of the acquisition of Phoenix, both primarily in the first quarter of 2015.

Investing Activities

Net cash used in investing activities was \$105.8 for the nine months ended September 30, 2015 compared to net cash provided by investing activities of \$65.0 for the same period in 2014. The \$170.8 change was primarily related to a decrease in proceeds from

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

investing activities related to investments, the acquisition of Phoenix in March 2015 for a cash payment of \$59.4, less cash acquired, and a decrease in the proceeds from the sale of assets. In the first nine months of 2015, the proceeds from the sale of assets of \$5.5 were primarily due to the sale of a building in NA and a deferred payment for the sale of Eras. In the first nine months of 2014, the proceeds from the sale of assets of \$17.7 were primarily due to the sale of Eras.

Financing Activities

Net cash provided by financing activities was \$133.4 for the nine months ended September 30, 2015 compared to net cash provided by financing activities of \$69.4 for the same period in 2014. The change was primarily due to a year over year increase of \$74.5 in debt borrowings, net of repayments, offset by a decrease of \$11.0 in issuances of common shares related to share-based compensation activity. The increase in debt borrowings was used to fund working capital and the acquisition of Phoenix.

Effect of exchange rate changes on cash and cash equivalents was negatively impacted by \$9.5 and \$6.1 related to the currency devaluation in Venezuela for the nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, the Company had various international short-term uncommitted lines of credit with borrowing limits of \$119.0. The weighted-average interest rate on outstanding borrowings on the short-term uncommitted lines of credit as of September 30, 2015 and December 31, 2014 was 2.95 percent and 2.96 percent, respectively. Short-term uncommitted lines of credit mature in less than one year. The amount available under the short-term uncommitted lines of credit at September 30, 2015 was \$50.6.

In June 2015, the Company entered into a Second Amendment to the Credit Agreement (Second Amendment), which provides for a term loan in the aggregate principal amount of \$230.0 with escalating quarterly principal payments and a balloon payment due upon maturity in August 2019. The weighted-average interest rate on the term loan as of September 30, 2015 was 1.75 percent, which is variable based on the London Interbank Offered Rate (LIBOR). The Second Amendment replaced the net debt to net capitalization financial covenant with a net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) financial covenant and, accordingly, modified the facility fee and interest rate pricing schedules. The Credit Agreement continues to provide a revolving credit facility with availability of up to \$520.0. The Company has the ability, subject to various approvals, to increase the borrowing limits by \$250.0. In August 2014, the Company entered into the First Amendment to the Credit Agreement and Guaranty (First Amendment), which increased its borrowing limits under the revolving credit facility from \$500.0 to \$520.0. The First Amendment also extended the maturity date of the revolving credit facility to August 2019. Up to \$50.0 of the revolving credit facility is available under a swing line sub-facility. The weighted-average interest rate on outstanding revolving credit facility borrowings as of September 30, 2015 and December 31, 2014 was 1.57 percent and 1.69 percent, respectively, which is variable based on the LIBOR. The amount available under the revolving credit facility as of September 30, 2015 was \$348.9. The Company incurred \$0.7 of fees related to the Second Amendment in June 2015, which are amortized as a component of interest expense over the term of the facility. The Company incurred \$1.4 of fees related to the First Amendment in the third quarter of 2014, which are amortized as a component of interest expense over the term of the Credit Agreement.

In March 2006, the Company issued senior notes in an aggregate principal amount of \$300.0 with a weighted-average fixed interest rate of 5.50 percent. The Company entered into a derivative transaction to hedge interest rate risk on \$200.0 of the senior notes, which was treated as a cash flow hedge. This reduced the effective interest rate from 5.50 percent to 5.36 percent. The Company funded the repayment of \$75.0 of the senior notes at maturity in March 2013 using borrowings under its revolving credit facility. The maturity dates of the remaining senior notes are staggered, with \$175.0 and \$50.0 due in March 2016 and 2018, respectively. For the \$175.0 of the Company's senior notes maturing in March 2016, management intends to fund the repayment through the revolving credit facility.

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 0.34 percent and 0.27 percent as of September 30, 2015 and December 31, 2014, respectively. During the third quarter of 2015, the Company repaid \$7.5 of the industrial development revenue bonds of which the remainder is expected to be repaid during the fourth quarter of 2015.

The Company's financing agreements contain various restrictive financial covenants, including net debt to capitalization, net debt to EBITDA and net interest coverage ratios. As of September 30, 2015, the Company was in compliance with the financial and other covenants in its debt agreements.

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

Dividends The Company paid dividends of \$56.5 and \$56.2 in the nine months ended September 30, 2015 and 2014, respectively. Quarterly dividends were \$0.2875 per share for both periods.

Contractual Obligations In the first nine months of 2015, the Company entered into purchase commitments due within one year for materials through contract manufacturing agreements for a total negotiated price. As of September 30, 2015, these additional contracts have remaining balances of \$10.7.

Except for the contract manufacturing agreements noted above, all contractual cash obligations with initial and remaining terms in excess of one year and contingent liabilities remained generally unchanged at September 30, 2015 compared to December 31, 2014.

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

Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's condensed consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include revenue recognition, the valuation of trade, finance lease receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, guarantee obligations and assumptions used in the calculation of income taxes, pension and post-retirement benefits and customer incentives, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors. Management monitors the economic conditions and other factors and will adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Management believes there have been no significant changes during the nine months ended September 30, 2015 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, 2014.

Forward-Looking Statement Disclosure

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

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

Table of Contents

Management's Discussion and Analysis of
Financial Conditions and Results of Operations as of September 30, 2015
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in millions, except per share amounts)

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:

- the Company's ability to successfully enter into a definitive agreement for the purchase of Wincor Nixdorf and its ability to consummate such purchase including obtaining the necessary financing and satisfying closing conditions;
- the Company's ability to complete its sale of its NA electronic security business and to realize any of the contingent purchase price consideration related thereto;
- the success of the Company's strategic business alliance with Securitas AB;
- 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;
- 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 further 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 outcome/impact of any current/pending litigation, claims or assessments, including but not limited to, the Company's Brazil tax dispute;
- variations in consumer demand for FSS technologies, products and services;
- potential security violations to the Company's information technology systems;
- the investment performance of the Company's pension plan assets, which could require the Company to increase its pension contributions, and significant changes in healthcare costs, including those that may result from government action;
- the amount and timing of repurchases of the Company's common shares, if any; and
- the Company's ability to achieve benefits from its cost-reduction initiatives and other strategic changes, including its multi-year transformation plan and other restructuring actions, as well as its business process outsourcing initiative.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

(dollars in millions, except per share amounts)

Item 3: Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2015, the Company agreed to sell its equity interest in its Venezuela joint venture to its joint venture partner and recorded a \$10.3 impairment of assets in the first quarter of 2015. On April 29, 2015, the Company closed the sale for the estimated fair market value and recorded a \$1.0 reversal of impairment of assets based on final adjustments in the second quarter of 2015, resulting in a \$9.3 impairment of assets for the nine months ended September 30, 2015. The Company no longer has a consolidating entity in Venezuela but will continue to operate in Venezuela on an indirect basis.

Prior to the sale, the Company's Venezuela operations consisted of a fifty-percent owned subsidiary, which was consolidated. Venezuela was measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. On March 24, 2014, the Venezuela government announced a currency exchange mechanism, SICAD 2, which yielded an exchange rate significantly higher than the rates established through the other regulated exchange mechanisms. As of March 31, 2014, management determined it was unlikely the Company would be able to convert bolivars under a currency exchange other than SICAD 2 and the Company remeasured its Venezuela balance sheet using the SICAD 2 rate of 50.86 compared to the previous official government rate of 6.30, which resulted in a decrease of \$6.1 to the Company's cash balance and net losses of \$12.1 that were recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2014. As a result of the currency devaluation, the Company recorded a \$4.1 lower of cost or market adjustment related to its service inventory within service cost of sales in the condensed consolidated statements of operations in the first quarter of 2014. On February 10, 2015, the Venezuela government introduced a new foreign currency exchange platform called the Marginal Currency System, or SIMADI, which replaced the SICAD 2 mechanism, yielding another significant increase in the exchange rate. As of March 31, 2015, management determined it was unlikely that the Company would be able to convert bolivars under a currency exchange other than SIMADI and remeasured its Venezuela balance sheet using the SIMADI rate of 192.95 compared to the previous SICAD 2 rate of 50.86, which resulted in a loss of \$7.5 recorded within foreign exchange gain (loss), net in the condensed consolidated statements of operations in the first quarter of 2015.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of market risk exposures. Except for the currency devaluation noted above, there have been no material changes in this information since December 31, 2014.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

(dollars in millions, except per share amounts)

Item 4: Controls and Procedures

This Quarterly Report includes the certifications of our chief executive officer (CEO) and chief financial officer (CFO) required by Rule 13a-14 of the Exchange Act of 1934 (the Exchange Act). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications. Based on the performance of procedures by management, designed to ensure the reliability of financial reporting, management believes that the unaudited condensed consolidated financial statements fairly present, in all material respects, the Company's financial position, results of operations and cash flows as of the dates, and for the periods presented (refer to note 1 to the condensed consolidated financial statements).

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission'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, the Company's management, under the supervision and with the participation of the CEO and CFO, conducted an evaluation of disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the CEO and CFO have concluded that such disclosure controls and procedures were effective as of September 30, 2015.

Change in Internal Controls

We are undertaking a phased implementation of an enterprise resource planning system in our North America operations, a portion of which was completed during the quarter ended September 30, 2015, with the balance expected to be completed in the fourth quarter of 2015 and during 2016. We believe we are maintaining and monitoring appropriate internal controls during the implementation period. During the quarter ended September 30, 2015, there have been no other changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

(dollars in millions, except per share amounts)

Part II – Other Information

Item 1: Legal Proceedings

At September 30, 2015, the Company was a party to several lawsuits as well as several routine indirect tax claims from various taxing authorities globally that were incurred in the normal course of business, which neither individually nor in the aggregate are considered material by management in relation to the Company's financial position or results of operations. In addition, the Company has indemnification obligations with certain former employees and costs associated with these indemnifications are expensed as incurred. In management's opinion, the Company's condensed consolidated financial statements would not be materially affected by the outcome of those legal proceedings, commitments or asserted claims.

For more information regarding legal proceedings, please refer to Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material developments with respect to the legal proceedings reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 1A: Risk Factors

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There has been no material change to this information since December 31, 2014.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Information concerning the Company's share repurchases made during the third quarter of 2015:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (2)
July	949	\$35.66	—	2,426,177
August	2,044	\$33.79	—	2,426,177
September	810	\$34.10	—	2,426,177
Total	3,803	\$34.32	—	

(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 September 30, 2015. 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.

42

Table of Contents

DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of September 30, 2015

Item 6: Exhibits

3.1(i)	Amended and Restated Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.1(i) to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1994 (Commission File No. 1-4879)
3.1(ii)	Amended and Restated Code of Regulations – incorporated by reference to Exhibit 3.1(ii) to Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (Commission File No. 1-4879)
3.2	Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.2 to Registrant’s Form 10-Q for the quarter ended March 31, 1996 (Commission File No. 1-4879)
3.3	Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.3 to Registrant’s Form 10-K for the year ended December 31, 1998 (Commission File No. 1-4879)
10.1	Separation Agreement and Release, by and between Diebold, Incorporated and George S. Mayes, Jr., entered into September 1, 2015 - incorporated by reference to Exhibit 10.1 to Registrant’s Form 8-K filed on September 8, 2015 (Commission File No. 1-4879).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

DIEBOLD, INCORPORATED

Date: October 29, 2015

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

Date: October 29, 2015

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

EXHIBIT INDEX

EXHIBIT NO. DOCUMENT DESCRIPTION

3.1(i)	Amended and Restated Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.1(i) to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1994 (Commission File No. 1-4879)
3.1(ii)	Amended and Restated Code of Regulations – incorporated by reference to Exhibit 3.1(ii) to Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (Commission File No. 1-4879)
3.2	Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.2 to Registrant’s Form 10-Q for the quarter ended March 31, 1996 (Commission File No. 1-4879)
3.3	Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated – incorporated by reference to Exhibit 3.3 to Registrant’s Form 10-K for the year ended December 31, 1998 (Commission File No. 1-4879)
10.1	Separation Agreement and Release, by and between Diebold, Incorporated and George S. Mayes, Jr., entered into September 1, 2015 - incorporated by reference to Exhibit 10.1 to Registrant’s Form 8-K filed on September 8, 2015 (Commission File No. 1-4879).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document