DIEBOLD INC
Form 10-K
March 01, 2010

Table of Contents

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

F O R M 10 - K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission file number 1-4879

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

Ohio (State or other jurisdiction of incorporation or organization)	**34-0183970** (IRS Employer Identification Number)
5995 Mayfair Road, **P.O. Box 3077, North Canton, Ohio** (Address of principal executive offices)	**44720-8077** (Zip Code)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (330) 490-4000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered:
Common Shares $1.25 Par Value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No þ

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter. The aggregate market value was computed by using the closing price on the New York Stock Exchange on June 30, 2009 of $26.36 per share.

Common Shares, Par Value $1.25 per Share	$ 1,725,138,477

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at February 19, 2010
Common Shares $1.25 Par Value	66,324,254

DOCUMENTS INCORPORATED BY REFERENCE

Listed hereunder are the documents, portions of which are incorporated by reference, and the parts of this Form 10-K into which such portions are incorporated:

Diebold, Incorporated Proxy Statement for 2010 Annual Meeting of Shareholders to be held on April 29, 2010, portions of which are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I		
ITEM 1:	**BUSINESS**	3
ITEM 1A:	**RISK FACTORS**	7
ITEM 1B:	**UNRESOLVED STAFF COMMENTS**	14
ITEM 2:	**PROPERTIES**	14
ITEM 3:	**LEGAL PROCEEDINGS**	14
ITEM 4:	**RESERVED**	16
PART II		
ITEM 5:	**MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**	16
ITEM 6:	**SELECTED FINANCIAL DATA**	18
ITEM 7:	**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**	19
ITEM 7A:	**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**	40
ITEM 8:	**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**	41
ITEM 9:	**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**	92
ITEM 9A:	**CONTROLS AND PROCEDURES**	92
ITEM 9B:	**OTHER INFORMATION**	95
PART III		
ITEM 10:	**DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**	95
ITEM 11:	**EXECUTIVE COMPENSATION**	96
ITEM 12:	**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**	97
ITEM 13:	**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**	97
ITEM 14:	**PRINCIPAL ACCOUNTANT FEES AND SERVICES**	97
PART IV		
ITEM 15:	**EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**	97
SIGNATURES		100
EXHIBIT INDEX		103
EX-21.1		
EX-23.1		
EX-24.1		
EX-31.1		
EX-31.2		
EX-32.1		
EX-32.2		

Table of Contents

PART I

ITEM 1: BUSINESS
(Dollars in thousands)

GENERAL

Diebold, Incorporated (collectively with its subsidiaries, the Company) was incorporated under the laws of the state of Ohio in August 1876, succeeding a proprietorship established in 1859.

The Company is a global leader in providing integrated self-service delivery and security systems and services to primarily the financial, commercial, government and retail markets. Sales of systems and equipment are made directly to customers by the Company s sales personnel, manufacturers representatives and distributors globally. The sales and support organizations work closely with customers and their consultants to analyze and fulfill the customers needs.

The Company s vision is, To be recognized as the essential partner in creating and implementing ideas that optimize convenience, efficiency and security. This vision is the guiding principle behind the Company s transformation of becoming a more services-oriented company. Today, services comprise more than 50 percent of the Company s revenue and the Company expects that this percentage will grow over time as the Company s integrated services/outsourcing business continues to gain traction in the marketplace. Financial institutions are eager to reduce costs and optimize management and productivity of their automated teller machine (ATM) channels and as a result they are increasingly exploring outsourced solutions. The Company remains uniquely positioned to provide the infrastructure necessary to manage all aspects of an ATM network hardware, software, maintenance, transaction processing, patch management and cash management through its integrated product and service offerings.

PRODUCT AND SERVICE SOLUTIONS

The Company has two core lines of business: Self-Service Solutions and Security Solutions, which the Company can integrate based on the customers needs. Financial information for the product and service solutions can be found in note 19 to the consolidated financial statements, which is incorporated herein by reference. In 2009, 2008 and 2007, the Company s sales of products and services related to its financial self-service and security solutions accounted for the vast majority of the Company s revenue.

Self-Service Solutions

One popular example of self-service solutions is the ATM. The Company offers an integrated line of self-service technologies and services, including comprehensive ATM outsourcing, ATM security and fraud, deposit and payment terminal and software. The Company is a leading global supplier of ATMs and related services and holds the leading market position in many countries around the world.

Self-Service Hardware
The Company offers a wide variety of self-service solutions. Self-service products include a full range of ATMs and teller automation including deposit automation technology such as, check-cashing machines, bulk cash recyclers and bulk check deposit.

Self-Service Software
The Company offers software solutions consisting of multiple applications that process events and transactions. These

solutions are delivered on the appropriate platform, allowing the Company to meet customer requirements while adding new functionality in a cost-effective manner.

Self-Service Support and Managed Services

From analysis and consulting to monitoring and repair, the Company provides value and support to its customers every step of the way. Services include installation and ongoing maintenance of our products, OpteView® remote services, branch transformation and distribution channel consulting. Outsourced and managed services include remote monitoring, troubleshooting for self-service customers, transaction processing, currency management, maintenance services and full support via person to person or online communication.

Security Solutions

From the safes and vaults that the Company first manufactured in 1859 to the full range of advanced security offerings it provides today, the Company s integrated security solutions contain best-in-class products and award-winning services for its customers unique needs. The Company provides its customers with the latest technological advances to better protect their assets, improve their workflow and increase their return on investment. These solutions are backed with experienced sales, installation and service teams. The Company is a leader in providing physical and electronic security systems as well as facility transaction products that integrate security, software and assisted-service transactions, providing total security systems solutions to financial, retail, commercial and government markets.

Physical Security and Facility Products
The Company provides security solutions and facility products, including in-store bank branches, pneumatic tube systems for drive-up lanes, vaults, safes, depositories, bullet-resistive items and undercounter equipment.

Electronic Security Products
The Company provides a broad range of security products including digital surveillance, access control systems, biometric technologies, alarms and remote monitoring and diagnostics.

Monitoring and Services
The Company provides security monitoring solutions including fire, managed access control, energy management, remote video management and storage, as well as logical security.

Integrated Solutions

The Company provides end-to-end outsourcing solutions with a single point of contact to help customers maximize their self service channel by incorporating new technology, meeting compliance and regulatory mandates, protecting their institution, and reducing costs all while ensuring a high level of service for their customers. Each unique solution may include hardware, software, services or a combination of all three components. The Company provides value to its customers by offering a comprehensive array of integrated services and support. The Company s service organization provides strategic analysis and planning of new systems, systems integration, architectural engineering, consulting, and project management that encompass all facets of a successful financial self-service implementation. The Company also provides design, sales, service, installation, project management and monitoring electronic security products to financial, government, retail and commercial customers.

Election Systems

The Company, through its wholly-owned subsidiary Procomp Industria Eletronica LTDA (in Brazil), is a provider of voting equipment and related products and services. The Company provides elections equipment, networking, tabulation and diagnostic software development, training, support and maintenance.

OPERATIONS

The principal raw materials used by the Company are steel, plastics, and electronic parts and components, which are purchased from various major suppliers. These materials and components are generally available in ample quantities.

The Company s operating results and the amount and timing of revenue are affected by numerous factors including production schedules, customer priorities, sales volume and sales mix. During the past several years, the Company has dramatically changed the focus of its self-service business to that of a total solutions and integrated services approach. The value of unfilled orders is not as meaningful an indicator of future revenues due to the significant portion of revenues derived from

4

Table of Contents

the Company s growing service-based business, for which order information is not available. Therefore, the Company believes that backlog information is not material to an understanding of its business.

The Company carries working capital mainly related to trade receivables and inventories. Inventories generally are only manufactured as orders are received from customers. The Company s normal and customary payment terms generally range from net 30 to 90 days from date of invoice. The Company generally does not offer extended payment terms. Through its wholly-owned subsidiaries, the Company provides financing arrangements to customers purchasing its products. These financing arrangements are largely classified and accounted for as sales-type leases. As of December 31, 2009, the Company s net investment in sales-type leases was $91,230.

The Company s sales to government markets represent a small portion of the Company s business. Domestically, the Company s contracts with its government customers do not contain fiscal funding clauses. In the event that such a clause exists, revenue would not be recognizable until the funding clause was satisfied. Internationally, contracts with Brazil s government are subject to a twenty-five percent quantity adjustment prior to purchasing any raw materials under the contracted purchasing schedule. In general, the Company recognizes revenue for delivered elements only when the fair values of delivered and undelivered elements are known, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refunds or return rights affecting the revenue recognized for the delivered elements.

SEGMENTS AND FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

In the first quarter of 2010, the Company began management of its businesses on a geographic basis only, changing from the previous model of sales channel segments. This change to the Company s segment reporting for 2010 and future periods is further described in note 22 to the consolidated financial statements, *Subsequent Events*, which is incorporated herein by reference. For the year ended December 31, 2009 and the prior year periods, the Company s segments are comprised of its three main sales channels: Diebold North America (DNA), Diebold International (DI) and Election Systems (ES) & Other. The DNA segment sells and services financial and retail systems in the United States and Canada. The DI segment sells and services financial and retail systems over the remainder of the globe through wholly-owned subsidiaries, majority-owned joint ventures and independent distributors in every major country throughout Europe, the Middle East, Africa, Latin America and in the Asia Pacific region (excluding Japan and Korea). The ES & Other segment includes the operating results of the voting and lottery related business in Brazil. Segment financial information can be found in note 19 to the consolidated financial statements, which is incorporated herein by reference.

Sales to customers outside the United States in relation to total consolidated net sales were $1,383,132 or 50.9 percent in 2009, $1,603,963 or 52.0 percent in 2008 and $1,417,574 or 49.1 percent in 2007.

Property, plant and equipment, at cost, located in the United States totaled $436,227, $437,524 and $424,657 as of December 31, 2009, 2008 and 2007, respectively, and property, plant and equipment, at cost, located outside the United States totaled $177,150, $142,427 and $151,139 as of December 31, 2009, 2008 and 2007, respectively.

Additional financial information regarding the Company s international operations is included in note 19 to the consolidated financial statements, which is incorporated herein by reference.

The Company s non-U.S. operations are subject to normal international business risks not generally applicable to domestic business. These risks include currency fluctuation, new and different legal and regulatory requirements in local jurisdictions, political and economic changes and disruptions, tariffs or other barriers, potentially adverse tax consequences and difficulties in staffing and managing foreign operations.

COMPETITION

All phases of the Company s business are highly competitive. Some of the Company s products are in competition directly with similar products and others competing with alternative products having similar uses or producing similar results. The Company believes, based upon outside independent industry surveys, that it is a leading manufacturer of self-service systems in

Table of Contents

the United States and is also a market leader internationally. In the area of automated transaction systems, the Company competes on a global basis primarily with NCR Corporation and Wincor-Nixdorf. On a regional basis, the Company competes with many other hardware and software companies such as Grg Equipment Co. in Asia Pacific and Itautec and Perto in Latin America. In serving the security products market for the financial services industry, the Company competes with national, regional and local security companies. Of these competitors, some compete in only one or two product lines, while others sell a broader spectrum of products. The unavailability of comparative sales information and the large variety of individual products make it difficult to give reasonable estimates of the Company s competitive ranking in or share of the market in its security product fields of activity. However, the Company is ranked as one of the top integrators in the security market.

The Company provides elections systems product solutions and support to the government in Brazil. Competition in this market is limited and based upon technology pre-qualification demonstrations to the government. Due to the technology investment required in elections systems, barriers to entry in this market are high.

RESEARCH, DEVELOPMENT AND ENGINEERING

In order to meet customers growing demand for self-service and security technologies faster, the Company is focused on delivering innovation to its customers by continuing to invest in technology solutions that enable customers to reduce costs and improve efficiency. Expenditures for research, development and engineering initiatives were $72,026, $73,034 and $67,081 in 2009, 2008 and 2007, respectively. Opteva® ATMs are designed with leading technology to meet our customers growing deposit automation needs and provide maximum value. All full function Opteva ATMs support intelligent check and automated cash deposits. Key features include check imaging with intelligent depository module™, bulk document intelligent depository modules and enhanced note acceptor.

PATENTS, TRADEMARKS, LICENSES

The Company owns patents, trademarks and licenses relating to certain products in the United States and internationally. While the Company regards these as items of importance, it does not deem its business as a whole, or any industry segment, to be materially dependent upon any one item or group of items.

ENVIRONMENTAL

Compliance with federal, state and local environmental protection laws during 2009 had no material effect upon the Company s business, financial condition or results of operations.

EMPLOYEES

At December 31, 2009, the Company employed 16,397 associates globally. The Company s service staff is one of the financial industry s largest, with professionals in more than 600 locations and representation in nearly 90 countries worldwide.

AVAILABLE INFORMATION

The Company uses its Investor Relations web site, www.diebold.com, as a channel for routine distribution of important information, including news releases, analyst presentations, and financial information. The Company posts filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC), including its annual, quarterly, and current reports on Forms 10-K, 10-Q, and 8-K; its proxy statements; and any amendments to those reports or statements. All such postings and filings are available on the Company s Investor Relations web site free of charge. In addition, this web site allows investors and other interested persons to sign up to automatically receive e-mail alerts when the Company posts news releases and financial information on its web site. The SEC also maintains a web site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The content on any web site referred to in this annual report Form 10-K is not incorporated by reference into this annual report unless expressly noted.

ITEM 1A: RISK FACTORS

The following are certain risk factors that could affect our business, financial condition, operating results and cash flows. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this annual report on Form 10-K because they could cause actual results to differ materially from those expressed in any forward-looking statement. The risk factors highlighted below are not the only ones we face. If any of these events actually occur, our business, financial condition, operating results or cash flows could be negatively affected.

We caution the reader to keep these risk factors in mind and refrain from attributing undue certainty to any forward-looking statements, which speak only as of the date of this annual report.

Demand for and supply of our products and services may be adversely affected by numerous factors, some of which we cannot predict or control. This could adversely affect our operating results.

Numerous factors may affect the demand for and supply of our products and services, including:

- changes in the market acceptance of our products and services;
- customer and competitor consolidation;
- changes in customer preferences;
- declines in general economic conditions;
- changes in environmental regulations that would limit our ability to sell products and services in specific markets; and
- macro-economic factors affecting banks, credit unions and other financial institutions may lead to cost-cutting efforts by customers, which could cause us to lose current or potential customers or achieve less revenue per customer.

If any of these factors occur, the demand for and supply of our products and services could suffer, and this would adversely affect our results of operations.

Increased raw material and energy costs could reduce our income.

The primary raw materials in our financial self-service, security and election systems product and service solutions are steel, plastics and electronic parts and components. The majority of our raw materials are purchased from various local, regional and global suppliers pursuant to long-term supply contracts. However, the price of these materials can fluctuate under these contracts in tandem with the pricing of raw materials.

In addition, energy prices, particularly petroleum prices, are cost drivers for our business. In recent years, the price of petroleum has been highly volatile, particularly due to the unstable political conditions in the Persian Gulf and increasing international demand from emerging markets. Any increase in the costs of energy would also increase our transportation costs. Although we attempt to pass on higher raw material and energy costs to our customers, given the competitive markets in which we operate, it is often not possible to do this.

Our business may be affected by general economic conditions, cyclicality and uncertainty and could be adversely affected during economic downturns.

Demand for our products is affected by general economic conditions and the business conditions of the industries in which we sell our products and services. The business of most of our customers, particularly our financial institution customers, is, to varying degrees, cyclical and has historically experienced periodic downturns. Under difficult economic conditions, customers may seek to reduce discretionary spending by forgoing purchases of our products and services. This risk is magnified for capital goods purchases such as ATMs and physical security products. In addition, downturns in our customer s industries, even during periods of strong general economic conditions, could adversely affect the demand for our products and services, and our sales and operating results.

Table of Contents

In particular, recent economic difficulties in the U.S. credit markets and the global markets have led to an economic recession in some or all of the markets in which we operate. As a result of these difficulties and other factors, financial institutions have failed and may continue to fail resulting in a loss of current or potential customers, or deferred or cancelled sales orders, including orders previously made. Any customer deferrals or cancellations could materially affect our sales and operating results.

Additionally, the unstable political conditions in the Persian Gulf could lead to further financial, economic and political instability, and this could lead to an additional deterioration in general economic conditions.

We may be unable to achieve, or may be delayed in achieving, our cost-cutting initiatives, and this may adversely affect our operating results and cash flow.

We have launched a number of cost-cutting initiatives, including restructuring initiatives, to improve operating efficiencies and reduce operating costs. Although we have achieved a substantial amount of annual cost savings associated with these cost-cutting initiatives, we may be unable to sustain the cost savings that we have achieved. In addition, if we are unable to achieve, or have any unexpected delays in achieving additional cost savings, our results of operations and cash flow may be adversely affected. Even if we meet the goals pursuant to these initiatives, we may not receive the expected financial benefits of these initiatives.

We face competition that could adversely affect our sales and financial condition.

All phases of our business are highly competitive. Some of our products are in direct competition with similar or alternative products provided by our competitors. We encounter competition in price, delivery, service, performance, product innovation, product recognition and quality.

Because of the potential for consolidation in any market, our competitors may become larger, which could make them more efficient and permit them to be more price-competitive. Increased size could also permit them to operate in wider geographic areas and enhance their abilities in other areas such as research and development and customer service. As a result, this could also reduce our profitability.

Our competitors can be expected to continue to develop and introduce new and enhanced products. This could cause a decline in market acceptance of our products. In addition, our competitors could cause a reduction in the prices for some of our products as a result of intensified price competition. Also, we may be unable to effectively anticipate and react to new entrants in the marketplace competing with our products.

Competitive pressures can also result in the loss of major customers. An inability to compete successfully could have an adverse effect on our operating results, financial condition and cash flows in any given period.

In international markets, we compete with local service providers that may have competitive advantages.

In a number of international markets, especially those in Asia Pacific and Latin America, we face substantial competition from local service providers that offer competing products and services. Some of these companies may have a dominant market share in their territories and may be owned by local stakeholders. This could give them a competitive advantage. Local providers of competing products and services may also have a substantial advantage in attracting customers in their country due to more established branding in that country, greater knowledge with respect to the tastes and preferences of customers residing in that country and/or their focus on a single market. Further, the local providers may have greater regulatory and operational flexibility since we are subject to both U.S. and foreign regulatory requirements.

Because our operations are conducted worldwide, they are affected by risks of doing business abroad.

We generate a significant percentage of revenue from sales and service operations conducted outside the United States. Revenue from international operations amounted to approximately 50.9 percent in 2009, 52.0 percent in 2008 and 49.1 percent in 2007 of total revenue during these respective years.

Table of Contents

Accordingly, international operations are subject to the risks of doing business abroad, including the following:

- fluctuations in currency exchange rates;
- transportation delays and interruptions;
- political and economic instability and disruptions;
- restrictions on the transfer of funds;
- the imposition of duties and tariffs;
- import and export controls;
- changes in governmental policies and regulatory environments;
- labor unrest and current and changing regulatory environments;
- the uncertainty of product acceptance by different cultures;
- the risks of divergent business expectations or cultural incompatibility inherent in establishing joint ventures with foreign partners;
- difficulties in staffing and managing multi-national operations;
- limitations on the ability to enforce legal rights and remedies;
- reduced protection for intellectual property rights in some countries; and
- potentially adverse tax consequences.

Any of these events could have an adverse effect on our international operations by reducing the demand for our products or decreasing the prices at which we can sell our products, thereby adversely affecting our financial condition or operating results. We may not be able to continue to operate in compliance with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations to which we may be subject. In addition, these laws or regulations may be modified in the future, and we may not be able to operate in compliance with those modifications.

Our Venezuelan operations consist of a fifty-percent owned subsidiary which is consolidated. Effective in January 2010, the Venezuelan government announced the devaluation of its currency, the bolivar fuerte, and the establishment of a two-tier exchange structure. In connection with the remeasurement of the Venezuela balance sheet, we expect to record a charge in the first quarter of 2010 to reflect this devaluation. If in the future there are changes to this exchange rate, we may realize additional gains or losses. The future results of Venezuelan operations may be affected by our ability to mitigate the effect of the devaluation, further actions by the Venezuelan government, as well as economic conditions in Venezuela such as inflation.

We may expand operations into international markets in which we may have limited experience or rely on business partners.

We continually look to expand our products and services into international markets. We have currently developed, through joint ventures, strategic investments, subsidiaries and branch offices, sales and service offerings in over 90 countries outside of the United States. As we expand into new international markets, we will have only limited experience in marketing and operating products and services in such markets. In other instances, we may rely on the efforts and abilities of foreign business partners in such markets. Certain international markets may be slower than domestic markets in adopting our products and services, and our operations in international markets may not develop at a rate that supports our level of investment.

Table of Contents

Any failure to manage acquisitions, divestitures and other significant transactions successfully could harm our operating results, business and prospects.

As part of our business strategy, we frequently engage in discussions with third parties regarding possible investments, acquisitions, strategic alliances, joint ventures, divestitures and outsourcing arrangements, and we enter into agreements relating to such transactions in order to further our business objectives. In order to pursue this strategy successfully, we must identify suitable candidates, successfully complete transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired companies or employees. Integration and other risks of these transactions can be more pronounced in larger and more complicated transactions, or if multiple transactions are pursued simultaneously. If we fail to identify and successfully complete transactions that further our strategic objectives, we may be required to expend resources to develop products and technology internally. This may put us at a competitive disadvantage, and we may be adversely affected by negative market perceptions any of which may have a material adverse effect on our revenue, gross margin and profitability.

Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business. The challenges involved in integration include:

- combining product and service offerings and entering into new markets in which we are not experienced;
- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in additional obligations to address customer uncertainty), and coordinating sales, marketing and distribution efforts;
- consolidating and rationalizing corporate information technology infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;
- minimizing the diversion of management attention from ongoing business concerns;
- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, integrating employees into our company, correctly estimating employee benefit costs and implementing restructuring programs;
- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures; and
- achieving savings from supply chain and administration integration.

We evaluate and enter into these types of transactions on an ongoing basis. We may not fully realize all of the anticipated benefits of any transaction, and the timeframe for achieving benefits of a transaction may depend partially upon the actions of employees, suppliers or other third parties. In addition, the pricing and other terms of our contracts for these transactions require us to make estimates and assumptions at the time we enter into these contracts, and, during the course of our due diligence, we may not identify all of the factors necessary to estimate costs accurately. Any increased or unexpected costs, unanticipated delays or failure to achieve contractual obligations could make these agreements less profitable or unprofitable.

Managing these types of transactions requires varying levels of management resources, which may divert our attention from other business operations. These transactions could result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, we could incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with these transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing shareholders, or borrow funds, affecting our financial condition and potentially our credit ratings. Any prior or future downgrades in our credit rating associated with a transaction could adversely affect our ability to borrow and result in more restrictive borrowing terms. In addition, our effective tax rate on an ongoing basis is uncertain, and such transactions could impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a transaction and the risk that an announced transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community s expectations.

We have a significant amount of goodwill, and any future goodwill impairment charges could adversely impact our results of operations.

As of December 31, 2009, we had $450.9 million of goodwill. We test all existing goodwill at least annually for impairment using the fair value approach on a reporting unit basis. The reporting units are defined as Domestic and Canada, Brazil, Latin America, Asia Pacific, and Europe, Middle East and Africa. The annual goodwill impairment test for 2009, 2008 and 2007 resulted in no impairment related to income from continuing operations. However, the valuation techniques used in the impairment tests incorporate a number of estimates and assumptions that are subject to change; although we believe these estimates and assumptions are reasonable and reflect forecasted market conditions at the assessment date. Any changes to these assumptions and estimates due to market conditions or otherwise may lead to an outcome where impairment charges would be required in future periods. In particular, the carrying amount of goodwill in our Brazil reporting unit was $115.4 million as of December 31, 2009, with limited excess fair value over such carrying amount. Because actual results may vary from our forecasts and such variations may be material and unfavorable, we may need to record future impairment charges with respect to the goodwill attributed to the Brazil reporting unit or other reporting units, which could adversely impact our results of operations.

System security risks and systems integration issues could disrupt our internal operations or services provided to customers, and any such disruption could adversely affect revenue, increase costs, and harm our reputation and stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate confidential information or that of third parties, create system disruptions or cause shutdowns. As a result, we could incur significant expenses in addressing problems created by network security breaches. Moreover, we could lose existing or potential customers, or incur significant expenses in connection with customers system failures. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly interfere with the operation of the system. The costs to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could result in interruptions, delays or cessation of service that could impede sales, manufacturing, distribution or other critical functions.

Portions of our information technology infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems, and transitioning data and other aspects of the process could be expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact the ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect financial results, stock price and reputation.

Our inability to attract, retain and motivate key employees could harm current and future operations.

In order to be successful, we must attract, retain and motivate executives and other key employees, including those in managerial, professional, administrative, technical, sales, marketing and information technology support positions. We also must keep employees focused on our strategies and goals. Hiring and retaining qualified executives, engineers and qualified sales representatives are critical to our future, and competition for experienced employees in these areas can be intense. The failure to hire or loss of key employees could have a significant impact on our operations.

We may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

Our cash flows from operations depend primarily on sales and service margins. To develop new product and service technologies, support future growth, achieve operating efficiencies and maintain product quality, we must make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and service technology. In addition to cash provided from operations, we have from time to time utilized external sources of financing. Depending upon general market conditions or other factors, we may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments. In addition, due to the recent economic downturn there has been a tightening of the credit markets, which may limit our ability to obtain alternative sources of cash to fund our operations.

New product developments may be unsuccessful.

We are constantly looking to develop new products and services that complement or leverage the underlying design or process technology of our traditional product and service offerings. We make significant investments in product and service technologies and anticipate expending significant resources for new product development over the next several years. There can be no assurance that our product development efforts will be successful, that we will be able to cost effectively manufacture these new products, that we will be able to successfully market these products or that margins generated from sales of these products will recover costs of development efforts.

An adverse determination that our products or manufacturing processes infringe the intellectual property rights of others could have a materially adverse effect on our business, operating results or financial condition.

As is common in any high technology industry, others have asserted from time to time, and may also do so in the future, that our products or manufacturing processes infringe their intellectual property rights. A court determination that our products or manufacturing processes infringe the intellectual property rights of others could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes. We are unable to predict the outcome of assertions of infringement made against us. Any of the foregoing could have a materially adverse effect on our business, operating results or financial condition.

Anti-takeover provisions could make it more difficult for a third party to acquire us.

Certain provisions of our charter documents, including provisions limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice and permitting cumulative voting, may make it more difficult for a third party to gain control of our Board of Directors and may have the effect of delaying or preventing changes in our control or management. This could have an adverse effect on the market price of our common stock. Additionally, Ohio corporate law provides that certain notice and informational filings and special shareholder meeting and voting procedures must be followed prior to consummation of a proposed control share acquisition, as defined in the Ohio Revised Code. Assuming compliance with the prescribed notice and information filings, a proposed control share acquisition may be made only if, at a special meeting of shareholders, the acquisition is approved by both a majority of our voting power represented at the meeting and a majority of the voting power remaining after excluding the combined voting power of the interested shares, as defined in the Ohio Revised Code. The application of these provisions of the Ohio Revised Code also could have the effect of delaying or preventing a change of control.

Any actions or other governmental investigations or proceedings related to or arising from the SEC investigation and Department of Justice investigation could result in substantial costs to defend enforcement or other related actions that could have a materially adverse effect on our business, operating results or financial condition.

In 2009, we recorded a $25.0 million charge related to an agreement in principle with the staff of the SEC to settle civil charges stemming from the staff s pending enforcement inquiry. The agreement in principle with the staff of the SEC remains subject to the final approval of the SEC, and there can be no assurance that the SEC will accept the terms of the settlement negotiated with the staff.

Table of Contents

We have incurred substantial expenses for legal and accounting services due to the SEC and the U.S. Department of Justice (DOJ) investigations. We could incur substantial additional costs to defend and resolve litigation or other governmental investigations or proceedings arising out of, or related to, the completed investigations. In addition, we could be exposed to enforcement or other actions with respect to these matters by the SEC s Division of Enforcement or the DOJ.

In addition, these activities have diverted the attention of management from the conduct of our business. The diversion of resources to address issues arising out of the investigations may harm our business, operating results and financial condition in the future.

Our ability to maintain effective internal control over financial reporting may be insufficient to allow us to accurately report our financial results or prevent fraud, and this could cause our financial statements to become materially misleading and adversely affect the trading price of our common stock.

We require effective internal control over financial reporting in order to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial statements and effectively prevent fraud, our financial statements could become materially misleading which could adversely affect the trading price of our common stock.

Management identified control deficiencies as of December 31, 2009 that constituted material weaknesses. Throughout 2009, we enhanced, and will continue to enhance, our internal controls over financial reporting. If we fail to establish and maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, financial condition and operating results could be harmed.

Any material weakness or unsuccessful remediation could affect investor confidence in the accuracy and completeness of our financial statements. As a result, our ability to obtain any additional financing, or additional financing on favorable terms, could be materially and adversely affected. This, in turn, could materially and adversely affect our business, financial condition and the market value of our securities and require us to incur additional costs to improve our internal control systems and procedures. In addition, perceptions of our company among customers, lenders, investors, securities analysts and others could also be adversely affected.

We can give no assurances that the measures we have taken to date, or any future measures we may take, will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting. In addition, even if we are successful in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or ensure the fair presentation of our financial statements included in our periodic reports filed with the SEC.

Low investment performance by our domestic pension plan assets may result in an increase to our net pension liability and expense, which may require us to fund a portion of our pension obligations and divert funds from other potential uses.

We sponsor several defined benefit pension plans which cover certain eligible employees. Our pension expense and required contributions to our pension plans are directly affected by the value of plan assets, the projected rate of return on plan assets, the actual rate of return on plan assets and the actuarial assumptions we use to measure the defined benefit pension plan obligations.

A significant market downturn could occur in future periods resulting in a decline in the funded status of our pension plans and actual asset returns to be below the assumed rate of return used to determine pension expense. If return on plan assets in future periods perform below expectations, future pension expense will increase. Further, as a result of the global economic instability, our pension plan investment portfolio has recently incurred greater volatility.

We establish the discount rate used to determine the present value of the projected and accumulated benefit obligations at the end of each year based upon the available market rates for high quality, fixed income investments. We match the projected cash flows of our pension plans against those generated by high-quality corporate bonds. The yield of the resulting bond portfolio provides a basis for the selected discount rate. An increase in the discount rate would reduce the future pension expense and, conversely, a decrease in the discount rate would increase the future pension expense.

Based on current guidelines, assumptions and estimates, including stock market prices and interest rates, we plan to make cash contributions totaling approximately $15 million to our pension plans in 2010. Changes in the current assumptions and estimates could result in contributions in years beyond 2010 that are greater than the projected 2010 contributions required. We cannot predict whether changing market or economic conditions, regulatory changes or other factors will further increase our pension expenses or funding obligations, diverting funds we would otherwise apply to other uses.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The Company s corporate offices are located in North Canton, Ohio. The Company owns manufacturing facilities in Canton, Ohio, Lynchburg, Virginia, and Lexington, North Carolina. The Company also has manufacturing facilities in Belgium, Brazil, China, Hungary and India. The Company has selling, service and administrative offices in the following locations: throughout the United States, and in Australia, Austria, Barbados, Belgium, Belize, Brazil, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Dominican Republic, Ecuador, El Salvador, France, Greece, Guatemala, Haiti, Honduras, Hong Kong, Hungary, India, Indonesia, Italy, Kazakhstan, Malaysia, Mexico, Namibia, Netherlands, Nicaragua, Panama, Paraguay, Peru, Philippines, Portugal, Poland, Romania, Russia, Singapore, Slovakia, South Africa, Spain, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay, Venezuela and Vietnam. The Company leases a majority of the selling, service and administrative offices under operating lease agreements.

The Company considers that its properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on the Company s business.

ITEM 3: LEGAL PROCEEDINGS
(Dollars in thousands)

At December 31, 2009, the Company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the Company s financial position or results of operations. In management s opinion, the Company s consolidated financial statements would not be materially affected by the outcome of any present legal proceedings, commitments, or asserted claims.

In addition to the routine legal proceedings noted above, the Company has been served with various lawsuits, filed against it and certain current and former officers and directors, by shareholders and participants in the Company s 401(k) savings plan, alleging violations of the federal securities laws and breaches of fiduciary duties with respect to the 401(k) plan. These complaints seek compensatory damages in unspecified amounts, fees and expenses related to such lawsuits and the granting of extraordinary equitable and/or injunctive relief. For each of these lawsuits, the date each complaint was filed, the name of the plaintiff and the federal court in which such lawsuit is pending are as follows:

Konkol v. Diebold Inc., et al., No. 5:05CV2873 (N.D. Ohio, filed December 13, 2005).

Ziolkowski v. Diebold Inc., et al., No. 5:05CV2912 (N.D. Ohio, filed December 16, 2005).

New Jersey Carpenter s Pension Fund v. Diebold, Inc., No. 5:06CV40 (N.D. Ohio, filed January 6, 2006).

Rein v. Diebold, Inc., et al., No. 5:06CV296 (N.D. Ohio, filed February 9, 2006).

Graham v. Diebold, Inc., et al., No. 5:05CV2997 (N.D. Ohio, filed December 30, 2005).

McDermott v. Diebold, Inc., et al., No. 5:06CV170 (N.D. Ohio, filed January 24, 2006).

Barnett v. Diebold, Inc., et al., No. 5:06CV361 (N.D. Ohio, filed February 15, 2006).

Farrell v. Diebold, Inc., et al., No. 5:06CV307 (N.D. Ohio, filed February 8, 2006).

Forbes v. Diebold, Inc., et al., No. 5:06CV324 (N.D. Ohio, filed February 10, 2006).

Gromek v. Diebold, Inc., et al., No. 5:06CV579 (N.D. Ohio, filed March 14, 2006).

The *Konkol*, *Ziolkowski*, *New Jersey Carpenter s Pension Fund*, *Rein* and *Graham* cases, which allege violations of the federal securities laws, have been consolidated into a single proceeding. The *McDermott*, *Barnett*, *Farrell*, *Forbes* and *Gromek* cases, which allege breaches of fiduciary duties under the Employee Retirement Income Security Act of 1974 with respect to the 401(k) plan, likewise have been consolidated into a single proceeding. The Company and the individual defendants deny the allegations made against them, regard them as without merit, and intend to defend themselves vigorously. On August 22, 2008, the district court dismissed the consolidated amended complaint in the consolidated securities litigation and entered a judgment in favor of the defendants. On December 22, 2009, the U.S. Court of Appeals for the Sixth Circuit affirmed the judgment of dismissal. On February 18, 2010, the U.S. Court of Appeals for the Sixth Circuit denied plaintiffs motion for rehearing *en banc*. In May 2009, the Company agreed to settle the 401(k) class action litigation for $4,500, to be paid out of the Company s insurance policies. The settlement is subject to final documentation and approval of the court.

The Company, including certain of its subsidiaries, filed a lawsuit on May 30, 2008 (*Premier Election Solutions, Inc., et al. v. Board of Elections of Cuyahoga County, et al.*, Case No. 08-CV-05-7841, (Franklin Cty. Ct Common Pleas)) against the Board of Elections of Cuyahoga County, Ohio, the Board of County Commissioners of Cuyahoga County, Ohio, (collectively, the County), and Ohio Secretary of State Jennifer Brunner (Secretary) regarding several Ohio contracts under which the Company provided voting equipment and related services to the State of Ohio and a number of its counties. The lawsuit was precipitated by the County s threats to sue the Company for unspecified damages. The complaint seeks a declaration that the Company met its contractual obligations. In response, on July 15, 2008, the County filed an answer and counterclaim alleging that the voting system was defective and seeking declaratory relief and unspecified damages under several theories of recovery. In addition, the County is trying to pierce the Company s corporate veil and hold Diebold, Incorporated directly liable for acts and omissions alleged to have been committed by its subsidiaries (even though Diebold, Incorporated is not a party to the contracts). In connection with the Company s recent sale of those subsidiaries, it has agreed to indemnify the subsidiaries and their purchaser from any and all liabilities arising out of the lawsuit. The Secretary has also filed an answer and counterclaim seeking declaratory relief and unspecified damages under several theories of recovery. The Butler County Board of Elections has joined in, and incorporated by reference, the Secretary s counterclaim.

The Company has filed motions to dismiss and for more definite statement of the counterclaims. The motions are fully briefed and are awaiting a decision by the court. The Secretary has also added ten Ohio counties as additional defendants, claiming that those counties also experienced problems with the voting systems, but many of those counties have moved for dismissal. In addition, the Secretary has moved the court for leave to add 37 additional Ohio counties who use the voting system as defendants, contending that they have an interest in the litigation and must be made parties. The Secretary s motion remains pending.

Management is unable to determine the financial statement impact, if any, of the County s and Secretary s actions as of December 31, 2009.

The Company was informed during the first quarter of 2006 that the staff of the SEC had begun an informal inquiry relating to the Company s revenue recognition policy. In the second quarter of 2006, the Company was informed that the SEC s inquiry had been converted to a formal, non-public investigation. In the fourth quarter of 2007, the Company also learned that the DOJ had begun a parallel investigation. On May 1, 2009, the Company reached an agreement in principle with the staff of the SEC to settle civil charges stemming from the staff s pending investigation. In addition, the Company has been informed by the U.S. Attorney s Office for the Northern District of Ohio that it will not bring criminal charges against the Company for the transactions and accounting issues that are the subject of the SEC investigation.

Table of Contents

Under the terms of the agreement in principle with the staff of the SEC, the Company will neither admit nor deny civil securities fraud charges, will pay a penalty of $25,000 and will agree to an injunction against committing or causing any violations or future violations of certain specified provisions of the federal securities laws. The agreement in principle with the staff of the SEC remains subject to the final approval of the SEC, and there can be no assurance that the SEC will accept the terms of the settlement negotiated with the staff.

ITEM 4: RESERVED

PART II

ITEM 5: MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common shares of the Company are listed on the New York Stock Exchange with a symbol of DBD. The price ranges of common shares of the Company for the periods indicated below are as follows:

	2009		**2008**		**2007**	
	High	**Low**	**High**	**Low**	**High**	**Low**
1st Quarter	**$ 29.75**	**$ 19.04**	$ 39.30	$ 23.07	$ 48.42	$ 42.50
2nd Quarter	**27.55**	**20.77**	40.44	35.44	52.70	47.25
3rd Quarter	**33.17**	**24.76**	39.81	30.60	54.50	42.49
4th Quarter	**33.06**	**25.04**	34.47	22.50	45.90	28.32
Full Year	**$ 33.17**	**$ 19.04**	$ 40.44	$ 22.50	$ 54.50	$ 28.32

There were approximately 52,732 shareholders at December 31, 2009, which includes an estimated number of shareholders who have shares held in their accounts by banks, brokers, and trustees for benefit plans and the agent for the dividend reinvestment plan.

On the basis of amounts paid and declared, the annualized dividends per share were $1.04, $1.00 and $0.94 in 2009, 2008 and 2007, respectively.

Information concerning the Company s share repurchases made during the fourth quarter of 2009:

Period	**Total Number of Shares Purchased(1)**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans(2)**
October	1,174	$ 31.83		2,926,500
November				2,926,500
December	48	25.85		2,926,500
Total	1,222	$ 31.59		2,926,500

(1) Includes 1,174 shares in October and 48 shares in December surrendered or deemed surrendered to the Company in connection with the Company s stock-based compensation plans.

(2) The total number of shares repurchased as part of the publicly announced share repurchase plan was 9,073,500 as of December 31, 2009. The plan was approved by the Board of Directors in April 1997 and authorized the repurchase of up to two million shares. The plan was amended in June 2004 to authorize the repurchase of an additional two million shares, and was further amended in August and December 2005 to authorize the repurchase of an additional six million shares. In February 2007, the Board of Directors approved an increase in the Company s share repurchase program by authorizing the repurchase of up to an additional two million of the Company s outstanding common shares. 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 and may be suspended or discontinued at any time.

Table of Contents

PERFORMANCE GRAPH

The following graph compares the cumulative five-year total return provided to shareholders on the Company s common stock versus the cumulative total returns of the S&P 500 index, the S&P Midcap 400 index and two customized peer groups of 28 companies and 44 companies respectively, whose individual companies are listed in footnotes 1 and 2 below. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in the Company s common stock, in each index and in each of the peer groups on December 31, 2004 and its relative performance is tracked through December 31, 2009.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Diebold, Inc., The S&P 500 Index, The S&P 400 Index,
an Old Custom Composite Index (28 Stocks) and a New Custom Composite Index (44 Stocks)

* $100 invested on 12/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

(1) The 28 companies included in the Company s Old Custom Composite Index are: Affiliated Computer Services, Inc.; Ametek, Inc.; Benchmark Electronics, Inc.; Cooper Industries plc; Corning Inc.; Crane Co.; Deluxe Corp.; Donaldson Company, Inc.; Dover Corp.; Fiserv, Inc.; FMC Technologies, Inc.; Harris Corp.; Hubbell Inc.; International Game Technology; Lennox International Inc.; Mettler-Toledo International Inc.; NCR Corp.; Pall Corp.; PerkinElmer, Inc.; Pitney Bowes Inc.; Rockwell Automation; Rockwell Collins, Inc.; Sauer-Danfoss Inc.; Teleflex Inc.; Thermo Fisher Scientific Inc.; Thomas & Betts Corp.; Unisys Corp.; and Varian Medical Systems, Inc.

(2) The 44 companies included in the Company s New Custom Composite Index are: Actuant Corp.; Affiliated Computer Services, Inc.; Agilent Technologies Inc.; Ametek, Inc.; Benchmark Electronics, Inc.; Brady Corp.; Cooper Industries plc; Corning Inc.; Crane Co.; Curtiss-Wright Corp.; Deluxe Corp.; Donaldson Company, Inc.; Dover Corp.; Fiserv, Inc.; Flowserve Corp.; FMC Technologies, Inc.; Goodrich Corp.; Harman International Industries Inc.; Harris Corp.; Hubbell Inc.; International Game Technology; Itron, Inc.; Lennox International Inc.; ManTech International Corp.; Mettler-Toledo International Inc.; Moog Inc.; NCR Corp.; Pall Corp.; Pentair, Inc.; PerkinElmer, Inc.; Pitney Bowes Inc.; Rockwell Automation; Rockwell Collins, Inc.; Roper Industries, Inc.; Sauer-Danfoss Inc.; SPX Corp.; Teledyne Technologies Inc.; Teleflex Inc.; The Brink s Company; The Timken Company; Thomas & Betts Corp.; Unisys Corp.; Varian Medical Systems, Inc.; and Waters Corp.

The Custom Composite Index is the same index used by the Compensation Committee of our Board of Directors for purposes of benchmarking executive pay. Each year the Compensation Committee reviews the index, as companies may merge or be acquired, liquidated or otherwise disposed of, or may no longer be deemed to adequately represent our peers in the market. The index was expanded from 28 companies in 2008 to 44 companies in 2009, because the Compensation Committee determined that the Old Custom Composite Index no longer represented an appropriately sized sampling of peer companies.

Table of Contents

ITEM 6: SELECTED FINANCIAL DATA

The following table should be read in conjunction with Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II Item 8 Financial Statements and Supplementary Data.

	Year ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(In millions, except per share data)				
Results of operations					
Net sales	**$ 2,718**	$ 3,082	$ 2,888	$ 2,749	$ 2,437
Cost of sales	**2,068**	2,307	2,212	2,074	1,816
Gross profit	**650**	775	677	675	621
Income from continuing operations	**79**	115	105	92	104
(Loss) income from discontinued operations, net of tax	**(47)**	(19)	(58)	19	3
Net income	**32**	96	47	111	107
Less: Net income attributable to noncontrolling interests	**(6)**	(7)	(7)	(6)	(5)
Net income attributable to Diebold, Incorporated	**$ 26**	$ 89	$ 40	$ 105	$ 102
Basic earnings per common share:					
Income from continuing operations	**$ 1.10**	$ 1.63	$ 1.49	$ 1.29	$ 1.40
(Loss) income from discontinued operations	**(0.71)**	(0.29)	(0.89)	0.28	0.05
Net income	**$ 0.39**	$ 1.34	$ 0.60	$ 1.57	$ 1.45
Diluted earnings per common share:					
Income from continuing operations	**$ 1.09**	$ 1.62	$ 1.47	$ 1.27	$ 1.39
(Loss) income from discontinued operations	**(0.70)**	(0.29)	(0.88)	0.28	0.04
Net income	**$ 0.39**	$ 1.33	$ 0.59	$ 1.55	$ 1.43
Number of weighted-average shares outstanding					
Basic shares	**66**	66	66	67	71
Diluted shares	**67**	66	67	67	71
Common dividends paid	**$ 69**	$ 67	$ 62	$ 58	$ 58
Common dividends paid per share	**$ 1.04**	$ 1.00	$ 0.94	$ 0.86	$ 0.82
Consolidated balance sheet data (as of period end)					
Current assets	**$ 1,588**	$ 1,614	$ 1,594	$ 1,658	$ 1,528
Current liabilities	**743**	735	701	746	728
Net working capital	**845**	879	893	912	800
Property, plant and equipment, net	**205**	204	220	208	226
Total long-term liabilities	**740**	838	765	794	550
Total assets	**2,555**	2,538	2,595	2,560	2,341

Total equity	**1,072**	964	1,129	1,020	1,063

18

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of December 31, 2009
(Unaudited)
(dollars in thousands, except per share amounts)

ITEM 7: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The MD&A is provided as a supplement and should be read in conjunction with the consolidated financial statements and accompanying notes that appear elsewhere in this annual report.

Introduction

Diebold, Incorporated is a global leader in providing integrated self-service delivery and security systems and services primarily to the financial, commercial, government, and retail markets. Founded in 1859, and celebrating 150 years of innovation in 2009, the Company today has more than 16,000 employees with representation in nearly 90 countries worldwide.

During the past three years, the Company s management continued to execute against its strategic roadmap developed in 2006 to strengthen operations and build a strong foundation for future success in its two core lines of business: financial self-service and security solutions. This roadmap was built around five key priorities: increase customer loyalty; improve quality; strengthen the supply chain; enhance communications and teamwork; and rebuild profitability. Few years have been as challenging and eventful as 2009 and fewer still have provided such fundamental opportunities to test the value the Company offers its customers around the world. During 2009, the economy, financial markets and banking system endured significant stresses. During this time the Company successfully balanced the need to invest in emerging growth markets with the need to remain competitive and reduce costs. Looking toward 2010, there are encouraging signs of stabilization and growth in each of the Company s major geographic areas. The focus is on capturing this demand and on converting these opportunities into longer-term, services-driven relationships whenever possible. Also, the Company will continue to focus on remediation of its material weaknesses related to internal controls over financial reporting. Total costs incurred for remediation efforts were approximately $3,700 for the year ended December 31, 2009.

Income from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2009 was $73,102 or $1.09 per share, a decrease of 32 percent and 33 percent, respectively, from the year ended December 31, 2008. Total revenue for the year ended December 31, 2009 was $2,718,292, a decrease of 12 percent from 2008. Income from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2008 was $107,781 or $1.62 per share, an increase of 10 percent from the year ended December 31, 2007. Total revenue for the year ended December 31, 2008 was $3,081,838, an increase of 7 percent from 2007.

Vision and strategy

The Company s vision is, To be recognized as the essential partner in creating and implementing ideas that optimize convenience, efficiency and security. This vision is the guiding principle behind the Company s transformation to becoming a more services-oriented company. Today, service comprises more than 50 percent of the Company s revenue. The Company expects that this percentage will continue to grow over time as the Company s integrated services business continues to gain traction in the marketplace. Financial institutions are eager to reduce costs and optimize management and productivity of their ATM channels and they are increasingly exploring outsourced solutions. The Company remains uniquely positioned to provide the infrastructure necessary to manage all aspects of an ATM network hardware, software, maintenance, transaction processing, patch management and cash management through its integrated product and service offerings. As evidence of the Company s success in delivering world-class services for financial institutions non-core operations, the Company was listed among the International Association of Outsourcing Professionals™ 10 best outsourcing providers within the service industry in the 2009 Global Outsourcing 100™ rankings. In addition to being among the 10 best leaders of outsourcing providers

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of December 31, 2009 (Continued)
(Unaudited)
(dollars in thousands, except per share amounts)

within the service industry, the Company improved its overall position from the 2008 rankings in its third consecutive year on the list.

Another area of focus within the financial self-service business is broadening the Company s deposit automation solutions set, including check imaging, envelope-free currency acceptance, teller automation, and payment and document imaging solutions. The Company s ImageWay® check-imaging solution fulfills an industry-wide demand for cutting-edge technologies that enhance efficiencies. In addition, during 2009 the Company launched its latest innovation in its family of deposit automation solutions with the newly developed Enhanced Note Acceptor (ENA), a cash accepting device for ATMs. The ENA enables the deposit of up to 50 mixed-denomination notes in an easy, envelope-free transaction that authenticates and validates deposits, quickly and accurately. To date, the Company has shipped more than 50,000 deposit automation modules.

Within the security business, the Company is diversifying by expanding and enhancing offerings in its financial, government, commercial and retail markets. Critical areas of focus include expanding solutions within the financial market beyond traditional branch equipment and growing integrated/outsourcing services. The Company recently announced an outsourcing agreement with Delta Community Credit Union, headquartered in Atlanta, Georgia, making the Company the single-source provider for access control, credential management and monitoring solutions at the credit union. An outsourced security model provides financial institutions with end-to-end solutions, while reducing costs, improving efficiencies and trimming administrative requirements. Additional growth strategies include broadening the Company s solutions portfolio in fire, energy management, remote video surveillance, logical security and integrated enterprise systems as well as expanding the distribution model. The Diebold Advanced Dealer Program was created to engage new distribution channels and will enable leading, pre-certified security dealers to leverage the Company s advanced monitoring services. The program will expand the Company s North American delivery network at local and regional levels, while enabling select dealers to provide new services to their customers. Authorized dealers can leverage the Company s sophisticated monitoring solutions, including Site Sentry® Remote Video Monitoring, Site Sentry® Remote Video Storage, managed access control and energy management. These solutions will enable end users to enhance security, reduce workforce demands, increase efficiencies and deliver enterprise-wide return on investment.

During the third quarter of 2009, the Company sold its U.S. election systems business, primarily consisting of its subsidiary Premier Election Solutions, Inc. (PESI) for $12,147, including $5,000 of cash and contingent consideration with a fair value of $7,147, which represents 70 percent of any cash collected over a five-year period on the accounts receivable balance of the sold business as of August 31, 2009. The resulting pre-tax loss on the sale of $50,750 includes $56,566 of net assets of the business, primarily inventory, and $1,862 of other transactional costs. A few challenges to the sale of the Company s U.S. election systems business have arisen. The Company cannot predict the impact, if any, such challenges will have on the sale or the Company s results of operations.

Results of operations of the U.S. election systems business are included in loss from discontinued operations, net of tax, in the Company s consolidated statements of income. As previously disclosed, the Company closed its enterprise security operations in the Europe, Middle East and Africa (EMEA) region during the fourth quarter of 2008. Results of operations of this enterprise security business are also included in loss from discontinued operations, net of tax, in the Company s consolidated statements of income. Total loss from discontinued operations, net of tax, for the years ended December 31, 2009, 2008 and 2007 was $47,076, $19,198 and $58,287, respectively.

The focus for 2010 will be to continue striking an appropriate balance between reducing costs and investing in future growth. The Company will continue to differentiate itself using its total value proposition, particularly as it relates to deposit automation, enterprise security and services.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of December 31, 2009 (Continued)
(Unaudited)
(dollars in thousands, except per share amounts)

Cost savings initiatives

In 2006, the Company launched the SmartBusiness (SB) 100 initiative to deliver $100,000 in cost savings by the end of 2008. This key milestone was achieved in November 2008 with significant progress made in areas such as rationalization of product development, streamlining procurement, realigning the Company s manufacturing footprint and improving logistics.

In September 2008, the Company announced a new goal to achieve an additional $100,000 in cost savings called SB 200 with a goal of eliminating $70,000 by the middle of 2010 and the remainder to be eliminated by the end of 2011. In 2009, in the face of a challenging environment, the Company exceeded its target of $35,000 for 2009 and is on track to deliver on its 2010 savings target.

Restructuring and other charges

The Company is committed to making the strategic decisions that not only streamline operations, but also enhance its ability to serve its customers. The Company remains confident in its ability to continue to execute on cost-reduction initiatives, deliver solutions that help improve customers businesses and create shareholder value. In 2009, the Company announced that it is ending all remaining Opteva ATM manufacturing in its Lexington, North Carolina facility. This will drive more volume and improved utilization through the Company s Budapest and Shanghai manufacturing facilities.

Most recently, the Company announced it is realigning the organization and resources to better support opportunities in the emerging growth markets, resulting in the elimination of approximately 350 full-time jobs from its North America operations and corporate functions. During the year ended December 31, 2009, the Company incurred restructuring charges of $25,203 or $0.27 per share. The majority of these charges were related to reductions in the Company s global workforce, field offices and warehousing facilities.

Net non-routine expenses of $15,144 or $0.27 per share, $45,145 or $0.54 per share and $7,288 or $0.08 per share impacted the year ended December 31, 2009, 2008 and 2007, respectively. For the year ended December 31, 2009, the Company incurred non-routine expenses of $1,467 in legal and other consultation fees related to the government investigations and a $25,000 charge related to an agreement in principle with the staff of the SEC to settle civil charges stemming from the staff s pending enforcement inquiry. The agreement in principle with the staff of the SEC remains subject to the final approval of the SEC, and there can be no assurance that the SEC will accept the terms of the settlement negotiated with the staff. In addition, these expenses were offset by $11,323 of non-routine income, including $10,616 of reimbursements from the Company s director and officer (D&O) insurance carriers related to legal and other expenses incurred as part of the government investigations. The Company continues to pursue reimbursement of the remaining incurred legal and other expenditures with its D&O insurance carriers. Non-routine expenses for the year ended December 31, 2008 were primarily from legal, audit and consultation fees related to the internal review of accounting items, restatement of financial statements, government investigations, as well as other advisory fees. Non-routine expenses for the year ended December 31, 2007 were primarily related to the internal review of accounting items related to the 2008 restatement of financial statements.

The following discussion of the Company s financial condition and results of operations provide information that will assist in understanding the financial statements and the changes in certain key items in those financial statements.

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

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of December 31, 2009 (Continued)
(Unaudited)
(dollars in thousands, except per share amounts)

The table below presents the changes in comparative financial data for the years ended December 31, 2009, 2008 and 2007. Comments on significant year-to-year fluctuations follow the table. The following discussion should be read in conjunction with the consolidated financial statements and the accompanying notes that appear elsewhere in this annual report.

	Year Ended December 31,							
	2009			**2008**			**2007**	
	Dollars	**% of Net Sales**	**% Change**	**Dollars**	**% of Net Sales**	**% Change**	**Dollars**	**% of Net Sales**
Net sales								
Products	**$ 1,238,346**	**45.6**	**(18.1)**	$ 1,511,856	49.1	7.9	$ 1,401,374	48.5
Services	**1,479,946**	**54.4**	**(5.7)**	1,569,982	50.9	5.6	1,486,977	51.5