DIEBOLD INC
Form 10-K
February 17, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-4879
Diebold, Incorporated
(Exact name of Registrant as specified in its charter)

Ohio	34-0183970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5995 Mayfair Road, P.O. Box 3077, North Canton, Ohio	44720-8077
(Address of principal executive offices)	(Zip Code)

Registrants 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 x

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 x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark 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.

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

(do not check if a smaller reporting company)

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

Approximate aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2011, based upon the closing price on the New York Stock Exchange on June 30, 2011, was $1,990,604,029.

Number of shares of common stock outstanding as of February 10, 2012 was 65,539,124.

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 2012 Annual Meeting of Shareholders to be held on April 26, 2012, portions of which are incorporated by reference into Part III of this Form 10-K.

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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 to becoming a more software-led services company. Services comprise more than 50 percent of the Company's revenue. The Company expects that this percentage will continue to grow over time as the Company continues to build on its strong base of maintenance and advanced services to deliver world-class integrated services.

PRODUCT AND SERVICE SOLUTIONS
The Company has two core lines of business: Self-Service Solutions and Security Solutions, which the Company integrates 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 contained in Item 8 of this annual report on Form 10-K.

Self-Service Solutions
One popular example of self-service solutions is the automated teller machine (ATM). The Company offers an integrated line of self-service technologies and services, including comprehensive ATM outsourcing, ATM security, deposit and payment terminals 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 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, availability management, 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.

Self-Service Products
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.

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 assisted transactions, providing total security systems solutions to financial, retail, commercial and government markets.

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Physical Security and Facility Products
The Company provides security solutions and facility products, 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 electronic 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 institutions, 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, products, service, installation, project management and monitoring of electronic security products to financial, government, retail and commercial customers.

Election Systems
The Company is a provider of voting equipment and related products and services in Brazil. The Company provides elections equipment, networking, tabulation and diagnostic software development, training, support and maintenance.

OPERATIONS
The principal raw materials used by the Company in its manufacturing operations 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. Within the Company's services operations, fuel is a significant cost factor.

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 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 a meaningful indicator of future revenues due to the significant portion of revenues derived from 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 or purchased 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. The Company also provides financing arrangements to customers that are largely classified and accounted for as sales-type leases. As of December 31, 2011, the Company’s net investment in finance lease receivables was $98,296.

The Company’s sales to government markets represent a small portion of total sales. 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 customers are subject to a maximum twenty-five percent quantity adjustment prior to the Company purchasing any raw materials under the contracted purchasing schedule.

SEGMENTS AND FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

The Company manages its businesses on a geographic basis and reports the following two segments: Diebold North America (DNA) and Diebold International (DI). The DNA segment sells and services financial and retail systems in the United States and Canada. The DI segment sells and services financial and retail systems over the remainder of the globe through wholly-owned subsidiaries, majority-owned joint ventures and independent distributors in most major countries throughout Europe, the Middle East, Africa, Latin America and in the Asia Pacific region (excluding Japan and Korea). Segment financial information can be found in note 19 to the consolidated financial statements, which is incorporated herein by reference.

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Sales to customers outside the United States in relation to total consolidated net sales were $1,494,681 or 52.7 percent in 2011, 1,560,879 or 55.3 percent in 2010 and 1,383,132 or 50.9 percent in 2009.

Property, plant and equipment, at cost, located in the United States totaled $455,814, $454,666 and $436,227 as of December 31, 2011, 2010 and 2009, respectively, and property, plant and equipment, at cost, located outside the United States totaled $186,442, $191,569 and $177,150 as of December 31, 2011, 2010 and 2009, 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

The Company participates in many highly competitive businesses with some products and services in competition directly with similar products and services and others with alternative products that have similar uses or produce similar results. The Company believes, based upon outside independent industry surveys, that it is a leading manufacturer of and services provider for financial self-service systems in the United States and is also a market leader internationally. The Company distinguishes itself by providing unique value with a wide range of software-led services tailored to meet customers' needs. 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. and Nautilus Hyosung in Asia Pacific and Itautec and Perto in Latin America. In serving the security product and service markets 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

Customer demand for self-service and security technologies is growing. In order to meet this demand, 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 $78,108, $74,225 and $72,026 in 2011, 2010 and 2009, respectively. In 2011, the Company introduced its Opteva® Flex Performance℠ Series that redefines what financial institutions should expect from an ATM. The Flex Performance Series is the Company's most reliable self-service terminals to date, bringing together all of today's advanced self-service functionalities – from accepting cash and check deposits and dispensing cash to full recycling – all in one ATM model.

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 2011 had no material effect upon the Company’s business, financial condition or results of operations.

EMPLOYEES

At December 31, 2011, the Company employed 16,515 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.

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EXECUTIVE OFFICERS
Refer to Part III, Item 10 of this annual report on Form 10-K for information on the Company's executive officers, which is incorporated herein by reference.

AVAILABLE INFORMATION
The Company uses its Investor Relations web site, www.diebold.com/investors, 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 on 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 on Form 10-K.

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;
- 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; and
- availability of purchased products.

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 Middle East and increasing international demand from emerging markets. Price increases in fuel and electricity costs, such as those increases which may occur from climate change legislation or other environmental mandates, will continue to increase our cost of operations. 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, it is often not possible given the competitive markets in which we operate.

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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.

In particular, 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 canceled sales orders, including orders previously placed. Any customer deferrals or cancellations could materially affect our sales and operating results.

Additionally, the unstable political conditions in the Middle East or the sovereign debt concerns of certain countries 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 our goals as a result of 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.

Additional tax expense or additional tax exposures could affect our future profitability.

We are subject to income taxes in both the United States and various non-U.S. jurisdictions, and our domestic and international tax liabilities are dependent upon the distribution of income among these different jurisdictions. Our tax expense includes estimates of additional tax which may be incurred for tax exposures and reflects various estimates and assumptions, including assessments of future earnings of the Company that could affect the valuation of our net deferred tax assets. Our future results could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in the overall profitability of the Company, changes in tax legislation, changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures. If we change our intention to repatriate cash and cash equivalents and short-term investments residing in international tax jurisdictions, there could be a negative impact on foreign and domestic taxes.

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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 52.7 percent in 2011, 55.3 percent in 2010 and 50.9 percent in 2009 of total revenue during these respective years.

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;
- disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act (FCPA);
- 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, including repatriation of profits.

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.

Additionally, there are ongoing concerns regarding the short- and long-term stability of the euro and its ability to serve as a single currency for a variety of individual countries. These concerns could lead individual countries to revert, or threaten to revert, to their former local currencies, which could lead to the dissolution of the euro. Should this occur, the assets we hold in a country that re-introduces its local currency could be significantly devalued. Furthermore, the dissolution of the euro could cause significant volatility and disruption to the global economy, which could impact our financial results. Finally, if it were necessary for us to conduct our business in additional currencies, we would be subjected to additional earnings volatility as amounts in these currencies are translated into U.S. dollars.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that the Company or any of its subsidiaries has violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

We are subject to compliance with various laws and regulations, including the FCPA and similar worldwide anti-bribery laws, which generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. The FCPA also requires proper record keeping and characterization of such payments in our reports filed with the SEC.

While our employees and agents are required to comply with these laws, we operate in many parts of the world that have experienced governmental and commercial corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws

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may conflict with local customs and practices. Foreign companies, including some that may compete with us, may not be subject to the FCPA. Accordingly, such companies may be more likely to engage in activities prohibited by the FCPA, which could have a significant adverse impact on our ability to compete for business in such countries.

Despite our commitment to legal compliance and corporate ethics, we cannot ensure that our policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in financial penalties, debarment from government contracts and other consequences that may have a material adverse effect on our business, financial condition or results of operations.

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

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

In addition, our business opportunities in select geographies have been or may be adversely affected by these reviews and any subsequent findings. Some countries in which we do business may also initiate their own reviews and impose penalties, including prohibition of our participating in or curtailment of business operations in those jurisdictions. If it is determined that a violation of the FCPA has occurred, such violation may give rise to an event of default under our loan agreements. We could also face third-party claims in connection with any such violation or as a result of the outcome of the current or any future government reviews. Our disclosure, internal review, any current or future governmental review and any findings regarding any alleged violation of the FCPA could, individually or in the aggregate, have a material adverse affect on our reputation and our ability to obtain new business or retain existing business from our current clients and potential clients, to attract and retain employees and to access the capital markets.

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.

An inability to effectively 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.

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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 long-term assets, including goodwill and other intangible assets, and any future impairment charges could adversely impact our results of operations.
We review long-lived assets, including property, plant and equipment and identifiable intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable.

If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, a significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life.

As of December 31, 2011, we had $253.1 million of goodwill. We assess all existing goodwill at least annually for impairment on a “reporting unit” basis. The Company’s five reporting units are defined as Domestic and Canada, Brazil, Latin America, Asia Pacific, and Europe, Middle East and Africa (EMEA). The techniques used in our qualitative assessment and goodwill 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 market conditions forecast 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. 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 any reporting unit, which could adversely impact our results of operations.

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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 our own confidential information or that of our customers, corrupt data, create system disruptions or cause shutdowns. A network security breach could be particularly harmful if it remained undetected for an extended period of time. Groups of hackers may also act in a coordinated manner to launch distributed denial of service attacks, or other coordinated attacks, that may cause service outages or other interruptions. We could incur significant expenses in addressing problems created by network security breaches, such as the expenses of deploying additional personnel, enhancing or implementing new protection measures, training employees or hiring consultants. Further, such corrective measures may later prove inadequate. Moreover, actual or perceived security vulnerabilities in our products and services could cause significant reputational harm, causing us to lose existing or potential customers. Reputational damage could also result in diminished investor confidence. Actual or perceived vulnerabilities may also lead to claims against us. Although our license agreements typically contain provisions that eliminate or limit our exposure to such liability, there is no assurance these provisions will withstand legal challenges. We could also 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, lost customers or diminished investor confidence resulting from these disruptions could adversely affect financial results, stock price and reputation.

An 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 assert in the future, that our products or manufacturing processes infringe their intellectual property rights. A court determination that our products or

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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.

Changes in laws or regulations or the manner of their interpretation or enforcement could adversely impact our financial performance and restrict our ability to operate our business or execute our strategies.
New laws or regulations, or changes in existing laws or regulations or the manner of their interpretation or enforcement, could increase our cost of doing business and restrict our ability to operate our business or execute our strategies. This includes, among other things, the possible taxation under U.S. law of certain income from foreign operations, compliance costs and enforcement under the Dodd-Frank Wall Street Reform and Consumer Protection Act, and costs associated with complying with the Patient Protection and Affordable Care Act of 2010 and the regulations promulgated thereunder. For example, under Section 1502 of the Dodd-Frank Act, the SEC is required to adopt additional disclosure requirements related to the source of certain “conflict minerals” for issuers for which such “conflict minerals” are necessary to the functionality or product manufactured, or contracted to be manufactured, by that issuer. The metals covered by the proposed rules include tin, tantalum, tungsten and gold, commonly referred to as “3TG.” Our suppliers may use some or all of these materials in their production processes. The SEC's proposed rules, if adopted, would require us to perform supply chain due diligence on every member of our supply chain, including the mine owner and operator. Global supply chains can have multiple layers, thus the costs of complying with these new requirements could be substantial. These new requirements may also reduce the number of suppliers who provide conflict free metals, and may affect our ability to obtain products in sufficient quantities or at competitive prices. Compliance costs and the unavailability of raw materials could have a material adverse effect on our results of operations.

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 matters that resulted in the 2009 SEC settlement, including the related 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.
The Company had previously reached an agreement in principle in 2009 with the staff of the SEC to settle civil charges stemming from the staff’s enforcement inquiry. We accrued a $25.0 million penalty in the first quarter of 2009, which was paid in June 2010.

We could incur substantial additional costs to defend and resolve third-party litigation or other governmental actions, 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

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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 2010, we enhanced, our internal control over financial reporting and as of December 31, 2010, we had remediated the material weaknesses. If we are not able to 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 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 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, although we have been 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 that 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 global economic instability in recent years, our pension plan investment portfolio has been volatile.

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 $15.8 million to our pension plans in 2012. Changes in the current assumptions and estimates could result in contributions in years beyond 2012 that are greater than the projected 2012 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.

We are currently subject to a purported class action and shareholder derivative litigation, the unfavorable outcome of which might have a material adverse effect on our financial condition, operating results and cash flow.

A purported class action lawsuit and a shareholder derivative lawsuit have been filed against us and certain current and former officers and directors alleging violations of federal and state laws, including with respect to federal securities laws. Although we believe that these lawsuits are without merit, and we intend to vigorously defend against these claims, we cannot determine with certainty the outcome or resolution of these claims or any future related claims, or the timing for their resolution. In addition to the expense and burden incurred in defending this litigation and any damages that we may suffer, management's efforts and attention may be diverted from the ordinary business operations in order to address these claims. If the final resolution of this litigation is unfavorable, our financial condition, operating results and cash flows could be materially affected.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

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ITEM 2: PROPERTIES

The Company's corporate offices are located in North Canton, Ohio. The Company owns manufacturing facilities in 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, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, El Salvador, France, Greece, Guatemala, Haiti, Honduras, Hong Kong, Hungary, India, Indonesia, Italy, Jamaica, Kazakhstan, Luxembourg, Malaysia, Mexico, Namibia, Netherlands, Nicaragua, Panama, Paraguay, Peru, Philippines, Portugal, Poland, Romania, Russia, Singapore, 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, 2011, 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 those legal proceedings, commitments, or asserted claims.

In addition to the routine legal proceedings noted above the Company was a party to the lawsuits described below at December 31, 2011:

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

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

Management believes any possible loss or range of loss associated with the putative federal securities class action cannot be estimated. The parties to the shareholder derivative lawsuit have agreed to a settlement of that action. The settlement, which requires court approval before it will become effective, is not anticipated to have a material impact on the Company's financial position or results of operations.

Labor and Wage Actions

On May 7, 2010, a purported collective action under the Fair Labor Standards Act was filed in the United States District Court for the Northern District of Florida alleging that field service employees of the Company nationwide were not paid for the time spent logging into the Company’s computer network in the morning, for travel to their first jobs and for meal periods that were supposedly automatically deducted from the employees’ pay but, allegedly, not taken (Nichols v. Diebold, Incorporated, Case No. 3:10cv150/RV/MD). The lawsuit sought unpaid overtime, liquidated damages equal to the amount of unpaid overtime and attorneys'

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fees. In December 2010, the plaintiff voluntarily dismissed the lawsuit, which resulted in a tentative settlement in the amount of $9,500 subject to agreement on final settlement terms and court approval. This tentative settlement was recorded in selling and administrative expense in the fourth quarter of 2010. In July 2011, the parties agreed upon the final terms of the settlement. The case was then refiled so that court approval of the settlement could be sought, and on November 10, 2011, court approval was obtained.

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

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

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

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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:

	2011		2010		2009	
	High	Low	High	Low	High	Low
1st Quarter	$36.35	$30.20	$32.23	$26.47	$29.75	$19.04
2nd Quarter	37.12	29.26	35.18	24.22	27.55	20.77
3rd Quarter	33.89	24.70	31.59	25.72	33.17	24.76
4th Quarter	33.59	25.83	33.29	29.79	33.06	25.04
Full Year	$37.12	$24.70	$35.18	$24.22	$33.17	$19.04

There were approximately 46,984 shareholders at December 31, 2011, 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 $1.12, $1.08 and $1.04 in 2011, 2010 and 2009, respectively.

Information concerning the Company's share repurchases made during the fourth quarter of 2011:

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	114,172	$26.62	113,400	556,577
November	77,900	29.96	77,900	478,677
December	52,500	30.29	52,500	426,177
Total	244,572	$28.47	243,800	

(1) Includes 772 shares in October surrendered or deemed surrendered to the Company in connection with the Company's stock-based compensation plans.

(2) The Company repurchased 243,800 common shares in the fourth quarter of 2011 pursuant to its share repurchase plan. The total number of shares repurchased as part of the publicly announced share repurchase plan was 13,450,772 as of December 31, 2011. The plan was approved by the Board of Directors in April 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 Director 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
	13,876,949

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PERFORMANCE GRAPH

The graph below compares the cumulative 5-year total return to shareholders on the Company's common stock relative to the cumulative total returns of the S&P 500 index, the S&P Midcap 400 index and two customized peer groups of forty-four companies and twenty-five companies, respectively, whose individual companies are listed in footnotes 1 and 2 below. The graph assumes that the value of the investment in the Company's common shares, in each index, and in each of the peer groups (including reinvestment of dividends) was $100 on December 31, 2006 and tracks it through December 31, 2011.

(1) There are forty-four companies included in the company's first customized peer group which are: Actuant Corp., Agilent Technologies Inc, AI Claims Solutions PLC, Ametek Inc, Benchmark Electronics Inc, Brady Corp., Brinks Company (The), Cooper Industries PLC, Corning Inc, Crane Company, 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 Inco, Moog Inc, NCR Corp., Pall Corp., Pentair Inc, Perkinelmer Inc, Pitney-Bowes Inc, Rockwell Automation Inc, Rockwell Collins Inc, Roper Industries Inc, Sauer Danfoss Inc, SPX Corp., Teledyne Technologies Inc, Teleflex Inc, The Timken Company, Thomas & Betts Corp., Unisys Corp., Varian Medical Systems Inc and Waters Corp.

(2) The twenty-five companies included in the company's second customized peer group are: Actuant Corp., Benchmark Electronics Inc, Brady Corp., Brinks Company (The) Coinstar Inc, Cooper Industries PLC, Dover Corp., Fidelity National Information Services I, Fiserv Inc, Flowserve Corp., Global Payments Inc, Imation Corp., International Game Technology, Logitech International SA, Mastercard Inc, Mettler Toledo International Inco, NCR Corp., Pitney-Bowes Inc, Rockwell Automation Inc, Sensata Technologies Holding NV, SPX Corp., The Timken Company, Unisys Corp., Western Union Company (The) and Woodward Inc.

The second customized peer group is the same peer group 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 customized peer group was decreased from 44 companies to 25 companies in 2011 because the Compensation Committee determined that the first customized peer group no longer represented an appropriately sized sampling of peer companies.

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,				
	2011	2010	2009	2008	2007
	(in millions, except per share data)				
Results of operations					
Net sales	$2,836	$2,824	$2,718	$3,082	$2,888
Cost of sales	2,100	2,104	2,068	2,307	2,212
Gross profit	$736	$720	$650	$775	$677
Amounts attributable to Diebold, Incorporated					
Income (loss) from continuing operations, net of tax	$144	$(21)	$73	$108	$98
Income (loss) from discontinued operations, net of tax	1	1	(47)	(19)	(58)
Net income (loss) attributable to Diebold, Incorporated	$145	$(20)	$26	$89	$40
Basic earnings per common share:					
Income (loss) from continuing operations, net of tax	$2.24	$(0.31)	$1.10	$1.63	$1.49
Income (loss) from discontinued operations, net of tax	0.01	—	(0.71)	(0.29)	(0.89)
Net income (loss) attributable to Diebold, Incorporated	$2.25	$(0.31)	$0.39	$1.34	$0.60
Diluted earnings per common share:					
Income (loss) from continuing operations, net of tax	$2.23	$(0.31)	$1.09	$1.62	$1.47
Income (loss) from discontinued operations, net of tax	0.01	—	(0.70)	(0.29)	(0.88)
Net income (loss) attributable to Diebold, Incorporated	$2.24	$(0.31)	$0.39	$1.33	$0.59
Number of weighted-average shares outstanding					
Basic shares	64	66	66	66	66
Diluted shares	65	66	67	66	67
Dividends					
Common dividends paid	$72	$72	$69	$67	$62
Common dividends paid per share	$1.12	$1.08	$1.04	$1.00	$0.94
Consolidated balance sheet data (as of period end)					
Current assets	$1,732	$1,714	$1,588	$1,614	$1,594
Current liabilities	824	810	743	735	701

Net working capital	908	904	845	879	893
Property, plant and equipment, net	193	203	205	204	220
Total long-term liabilities	835	720	740	838	765
Total assets	2,517	2,520	2,555	2,538	2,595
Total equity	858	990	1,072	964	1,129

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

OVERVIEW

Management's discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes that appear elsewhere in this annual report on Form 10-K.

Introduction

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

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

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

The Company ended 2011 with strong performance in the fourth quarter, delivering on its goals for revenue and earnings growth, cash flow and fourth-quarter profitability in Europe, Middle East and Africa (EMEA). The strategy to leverage the Company's capabilities in services, software and innovation is beginning to pay dividends and is meeting the needs of its rapidly evolving markets. The Company believes this positions it for continued momentum in 2012 using its software-led services strategy and leading edge technology. While macroeconomic uncertainties remain, and several of its markets continue to encounter headwinds, the Company is optimistic about the potential for growth in the coming year.

Income (loss) from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2011 was $144,292 or $2.23 per share, an increase of $164,819 and $2.54 per share, respectively, from the year ended December 31, 2010. In 2010, the Company incurred a non-cash goodwill impairment charge of $168,714 associated with the Company's EMEA business. Total revenue for the year ended December 31, 2011 was $2,835,848, up slightly compared to 2010. Income (loss) from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2010 was $(20,527) or $(0.31) per share, a decrease of $93,629 and $1.40 per share respectively, from the year ended December 31, 2009.

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 software-led services company. Services comprise more than 50 percent of the Company’s revenue. The Company expects that this percentage will continue to grow over time as the Company continues to build on its strong base of maintenance and advanced services to deliver world-class integrated services.

Several years ago, the Company launched its Diebold Integrated Services outsourcing business in North America. Initially the scale was small, generating about $5,000 in contract value in year one. In the ensuing years, we have achieved substantial growth in this business. During 2011, the Company signed new integrated services contracts exceeding $500,000 compared with $150,000 in 2010. For example, during the fourth quarter of 2011, the Company entered into an integrated services agreement with one of the largest financial institutions in North America. The Company will provide support to the financial institution's multivendor network of more than 4,400 automated teller machines (ATMs) in North America. The Company believes that the agreement is one of the largest North American integrated services agreements in the ATM industry to date, representing its growing services business.

In addition to service and integrated services, another demand driver in the global ATM marketplace continued to be deposit automation. Among the largest U.S. national banks there has been extensive deployment of deposit automation-enabled terminals. Today, approximately 21 percent of ATMs globally are configured for automated deposits.

In addition, during 2011, the Company's already strong solution set was further enhanced with the introduction of the Opteva® Flex Performance Series (Flex), the most reliable self-service terminals the Company has ever offered. Flex combines traditional deposit automation capabilities with full currency recycling - an industry first. Highly adaptable, its configuration options make Flex well suited not only for North America, but also for deposit automation-intense markets such as Latin America, Asia Pacific and EMEA.

In its security business, the Company has an equal, if not greater, potential for a successful integrated services approach. Security challenges and the systems to address them have grown increasingly complex. That has created a greater appetite among financial institutions for outsourcing solutions, particularly in the areas of monitoring, services and software. Today the Company is bringing its expertise back into the financial sector with a focused effort to secure large, complex and technologically demanding projects. The Company has created new customer -focused teams that possess the high levels of specialized expertise in logical and enterprise security required in this business. The Company is leveraging best practices, and some of its best talent, from its FSS integrated services business to build the foundation for a new security outsourcing business.

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

Cost savings initiatives, restructuring and other charges

Over the past several years, the Company's SmartBusiness (SB) initiatives have led to rationalization of product development, streamlined procurement, realignment of the Company's manufacturing footprint and improved logistics. Building on that success, the Company's SB 300 initiatives in 2011 shifted the focus from reducing cost of sales to lowering operating expenses and are targeted to achieve an additional $100,000 in efficiencies by the end of 2013.

The Company is committed to making the strategic decisions that not only streamline operations, but also enhance its ability to serve its customers. The Company remains confident in its ability to continue to execute on cost-reduction initiatives, deliver solutions that help improve customers' businesses and create shareholder value. During the years ended December 31, 2011, 2010 and 2009, the Company incurred pre-tax net restructuring charges of $26,182 or $0.32 per share, $4,183 or $0.05 per share and $25,203 or $0.27 per share, respectively. Restructuring charges in 2011 primarily related to the Company's plan for the EMEA reorganization, which realigns resources and further leverages the existing shared services center. Restructuring charges in 2010 and 2009 primarily related to reduction in the Company's global workforce.

Other charges and expense reimbursements consist of items that the Company has determined are non-routine in nature and are not expected to recur in future operations. Net non-routine expenses of $14,981 or $0.16 per share impacted the year ended December 31, 2011 compared to $16,234 or $0.21 per share and $15,144 or $0.27 per share in the same period of 2010 and 2009, respectively. Net non-routine expenses for 2011 consisted primarily of legal and compliance costs related to the Foreign Corrupt Practices Act (FCPA) investigation.

Business Drivers

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

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

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The table below presents the changes in comparative financial data for the years ended December 31, 2011, 2010 and 2009. 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 on Form 10-K.

	Year ended December 31,							
	2011			2010			2009	
	Dollars	% of Net Sales	% Change	Dollars	% of Net Sales	% Change	Dollars	% of Net Sales
Net sales								
Products	$1,283,490	45.3	(3.5)	$1,330,368	47.1	7.4	$1,238,346	45.6
Services	1,552,358	54.7	3.9	1,493,425	52.9	0.9	1,479,946	54.4
	2,835,848	100.0	0.4	2,823,793	100.0	3.9	2,718,292	100.0
Cost of sales								
Products	961,706	33.9	(4.2)	1,003,923	35.6	6.3	944,090	34.7
Services	1,138,213	40.1	3.4	1,100,305	39.0	(2.1)	1,124,202	41.4
	2,099,919	74.0	(0.2)	2,104,228	74.5	1.7	2,068,292	76.1
Gross profit	735,929	26.0	2.3	719,565	25.5	10.7	650,000	23.9
Selling and administrative expense	501,186	17.7	6.0	472,956	16.7	11.3	424,875	15.6
Research, development and engineering expense	78,108	2.8	5.2	74,225	2.6	3.1	72,026	2.6
Impairment of assets	2,962	0.1	N/M	175,849	6.2	N/M	2,500	0.1
(Gain) loss on sale of assets, net	(1,921)	(0.1)	15.5	(1,663)	(0.1)	N/M	7	—
	580,335	20.5	(19.6)	721,367	25.5	44.4	499,408	18.4
Operating profit (loss)	155,594	5.5	N/M	(1,802)	(0.1)	(101.2)	150,592	5.5
Other expense, net	8,798	0.3	N/M	(595)	—	97.8	(26,785)	(1.0)
Income (loss) from continuing operations before taxes	164,392	5.8	N/M	(2,397)	(0.1)	(101.9)	123,807	4.6
Taxes on income	12,815	0.5	(12.0)	14,561	0.5	(67.3)	44,477	1.6
Income (loss) from continuing operations	151,577	5.3	N/M	(16,958)	(0.6)	(121.4)	79,330	2.9
Income (loss) from discontinued operations, net of tax	523	—	90.2	275	—	(102.8)	(9,884)	(0.4)
Loss on sale of discontinued	—	—	N/A	—	—	N/A	(37,192)	(1.4)

operations, net of tax										
Net income (loss)	152,100	5.4	N/M	(16,683	)	(0.6)	(151.7)	32,254		1.2
Net income attributable to noncontrolling interests	7,285	0.3	104.1	3,569		0.1	(42.7)	6,228		0.2
Net income (loss) attributable to Diebold, Incorporated	$144,815	5.1	N/M	$(20,252	)	(0.7)	(177.8)	$26,026		1.0
Amounts attributable to Diebold, Incorporated										
Income (loss) from continuing operations, net of tax	$144,292	5.1		$(20,527	)	(0.7)		$73,102		2.7
Income (loss) from discontinued operations, net of tax	523	—		275		—		(47,076	)	(1.7)
Net income (loss) attributable to Diebold, Incorporated	$144,815	5.1		$(20,252	)	(0.7)		$26,026		1.0

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RESULTS OF OPERATIONS
2011 comparison with 2010
Net Sales
The following table represents information regarding our net sales for the years ended December 31:

	2011	2010	$ Change	% Change
Net sales	$2,835,848	$2,823,793	$12,055	0.4

FSS sales in 2011 increased by $91,156 or 4.5 percent compared to 2010. The increase in FSS sales included a net favorable currency impact of $45,972, of which approximately 50 percent related to the Brazilian real. The following division highlights include the impact of foreign currency. Diebold North America (DNA) increased $107,193 or 14.1 percent due to continued growth within the U.S. regional bank business with customer demand focused on meeting regulatory requirements and providing deposit automation technology. Diebold International (DI) sales decreased by $16,037 or 1.2 percent related to the following: Latin America, including Brazil, decreased $58,343 or 10.0 percent, EMEA decreased $5,487 or 1.6 percent and Asia Pacific increased $47,793 or 13.6 percent. The decrease in Latin America, including Brazil, was driven mainly from lower volume in Brazil paired with improvement across most of Latin America. The decrease in EMEA was influenced by lower volumes in Europe, partially offset with growth in Africa. The increase in Asia Pacific resulted from additional volume in several countries most notably China and India.
Security solutions sales in 2011 decreased by $24,843 or 3.9 percent compared to 2010. DNA decreased $22,756 or 4.1 percent compared to the prior year and DI decreased by $2,087 or 2.9 percent. The reduction in DNA was influenced by lower product volumes in the U.S. regional and national bank business. The DI variance was due to a reduction in Asia Pacific mostly from Australia, partially offset by improvement in Latin America compared to 2010.
The Brazil-based lottery and election systems sales decreased $54,258 or 36.9 percent in 2011 compared to 2010. This decrease was driven by a $47,767 reduction in election sales as well as a $6,491 decrease in lottery sales compared to 2010. Election sales decreased due to cyclical purchasing decisions within the country.
Gross Profit
The following table represents information regarding our gross profit for the years ended December 31:

	2011	2010	$ Change	% Change
Gross profit - products	$321,784	$326,445	$(4,661)	(1.4)
Gross profit - services	414,145	393,120	21,025	5.3
Total gross profit	$735,929	$719,565	$16,364	2.3
Gross margin - products	25.1 %	24.5 %		
Gross margin - services	26.7 %	26.3 %		
Total gross margin	26.0 %	25.5 %		

The increase in product gross margin was driven by DNA with higher volumes and favorable customer mix, primarily from the U.S. regional bank business as well as favorable absorption in the U.S. manufacturing plants due to higher production volume. Partially offsetting these improvements, a reduction in DI was related mostly to lower volume in Brazil paired with lower margins across most of the other geographies. Additionally, the total product gross margin in 2011 and 2010 included restructuring charges of $3,905 and $1,163, respectively.

The increase in service gross margin resulted from operational cost efficiencies in Brazil as well as growth in DNA, Asia Pacific and Latin America. Partially offsetting these increases, EMEA realized lower margin mostly due to higher restructuring charges in 2011 related to the EMEA reorganization. Total service gross margin for 2011 included $10,678 of restructuring charges compared to $540 of charges in the same period of 2010.

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Operating Expenses
The following table represents information regarding our operating expenses for the years ended December 31:

	2011	2010	$ Change	% Change
Selling and administrative expense	$501,186	$472,956	$28,230	6.0
Research, development and engineering expense	78,108	74,225	3,883	5.2
Impairment of assets	2,962	175,849	(172,887)	(98.3)
Gain on sale of assets, net	(1,921)	(1,663)	(258)	15.5
Total operating expenses	$580,335	$721,367	$(141,032)	(19.6)

Selling and administrative expense increased in 2011 compared to 2010 due to higher compensation and benefits, $7,976 of unfavorable currency impact, higher restructuring expenses and lower non-routine income, partially offset with a reduction in non-routine expenses. Selling and administrative expense in 2011 and 2010 included net, non-routine expense of $13,230 and $16,234, respectively. Net non-routine expense in 2011 primarily pertained to legal, consultative, audit and severance costs related to the FCPA investigation. Net non-routine expense in 2010 included settlement and legal fees related to an employment class action lawsuit and legal and professional fees driven by the FCPA investigation, partially offset by non-routine income of $4,148 consisting of reimbursements from the Company's director and officer insurance carriers. In addition, selling and administrative expense included $11,607 and $3,809 of restructuring charges in 2011 and 2010, respectively. The 2011 restructuring charges related primarily to the EMEA reorganization.
Research, development and engineering expense as a percent of net sales in 2011 and 2010 was 2.8 percent and 2.6 percent, respectively. The increase as a percent of net sales was due to higher project volume and focus on innovation.
The impairment charges in 2011 resulted from non-cash intangible asset impairments related primarily to prior acquisitions. The impairment charges in 2010 resulted from a $168,714 non-cash goodwill impairment charge associated with the Company's EMEA business, an impairment related to customer contract intangible assets and an other-than-temporary impairment related to a cost method investment.
Operating Profit (Loss)
The following table represents information regarding our operating profit (loss) for the years ended December 31:

	2011	2010	$ Change	% Change
Operating profit (loss)	$155,594	$(1,802)	$157,396	NM
Operating profit (loss) margin	5.5%	(0.1)%		

The increase in operating profit in 2011 compared to 2010 resulted from a decrease in operating expenses mostly related to a reduction in impairment charges in EMEA, partially offset by an increase in other operating expenses noted above. In addition, operating profit increased due to improved product and service margins and an increased service revenue base.

Other Income (Expense)
The following table represents information regarding our other income (expense) for the years ended December 31:

	2011	2010	$ Change	% Change
Investment income	$41,663	$34,545	$7,118	20.6

Interest expense	(34,456)	(37,887)	(3,431)	(9.1)
Foreign exchange gain (loss), net	3,095	(1,301)	4,396	N/M
Miscellaneous, net	(1,504)	4,048	(5,552)	N/M
Other income (expense)	$8,798	$(595)	$9,393	N/M

Investment income in 2011 was favorable compared to 2010, driven primarily by Brazil, with a combination of increased investment and favorable currency impact. The improvement in foreign exchange was influenced by the realization of favorable currency positions. Interest expense was favorable compared to the same period in 2010 due to favorable interest rates and lower fees.

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Income (Loss) from Continuing Operations

The following table represents information regarding our income (loss) from continuing operations for the years ended December 31:

	2011		2010		$ Change	% Change
Income (loss) from continuing operations, net of tax	$151,577		$(16,958	)	$168,535	N/M
Percent of net sales	5.3	%	(0.6	)%		
Effective tax rate	7.8	%	607.5	%		

The increase in net income from continuing operations in 2011 compared to 2010 resulted from lower operating expenses related to the 2010 non-cash goodwill impairment charge that did not recur in 2011, higher gross profit and favorable other income. The effective tax rate in 2011 was positively impacted by an approximately $28,000 valuation allowance released in Brazil. Sustained improvement in operating results, combined with a more favorable outlook for business in Brazil, triggered the release of this valuation allowance on deferred tax assets. The effective tax rate in 2010 was negatively impacted by the impairment of non-deductible goodwill.

Segment Revenue and Operating Profit Summary

The following table represents information regarding our revenue by reporting segment for the years ended December 31:

	2011	2010	$ Change		% Change
DNA	$1,405,018	$1,320,581	$84,437		6.4
DI	1,430,830	1,503,212	(72,382	)	(4.8)
Total net sales	$2,835,848	$2,823,793	$12,055		0.4

The increase in DNA net sales was due to higher FSS product volume in both the U.S. regional and national bank business. In addition, higher volume was also realized in managed and other services. Partially offsetting the increases, a reduction in security products was realized in both the U.S. regional and national bank business.
The decrease in DI net sales was due primarily to lower FSS and election systems volume in Brazil, partially offset by a net favorable currency impact of $58,917, of which approximately 59 percent related to Brazil. These decreases were also partially offset by service revenue growth in Asia Pacific compared to 2010.

The following table represents information regarding our operating profit (loss) by reporting segment for the years ended December 31:

	2011	2010		$ Change	% Change
DNA	$128,151	$81,444		$46,707	57.3
DI	27,443	(83,246	)	110,689	N/M
Total operating profit (loss)	$155,594	$(1,802	)	$157,396	N/M

DNA operating profit for 2011 increased by $46,707 or 57.3 percent compared to 2010. The increase was driven primarily by higher FSS product volume in the U.S. regional bank business, improvement in U.S. installation related to higher volume and cost efficiencies as well as a reduction in non-routine expenses. These increases were partially

offset with an increase in operating expense related mostly to higher compensation and benefits as well as lower non-routine income.
DI operating profit for 2011 increased by $110,689 compared to 2010 primarily due to a non-cash goodwill impairment charge of $168,714 incurred in 2010 associated with the Company's EMEA business. Partially offsetting this improvement were lower FSS and election systems sales in Brazil, higher restructuring expenses related mostly to the EMEA reorganization and higher operational expenses across geographies.
Refer to note 19 to the consolidated financial statements for further details of segment revenue and operating profit.

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2010 comparison with 2009

Net Sales

The following table represents information regarding our net sales for the years ended December 31:

	2010	2009	$ Change	% Change
Net sales	$2,823,793	$2,718,292	$105,501	3.9

FSS sales in 2010 decreased by $22,761 or 1.1 percent compared to 2009. The decrease in FSS sales included a net favorable currency impact of $68,929, of which $55,896 related to the Brazilian real. North America decreased $34,249 or 4.3 percent due to reduced volume in the U.S. national bank business as 2009 included a large project for a customer that upgraded the majority of its ATM install base with our deposit automation solution. The project began in the second half of 2008 and was completed in the second quarter of 2009. Latin America including Brazil increased by $19,050 or 3.4 percent due to a net favorable currency impact partially offset by declines in volume. EMEA increased slightly year over year as the poor economic conditions experienced in 2009 continued into 2010.
Security solutions sales in 2010 decreased by $13,244 or 2.1 percent compared to 2009. North America decreased $27,631 or 4.7 percent due primarily to the lack of new bank branch construction as a result of the continued weakness in the U.S. financial market. In addition, the decrease in North America resulted from smaller volume declines in the government and retail markets. Asia Pacific and Latin America increased $7,698 and $7,586, respectively, from 2009 due to continued business development and favorable currency impact in Asia Pacific.
Brazilian-based election systems sales were $123,215 in 2010 compared to none in 2009. This business has historically been cyclical, recurring every other year. Lottery systems sales increased $18,291 in 2010 compared to 2009.

Gross Profit

The following table represents information regarding our gross profit for the years ended December 31:

	2010	2009	$ Change	% Change
Gross profit - products	326,445	294,256	32,189	10.9
Gross profit - services	393,120	355,744	37,376	10.5
Total gross profit	$719,565	$650,000	$69,565	10.7
Gross margin - products	24.5 %	23.8 %		
Gross margin - services	26.3 %	24.0 %		
Total gross margin	25.5 %	23.9 %		

Product gross margin was 24.5 percent in 2010 compared to 23.8 percent in 2009. The increase in product margin resulted from favorable product solution and customer mix primarily attributed to Brazil voting and lottery solutions, which tend to have a higher margin than FSS solutions in Brazil and the U.S. national bank customer mix. Additionally, product gross margin in 2010 included restructuring charges of $1,163 compared to $5,348 in 2009. Restructuring charges in 2010 and 2009 primarily related to global manufacturing realignment and workforce reductions.
Service gross margin was 26.3 percent in 2010 compared to 24.0 percent in 2009. The service margin improvement was driven by improved productivity and lower service parts scrap expense in the United States. Service margin was

also favorably impacted by increased part sales and higher margin performance in Asia Pacific. Additionally, 2010 included restructuring charges of $540 compared to restructuring charges of $7,488 in 2009. Restructuring charges in 2010 related primarily to workforce reductions and charges in 2009 related to workforce reductions and service branch consolidation, as well as employee severance costs in connection with the Company’s sale of certain assets and liabilities in Argentina.

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Operating Expenses

The following table represents information regarding our operating expenses for the years ended December 31:

	2010	2009	$ Change	% Change
Selling and administrative expense	$472,956	$424,875	$48,081	11.3
Research, development and engineering expense	74,225	72,026	2,199	3.1
Impairment of assets	175,849	2,500	173,349	N/M
(Gain) loss on sale of assets, net	(1,663)	7	(1,670)	N/M
Total operating expenses	$721,367	$499,408	$221,959	44.4

Selling and administrative expense in 2010 included an unfavorable currency impact of $8,644, as well as increased healthcare and other employee related expenses. Selling and administrative expenses were adversely affected by non-routine expenses of $20,382 and $1,467 in 2010 and 2009, respectively. Net non-routine expenses in 2010 included a settlement and legal fees related to an employment class action lawsuit and higher legal and professional fees driven by the FCPA investigation. Selling and administrative expense in 2010 and 2009 included expense reimbursements of $4,148 and $11,323, respectively, from the Company’s director and officer insurance carriers related to legal and other expenses incurred as part of the civil charges levied during the SEC investigation, which were settled in June 2010. In addition, selling and administrative expense included $3,809 and $10,276 of restructuring charges in 2010 and 2009, respectively. The 2010 restructuring charges related mainly to workforce reductions that focused on North America to align backoffice support with market changes and the 2009 restructuring charges primarily related to workforce reductions, employee severance costs in connection with the Company’s sale of certain assets and liabilities in Argentina and service branch consolidation.

Research, development and engineering expense as a percent of net sales in 2010 and 2009 was flat at 2.6 percent in both years. Additionally, research, development and engineering expense included an unfavorable currency impact of $1,489. A net restructuring benefit of $143 resulted in 2010, while restructuring charges of $2,091 occurred in 2009 related to product development rationalization.

A non-cash goodwill impairment charge of $168,714 was incurred in 2010 associated with the Company’s EMEA business. Due to the operational challenges experienced in the EMEA region over the past few quarters and the negative business impact related to potential FCPA compliance issues within the region, management has reduced its near-term earnings outlook for the EMEA business unit, resulting in the goodwill impairment. In the third quarter of 2010, the Company recorded a $3,000 other than temporary impairment related to a cost method investment. The Company determined this investment was fully impaired as of September 30, 2010 due to a decline in fair value. In addition, an impairment charge of approximately $4,100 was incurred in 2010 related to intangible assets of TFE Technology Holdings (TFE). The intangible assets for a customer contract at the time of acquisition were fully impaired in the second quarter of 2010. An impairment charge of $2,500 was incurred in the fourth quarter of 2009 related to the discontinuation of the brand name Firstline, Incorporated.

Operating (Loss) Profit

The following table represents information regarding our operating (loss) profit for the years ended December 31:

	2010	2009	$ Change	% Change
Operating (loss) profit	$(1,802)	$150,592	$(152,394)	(101.2)
Operating (loss) profit margin	(0.1)%	5.5%		

The decrease in operating profit was due to a non-cash goodwill impairment charge of $168,714 incurred in 2010 associated with the Company’s EMEA business and increased operating expenses. These were partially offset by increased sales volume, favorable product revenue mix, higher service gross profit due in part to productivity improvements in U.S. service and higher margin performance in Asia Pacific.

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Other Income (Expense)

The following table represents information regarding our other income (expense) for the years ended December 31:

	2010	2009	$ Change	% Change
Investment income	$34,545	$29,016	$5,529	19.1
Interest expense	(37,887)	(35,452)	2,435	6.9
Foreign exchange loss, net	(1,301)	(922)	379	41.1
Miscellaneous, net	4,048	(19,427)	23,475	120.8
Other income (expense)	$(595)	$(26,785)	$26,190	(97.8)

The increase in investment income resulted from higher investment volume and leasing interest income in Brazil. Interest expense increased due to higher interest rates between years and credit facility fees in 2010, partially offset by lower hedging expense. While foreign exchange was flat, there were gains in EMEA offset by losses in Latin America resulting from the currency revaluation in Venezuela during 2010. The change in miscellaneous, net was due to a charge of $25,000 in 2009 as the Company reached an agreement in principle with the staff of the SEC to settle civil charges. In June 2010, the SEC settlement was finalized and paid.

(Loss) Income from Continuing Operations

The following table represents information regarding our income from continuing operations for the years ended December 31:

	2010	2009	$ Change	% Change
(Loss) income from continuing operations, net of tax	(16,958)	79,330	(96,288)	(121.4)
Percent of net sales	(0.6)	2.9		
Effective tax rate	607.5%	35.9%		

The decrease in (loss) income from continuing operations was related to higher operating expenses inclusive of the impairment charges in 2010, partially offset by the SEC charge of $25,000 in 2009 and higher gross profit in 2010. The increase in the effective tax rate was due to the impairment of nondeductible goodwill and was partially offset by a benefit resulting from the release of a valuation allowance at a foreign subsidiary and foreign rate differential.

Income (Loss) from Discontinued Operations

The following table represents information regarding our income (loss) from discontinued operations for the years ended December 31:

	2010	2009	$ Change	% Change
Income (loss) from discontinued operations, net of tax	$275	$(47,076)	$47,351	100.6

Included in the 2010 income (loss) from discontinued operations, net of tax, were costs related to the sale of the U.S.-based elections systems business and the December 2008 discontinuance of the Company's EMEA-based enterprise security business. In addition, during the third quarter of 2010, the Company finalized and filed its 2009 consolidated U.S. federal tax return and recorded an additional tax benefit of $2,147 included within the income (loss) from discontinued operations. Included in the 2009 income (loss) from discontinued operations, net of tax, were the $37,192 loss on the sale of the U.S.-based elections systems business, the results of the U.S. elections systems business and costs related to the December 2008 discontinuance of the Company’s EMEA-based enterprise security business. Refer to note 20 to the consolidated financial statements for further details of discontinued operations.

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Segment Revenue and Operating Profit Summary

The following table represents information regarding our revenue by reporting segment for the years ended December 31:

	2010	2009	$ Change	% Change
DNA	$1,320,581	$1,382,461	$(61,880)	(4.5)
DI	1,503,212	1,335,831	167,381	12.5
Total net sales	$2,823,793	$2,718,292	$105,501	3.9

DNA net sales of $1,320,581 in 2010 decreased $61,880 or 4.5 percent compared to 2009. The decrease in DNA net sales was due to decreased product volume in the national and regional bank businesses, as well as the corresponding installation revenue, partially offset by increased U.S. service volume and higher sales in Canada.

DI net sales of $1,503,212 in 2010 increased by $167,381 or 12.5 percent compared to the same period of 2009, which included a net favorable currency fluctuation of $68,632, of which $56,543 related to the Brazilian real. The increase in DI net sales was driven by higher volume in Brazil primarily due to election systems revenue as well as increased sales in Latin America.

The following table represents information regarding our operating profit (loss) by reporting segment for the years ended December 31:

	2010	2009	$ Change	% Change
DNA	81,444	77,109	4,335	5.6
DI	(83,246)	73,483	(156,729)	(213.3)
Total operating (loss) profit	(1,802)	150,592	(152,394)	(101.2)

DNA operating profit in 2010 increased by $4,335 or 5.6 percent compared to 2009. Operating profit was favorably affected by higher service profitability attributable to continued productivity gains and lower service parts scrap expense. DNA operating profit was also favorably affected by higher product margin in the national bank business. DNA operating profit was unfavorably impacted by higher operating expenses including $9,786 in settlement and legal fees related to an employment class-action lawsuit and $7,096 of impairment charges related to a cost-method investment and customer contract intangible assets of TFE.

DI operating profit in 2010 decreased by $156,729 compared to 2009 primarily due to a non-cash goodwill impairment charge of $168,714 incurred in 2010 associated with the Company's EMEA business and other increases in operating expenses. The goodwill impairment was partially offset by increased product gross profit resulting from Brazilian election systems and lottery volume in 2010 as well as higher volume in Latin America. These increases in product gross profit were partially offset by lower financial self-service revenue in Brazil and Asia Pacific. Additionally, service gross profit increased due to improved performance in Asia Pacific partially offset by lower managed service volume in Brazil mainly attributed to the insourcing of a large Brazilian government contract.

Refer to note 19 to the consolidated financial statements for further details of segment revenue and operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Capital resources are obtained from income retained in the business, borrowings under the Company's senior notes, committed and uncommitted credit facilities, long-term industrial revenue bonds and operating and capital leasing arrangements. Management expects that the Company's capital resources will be sufficient to finance planned working capital needs, research and development activities, investments in facilities or equipment, pension contributions, the payment of dividends on the Company's common shares and the purchase of the Company's common shares for at least the next 12 months. At December 31, 2011, approximately $597,467 or 96.2 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 foreign and domestic taxes. Part of the Company’s growth strategy is to pursue strategic acquisitions. The Company has made acquisitions in the past and intends to make acquisitions in the future. The Company intends to finance any future acquisitions with either cash and short-term investments, cash provided from operations, borrowings under available credit facilities, proceeds from debt or equity offerings and/or the issuance of common shares.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS as of December 31, 2011
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

The following table summarizes the results of our consolidated statement of cash flows for the years ended December 31:

Net cash flow provided by (used in):	2011	2010	2009
Operating activities	$215,397	$273,353	$296,882
Investing activities	(90,706)	(164,756)	(90,778)
Financing activities	(123,535)	(111,100)	(130,988)
Effect of exchange rate changes on cash and cash equivalents	4,106	2,735	11,874
Net increase in cash and cash equivalents	$5,262	$232	$86,990

During 2011, the Company generated $215,397 in cash from operating activities, a decrease of $57,956 from 2010. Cash flows from operating activities are generated primarily from operating income and managing the components of working capital. Cash flows from operating activities during the year ended December 31, 2011 were negatively affected by a $69,066 change in refundable income taxes related to significant 2010 refunds that did not recur at the same level in 2011, as well as unfavorable changes in inventories, prepaid expenses, accounts payable, pension and other postretirement benefits and certain other assets and liabilities. These changes were partially offset by the sale of finance receivables, favorable changes in trade receivables, other current assets, deferred revenue and deferred income taxes.

Net cash used for investing activities was $90,706 in 2011, a decrease of $74,050 from 2010. The decrease was primarily due to a $41,797 decrease in net payments for purchases of investments, an increase of $3,401 in proceeds from sale of fixed assets and a change of $32,110 in purchases of finance receivables, net of cash collected. These activities were partially offset by an increase of $3,455 in capital expenditures.

Net cash used for financing activities was $123,535 in 2011, an increase of $12,435 from 2010. The increase was primarily due to an increase of common share repurchases of $86,046 and an increase of $4,642 in distributions to noncontrolling interest holders. This was partially offset by a change of $79,154 in net debt activity.

Benefit Plans The Company expects to contribute $15,814 to its pension plans during the year ending December 31, 2012. Beyond 2012, minimum statutory funding requirements for the Company's U.S. pension plans may become significant. However, the actual amounts required to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory actions related to pension funding obligations. The Company has adopted a pension investment policy designed to achieve an adequate funded status based on expected benefit payouts and to establish an asset allocation that will meet or exceed the return assumption while maintaining a prudent level of risk. The plan's target asset allocation adjusts based on the plan's funded status. As the funded status improves or declines, the debt security target allocation will increase and decrease, respectively. Payments due under the Company's other postretirement benefit plans are not required to be funded in advance, but are paid as medical costs are incurred by covered retirees, and are principally dependent upon the future cost of retiree medical benefits under these plans. We expect the other postretirement benefit plan payments to approximate $1,735 in 2012, net of a benefit of approximately $205 from the Medicare prescription subsidy. Refer to note 12 to the consolidated financial statements for further discussion of the Company's pension and other postretirement benefit plans.

Dividends The Company paid dividends of $72,901, $71,900 and $69,451 in the years ended December 31, 2011, 2010 and 2009, respectively. Annualized dividends per share were $1.12, $1.08 and $1.04 for the years ended December 31, 2011, 2010 and 2009, respectively. The quarterly 2012 cash dividend, which represents $1.14 per share on an annualized basis, marks the Company's 59th consecutive annual dividend increase.

(dollars in thousands, except per share amounts)

Contractual Obligations The following table summarizes the Company's approximate obligations and commitments to make future payments under contractual obligations as of December 31, 2011:

		Payment due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Minimum operating lease obligations	$143,794	$43,192	$56,330	$33,034	$11,238
Debt	627,876	21,722	76,767	467,347	62,040
Interest on debt (1)	94,143	23,922	37,881	27,847	4,493
Purchase commitments	3,091	3,091	—	—	—
Total	$868,904	$91,927	$170,978	$528,228	$77,771

(1) Amounts represent estimated contractual interest payments on outstanding long-term debt and notes payable. Rates in effect as of December 31, 2011 are used for variable rate debt.

At December 31, 2011, the Company also had uncertain tax positions of $12,636, for which there is a high degree of uncertainty as to the expected timing of payments (refer to note 4 to the consolidated financial statements).

As of December 31, 2011, the Company had various international short-term uncommitted lines of credit with borrowing limits of $101,530. The weighted-average interest rate on outstanding borrowings on the short-term uncommitted lines of credit as of December 31, 2011 and 2010 was 4.23 percent and 3.01 percent, respectively. Short-term uncommitted lines mature in less than one year. The amount available under the short-term uncommitted lines at December 31, 2011 was $79,958.

In June 2011, the Company entered into a new five-year credit facility, which replaced its previous credit facility. The Company used borrowings of approximately $330,000 under the new credit facility to repay all amounts outstanding under (and terminated) the previous credit facility. As of December 31, 2011, the Company had borrowing limits under the new credit facility totaling $500,000. Under the terms of the credit facility agreement, the Company has the ability, subject to various approvals, to increase the borrowing limits by $250,000. Up to $50,000 of the revolving credit facility is available under a swing line subfacility. The weighted-average interest rate on outstanding credit facility borrowings as of December 31, 2011 and 2010 was 1.49 percent and 2.71 percent, respectively, which is variable based on the London Interbank Offered Rate (LIBOR). The amount available under the new credit facility as of December 31, 2011 was $209,000. The Company incurred $1,876 of fees to its creditors in conjunction with the new credit facility, which will be amortized as a component of interest expense over the term of the facility.

In March 2006, the Company issued senior notes in an aggregate principal amount of $300,000 with a weighted-average fixed interest rate of 5.50 percent. The maturity dates of the senior notes are staggered, with $75,000, $175,000 and $50,000 becoming due in 2013, 2016 and 2018, respectively. Additionally, the Company entered into a derivative transaction to hedge interest rate risk on $200,000 of the senior notes, which was treated as a cash flow hedge. This reduced the effective interest rate by 14 basis points from 5.50 to 5.36 percent.

The Company's financing agreements contain various restrictive financial covenants, including net debt to capitalization and net interest coverage ratios. As of December 31, 2011, the Company was in compliance with the financial covenants in its debt agreements.

Off-Balance Sheet Arrangements The Company enters into various arrangements not recognized in the consolidated balance sheets that have or could have an effect on its financial condition, results of operations, liquidity, capital expenditures or capital resources. The principal off-balance sheet arrangements that the Company enters into are guarantees and sales of finance receivables. The Company provides its global operations guarantees and standby letters of credit through various financial institutions to suppliers, regulatory agencies and insurance providers. If the Company is not able to make payment, the suppliers, regulatory agencies and insurance providers may draw on the pertinent bank. Refer to note 14 to the 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 consolidated balance sheets and recording gains and losses in the consolidated statement of operations.

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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 consolidated financial statements. The consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP 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 receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, guarantee obligations, and assumptions used in the calculation of income taxes, pension and postretirement benefits and customer incentives, among others. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors. Management monitors the economic conditions and other factors and will adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

The Company’s significant accounting policies are described in note 1 to the consolidated financial statements. Management believes that, of its significant accounting policies, its policies concerning revenue recognition, allowances for doubtful accounts, inventory reserves, goodwill, taxes on income and pensions and postretirement benefits are the most critical because they are affected significantly by judgments, assumptions and estimates. Additional information regarding these policies is included below.

Revenue Recognition In general, the Company records revenue when it is realized, or realizable and earned. The application of U.S. GAAP revenue recognition principles to the Company's customer contracts requires judgment, including the determination of whether an arrangement includes multiple deliverables such as hardware, software, maintenance and/or other services. For contracts that contain multiple deliverables, total arrangement consideration is allocated at the inception of the arrangement to each deliverable based on the relative selling price method. The relative selling price method is based on a hierarchy consisting of vendor specific objective evidence (VSOE) (price sold on a stand-alone basis), if available, or third-party evidence (TPE), if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company's ESP is consistent with the objective of determining VSOE, which is the price at which we would expect to transact on a stand-alone sale of the deliverable. The determination of ESP is based on applying significant judgment to weigh a variety of company-specific factors including our pricing practices, customer volume, geography, internal costs and gross margin objectives, information gathered from experience in customer negotiations, recent technological trends and competitive landscape. In contracts that involve multiple deliverables, maintenance services are typically accounted for under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-20 Separately Priced Extended Warranty and Product Maintenance Contracts. There have been no material changes to these estimates for the periods presented and the Company believes that these estimates generally should not be subject to significant changes in the future. However, changes to deliverables in future arrangements could materially impact the amount of earned or deferred revenue.

For sales of software, which excludes software required for the equipment to operate as intended, the Company applies the software revenue recognition principles within FASB ASC 985-605, Software - Revenue Recognition. For software and software-related deliverables (software elements), the Company allocates revenue based upon the relative fair value of these deliverables as determined by VSOE. If the Company cannot obtain VSOE for any undelivered software element, revenue is deferred until all deliverables have been delivered or until VSOE can be determined for any remaining undelivered software elements. When the fair value of a delivered element has not been established, but fair value evidence exists for the undelivered software elements, the Company uses the residual method to recognize revenue. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement consideration is allocated to the delivered elements and recognized as revenue. Determination of amounts deferred for software support requires judgment about whether the deliverables can be divided into more than one unit of accounting and whether the separate deliverables have value to the customer on a stand-alone basis. There have been no material changes to these deliverables for the periods presented. However, changes to deliverables in future arrangements and the ability to establish VSOE could affect the amount and timing of revenue recognition.

Allowances for Doubtful Accounts The Company maintains allowances for potential credit losses, and such losses have been minimal and within management’s expectations. Since the Company’s receivable balance is concentrated primarily in the financial and government sectors, an economic downturn in these sectors could result in higher than expected credit losses. The concentration of credit risk in the Company’s trade receivables with respect to financial and government customers is largely mitigated by the

Company's credit evaluation process and the geographical dispersion of sales transactions from a large number of individual customers.

Inventory Reserves At each reporting period, the Company identifies and writes down its excess and obsolete inventories to net realizable value based on usage forecasts, order volume and inventory aging. With the development of new products, the Company also rationalizes its product offerings and will write-down discontinued product to the lower of cost or net realizable value.

Goodwill The Company tests all existing goodwill at least annually for impairment on a reporting unit basis. The Company's reporting units are defined as Domestic and Canada, Brazil, Latin America, Asia Pacific and EMEA. In 2011, the Company adopted the provisions of FASB Accounting Standards Update (ASU) 2011-08, Testing Goodwill for Impairment, and performed a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. In evaluating whether it is more likely than not the fair value of a reporting unit is less than its carrying amount, the Company considers the following events and circumstances, among others, if applicable: (a) macroeconomic conditions such as general economic conditions, limitations on accessing capital or other developments in equity and credit markets; (b) industry and market considerations such as competition, multiples or metrics and changes in the market for the Company's products and services or regulatory and political environments; (c) cost factors such as raw materials, labor or other costs, (d) overall financial performance such as cash flows, actual and planned revenue and earnings compared with actual and projected results of relevant prior periods; (e) other relevant events such as changes in key personnel, strategy or customers; (f) changes in the composition of a reporting unit's assets or expected sales of all or a portion of a reporting unit; and (g) any sustained decrease in share price. If the Company's qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the two-step impairment test described below is used to identify potential goodwill impairment and measure the amount of any impairment loss to be recognized.

In 2010 and 2009, goodwill was reviewed for impairment based on a two-step test. In the first step, the Company compares the fair value of each reporting unit with its carrying value. The fair value is determined based upon discounted estimated future cash flows as well as the market approach or guideline public company method. The Company's Step 1 impairment test of goodwill of a reporting unit is based upon the fair value of the reporting unit, defined as the price that would be received to sell the net assets or transfer the net liabilities in an orderly transaction between market participants at the assessment date (November 30). In the event that the net carrying amount exceeds the fair value, a Step 2 test must be performed whereby the fair value of the reporting unit's goodwill must be estimated to determine if it is less than its net carrying amount.

The techniques used in the Company's qualitative assessments, Step 1 impairment test and if necessary, Step 2 impairment test have incorporated a number of assumptions that the Company believes to be reasonable and to reflect market conditions forecast at the assessment date. Assumptions in estimating future cash flows are subject to a high degree of judgment. The Company makes all efforts to forecast future cash flows as accurately as possible with the information available at the time a forecast is made. To this end, the Company evaluates the appropriateness of its assumptions as well as its overall forecasts by comparing projected results of upcoming years with actual results of preceding years and validating that differences therein are reasonable. Key assumptions, all of which are Level 3 inputs (refer to note 18 of the consolidated financial statements), relate to price trends, material costs, discount rate, customer demand, and the long-term growth and foreign exchange rates. A number of benchmarks from independent industry and other economic publications were also used. Changes in assumptions and estimates after the assessment date may lead to an outcome where impairment charges would be required in future periods. Specifically, actual results may vary from the Company’s forecasts and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the conclusions may differ in reflection of prevailing market conditions.

The annual goodwill impairment tests for 2011 and 2009 resulted in no impairment in any of the Company’s reporting units. Management concluded during the Company’s annual goodwill impairment test for 2010 that all of the Company’s goodwill within the EMEA reporting unit was not recoverable and recorded a $168,714 non-cash impairment charge during the fourth quarter 2010.

Taxes on Income Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences, operating loss carry-forwards and tax credits. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

(dollars in thousands, except per share amounts)

The Company operates in numerous taxing jurisdictions and is subject to examination by various U.S., Federal, state and foreign jurisdictions for various tax periods. Additionally, the Company has retained tax liabilities and the rights to tax refunds in connection with various divestitures of businesses. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which the Company does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities may differ from actual payments or assessments.

The Company regularly assesses its position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of ASC 740. The Company has recorded an accrual that reflects the recognition and measurement process for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. Additional future income tax expense or benefit may be recognized once the positions are effectively settled.

At the end of each interim reporting period, the Company estimates the effective tax rate expected to apply to the full fiscal year. The estimated effective tax rate contemplates the expected jurisdiction where income is earned, as well as tax planning strategies. Current and projected growth in income in higher tax jurisdictions may result in an increasing effective tax rate over time. If the actual results differ from estimates, the Company may adjust the effective tax rate in the interim period if such determination is made.

Pensions and Other Postretirement Benefits Annual net periodic expense and benefit liabilities under the Company's defined benefit plans are determined on an actuarial basis. Assumptions used in the actuarial calculations have a significant impact on plan obligations and expense. Annually, management and the Investment Committee of the Board of Directors review the actual experience compared with the more significant assumptions used and make adjustments to the assumptions, if warranted. The discount rate is determined by analyzing the average return of high-quality (i.e., AA-rated) fixed-income investments and the year-over-year comparison of certain widely used benchmark indices as of the measurement date. The expected long-term rate of return on plan assets is determined using the plans' current asset allocation and their expected rates of return based on a geometric averaging over 20 years. The rate of compensation increase assumptions reflects the Company's long-term actual experience and future and near-term outlook. Pension benefits are funded through deposits with trustees. Other postretirement benefits are not funded and the Company's policy is to pay these benefits as they become due.

The following table represents assumed health care cost trend rates at December 31:

	2011		2010	
Healthcare cost trend rate assumed for next year	8.0	%	7.4	%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.2	%	4.2	%
Year that rate reaches ultimate trend rate	2099		2099	

The healthcare trend rates are reviewed based upon the results of actual claims experience. The Company used healthcare cost trends of 8.0 percent and 7.4 percent in 2012 and 2011, respectively, decreasing to an ultimate trend of

4.2 percent in 2099 for both medical and prescription drug benefits using the Society of Actuaries Long Term Trend Model with assumptions based on the 2008 Medicare Trustees' projections. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 58	$ (52)
Effect on other postretirement benefit obligation	1,010	(914)

RECENTLY ISSUED ACCOUNTING GUIDANCE

Refer to note 1 to the consolidated financial statements of this annual report on Form 10-K for information on recently issued accounting guidance.

FORWARD-LOOKING STATEMENT DISCLOSURE

In this annual report on Form 10-K, statements that are not reported financial results or other historical information are "forward-looking statements." Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. These forward-looking statements relate to, among other things, the Company's future operating performance, the Company's share of new and existing markets, the Company's short- and long-term revenue and earnings growth rates, the Company's implementation of cost-reduction initiatives and measures to improve pricing, including the optimization of the Company's manufacturing capacity. The use of the words "will," "believes," "anticipates," "plans," "projects," "expects," "intends" and similar expressions is intended to identify forward-looking statements that have been made and may in the future be made by or on behalf of the Company.

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

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

- competitive pressures, including pricing pressures and technological developments;
- changes in the Company's relationships with customers, suppliers, distributors and/or partners in its business ventures;
- changes in political, economic or other factors such as currency exchange rates, inflation rates, recessionary or expansive trends, taxes and regulations and laws affecting the worldwide business in each of the Company's operations, including Brazil, where a significant portion of the Company's revenue is derived;
- the amount of cash and non-cash charges in connection with the restructuring of the Company's EMEA 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 repatriate cash and cash equivalents and short-term investments residing in international tax jurisdictions could negatively impact foreign and domestic taxes;
- unanticipated litigation, claims or assessments, as well as the impact of any current or pending lawsuits;
- variations in consumer demand for financial self-service technologies, products and services;
- potential security violations to the Company's information technology systems;
- the investment performance of the Company's pension plan assets, which could require the Company to increase its pension contributions, and significant changes in health care costs, including those that may result from government

action;

- the amount and timing of repurchases of the Company’s common shares, if any;
- the outcome of the Company’s global FCPA review and any actions taken by government agencies in connection with the Company’s self disclosure, including the pending SEC investigation;
- the Company’s ability to achieve benefits from its cost-reduction initiatives and other strategic changes, including its restructuring actions; and
- the risk factors described above under Item 1A "Risk Factors.”

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to foreign currency exchange rate risk inherent in its international operations denominated in currencies other than the U.S. dollar. A hypothetical 10 percent movement in the applicable foreign exchange rates would have resulted in an increase or decrease in 2011 and 2010 year-to-date operating profit of approximately $7,909 and $13,603, respectively. The sensitivity model assumes an instantaneous, parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in an instantaneous or parallel fashion may overstate the impact of changing exchange rates on amounts denominated in a foreign currency.

The Company’s risk-management strategy uses derivative financial instruments such as forwards to hedge certain foreign currency exposures. The intent is to offset gains and losses that occur on the underlying exposures, with gains and losses on the derivative contracts hedging these exposures. The Company does not enter into derivatives for trading purposes. The Company’s primary exposures to foreign exchange risk are movements in the euro/U.S. dollar, U.S. dollar/Brazilian real, and Australian dollar/U.S. dollar. There were no significant changes in the Company’s foreign exchange risks in 2011 compared with 2010.

The Company’s Venezuelan operations consist of a fifty-percent owned subsidiary, which is consolidated. Venezuela is measured using the U.S. dollar as its functional currency because its economy is considered highly inflationary. In recent years, the Venezuelan bolivar has devalued. In the future, fluctuations in the bolivar may result in gains or losses in the statement of operations.

The Company manages interest rate risk with the use of variable rate borrowings under its committed and uncommitted credit facilities and interest rate swaps. Variable rate borrowings under the credit facilities totaled $324,472 and $262,769 at December 31, 2011 and 2010, respectively, of which $25,000 and $50,000, respectively, was effectively converted to fixed rate using interest rate swaps. A one percentage point increase or decrease in interest rates would have resulted in an increase or decrease in interest expense of approximately $2,896 and $2,392 for 2011 and 2010, respectively, including the impact of the swap agreements. The Company’s primary exposure to interest rate risk is movements in the London Interbank Offered Rate (LIBOR), which is consistent with prior periods.

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Diebold, Incorporated:

We have audited the accompanying consolidated balance sheets of Diebold, Incorporated and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity, and cash flows for each of the years in the three year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule, Schedule II "Valuation and Qualifying Accounts." These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Diebold, Incorporated and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 17, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting

/s/ KPMG LLP

Cleveland, Ohio
February 17, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Diebold, Incorporated:

We have audited Diebold, Incorporated's (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A(b) of the Company's December 31, 2011 annual report on Form 10-K. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Diebold Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diebold, Incorporated and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity, and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 17, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Cleveland, Ohio
February 17, 2012

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

	December 31, 2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$333,920	$328,658
Short-term investments	286,853	273,123
Trade receivables, less allowances for doubtful accounts of $22,128 and $24,868, respectively	414,969	404,501
Inventories	440,900	444,575
Deferred income taxes	114,250	106,160
Prepaid expenses	31,452	32,111
Refundable income taxes	14,467	19,654
Other current assets	95,544	105,254
Total current assets	1,732,355	1,714,036
Securities and other investments	74,869	76,138
Property, plant and equipment at cost	642,256	646,235
Less accumulated depreciation and amortization	449,562	442,773
Property, plant and equipment, net	192,694	203,462
Goodwill	253,063	269,398
Deferred income taxes	91,090	49,961
Other assets	173,372	206,795
Total assets	$2,517,443	$2,519,790
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable	$21,722	$15,038
Accounts payable	221,964	214,288
Deferred revenue	241,992	205,173
Payroll and benefits liabilities	79,854	78,515
Other current liabilities	258,685	296,751
Total current liabilities	824,217	809,765
Long-term debt	606,154	550,368
Pensions and other benefits	148,399	100,152
Other postretirement benefits	23,196	23,096
Deferred income taxes	32,029	31,126
Other long-term liabilities	25,188	15,469
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, 76,840,956 and 76,365,124 issued shares, 62,513,615 and 65,717,103 outstanding shares, respectively	96,051	95,456

Additional capital	327,805	308,699
Retained earnings	991,210	919,296
Treasury shares, at cost (14,327,341 and 10,648,021 shares, respectively)	(547,737)	(435,922)
Accumulated other comprehensive (loss) income	(40,343)	73,626
Total Diebold, Incorporated shareholders' equity	826,986	961,155
Noncontrolling interests	31,274	28,659