SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2007-03-01** | Period of Report: **2006-12-31**
SEC Accession No. 0000950152-07-001690

(HTML Version on secdatabase.com)

FILER

DIEBOLD INC

CIK:**28823**| IRS No.: **340183970** | State of Incorp.:**OH** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-04879** | Film No.: **07664736**
SIC: **3578** Calculating & accounting machines (no electronic computers)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from __________ to __________

Commission file number 1-4879

DIEBOLD, INCORPORATED

(Exact name of Registrant as specified in its charter)

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

Registrant’ s telephone number, including area code: (330) 490-4000

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☑ No ☐

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 ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark 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.

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☐

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

Large accelerated Filer ☑ Accelerated Filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2006, the last business day of the Registrant' s most recently completed second fiscal quarter. The aggregate market value was computed by using the closing price on the New York Stock Exchange on June 30, 2006 of $40.62 per share.

Common Shares, Par Value $1.25 per Share	$2,629,410,875

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

Class	Outstanding at February 26, 2007
Common Shares $1.25 Par Value	65,706,215

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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:

(1) Diebold, Incorporated Annual Report to shareholders for the year ended December 31, 2006, portions of which are incorporated by reference into Parts I and II of this Form 10-K; and

(2) Diebold, Incorporated Proxy Statement for 2007 Annual Meeting of Shareholders to be held April 26, 2007, 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)

(a) General Development of Business

The company was incorporated under the laws of the state of Ohio in August 1876, succeeding a proprietorship established in 1859, and is engaged primarily in the sale, manufacture, installation and service of automated self-service transaction systems, electronic and physical security products, election systems and software. The company specializes in technology that empowers people worldwide to access services when, where and how they may choose. In 2002, the company acquired Global Election Systems Inc., subsequently renamed Diebold Election Systems, Inc. (DESI), a manufacturer and supplier of elections systems and support, to mark its launch into the election systems market.

Additional information regarding developments in the company' s business can be found in the 2006 Annual Report to shareholders under the caption "Management' s Discussion and Analysis of Financial Condition and Results of Operations" and in Note 17 to the Consolidated Financial Statements, which are incorporated herein by reference.

(b) Financial Information about Segments

The company' s segments comprise its three main sales channels: Diebold North America (DNA), Diebold International (DI) and Election Systems (ES) & Other. The DNA segment sells financial and retail systems, and also 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. The ES & Other segment includes the operating results of DESI beginning in 2002 and the voting and lottery related business in Brazil.

Segment financial information can be found in the 2006 Annual Report to shareholders in Note 16 to the Consolidated Financial Statements, which is incorporated herein by reference.

(c) Narrative Description of Business

The company develops, manufactures, sells and services self-service transaction systems, electronic and physical security systems, software and various products used to equip bank facilities and electronic voting terminals. The company' s primary customers include banks and financial institutions, as well as public libraries, government agencies, utilities and various retail outlets. Sales of systems and equipment are made directly to customers by the company' s sales personnel and by manufacturers' representatives and distributors globally. The sales/ support organization works closely with customers and their consultants to analyze and fulfill the customers' needs. In 2006, 2005 and 2004, the company' s sales and services of financial systems and equipment and security solutions accounted for more than 92 percent of consolidated net sales.

Product Groups

Self-Service Products

The company offers an integrated line of self-service banking products and Automated Teller Machines (ATMs). The company is a leading global supplier of ATMs and holds the leading market position in many countries around the world.

Physical Security and Facility Products

The company' s Physical Security and Facility Products division designs and manufactures several of the company' s financial service solutions offerings, including the RemoteTeller™ System (RTS). The business unit also develops vaults, safe deposit boxes and safes, drive-up banking equipment and a host of other banking facilities products.

Election Systems

The company, through its wholly-owned subsidiaries DESI and Procomp Industria Eletronica S.A., is one of the largest electronic voting system providers in the world.

Integrated Security Solutions

Diebold Integrated Security Solutions provide global sales, service, installation, project management and monitoring of original equipment manufacturer (OEM) electronic security products to financial, government, retail and commercial customers. These solutions provide the company' s customers a single-source solution to their electronic security needs.

Software Solutions and Services

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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.

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The company also provides professional services to assist in the implementation of software solutions. These services include communication network review, systems integration, custom software and project management that encompass all facets of a successful financial self-service implementation.

Operations

The principal raw materials used by the company are steel, plastics, and electronic components, which are purchased from various major suppliers. Electronic parts and components are also procured from various suppliers. These materials and components are generally available in quantity at this time.

The company had no customers that accounted for more than 10 percent of total net sales in 2006, 2005 and 2004.

The company' s operating results and the amount and timing of revenue are affected by numerous factors including production schedules, customer priorities, sales volume and sales mix. During the past several years, the company has dramatically changed the focus of its self-service business to that of a total solutions approach. The value of unfilled orders is not as meaningful an 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 and does not disclose backlog information.

The company carries working capital mainly related to accounts receivable and inventories. Inventories, generally, are only manufactured as orders are received from customers. The company' s normal and customary payment terms are net 30 days from date of invoice. The company generally does not offer extended payment terms. The company' s government customers represent a small portion of the company' s business. Typically, 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. In general, the company recognizes revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refunds or return rights affecting the revenue recognized for the delivered elements.

Competition

All phases of the company' s business are highly competitive; some products being in competition directly with similar products and others competing with alternative products having similar uses or producing similar results. The company believes, based upon outside independent industry surveys, that it is a leading manufacturer of self-service systems in the United States and is also a market leader internationally. In the area of automated transaction systems, the company competes primarily with NCR Corporation, Wincor-Nixdorf, Triton, and Itautec. In serving the security products market for the financial services industry, the company competes with national, regional and local security companies. Of these competitors, some compete in only one or two product lines, while others sell a broader spectrum of products competing with the company. However, 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. Many smaller manufacturers of safes, surveillance cameras, alarm systems and remote drive-up equipment are found in the market.

In the rapidly growing election systems market, the company is emerging as the leader in providing product solutions and support for the United States and internationally. Competition in this market is from smaller, privately held niche companies.

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.

Research, Development & Engineering

The company charged to expense $70,995 in 2006, $60,409 in 2005 and $58,759 in 2004 for research, development and engineering costs.

Environmental

Compliance by the company with federal, state and local environmental protection laws during 2006 had no material effect upon capital expenditures, earnings or the competitive position of the company and its subsidiaries.

Employees

The total number of employees at December 31, 2006 was 15,451 compared with 14,603 at the end of the preceding year. Diebold' s service staff is one of the financial industry' s largest, with professionals in more than 600 locations worldwide.

Additional information regarding the company' s sales, results of operations, liquidity and capital resources is discussed in "Managements Discussion and Analysis of Financial Condition and Results of Operations" in the 2006 Annual Report to shareholders.

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(d) Financial Information about Geographic Areas

Sales to customers outside the United States in relation to total consolidated net sales were $1,349,053 or 46.4 percent in 2006, $1,087,604 or 42.0 percent in 2005 and $935,769 or 39.7 percent in 2004.

Property, plant and equipment, at cost, located in the United States totaled $336,908, $368,806 and $391,209 as of December 31, 2006, 2005 and 2004, respectively, and property, plant and equipment, at cost, located outside the United States totaled $152,280, $121,591 and $111,531 as of December 31, 2006, 2005 and 2004, respectively.

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.

Additional information regarding the company' s international operations is included in the 2006 Annual Report to shareholders in Note 16 to the Consolidated Financial Statements and in "Management' s Discussion and Analysis of Financial Condition and Results of Operations", which is incorporated herein by reference.

(e) Additional Information

The company' s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available, free of charge, on or through its website, www.diebold.com, as soon as practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Additionally, these reports can be furnished free of charge to shareholders upon written request to Diebold Global Communication at the corporate address, or call +1 330 490-3790 or [800] 766-5859.

ITEM 1A. RISK FACTORS.

The following are certain risk factors that could affect the business, financial condition, operating results and cash flows of the company. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this annual report on Form 10-K because these risk factors could cause the company' s actual results to differ materially from those expressed in any forward-looking statement. The risks the company has highlighted below are not the only ones the company faces. If any of these events actually occur, the company' s business, financial condition, operating results or cash flows could be negatively affected. The company cautions the reader to keep in mind these risk factors and to refrain from attributing undue certainty to any forward-looking statements, which speak only as of the date of this annual report.

Demand for and supply of the company' s products and services may be adversely affected by numerous factors, some of which the company cannot predict or control, which could adversely affect the company' s results of operations.

Numerous factors may affect the demand for and supply of the company' s products and services, including:

- changes in the market acceptance of the company' s products and services;
- customer and competitor consolidation;
- changes in customer preferences;
- declines in general economic conditions; and
- changes in environmental regulations that would limit the company' s ability to sell products and services in specific markets.

If any of these factors occur, the demand for and supply of the company' s products and services could suffer, which would adversely affect the company' s results of operations.

Increased raw material and energy costs could reduce the company' s income.

The primary raw materials in the company' s financial self-service, security and election systems business segments are steel, plastics and electronic components. The majority of the company' s raw materials are purchased from various local, regional and global suppliers pursuant to long-term supply contracts. However, the price of these materials fluctuates under these contracts in tandem with the prices of raw materials that are used in the manufacture of the company' s products.

In addition, energy prices, particularly petroleum, are cost drivers for the company' s business. In recent years, the price of petroleum has been highly volatile, particularly due to the unstable political conditions in the Persian Gulf. Any increase in the costs of energy would also increase the company' s transportation costs. Although the company attempts to pass on higher raw material and energy costs to the company' s customers, given the company' s competitive markets, it is often not possible to pass on all of these increased costs.

The company' s sales and operating results are sensitive to global economic conditions and cyclicality and could be adversely affected during economic downturns.

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Demand for the company' s products is affected by general economic conditions and the business conditions of the industries in which the company sells our products and services. The business of most of the company' s customers, particularly our financial institution and election systems customers, is, to varying degrees, cyclical and has historically experienced periodic downturns. Any future downturns in general economic conditions could adversely affect the demand for our products and services and our sales and operating results. In addition, downturns in our customers' industries, even during periods of strong general economic conditions, could adversely affect our sales and our operating results. Additionally, the unstable political conditions in the Persian Gulf could lead to financial, economic and political instability, which could lead to a further deterioration in general economic conditions.

The company may be unable to achieve, or may be delayed in achieving, our cost-cutting initiatives, which may adversely affect our results of operations and cash flow.

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

The company faces competition that could adversely affect our sales and financial condition.

All phases of the company' s business are highly competitive; some products being in competition directly with similar products and others competing with alternative products having similar uses or producing similar results. The company encounters competition in price, delivery, service, performance, product innovation, product recognition and quality.

Because of the potential for consolidation in any market, the company' s 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, which could also reduce the company' s profitability.

The company' s competitors can be expected to continue to develop and introduce new and enhanced products, which could cause a decline in market acceptance of the company' s products. In addition, the company' s competitors could cause a reduction in the prices for some of the company' s products as a result of intensified price competition. Also, the company may be unable to effectively anticipate and react to new entrants in the marketplace for the company' s products.

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

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

The company generates a significant percentage of our revenue from sales and service operations conducted outside the United States. Revenue from international operations amounted to approximately 46.4% in 2006, 42.0% in 2005 and 39.7% in 2004 of total revenue during these respective periods.

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

- fluctuations in currency exchange rates;
- transportation delays and interruptions;
- political and economic instability and disruptions;
- restrictions on the transfer of funds;
- the imposition of duties and tariffs;
- import and export controls;
- changes in governmental policies and regulatory environments;
- labor unrest and current and changing regulatory environments;
- the uncertainty of product acceptance by different cultures;
- the risks of divergent business expectations or cultural incompatibility inherent in establishing joint ventures with foreign partners;
- difficulties in staffing and managing multi-national operations;

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limitations on our ability to enforce legal rights and remedies;

reduced protection for intellectual property rights in some countries; and

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- potentially adverse tax consequences.

Any of these events could have an adverse effect on our international operations in the future by reducing the demand for our products, decreasing the prices at which the company can sell our products or otherwise having an adverse effect on our business, financial condition or results of operations. The company 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 the company may be subject. In addition, these laws or regulations may be modified in the future, and the company may not be able to operate in compliance with those modifications.

The failure of governments to certify election systems products may hinder our growth and harm our business.

The Help America Vote Act (HAVA) required that jurisdictions have HAVA-compliant equipment by January 1, 2006; however, despite that deadline, numerous jurisdiction have not yet become HAVA-compliant. Further, individual states and municipalities have the discretion as to how they will become compliant with HAVA. It is uncertain at this time the extent to which challenges raised about reliability and security of the company' s election systems products, including the risk that such products will not be certified for use or will be decertified, could adversely effect our business, financial condition and results of operation.

The company could be subject to differing and inconsistent laws, regulations and certification requirements with respect to our election systems products. If that were to happen, the company may find it necessary to eliminate, modify or cancel components of our services that could result in additional development costs and the possible loss of revenue. Future legislative changes or other changes in the laws could have an adverse effect on our business, financial condition and results of operations.

Our election systems products might not achieve market acceptance, which could adversely affect our growth.

The rate at which state and local government bodies have accepted electronic voting products has varied significantly by locale. Despite the passing of the HAVA deadline, the company expects to continue to experience variations in the degree to which these programs are accepted. The company' s ability to grow will depend on the extent to which our potential customers accept our products. This acceptance may be limited by:

- the failure of jurisdictions to certify our election systems products;
- jurisdictions decertifying products that had previously been certified;
- the failure of prospective customers to conclude that our products are valuable and should be used;
- the reluctance of our prospective customers to replace their existing solutions with our products; and
- marketing efforts of our competitors.

Concerns about security and negative publicity regarding our election systems segment could slow acceptance of our election systems products.

Because of the political nature of our election systems business, various individuals and advocacy groups may raise challenges in the media and elsewhere, including legal challenges, about the reliability and security of the company' s election systems products and services. Our election systems business is vulnerable to these types of challenges because the electronic elections systems industry is emerging. Furthermore, in the event of adverse publicity, whether directed at us or our competitors' products, due to processing errors or other system failures, the electronic election systems industry could suffer as a whole, which would have an adverse effect on our business, financial condition and results of operations. In addition, these efforts may adversely affect the company' s relations with its election systems customers.

The company is currently subject to securities class action litigation, the unfavorable outcome of which might have a material adverse effect on our financial condition, results of operations and cash flows.

A number of shareholder action lawsuits have been filed against us and certain of our current and former officers and directors, alleging violations of the federal securities laws and breaches of fiduciary duties with respect to the company' s 401(k) savings plan. The company believes that these lawsuits are without merit and the company intends to defend ourselves vigorously. The company cannot, however, 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 the company may suffer, our 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 to us, our financial condition, results of operations and cash flows might be materially adversely affected.

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

As part of our business strategy, the company frequently engages in discussions with third parties regarding possible investments, acquisitions, strategic alliances, joint ventures, divestitures and outsourcing arrangements and enter into agreements relating to such extraordinary transactions in order to further our business objectives. In order to pursue this strategy successfully, the company must identify suitable

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candidates for and successfully complete extraordinary 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 extraordinary

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transactions can be more pronounced for larger and more complicated transactions, or if multiple transactions are pursued simultaneously. If the company failed to identify and complete successfully extraordinary transactions that further our strategic objectives, the company may be required to expend resources to develop products and technology internally, the company may be at a competitive disadvantage or the company may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our revenue, gross margin and profitability.

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

combining product offerings and entering into new markets in which the company is 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 our incurring additional obligations in order 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 the 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.

The company evaluates and enters into extraordinary transactions on an ongoing basis. The company 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 extraordinary transactions require us to make estimates and assumptions at the time the company enters into these contracts, and, during the course of our due diligence, the company may not identify all of the factors necessary to estimate our costs accurately. Any increased or unexpected costs, unanticipated delays or failure to achieve contractual obligations could make these agreements less profitable or unprofitable.

Managing extraordinary transactions requires varying levels of management resources, which may divert our attention from other business operations. These extraordinary 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, the company could incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with extraordinary transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with an extraordinary transaction becomes impaired, the company may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, the company may issue common stock, potentially creating dilution for existing stockholders, or borrow funds, affecting our financial condition and potentially our credit ratings. Any prior or future downgrades in our credit rating associated with an acquisition 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 extraordinary transactions could impact our effective tax rate. The company also may experience risks relating to the challenges and costs of closing an extraordinary transaction and the risk that an announced extraordinary 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.

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

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate our confidential information or that of third parties, create system disruptions or cause shutdowns. As a result, the company could incur significant expenses in addressing problems created by security breaches of our network. Moreover, the company could lose existing or potential customers or incur significant expenses in connection with our customers' system failures. In addition, sophisticated hardware and operating system software and applications that the company 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 us to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could

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result in interruptions, delays or cessation of service that could impede our 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. The company 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 our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

In order to be successful, the company must attract, retain and motivate key employees, and failure to do so could seriously harm us.

In order to be successful, the company must attract, retain and motivate executives and other key employees, including those in managerial, administration, technical, sales, marketing and information technology support positions. The company 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.

The company 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, the company 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, the company has from time to time utilized external sources of financing. Depending upon general market conditions or other factors, the company may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

New product developments may be unsuccessful.

The company is constantly looking to develop new products and services that complement our traditional product and service offerings or leverage the underlying design or process technology of our traditional product and service offerings. The company makes significant investments in product and service technologies and anticipates 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 materially adversely affect the company's business, results of operations or financial condition.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

The company's corporate offices are located in North Canton, Ohio. It owns manufacturing facilities in Canton and Newark, Ohio; Lynchburg, Virginia, and Lexington, North Carolina. The company also has manufacturing facilities in Argentina, Belgium, Brazil, China, France, Hungary and India. The company has selling, service and administrative offices in the following locations: throughout the United States, and in Argentina, Australia, Austria, Barbados, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Ecuador, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Italy, Malaysia, Mexico, Namibia, Netherlands, New Zealand, 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.

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ITEM 3. LEGAL PROCEEDINGS.

At December 31, 2006, 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, results of operations or cash flow. In management' s opinion, the financial statements would not be materially affected by the outcome of any of these present legal proceedings, commitments or asserted claims.

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

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

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

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

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

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

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

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

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

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

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

The *Konkol, Ziolkowski, New Jersey Carpenter' s Pension Fund, Rein* and *Graham* cases, which allege violations of the federal securities laws, have been consolidated into a single proceeding and the court has appointed lead plaintiffs and lead plaintiffs' counsel. In addition, the *McDermott, Barnett, Farrell, Forbes* and *Gromek* cases, which allege breaches of fiduciary duties with respect to the 401(k) plan, have also been consolidated into a single proceeding, and lead plaintiffs and lead plaintiffs' counsel have been appointed. The company and the individual defendants deny the allegations made against them in each of these groups of cases, regard them as without merit, and intend to defend themselves vigorously.

Finally, the cases of *Recht v. O' Dell et al.*, No. 5:06CV233 (N.D. Ohio filed January 31, 2006) and *Wietschner v. Diebold, Inc., et al.*, No. 5:06CV418 (N.D. Ohio filed February 23, 2006), which assert claims, purportedly on behalf of the company, for breach of fiduciary duties against certain current and former officers and directors in connection with alleged violations of the federal securities laws, have also been consolidated into a single proceeding, and the court has appointed lead plaintiffs and lead plaintiffs' counsel.

Management is unable to determine the financial statement impact, if any, of the federal securities actions, the 401(k) actions and the derivative actions as of December 31, 2006.

The company was informed during the first quarter of 2006 that the staff of the SEC had begun an informal inquiry relating to the company' s revenue recognition policy. The SEC indicated in its letter to the company that the inquiry should not be construed as an indication by the SEC that there has been any violation of the federal securities laws. In the second quarter of 2006, the company was informed that the SEC' s inquiry had been converted to a formal, non-public investigation. The company is continuing to cooperate with the SEC in connection with the investigation. The company cannot predict the length, scope or results of the investigation, or the impact, if any, on its results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

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PART II.

ITEM 5. MARKET FOR THE 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 for the company for the periods indicated below are as follows:

	2006		2005		2004	
	High	Low	High	Low	High	Low
1st Quarter	$ 43.84	$ 36.40	$ 57.75	$ 51.70	$ 54.82	$ 46.61
2nd Quarter	46.35	39.15	57.80	44.85	52.87	43.88
3rd Quarter	44.90	36.93	50.21	33.78	52.79	44.96
4th Quarter	47.13	41.41	41.00	33.10	56.45	44.67
Full Year	$ 47.13	$ 36.40	$ 57.80	$ 33.10	$ 56.45	$ 43.88

There were approximately 59,047 shareholders at December 31, 2006, 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 quarterly dividends per share were $0.86, $0.82 and $0.74 in 2006, 2005 and 2004, respectively.

In December 2006, in connection with the acquisition of the remaining interest of Diebold, Colombia, S.A., the company issued 56,348 treasury shares. The treasury shares issued in connection with the acquisition were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(2) thereof.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a). Total Number of Shares Purchased (2)	(b). Average Price Paid per Share	(c). Total Shares Purchased as part of Publicly Announced Plan (1)	(d). Maximum Number of Shares that may yet be Purchased under the Plan (1)
October 2006	25,700	$ 42.83	25,700	996,500
November 2006	10,000	45.50	10,000	986,500
December 2006	91,350	45.93	60,000	926,500
Total	127,050	$ 45.05	95,700	926,500

(1) - The company purchased 95,700 common shares in the fourth quarter of 2006 pursuant to the company' s Stock Repurchase Plan (the Plan). The total number of shares repurchased as part of the Plan was 9,073,500 as of December 31, 2006. The Plan was approved by the Board of Directors in April 1997 and authorized the repurchase of up to two million shares. The Plan was amended in June 2004 to authorize the repurchase of an additional two million shares, and was further amended in August and December 2005 to authorize the repurchase of an additional six million shares. The Plan has no expiration date. On February 14, 2007, the Board of Directors approved an increase in the company' s share repurchase program by authorizing the repurchase of up to an additional two million shares of the company' s outstanding stock.

(2) - Includes 31,350 shares in December surrendered or deemed surrendered to the company in connection with stock-based compensation exercises and to satisfy tax withholding obligations in connection with the distribution of shares of stock under employee stock-based compensation plans.

ITEM 6. SELECTED FINANCIAL DATA.

The summary of selected financial data for the last six years is set forth in the 2006 Annual Report to shareholders in the table titled

"2006 – 2001 Diebold, Incorporated and Subsidiaries Selected Financial Data" and is incorporated herein by reference.

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

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"Management' s Discussion and Analysis of Financial Condition and Results of Operations" is set forth in the 2006 Annual Report to shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The disclosures about market risk required by this item are set forth in the 2006 Annual Report to shareholders within the "Quantitative and Qualitative Disclosures about Market Risk" section of "Management' s Discussion and Analysis of Financial Condition and Results of Operations", which is incorporated herein by reference. For further information relating to borrowings and interest rates, see the "Liquidity and Capital Resources" section of "Management' s Discussion and Analysis of Financial Condition and Results of Operations" and Notes 7 and 8 to the Consolidated Financial Statements, which are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data are included within the 2006 Annual Report to shareholders, and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes in accountants or disagreements with accountants on accounting and financial disclosures.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Disclosure Controls and Procedures

Under the direction of the Company' s chief executive officer and chief financial officer, management has evaluated the company' s disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(f), as in effect as of the end of the period covered by this annual report. Based on that evaluation, the chief executive officer and the chief financial officer have concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures are effective.

(b) Management' s Annual Report On Internal Control Over Financial Reporting

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management, under the supervision and with the participation of the company' s chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the company' s internal control over financial reporting as of December 31, 2006, based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The company concluded that its internal control over financial reporting was effective as of December 31, 2006.

KPMG LLP, the Company' s independent registered public accounting firm, has issued an auditors' report on management' s assessment of the effectiveness of the Company' s internal control over financial reporting as of December 31, 2006. This report is included as part of this annual report on Form 10-K.

(c) Changes In Internal Control Over Financial Reporting

There have been no changes in the company' s internal control over financial reporting during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the company' s internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information with respect to directors of the company, including the audit committee and the designated audit committee financial experts, is included in the company' s proxy statement for the 2007 Annual Meeting of Shareholders ("2007 Annual Meeting") and is incorporated herein by reference. Information with respect to any material changes to the procedures by which security holders may recommend nominees to the company' s board of directors is included in the company' s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference. The following table summarizes information regarding executive officers of the company:

Executive Officers of the Registrant

Name	Age	Title	Year Elected Present Office	Other Positions Held Last Five Years
Thomas W. Swidarski	48	President and Chief Executive Officer	2005	Oct-Dec 2005 President and Chief Operating Officer - Diebold, Inc. 2001-2005 Senior Vice President, Financial Self-Service Group - Diebold, Inc. 1999 - 2001 Vice President, Global Marketing - Diebold Inc.
Kevin J. Krakora	51	Executive Vice President and Chief Financial Officer	2006	Aug 2005-2006 Vice President and Chief Financial Officer 2001-2005 Vice President and Corporate Controller - Diebold, Inc. 1999-2001 Chief Financial Officer Teltek, Inc. [Electronic Components]
David Bucci	55	Senior Vice President, Customer Solutions Group	2001	1999-2001 Senior Vice President, North America - Diebold, Inc.
James L.M. Chen	46	Senior Vice President, EMEA/AP Divisions	2007	Apr 2006-Feb 2007 Vice President, EMEA/AP Divisions 1998-2006 Vice President and Managing Director, Asia Pacific
Charles E. Ducey, Jr.	51	Senior Vice President, Global Development and Services	2006	Jan-Apr 2006 Vice President, Global Development and Services 2001-2005 Vice President, Customer Service Solutions Diebold North America
George S. Mayes, Jr.	48	Senior Vice President, Global Manufacturing and	2006	2005-Apr 2006 Vice President, Manufacturing

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Executive Officers of the Registrant (continued)

Name	Age	Title	Year Elected Present Office	Other Positions Held Last Five Years
Dennis M. Moriarty	54	Senior Vice President, Global Security Division	2006	2001-Apr 2006 Vice President, Global Security Division
John M. Crowther	50	Vice President and Chief Information Officer	2004	2002 - 2004 Vice President and Chief Information Officer (non-executive) - Diebold, Inc. 1998 - 2002 Vice President and Chief Information Officer- Cummins, Inc. [Diversified Machinery]
Warren W. Dettinger	53	Vice President, General Counsel and Secretary	2004	1987 - 2004 Vice President and General Counsel - Diebold, Inc.
M. Scott Hunter	45	Vice President, Chief Tax Officer	2006	Jan 2006-Apr 2006 Vice President, Tax 2004-Jan 2006 Senior Tax Director 2003-2004 Director, Tax
John D. Kristoff	39	Vice President, Chief Communications Officer	2006	2005-Apr 2006 Vice President, Corporate Communications and Investor Relations 2004-2005 Vice President, Investor Relations 2001-2004 Director , Global Communications and Investor Relations
Michael R. Moore	50	Vice President and Corporate Controller	2005	2003-2005 Vice President of Finance and Administration, Diebold Brazil 1998-2003 Vice President, Finance and Group Controller, Diebold International
William E. Rosenberg	56	Vice President, Corporate Development	2004	2002 - 2004 Vice President, Corporate Development (non executive)- Diebold, Inc. 1999 - 2002 Senior Vice President and Chief Financial Officer - Creative Management Services, LLC [Designer & Manufacturer of Custom Trade Show Exhibits]

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Executive Officers of the Registrant (continued)

Name	Age	Title	Year Elected Present Office	Other Positions Held Last Five Years
Sheila M. Rutt	38	Vice President, Chief Human Resources Officer	2005	2002 - 2005 Vice President, Global Human Resources - Diebold, Inc. 2000-2002 Vice President, Human Resources, for Diebold North America
Robert J. Warren	60	Vice President and Treasurer	1990	–

There is no family relationship, either by blood, marriage or adoption, between any of the executive officers of the company.

Code of Ethics

The company has adopted a Business Ethics Policy that applies to its directors and officers (including its principal executive officer, principal financial officer and principal accounting officer) and employees. This policy is available on the company' s website at www.diebold.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Information with respect to Section 16(a) Beneficial Ownership Reporting Compliance is included in the company' s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information with respect to executive officer and directors compensation is included in the company' s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference. Information with respect to compensation committee interlocks and insider participation and the compensation committee report is included in the company' s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information with respect to security ownership of certain beneficial owners and management is included in the company' s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,191,223	$ 42.35	1,157,713
Equity compensation plans not approved by security holders	–	–	–
Total	4,191,223	$ 42.35	1,157,713

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

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Information with respect to certain relationships and related transactions and director independence is included in the company’ s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information with respect to principal accountant fees and services is included in the company’ s proxy statement for the 2007 Annual Meeting and is incorporated herein by reference.

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) 1. Documents filed as a part of this annual report.

The following Consolidated Financial Statements, notes thereto, the reports of independent registered public accounting firm, and supplemental data are included in the 2006 Annual Report to shareholders and are incorporated by reference in Item 8 of this annual report.

Consolidated Balance Sheets at December 31, 2006 and 2005

Consolidated Statements of Income for the Years Ended December 31, 2006, 2005 and 2004

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

(a) 2. Financial statement schedule

The following report and schedule are included in this Part IV, and are found in this annual report:

Report of Independent Registered Public Accounting Firm, and

Valuation and Qualifying Accounts.

All other schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(a) 3. Exhibits

	3.1 (i)	Amended and Restated Articles of Incorporation of Diebold, Incorporated − incorporated by reference to Exhibit 3.1 (i) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994. (Commission File No. 1-4879)
	3.1 (ii)	Code of Regulations − incorporated by reference to Exhibit 4(c) to Registrant's Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 33-32960.
	3.2	Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated − incorporated by reference to Exhibit 3.2 to Registrant's Form 10-Q for the quarter ended March 31, 1996. (Commission File No. 1-4879)
	3.3	Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated − incorporated by reference to Exhibit 3.3 to Registrant's Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879)
	4.1	Rights Agreement dated as of February 11, 1999 between Diebold, Incorporated and The Bank of New York − incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form 8-A, filed February 2, 1999. (Commission File No. 1-4879).
*	10.1	Form of Employment Agreement as amended and restated as of September 13, 1990 − incorporated by reference to Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990. (Commission File No. 1-4879).
*	10.2	Schedule of Certain Officers who are Parties to Employment Agreements - incorporated by reference to Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
*	10.5(i)	Supplemental Employee Retirement Plan I as amended and restated July 1, 2002 - incorporated by reference to Exhibit 10.5(i) to Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).

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*	10.5(ii)	Supplemental Employee Retirement Plan II as amended and restated July 1, 2002 – incorporated by reference to Exhibit 10.5(ii) to Registrant' s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
*	10.7(i)	1985 Deferred Compensation Plan for Directors of Diebold, Incorporated – incorporated by reference to Exhibit 10.7 to Registrant' s Annual Report on Form 10-K for the year ended December 31, 1992. (Commission File No. 1-4879)
*	10.7(ii)	Amendment No. 1 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated – incorporated by reference to Exhibit 10.7 (ii) to Registrant' s Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879).

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*	10.7(iii)	Amendment No. 2 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated – incorporated by reference to Exhibit 10.7 (ii) to Registrant' s Form 10-Q for the quarter ended March 31, 2003. (Commission File No. 1-4879).
*	10.7(iv)	2005 Deferred Compensation Plan for Directors of Diebold, Incorporated, effective as of January 1, 2005 – incorporated by reference to Exhibit 10.2 to Registrant' s Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
*	10.8(i)	1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 – incorporated by reference to Exhibit 4(a) to Form S-8 Registration Statement No. 333-60578.
*	10.8(ii)	Amendment No. 1 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 – incorporated by reference to Exhibit 10.8 (ii) to Registrant' s Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
*	10.8(iii)	Amendment No. 2 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 – incorporated by reference to Exhibit 10.8 (iii) to Registrant' s Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
*	10.8(iv)	Amendment No. 3 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 – incorporated by reference to Exhibit 10.8 (iv) to Registrant' s Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879).
*	10.9	Long-Term Executive Incentive Plan − incorporated by reference to Exhibit 10.9 to Registrant' s Annual Report on Form 10-K for the year ended December 31, 1993. (Commission File No. 1-4879).
*	10.10(i)	Amended and Restated 1992 Deferred Incentive Compensation Plan – incorporated by reference to Exhibit 10.10 (i) to Registrant' s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
*	10.10(ii)	2005 Deferred Incentive Compensation Plan, effective as of January 1, 2005 – incorporated by reference to Exhibit 10.2 to Registrant' s Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
*	10.11	Annual Incentive Plan − incorporated by reference to Exhibit 10.11 to Registrant' s Annual Report on Form 10-K for the year ended December 31, 2000. (Commission File No. 1-4879).
*	10.13(i)	Forms of Deferred Compensation Agreement and Amendment No. 1 to Deferred Compensation Agreement − incorporated by reference to Exhibit 10.13 to Registrant' s Annual Report on Form 10-K for the year ended December 31, 1996. (Commission File No. 1-4879).
*	10.13(ii)	Section 162(m) Deferred Compensation Agreement (as amended and restated January 29, 1998) − incorporated by reference to Exhibit 10.13 (ii) to Registrant' s Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879).
*	10.14	Deferral of Stock Option Gains Plan − incorporated by reference to Exhibit 10.14 to the Registrant' s Annual Report on Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879).
	10.17(i)	Amended and Restated Loan Agreement dated as of April 30, 2003 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. − incorporated by reference to Exhibit 10.17 to Registrant' s Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879).
	10.17(ii)	First Amendment to Loan Agreement, dated as of April 28, 2004 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. − incorporated by reference to Exhibit 10.17 (ii) to Registrant' s Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879).
	10.17(iii)	Second Amendment to Loan Agreement, dated as of April 27, 2005 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.) − incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on May 3, 2005. (Commission File No. 1-4879).

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10.17(iv) Third Amendment to Loan Agreement, dated as of November 16, 2005 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.) − incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on November 22, 2005. (Commission File No. 1-4879).

10.17(v) Fourth Amendment to Loan Agreement, dated November 27, 2006 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.).

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*	10.18(i)	Retirement and Consulting Agreement with Robert W. Mahoney – incorporated by reference to Exhibit 10.18 to Registrant' s Annual Report on Form 10-K for the year ended December 31, 2000. (Commission File No. 1-4879).
*	10.18(ii)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney – incorporated by reference to Exhibit 10.18 (ii) to Registrant' s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
*	10.18(iii)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney – incorporated by reference to Exhibit 10.18 (iii) to Registrant' s Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879).
*	10.18(iv)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney – incorporated by reference to Exhibit 10.18 (iv) to Registrant' s Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
*	10.18(v)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney – incorporated by reference to Exhibit 10.18 (v) to Registrant' s Form 10-Q for the quarter ended March 31, 2005. (Commission File No. 1-4879).
*	10.18(vi)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney, dated March 7, 2006 – incorporated by reference to Exhibit 10.2 to Registrant' s Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
	10.20(i)	Transfer and Administration Agreement, dated as of March 30, 2001 by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association and the financial institutions from time to time parties thereto– incorporated by reference to Exhibit 10.20 (i) to Registrant' s Form 10-Q for the quarter ended March 31, 2001. (Commission File No. 1-4879).
	10.20(ii)	Amendment No. 1 to the Transfer and Administration Agreement, dated as of May 2001, by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association and the financial institutions from time to time parties thereto – incorporated by reference to Exhibit 10.20 (ii) to Registrant' s Form 10-Q for the quarter ended March, 31, 2001. (Commission File No. 1-4879).
*	10.21	Separation Agreement with Eric C. Evans – incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on October 18, 2005. (Commission File No. 1-4879)
*	10.22	Form of Non-Qualified Stock Option Agreement – incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
*	10.23	Form of Restricted Share Agreement – incorporated by reference to Exhibit 10.2 to Registrant' s Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
*	10.24	Form of RSU Agreement – incorporated by reference to Exhibit 10.2 to Registrant' s Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
*	10.25	Form of Performance Share Agreement – incorporated by reference to Exhibit 10.2 to Registrant' s Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
*	10.26	Diebold, Incorporated Annual Cash Bonus Plan – incorporated by reference to Exhibit A to Registrants' Proxy Statement on Schedule 14A filed on March 16, 2005 (Commission File No. 1-4879).
	10.27	Form of Note Purchase Agreement – incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on March 8, 2006. (Commission File No. 1-4879).
*	10.28	Employment Agreement between Diebold, Incorporated and Thomas W. Swidarski– incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on May 1, 2006 (Commission File No. 1-4879).
*	10.29	Compromise Agreement between Diebold International Limited, Diebold, Incorporated and Daniel J. O' Brien– incorporated by reference to Exhibit 10.3 to Registrant' s Form 8-K filed on May 1, 2006 (Commission File No. 1-4879).

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*	10.30	Separation Agreement between Diebold, Incorporated and Michael J. Hillock, effective June 12, 2006 – incorporated by reference to Exhibit 10.1 to Registrant' s Form 8-K filed on June 16, 2006 (Commission File No. 1-4879).
	10.31	Letter Agreement (including Term Note) dated as of November 27, 2006, between Diebold, Incorporated and PNC Bank, N.A.
	13.1	Diebold, Incorporated 2006 Annual Report to shareholders (not deemed "filed" as part of this Form 10-K except for those portions that are expressly incorporated by reference).

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21.1	Subsidiaries of the Registrant as of December 31, 2006.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

* Reflects management contract or other compensatory arrangement required to be filed as an exhibit pursuant to Item 15(b) of this annual report.

(b) Refer to this Form 10-K for an index of exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIEBOLD, INCORPORATED

Date: March 1, 2007

By: /s/ Thomas W. Swidarski
Thomas W. Swidarski
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Thomas W. Swidarski Thomas W. Swidarski	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ Kevin J. Krakora Kevin J. Krakora	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
/s/ Michael R. Moore Michael R. Moore	Vice President and Corporate Controller (Principal Accounting Officer)	March 1, 2007
* Phillip R. Cox	Director	March 1, 2007
/s/ Louis V. Bockius III Louis V. Bockius III	Director	March 1, 2007
/s/ Richard L. Crandall Richard L. Crandall	Director	March 1, 2007
* Gale S. Fitzgerald	Director	March 1, 2007
* Phillip B. Lassiter	Director	March 1, 2007
* John N. Lauer	Director	March 1, 2007
/s/ William F. Massy William F. Massy	Director	March 1, 2007
/s/ Eric J. Roorda Eric J. Roorda	Director	March 1, 2007

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SIGNATURES (continued)

Signature	Title	Date
/s/ Henry D.G. Wallace Henry D.G. Wallace	Director	March 1, 2007
/s/ Alan J. Weber Alan J. Weber	Director	March 1, 2007

* The undersigned, by signing his name hereto, does sign and execute this Annual Report on Form 10-K pursuant to the Powers of Attorney executed by the above-named officers and directors of the Registrant and filed with the Securities and Exchange Commission on behalf of such officers and directors.

Dated: March 1, 2007

*By: /s/ Kevin J. Krakora
Kevin J. Krakora, Attorney-in-Fact

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Diebold, Incorporated:

Under date of March 1, 2007, we reported on the consolidated balance sheets of Diebold, Incorporated and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the aforementioned consolidated financial statements, we also audited Schedule II "Valuation and Qualifying Accounts" incorporated in the Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such 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.

/s/ KPMG LLP

Cleveland, Ohio
March 1, 2007

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DIEBOLD, INCORPORATED AND SUBSIDIARIES

SCHEDULE II − VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN THOUSANDS)

YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	Balance at beginning of year	Additions	Deductions	Balance at end of year
Year ended December 31, 2006				
Allowance for doubtful accounts	$ 27,216	$ 15,119	$ 12,584	$ 29,751
Year ended December 31, 2005				
Allowance for doubtful accounts	$ 10,176	$ 37,501	$ 20,461	$ 27,216
Year ended December 31, 2004				
Allowance for doubtful accounts	$ 8,713	$ 11,761	$ 10,298	$ 10,176

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EXHIBIT INDEX

EXHIBIT NO.	DOCUMENT DESCRIPTION
10.17(v)	Fourth Amendment to Loan Agreement, dated November 27, 2006 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.)
10.31	Letter Agreement (including Term Note) dated as of November 27, 2006, between Diebold, Incorporated and PNC Bank, N.A.
13.1	Diebold, Incorporated 2006 Annual Report to shareholders (not deemed “filed” as part of this Form 10-K except for those portions that are expressly incorporated by reference).
21.1	Significant Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

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Exhibit 10.17(v)

FOURTH AMENDMENT TO LOAN AGREEMENT

THIS FOURTH AMENDMENT TO LOAN AGREEMENT, dated as of November 27, 2006 (this "Amendment"), is among DIEBOLD, INCORPORATED, an Ohio corporation (the "Company"), the SUBSIDIARY BORROWERS (as defined in the Loan Agreement referred to below) (together with the Company, the "Borrowers"), the lenders set forth on the signature pages hereof (the "Lenders"), and JPMORGAN CHASE BANK, N.A., a national banking association, as agent for the Lenders (in such capacity, the "Agent").

RECITALS

A. The Borrowers, the Lenders party thereto and the Agent are parties to an Amended and Restated Loan Agreement dated as of April 30, 2003, as amended by a First Amendment to Loan Agreement dated as of April 28, 2004, a Second Amendment to Loan Agreement dated as of April 27, 2005 and a Third Amendment to Loan Agreement dated as of November 16, 2005 (the "Loan Agreement").

B. The Borrowers desire to amend the Loan Agreement as set forth herein, and the Agent and the Lenders are willing to do so in accordance with the terms hereof.

TERMS

In consideration of the premises and of the mutual agreements herein contained, the parties agree as follows:

ARTICLE I. AMENDMENTS. Upon fulfillment of the conditions set forth in Article III hereof, the Loan Agreement shall be amended as follows:

1.1 The following definition is added to Section 1.1 in appropriate alphabetical order:

"Brazilian Reorganization" means the plan of reorganization that the Company intends to implement in connection with its Brazilian Subsidiaries as substantially described in, and materially in accordance with the terms of, the Brazilian Reorganization Certificate.

"Brazilian Reorganization Certificate" means a certificate of the Company delivered to the Lenders in connection with the Fourth Amendment to this Agreement.

1.2 Section 6.10 is amended by re-designating clause (iv) thereof as clause (v) and adding the following new clause (iv):

(iv) The transfers among the Company and its Subsidiaries described in the Brazilian Reorganization Certificate to implement the Brazilian Reorganization.

1.3 Section 6.11 is amended by re-designating clause (v) thereof as clause (vi) and adding the following new clause (v):

(v) Investments described in the Brazilian Reorganization Certificate to implement the Brazilian Reorganization, provided that no Default or Unmatured Default exists at the time of such Investment.

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1.4 Section 6.14 is amended by adding the following to the end thereof: "and except for, if no Default or Unmatured Default exists at the time thereof, transactions described in the Brazilian Reorganization Certificate to implement the Brazilian Reorganization".

1.5 Section 6.15 is amended by re-designating clause (vii) thereof as clause (viii) and adding the following new clause (vii):

(vii) Indebtedness arising solely in connection with the Brazilian Reorganization and described in the Brazilian Reorganization Certificate, provided that no Default or Unmatured Default exists at the time such Indebtedness is incurred.

ARTICLE II. REPRESENTATIONS. Each of the Borrowers represents and warrants to the Agent and the Lenders that:

2.1 The execution, delivery and performance of this Amendment are within its powers, have been duly authorized by existing board resolutions or other necessary corporate action and are not in contravention of any statute, law or regulation or of any terms of its Articles of Incorporation, Certificate of Incorporation or By-laws or other charter documents, or of any material agreement or undertaking to which it is a party or by which it is bound.

2.2 This Amendment is the legal, valid and binding obligation of it, enforceable against it in accordance with the terms hereof, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

2.3 After giving effect to the amendments contained herein, the representations and warranties contained in Article V of the Loan Agreement are true on and as of the date hereof with the same force and effect as if made on and as of the date hereof, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall be true and correct on and as of such earlier date.

2.4 After giving effect to the amendments contained herein, no Default or Unmatured Default exists or has occurred and is continuing on the date hereof.

ARTICLE III. CONDITIONS OF EFFECTIVENESS. This Amendment shall become effective as of the date hereof when each of the following conditions is satisfied:

3.1 The Borrowers, the Required Lenders, the Swing Lender and the Agent shall have signed this Amendment.

3.2 The Lenders shall have received the Brazilian Reorganization Certificate.

3.3 The Guarantors shall have signed the consent and agreement to this Amendment.

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ARTICLE IV. MISCELLANEOUS.

4.1 References in the Loan Agreement or in any other Loan Document to the Loan Agreement shall be deemed to be references to the Loan Agreement as amended hereby and as further amended from time to time.

4.2 Except as expressly amended hereby, each of the Borrowers agrees that the Loan Agreement and the other Loan Documents are ratified and confirmed, as amended hereby, and shall remain in full force and effect in accordance with their terms and that they are not aware of any set off, counterclaim, defense or other claim or dispute with respect to any of the foregoing. Terms used but not defined herein shall have the respective meanings ascribed thereto in the Loan Agreement. This Amendment may be signed upon any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument, and telecopied signatures shall be effective as originals.

[Remainder of page intentionally blank]

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IN WITNESS WHEREOF, the Borrowers, the Lenders and the Agent have executed this Amendment as of the date first above written.

DIEBOLD, INCORPORATED

By: /s/ Kevin J. Krakora
Print Name: Kevin J. Krakora
Title: Executive Vice President and Chief Financial Officer

DIEBOLD INTERNATIONAL LIMITED, as a Subsidiary Borrower
DIEBOLD SELF-SERVICE SOLUTIONS LIMITED LIABILITY
COMPANY, as a Subsidiary Borrower
DIEBOLD AUSTRALIA PTY LTD, as a Subsidiary Borrower

By: /s/ Kevin Krakora
Print Name: Kevin Krakora
Title: Executive Vice President and Chief Financial Officer

JPMORGAN CHASE BANK, N.A., as Agent and as a Lender

By: /s/ Steven P. Sullivan
Print Name: Steven P. Sullivan
Title: Vice President

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KEYBANK NATIONAL ASSOCIATION, as a
Co-Syndication Agent and as a Lender

By: /s/ Thomas J. Purcell
Print Name: Thomas J. Purcell
Title: Senior Vice President

NATIONAL CITY BANK, as a Co-Syndication Agent
and as a Lender

By: /s/ Matthew J. Gausman
Print Name: Matthew J. Gausman
Title: Assistant Vice President

BANK OF AMERICA, N.A., as a Documentation Agent
and as a Lender

By: /s/ Irene Bertozzi Bartenstein
Print Name: Irene Bertozzi Bartenstein
Title: Principal

PNC BANK, NATIONAL ASSOCIATION, as a
Documentation Agent and as a Lender

By: /s/ Joseph G. Moran
Print Name: Joseph G. Moran
Title: Managing Director

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THE BANK OF NEW YORK, as a Managing Agent
and as a Lender

By: /s/ Kenneth R. McDonnell
Print Name: Kenneth R. McDonnell
Title: Vice President

U.S. BANK, N.A.

By: ______________________
Print Name: ______________________
Title: ______________________

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ Tsuguyuki Umene
Print Name: Tsuguyuki Umene
Title: Deputy General Manager

HSBC BANK USA, N.A.

By: /s/ Bruce Wicks
Print Name: Bruce Wicks
Title: First Vice President

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ABN AMRO BANK N.V.

By: /s/ Larry D. Richman
Print Name: Larry D. Richman
Title: President Commercial Banking

By: /s/ Roy D. Hasbrook
Print Name: Roy D. Hasbrook
Title: Senior Vice President

THE GOVERNOR AND COMPANY OF THE BANK OF IRELAND

By: /s/ Anne Marie Delaney
Print Name: Anne Marie Delaney
Title: Associate

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CONSENT AND AGREEMENT

As of the date and year first above written, each of the undersigned hereby:

(a) fully consents to the terms and provisions of the above Amendment and the consummation of the transactions contemplated thereby;

(b) agrees that the Guaranty to which it is a party and each other Loan Document to which it is a party are hereby ratified and confirmed and shall remain in full force and effect, acknowledges and agrees that it has no setoff, counterclaim, defense or other claim or dispute with respect the Guaranty to which it is a party and each other Loan Document to which it is a party; and

(c) represents and warrants to the Agent and the Lenders that the execution, delivery and performance of this Consent and Agreement are within its powers, have been duly authorized and are not in contravention of any statute, law or regulation or of any terms of its organizational documents or of any material agreement or undertaking to which it is a party or by which it is bound, and this Consent and Agreement is the legal, valid and binding obligations of it, enforceable against it in accordance with the terms hereof and thereof. Terms used but not defined herein shall have the respective meanings ascribed thereto in the Loan Agreement.

DIEBOLD INVESTMENT COMPANY
DIEBOLD FINANCE COMPANY, INC.

By: /s/ Jeffrey K. Simpson
Print Name: Jeffrey K. Simpson
Their: President and Assistant Secretary

DIEBOLD HOLDING COMPANY, INC.
DIEBOLD ELECTION SYSTEMS, INC.

By: /s/ Warren W. Dettinger
Print Name: Warren W. Dettinger
Their: Vice President and Secretary

DIEBOLD GLOBAL FINANCE CORPORATION
DIEBOLD SST HOLDING COMPANY, INC.
DIEBOLD SELF-SERVICE SYSTEMS
DIEBOLD CHINA SECURITY HOLDING COMPANY, INC.
DIEBOLD LATIN AMERICA HOLDING COMPANY, INC.
DIEBOLD SOUTHEAST MANUFACTURING, INC.
DIEBOLD MIDWEST MANUFACTURING, INC.
DIEBOLD AUSTRALIA HOLDING COMPANY, INC.

By: /s/ Warren W. Dettinger
Print Name: Warren W. Dettinger
Their: Vice President and Secretary

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Exhibit 10.31

November 27, 2006

Diebold, Incorporated
5995 Mayfair Road
P.O. Box 3077
North Canton, OH 44720-8077

Attention: Robert Warren

Re: $100,000,000.00 Term Loan

Dear Mr. Warren:

We are pleased to inform you that PNC Bank, National Association (the "**Bank**"), has approved your request for a term loan to Diebold, Incorporated (the "**Borrower**"). We look forward to this opportunity to help you meet the financing needs of your business. All the details regarding your term loan are outlined in the following sections of this letter.

1. **Facility and Use of Proceeds.** This is a term loan in the amount of $100,000,000.00 (the "**Term Loan**" or the "**Loan**"), which amount the Bank shall deliver in immediately available funds to the account of the Borrower specified in Exhibit A hereto. The proceeds of the Term Loan will be used to fund the Brazilian Reorganization. As used herein, the term "**Brazilian Reorganization**" refers to that series of transactions materially as set forth in an officer' s certificate of the Borrower, dated as of the date hereof, provided to the Bank.

2. **Note.** The obligation of the Borrower to repay the Term Loan shall be evidenced by a term note (the "**Note**") in form and content satisfactory to the Bank.

This letter (the "**Letter Agreement**"), the Note and the other agreements and documents executed and/or delivered pursuant hereto, as each may be amended, modified, extended or renewed from time to time, will constitute the "**Loan Documents.**" Capitalized terms not defined herein shall have the meaning ascribed to them in the Loan Documents.

3. **Interest Rate.** Interest on the Term Loan will be charged at the rates, and be payable on the dates and times, set forth in the Note.

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4. **Repayment.** Interest on the Term Loan shall be payable as set forth in the Note to and including December 27, 2006, on which date the outstanding principal and accrued interest thereon will be due and payable. The Borrower shall have the right, at its election, to prepay the outstanding amount of the Loan, as a whole or in part, at any time without penalty or premium; provided that any full or partial prepayment of any Loans bearing interest at LIBOR made on a day other than the last day of the Interest Period relating thereto shall be subject to the payment of additional costs described in Section 7 of the Note; provided further, that any partial prepayment shall be in the amount of $10,000,000.00 or a multiple of $10,000,000.00 in excess thereof and shall be accompanied by the payment of accrued interest on the principal amount prepaid to the date of prepayment.

5. **Covenants.** The Borrower agrees that from the date of execution of this Letter Agreement until the Loan have been paid in full, the Borrower will:

(a) **Books and Records.** Permit the Bank, by its representatives and agents, to reasonably inspect the financial or accounting records of the Borrower and other documents of the Borrower, in each case only to the extent any of the foregoing is reasonably related to the credit evaluation by the Bank under this Letter Agreement, to examine and make copies of such records and documents of the Borrower, and to discuss the affairs, finances and accounts of the Borrower with, and to be advised as to the same by, its officers upon reasonable prior notice at such reasonable times and intervals as the Bank may designate.

(b) **Financial Statements; Other Information.**

(i) The Borrower will deliver to the Bank:

(A) Financial Statements for its fiscal year, within 90 days after each fiscal year end after the date hereof, audited and certified without qualification by a certified public accountant acceptable to the Bank;

(B) Financial Statements for each of the first three fiscal quarters of each fiscal year after the date hereof, within 45 days after the quarter end, together with year-to-date and comparative figures for the corresponding periods of the prior year, certified as true and correct by its chief financial officer; and

(C) With each delivery of Financial Statements, a certificate of the Borrower' s chief financial officer as to the Borrower' s compliance with the financial covenants set forth below, if any, for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take. This certificate shall set forth all detailed calculations necessary to demonstrate such compliance.

As used herein, "**Financial Statements**" means the consolidated balance sheet and statements of income and cash flows prepared in accordance with generally accepted

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accounting principles in effect from time to time ("**GAAP**") applied on a consistent basis (subject in the case of interim statements to normal year-end adjustments and the absence of footnotes).

(ii) The Borrower will promptly submit to the Bank such other information as the Bank may reasonably request relating to the Borrower' s affairs (including but not limited to non-financial information).

(c) **Payment of Taxes and Other Charges.** Timely file complete and correct United States federal and applicable foreign, state and local tax returns required by law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or property, except those that are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with generally accepted accounting principles, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. As used herein, "**Material Adverse Effect**" means a material adverse effect on (i) the business, property, condition (financial or otherwise) or results of operations of the Borrower and its subsidiaries taken as a whole, (ii) the ability of the Borrower to pay the obligations under the Loan Documents, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Bank thereunder.

(d) **Maintenance of Existence, Operation and Assets.** Carry on and conduct its business in substantially the same fields of enterprise as it is presently conducted or fields related thereto or extensions thereof (taking the Borrower and its subsidiaries on a consolidated basis) and do all things necessary to remain duly incorporated or organized, validly existing and (to the extent such concept applies to such entity) in good standing as a corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted, unless the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(e) **Insurance.** Maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts (with such customary deductibles, exclusions and self-insurance) and covering such risks as is consistent with sound business practice.

(f) **Compliance with Laws.** Comply with all Requirements of Law, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. As used herein, "**Requirements of Law**" means, as to any person, the certificate of incorporation and by-laws or other organizational or governing documents of such person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other governmental authority, in each case applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

(g) **Additional Reports.** Provide prompt written notice to the Bank of the occurrence of any of the following (together with a description of the action which the Borrower proposes to take with respect thereto): (i) any Event of Default or any event, act or condition which, with the passage

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of time or the giving of notice, or both, would constitute an Event of Default, or (iv) any event which could reasonably be expected to have a Material Adverse Effect.

(h) **Financial Covenants.** The Bank and the Borrower agree that the financial covenants set forth in Sections 6.18 and 6.19 of that certain Amended and Restated Loan Agreement dated as of April 30, 2003 among the Borrower, certain subsidiaries of Borrower party thereto, the lenders party thereto and JP Morgan Chase Bank, N.A. (as successor to Bank One, N.A.) as agent (the "**Other Loan Document**"), are hereby incorporated herein by this reference (together with the definitions of all defined terms used in such sections) as if set forth herein at length, as any of the foregoing have been or may be amended, modified or supplemented from time to time (the "**Incorporated Provisions**"). Any amendments, modifications, waivers or other changes in the terms of any of the Incorporated Provisions shall automatically constitute an amendment to this Letter Agreement without any need for further action or documentation. Notwithstanding the foregoing, any amendments, modifications, waivers or other such changes to any Incorporated Provision which operate to waive or prevent the occurrence of a default or "Event of Default" under the Other Loan Document shall not be effective to waive or prevent the occurrence of an Event of Default under this Letter Agreement unless consented to in writing by the Bank in its sole discretion. Prior to or promptly upon the occurrence of any amendment, modification, waiver or other change described in the preceding sentence, the Borrower shall provide written notice to the Bank thereof and a request for consent thereto, such notice to specifically describe such change and the reasons therefor and include a true and complete copy of any and all documents and agreements executed to evidence such change. No action, inaction or delay by the Bank (either before or after the Bank receives a notice described in the preceding sentence) shall constitute a waiver of any of the Bank' s rights under this paragraph. Notwithstanding the foregoing, any consent by the Bank in its capacity as a lender under the Other Loan Document to any amendment, modification, waiver or other change to any of the Incorporated Provisions shall, only in such instance and with respect to such instance, void any requirement herein for the Borrower to notify the Bank thereof or obtain any additional consent thereto and any such amendment, modification, waiver or other change shall with no further action required be effective with respect to this Letter Agreement as well. If the Other Loan Document terminates or otherwise ceases to be in full force and effect at any time and for any reason, whether by voluntary termination, upon default, acceleration, at maturity or otherwise (a "**Termination**"), all of the Incorporated Provisions of the Other Loan Document shall survive the Termination and shall continue in full force and effect as a part of this Letter Agreement. At any time after a Termination, the Borrower shall promptly upon the Bank' s request execute and deliver to the Bank a supplement to this Letter Agreement, which supplement will expressly incorporate into this Letter Agreement all or any number of the Incorporated Provisions of the terminated Other Loan Document as the Bank in its sole discretion shall select, as such Incorporated Provisions are in effect immediately prior to the date of Termination.

6. **Representations and Warranties.** To induce the Bank to extend the Loan, the Borrower hereby makes the following representations and warranties as of the date hereof:

(a) **Existence.** The Borrower is duly organized, validly existing and in good standing under the laws of the state of its incorporation and has the power and authority to own and operate its assets and to conduct its business as now or proposed to be carried on.

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(b) **Power and Authority.** The Borrower is duly authorized to execute and deliver the Loan Documents, all necessary action to authorize the execution and delivery of the Loan Documents has been properly taken, and the Borrower is duly authorized to borrow under this Letter Agreement and to perform all of the other terms and provisions of the Loan Documents.

(c) **Financial Statements; No Material Adverse Change.** All Financial Statements heretofore delivered to the Bank were prepared in accordance with generally accepted accounting principles in effect on the date such statements were prepared and fairly present in all material respects the consolidated financial condition and operations of the Borrower. Since the date of the latest Financial Statements provided to the Bank, the Borrower there has been no change in the business, property, prospects, condition (financial or otherwise) or results of operations of the Borrower and its subsidiaries which could reasonably be expected to have a Material Adverse Effect.

(d) **Title to Assets.** The Borrower has good title to the assets reflected on the most recent Financial Statements as owned by it, except for assets disposed of by the Borrower in the ordinary course of business since the date of the most recent Financial Statements.

(e) **Litigation.** There are no actions, suits, proceedings or governmental investigations pending or, to the knowledge of the Borrower' s executive officers, threatened against or affecting the Borrower which could reasonably be expected to have a Material Adverse Effect.

(f) **Tax Returns.** The Borrower has filed all United States federal tax returns and all other material returns and reports that are required to be filed by it by any governmental authority and have paid all taxes shown as due pursuant to said returns or pursuant to any assessment received by the Borrower by any governmental authority, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with GAAP. .

(g) **Binding Obligations.** The Borrower has full power and authority to enter into the transactions provided for in this Letter Agreement and has been duly authorized to do so by appropriate action of its Board of Directors or otherwise as may be required by law, charter, other organizational documents or agreements; and the Loan Documents, when executed and delivered by the Borrower, will constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their terms.

(h) **No Defaults or Violations.** There does not exist any Event of Default under this Letter Agreement and the consummation of this Letter Agreement and the lending transactions contemplated herein will not result in any default by the Borrower under, or violation by the Borrower of, any of the terms, conditions or obligations of: (i) its organizational documents; (ii) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement, or other instrument to which it is a party or by which it is bound; or (iii) any law, ordinance, regulation, ruling, order, injunction, decree, condition or other requirement applicable to or imposed upon it by any law, the action of any court or any governmental authority or agency.

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(i) **Employee Benefit Plans.** Each employee benefit plan as to which the Borrower may have any liability complies in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974 (as amended from time to time, "**ERISA**"), including minimum funding requirements, and (i) no Prohibited Transaction (as defined under ERISA) has occurred with respect to any such plan, (ii) no Reportable Event (as defined under Section 4043 of ERISA) has occurred with respect to any such plan which would cause the Pension Benefit Guaranty Corporation to institute proceedings under Section 4042 of ERISA, (iii) the Borrower has not withdrawn from any such plan or initiated steps to do so, and (iv) no steps have been taken to terminate any such plan, except, in each case, where such noncompliance would not have a Material Adverse Effect.

(j) **Environmental Matters.** The Borrower is in compliance, in all material respects, with all Environmental Laws (as hereinafter defined), including, without limitation, all Environmental Laws in jurisdictions in which the Borrower owns or operates, or has owned or operated, a facility or site, stores Collateral, arranges or has arranged for disposal or treatment of hazardous substances, solid waste or other waste, accepts or has accepted for transport any hazardous substances, solid waste or other wastes or holds or has held any interest in real property or otherwise, except where such noncompliance would not reasonably be expected to have a Material Adverse Effect. No release, threatened release or disposal of hazardous waste, solid waste or other wastes is occurring, or to the best of the Borrower' s knowledge has occurred, on, under or to any real property in which the Borrower holds or has held any interest or performs or has performed any of its operations, in violation of any Environmental Law, that would reasonably be expected to have a Material Adverse Effect. As used in this Section, "**litigation or proceeding**" means any demand, claim notice, suit, suit in equity, action, administrative action, investigation or inquiry whether brought by a governmental authority or other person, and "**Environmental Laws**" means all provisions of laws, statutes, ordinances, rules, regulations, permits, licenses, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by any governmental authority concerning health, safety and protection of, or regulation of the discharge of substances into, the environment.

(k) **Regulatory Matters.** No part of the proceeds of the Loan will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors.

(l) **Solvency.** As of the date hereof and after giving effect to the transactions contemplated by the Loan Documents, (i) the aggregate value of the Borrower' s assets will exceed its liabilities (including contingent, subordinated, unmatured and unliquidated liabilities), (ii) the Borrower will have sufficient cash flow to enable it to pay its debts as they become due, and (iii) the Borrower will not have unreasonably small capital for the business in which it is engaged.

(m) **Disclosure.** No information, exhibit or report furnished by the Borrower in writing to the Bank in connection with the negotiation of the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements

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contained therein not misleading in light of the circumstances in which made, as of the date thereof; provided, however, that with respect to projected financial information, the Borrower represents only that such information has been prepared in good faith based on assumptions believed by the Borrower to be reasonable.

7. Fee. The Borrower shall pay to the Bank a fee in the amount of $20,000.00, payable as follows: (a) on the date of the Note, $10,000.00 and (b) on March 31, 2007, an additional $10,000.00; provided, however, that, that in the event the Bank generates fee revenue from foreign exchange transactions with the Borrower during the period from the date hereof to March 31, 2007 in an amount equal to or greater than $10,000.00, the Bank may, by written notice to the Borrower, waive the March 31, 2007 payment.

8. **Expenses.** The Borrower agrees to pay the Bank, upon the execution of this Letter Agreement, and otherwise on demand, all costs and expenses incurred by the Bank in connection with any modifications to the Loan Documents after the date hereof, and the collection of all of the Obligations, including but not limited to enforcement actions, relating to the Loan, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions or proceedings arising out of or relating to this Letter Agreement, including reasonable fees and expenses of counsel (which may include costs of in-house counsel), expenses for auditors, appraisers and environmental consultants, lien searches, recording and filing fees and taxes. The Borrower shall pay the Bank, on the date of the Note, a document services fee in an amount not to exceed $1,500.00 for documenting and closing this transaction (which includes, among other things, fees and expenses of the Bank' s in-house counsel).

9. **Conditions.**

(a) **Conditions to Initial Advance.** The Bank' s obligation to make the initial advance under the Loan is subject to the conditions that as of the date of such initial advance:

(i) **Authorization Documents.** All corporate (or other) action necessary for the valid execution, delivery and performance by the Borrower of this Letter Agreement and the other Loan Documents shall have been duly and effectively taken, and evidence thereof satisfactory to the Bank shall have been provided to the Bank;

(ii) **Governing Documents.** The Bank shall have received copies, certified by a duly authorized officer of the Borrower to be true and complete as of the date of this Letter Agreement, of the certificate or articles of incorporation and by-laws of the Borrower;

(iii) **Incumbency Certificate.** The Bank shall have received from the Borrower an incumbency certificate, dated as of the date of this Letter Agreement, signed by a duly authorized officer of the Borrower, and giving the name and bearing the specimen signature of each individual who shall be authorized, in the name and on behalf of the Borrower (i) to sign each of the Loan Documents, (ii) to make requests for advances and (iii) to give notices and to take other action on its behalf under the Loan Documents.

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(iv) **Solvency Certificate.** The Bank shall have received a certificate of the chief financial officer, treasurer or assistant treasurer of the Borrower dated as of the date of this Letter Agreement certifying that after giving effect to the transactions contemplated by the Loan Documents, (i) the aggregate value of the Borrower' s assets will exceed its liabilities (including contingent, subordinated, unmatured and unliquidated liabilities), (ii) the Borrower will have sufficient cash flow to enable it to pay its debts as they become due, and (iii) the Borrower will not have unreasonably small capital for the business in which it is engaged.

(v) **Receipt of Loan Documents.** The Loan Documents shall have been duly executed and delivered, shall be in full force and effect and shall be in form and substance satisfactory to the Bank.

(vi) **Opinion of Counsel.** The Bank shall have received a favorable legal opinion addressed to the Bank dated as of the date hereof, in form and substance satisfactory to the Bank; and

(vii) **Payment of Fees.** The Borrower shall have paid to the Bank all fees and expenses subject to reimbursement.

(b) **Conditions to All Advances.** The Bank' s obligation to make any advance under the Loan is subject to the conditions that as of the date of such advance:

(i) **Accuracy of Representations and Warranties.** Each of the representations and warranties of the Borrower contained in this Letter Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Letter Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such advance;

(ii) **No Event of Default.** No Event of Default or event which with the passage of time, the giving of notice or both would constitute an Event of Default shall have occurred and be continuing; and

(iii) **Material Adverse Change.** No material adverse change shall have occurred in the business, properties, assets, operations, condition (financial or otherwise), results of operations or prospects of the Borrower.

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10. **Additional Provisions.**

(a) **Increased Costs.** On written demand, together with written evidence of the justification therefor, the Borrower agrees to pay the Bank all direct costs incurred and any losses suffered or payments made by the Bank as a consequence of making the Loan by reason of any change in law or regulation, or the interpretation thereof, imposing any reserve, deposit, allocation of capital or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets.

(b) **Notices**. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party' s address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section.

(c) **Preservation of Rights.** No delay or omission on the Bank' s part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank s action or inaction impair any such right or power. The Bank' s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity.

(d) **Illegality.** If any provision contained in this Letter Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions of this Letter Agreement.

(e) **Changes in Writing.** No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Letter Agreement will be effective unless made in a writing signed by the party to be charged, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Borrower will entitle the Borrower to any other or further notice or demand in the same, similar or other circumstance.

(f) **Entire Agreement.** This Letter Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(g) **Counterparts.** This Letter Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Letter Agreement by facsimile transmission shall be effective as delivery of a manually executed

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counterpart. Any party so executing this Letter Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

(h) **Successors and Assigns.** This Letter Agreement will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Borrower may not assign this Letter Agreement in whole or in part without the Bank' s prior written consent and the Bank at any time may assign this Letter Agreement in whole or in part. The Bank may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks, finance companies, insurance companies or other financial institutions or funds that are engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business or any other entity ("**Purchasers**") all, but not less than all, of its rights and obligations under the Loan Documents. The consent of the Borrower shall be required prior to an assignment becoming effective, which consent shall not be unreasonably withheld or delayed and shall not be required if such assignment is to an affiliate of the Bank; provided, upon and during the continuance of any Event of Default, the consent of the Borrower shall not be required.

(i) **Interpretation.** In this Letter Agreement, unless the Bank and the Borrower otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Letter Agreement; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Letter Agreement. Section headings in this Letter Agreement are included for convenience of reference only and shall not constitute a part of this Letter Agreement for any other purpose. Unless otherwise specified in this Letter Agreement, all accounting terms shall be interpreted and all accounting determinations shall be made in accordance with GAAP.

(j) **No Consequential Damages, Etc.** The Bank will not be responsible for any damages, consequential, incidental, special, punitive or otherwise, that may be incurred or alleged by any person or entity, including the Borrower, as a result of this Letter Agreement, the other Loan Documents, the transactions contemplated hereby or thereby, or the use of the proceeds of the Loan.

(k) **Termination**. Both this Letter Agreement and the Note, including all representations and warranties and all covenants, shall terminate upon payment in full of all principal, interest and fees owed by the Borrower under the Loan Documents; provided, that the Borrower' s obligations under Section 8 of this Letter Agreement and Section 11 of the Note shall survive any such termination.

(l) **Governing Law and Jurisdiction.** This Letter Agreement has been delivered to and

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accepted by the Bank and will be deemed to be made in the State of Ohio. **This Letter Agreement will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State of Ohio, excluding its conflict of laws rules.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the State of Ohio (and appellate courts therefrom); provided that nothing contained in this Letter Agreement will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any security or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction. The Bank and the Borrower agree that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Letter Agreement.

(l) **WAIVER OF JURY TRIAL. EACH OF THE BORROWER AND THE BANK IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS LETTER AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS LETTER AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER AND THE BANK ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

If and when a loan closing occurs, this Letter Agreement (as the same may be amended from time to time) shall survive the closing and will serve as our loan agreement throughout the term of the Loan.

To accept these terms, please sign the enclosed copy of this Letter Agreement as set forth below and the Loan Documents and return them to the Bank within five (5) days from the date of this Letter Agreement, or this Letter Agreement may be terminated at the Bank’ s option without liability or further obligation of the Bank.

Thank you for giving PNC Bank this opportunity to work with your business. We look forward to other ways in which we may be of service to your business or to you personally.

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Joseph G. Moran
Joseph G. Moran
Vice President

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ACCEPTANCE

With the intent to be legally bound hereby, the above terms and conditions are hereby agreed to and accepted as of this __________ day of November, 2006.

BORROWER:

DIEBOLD, INCORPORATED

By: /s/ Kevin J. Krakora

Name: Kevin J. Krakora

Title: Executive Vice President and Chief Financial Officer

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Term Note

(Multi-Rate Options)

$100,000,000.00 November 27, 2006

FOR VALUE RECEIVED, **DIEBOLD, INCORPORATED, an Ohio corporation** (the "**Borrower**"), with an address at 5995 Mayfair Road, P.O. Box 3077, North Canton, Ohio 44720-8077, promises to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** (the "**Bank"**), in lawful money of the United States of America in immediately available funds at its offices located at 1375 East Ninth Street, Cleveland, Ohio 44114, or at such other location as the Bank may designate from time to time, the principal sum of **ONE HUNDRED MILLION DOLLARS** ($100,000,000.00), together with interest accruing on the outstanding principal balance from the date hereof, all as provided below.

1. Rate of Interest. Amounts outstanding under this Note will bear interest at a rate or rates per annum as may be selected by the Borrower from the interest rate options set forth below (each, an "**Option**"):

(i) **Base Rate Option.** A rate of interest per annum which is at all times equal to the higher of (A) the Prime Rate or (B) the Federal Funds Rate plus fifty (50) basis points (0.50%) ("**Base Rate**"). There are no required minimum interest periods for amounts bearing interest under the Base Rate Option.

(ii) **LIBOR Option.** A rate per annum equal to (A) LIBOR plus (B) seventy-five (75) basis points (0.75%), for the applicable LIBOR Interest Period.

For purposes hereof, the following terms shall have the following meanings:

"**Business Day**" shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in Cleveland, Ohio.

"**Federal Funds Rate**" shall mean for any day the rate per annum (based on a year of 360 days and actual days elapsed) determined in good faith by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the Open Rate for federal funds transactions as of the opening of business for federal funds transactions among members of the Federal Reserve System arranged by federal funds brokers on such day, as quoted by Garvin Guybutler (or any successor) or any other broker selected in good faith by the Bank, as set forth on the applicable Telerate display page; provided however, that if such day is not a Business Day, the Federal Funds Rate for such day shall be the Open Rate on the immediately preceding Business Day or if no such rate shall be quoted by a federal funds broker at such time, such other rate as determined in good faith by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error). If and when the Federal Funds Rate changes, the rate of interest with respect to any advance to which the Federal Funds Rate applies will change automatically without notice to the Borrower, effective on the date of any such change.

"**LIBOR**" shall mean, with respect to any amount to which the LIBOR Option applies for the applicable LIBOR Interest Period, the interest rate per annum determined by the Bank by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/16th of 1%) (i) the rate of interest determined in good faith by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the eurodollar rate two (2) Business Days prior to the first day of such LIBOR Interest Period for such amount and having a borrowing date and a maturity comparable to such LIBOR Interest Period by (ii) a number equal to 1.00 minus the LIBOR Reserve Percentage.

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"**LIBOR Interest Period**" shall mean, with respect to any amount to which the LIBOR Option applies, the period of seven (7), fourteen (14) or twenty-one (21) days as selected by the Borrower on the date of disbursement of such amount (or the date of conversion of any amount to the LIBOR Option, as the case may be) and each successive period selected by the Borrower thereafter; provided that, (i) if a LIBOR Interest Period would end on a day which is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the LIBOR Interest Period shall end on the next preceding Business Day, and (ii) the Borrower may not select a LIBOR Interest Period that would end on a day after the Maturity Date (as hereinafter defined).

"**LIBOR Reserve Percentage**" shall mean the maximum effective percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency liabilities").

"**Prime Rate**" shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers. If and when the Prime Rate changes, the rate of interest with respect to any amounts to which the Base Rate Option applies will change automatically without notice to the Borrower, effective on the date of any such change.

LIBOR shall be adjusted with respect to any amounts to which the LIBOR Option applies on and as of the effective date of any change in the LIBOR Reserve Percentage. The Bank shall give prompt notice to the Borrower of LIBOR as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

If the Bank reasonably determines (which determination shall be final and conclusive) that, by reason of circumstances affecting the eurodollar market generally, deposits in dollars (in the applicable amounts) are not being offered to banks in the eurodollar market for the selected term, or adequate means do not exist for ascertaining LIBOR, then the Bank shall give notice thereof to the Borrower. Thereafter, until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (a) the availability of the LIBOR Option shall be suspended, and (b) the interest rate for all amounts then bearing interest under the LIBOR Option shall be converted at the expiration of the then current LIBOR Interest Period to the Base Rate.

In addition, if, after the date of this Note, the Bank shall reasonably determine (which determination shall be final and conclusive) that any enactment, promulgation or adoption of or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by a governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank to make or maintain or fund loans based on LIBOR, the Bank shall notify the Borrower. Upon receipt of such notice, until the Bank notifies the Borrower that the circumstances giving rise to such determination no longer apply (which it agrees to promptly do if such is the case), (a) the availability of the LIBOR Option shall be suspended, and (b) the interest rate on all amounts then bearing interest under the LIBOR Option shall be converted to the Base Rate either (i) on the last day of the then current LIBOR Interest Period(s) if the Bank may lawfully continue to maintain or fund loans based on LIBOR to such day, or (ii) immediately if the Bank may not lawfully continue to maintain or fund loans based on LIBOR.

The foregoing notwithstanding, it is understood that the Borrower may select different Options to apply simultaneously to different portions of this Note and may select up to three (3) different interest periods to apply simultaneously to different portions of this Note bearing interest under the LIBOR Option. Interest hereunder on amounts bearing interest under the LIBOR Option will be calculated based on the actual number of days that

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principal is outstanding over a year of 360 days. Interest hereunder on amounts bearing interest under the Base Rate Option will be calculated based on the actual number of days that principal is outstanding over a year of 365/366 days. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

2. Interest Rate Election. Subject to the terms and conditions of this Note, at the end of each interest period applicable to any amounts hereunder, the Borrower may renew the Option applicable to such amounts or convert such amounts to a different Option; provided that, during any period in which any Event of Default (as hereinafter defined) has occurred and is continuing, any amounts bearing interest under the LIBOR Option shall, at the Bank' s sole discretion, be converted at the end of the applicable LIBOR Interest Period to the Base Rate and the LIBOR Option will not be available to Borrower with respect to the conversion or renewal of any other amounts until such Event of Default has been cured by the Borrower or waived by the Bank. The Borrower shall notify the Bank of each election of an Option, each conversion from one Option to another, the amount of the portions hereunder to be allocated to each Option and where relevant the interest periods therefor. In the case of converting to the LIBOR Option, such notice shall be given at least three (3) Business Days prior to the commencement of any LIBOR Interest Period. If no interest period is specified in any such notice for an amount that is to bear interest under the LIBOR Option, the Borrower shall be deemed to have selected a LIBOR Interest Period of one week' s duration. If no notice of election, conversion or renewal is timely received by the Bank with respect to any amount hereunder, the Borrower shall be deemed to have elected the Base Rate Option therefor. Any such election shall be promptly confirmed in writing by such method as the Bank may require.

3. Payment of Interest. The Borrower shall pay accrued interest on the unpaid principal balance of this Note in arrears: (a) for amounts hereunder bearing interest under the Base Rate Option, on the last day of each calendar quarter during the term hereof, (b) for amounts hereunder bearing interest under the LIBOR Option, on the last day of the respective LIBOR Interest Period for such amounts, and (c) for all outstanding amounts, at maturity, whether by acceleration of this Note or otherwise, and after maturity, on demand until paid in full.

4. Payment of Principal. All outstanding principal and any unpaid accrued interest shall be due and payable in full on December 27, 2006 (the "**Maturity Date"**).

If any payment under this Note shall become due on a Saturday, Sunday or public holiday under the laws of the State where the Bank' s office indicated above is located, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Bank, upon the occurrence and during the continuance of an Event of Default, to charge the Borrower' s deposit account at the Bank for any payment when due hereunder, and the Bank agrees to provide the Borrower with prompt written notice of any such charge. Payments received will be applied to charges, fees and expenses (including attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

5. Default Rate. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank' s option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, amounts outstanding under this Note shall bear interest at a rate per annum which shall be two percentage points (2%) in excess of the interest rate otherwise in effect from time to time under this Note but not more than the maximum rate allowed by law (the "**Default Rate**"). The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. The Default Rate is imposed as liquidated damages for the purpose of defraying the Bank' s expenses incident to the handling of delinquent payments, but is in addition to, and not in lieu of, the Bank' s exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Default Rate is a reasonable forecast of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

6. Prepayment. The Borrower shall have the right to prepay any amount hereunder at any time and from time to time, in whole or in part; subject, however, to payment of any break funding indemnification amounts owing pursuant to paragraph 7 below.

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7. Yield Protection; Break Funding Indemnification. The Borrower shall pay to the Bank within fifteen (15) days of written demand therefor, together with the written evidence of the justification therefor, all direct costs incurred, actual losses suffered or payments made by Bank by reason of any change in law or regulation or its interpretation thereof (whether or not having the force of law) imposing any reserve, deposit, allocation of capital, or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets. In addition, the Borrower agrees to indemnify the Bank against any liabilities, actual losses or actual expenses (including, without limitation, any loss or expense sustained or incurred in liquidating or employing deposits from third parties, and any actual loss or actual expense incurred in connection with funds acquired to effect, fund or maintain any amounts hereunder (or any part thereof) bearing interest under the LIBOR Option (but excluding the loss of anticipated profits) which the Bank sustains or incurs as a consequence of either (i) the Borrower' s failure to make a payment on the due date thereof, (ii) the Borrower' s revocation (expressly, by later inconsistent notices or otherwise) in whole or in part of any notice given to Bank to request, convert, renew or prepay any amounts bearing interest under the LIBOR Option, or (iii) the Borrower' s payment or prepayment (whether voluntary, after acceleration of the maturity of this Note or otherwise) or conversion of any amounts bearing interest under the LIBOR Option on a day other than the regularly scheduled due date therefor. A notice as to any amounts payable pursuant to this paragraph given to the Borrower by the Bank shall, in the absence of manifest error, be conclusive and shall be payable within fifteen (15) days of written demand. The Borrower' s indemnification obligations hereunder shall survive the payment in full of all amounts payable hereunder.

8. Other Loan Documents. This Note is issued in connection with a letter agreement between the Borrower and the Bank, dated as of the date hereof (the "**Letter Agreement**"), and the other agreements and documents executed and/or delivered in connection therewith, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the "**Loan Documents**").

9. Events of Default. The occurrence of any of the following events will be deemed to be an "**Event of Default**" under this Note: (i) the nonpayment of any principal under this Note when due, or nonpayment of interest or other indebtedness under this Note within 5 Business Days after written notice from the Bank that the same has become due; (ii) the occurrence of any event of default or any default and the lapse of any notice or cure period, or any Obligor' s failure to observe or perform any covenant or other agreement, under or contained in any Loan Document; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 60 days of the commencement thereof, provided that the Bank shall not be obligated to advance additional funds hereunder during such period); (iv) any assignment by any Obligor for the benefit of creditors; (v) a default with respect to any other indebtedness of the Borrower and any of its subsidiaries for borrowed money aggregating in excess of $15,000,000.00, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the entry of a final judgment or order for the payment of money in excess of $15,000,000.00 in aggregate amount against the Borrower and any of its subsidiaries which is not stayed on appeal and the failure of the Borrower or subsidiary to discharge the judgment or order within ninety (90) days of the entry thereof; (vii) the Borrower ceases doing business as a going concern; (viii) any representation or warranty made by any Obligor to the Bank in any Loan Document is false, erroneous or misleading in any material respect as of the date made; (ix) a Change in Control shall occur; or (x) the revocation or attempted revocation, in whole or in part, of any guarantee by any Obligor. As used herein, (a) the term "**Change in Control**" shall have the meaning ascribed to such term in the Other Loan Document (as defined in the Letter Agreement); and (b) the term "**Obligor**" means any Borrower and any guarantor of the Borrower' s obligations to the Bank under the Loan Documents existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) the Bank shall be under no further obligation to make advances hereunder; (b) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (c) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable

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hereunder, at the Bank' s option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (d) at the Bank' s option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (e) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law.

10. Right of Setoff. In addition to all liens upon and rights of setoff against the Borrower' s money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower' s obligations to the Bank under this Note and to the extent permitted by law, a contractual right of setoff against all of the Borrower' s deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such right of setoff may be exercised without demand upon or notice to the Borrower, but only upon the occurrence and during the continuance of an Event of Default; the Bank agrees to provide the Borrower with prompt subsequent notice of any such exercise. Every such right of setoff shall be deemed to have been exercised without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time.

11. Indemnity. The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the "**Indemnified Parties**"), and to hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation and preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party' s gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Note, payment of any amounts hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

12. Miscellaneous. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party' s address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this paragraph. No delay or omission on the Bank' s part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank' s action or inaction impair any such right or power. The Bank' s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note will be effective unless made in a writing signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. The Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank' s counsel. If any provision of this Note is found to be invalid, illegal or unenforceable in any respect by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and endorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrower also waives all defenses based on suretyship or impairment of collateral. This Note shall bind the Borrower and its heirs, executors,

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administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower may not assign this Note in whole or in part without the Bank' s written consent and the Bank at any time may assign this Note in whole, and only in whole, solely as provided in the Letter Agreement.

This Note has been delivered to and accepted by the Bank and will be deemed to be made in the State of Ohio. **This Note will be interpreted and the rights and liabilities of the Bank and the Borrower determined in accordance with the laws of the State of Ohio, excluding its conflict of laws rules.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the State of Ohio (and appellate courts therefrom); provided that nothing contained in this Note will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any security or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction. The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Note.

13. WAIVER OF JURY TRIAL. Each of the Bank and the Borrower irrevocably waives any and all rights it may have to a trial by jury in any action, proceeding or claim of any nature relating to this Note, any documents executed in connection with this Note or any transaction contemplated in any of such documents. Each of the Bank and the Borrower acknowledges that the foregoing waiver is knowing and voluntary.

The Borrower acknowledges that it has read and understood all the provisions of this Note, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

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WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

DIEBOLD, INCORPORATED

By: /s/ Kevin J. Krakora

Name: Kevin J. Krakora

Title: Executive Vice President and Chief Financial Officer

ACKNOWLEDGED AND AGREED:

By: /s/ Joseph G. Moran

Joseph G. Moran
Vice President

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Exhibit 13.1

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FINANCIAL HIGHLIGHTS
Diebold, Incorporated and Subsidiaries

(In thousands except ratios, employees, shareholders and per share amounts)	2006	2005	Percentage Change
Net sales	$2,906,232	$2,587,049	12.3
Operating profit	$175,661	$161,269	8.9
Income from continuing operations before taxes	$124,449	$138,251	(10.0)
Income from continuing operations	$86,547	$82,904	4.4
Net income	$86,547	$96,746	(10.5)
Diluted earnings per share	$1.29	$1.36	(5.1)
Capital expenditures	$44,277	$48,454	(8.6)
Research, development and engineering	$70,995	$60,409	17.5
Depreciation	$40,385	$28,349	42.5
Pretax profit as a percentage of net sales	4.3 %	5.3 %	–
Net cash provided by operating activities	$250,424	$102,714	143.8
Shareholders' equity	$1,091,401	$1,152,849	(5.3)
Shareholders' equity per share	$16.64	$16.78	(0.8)
Return on average shareholders' equity	7.7 %	8.1 %	–
Cash dividends paid:			
Total	$57,408	$57,770	(0.6)
Per share	$0.86	$0.82	4.9
Number of employees	15,451	14,603	5.8
Number of shareholders (Note A)	59,047	87,011	(32.1)

Note A – Includes an estimated number of shareholders who have shares held for their accounts by banks, brokers, trustees, for benefit plans and the agent for the dividend reinvestment plan.

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MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands, except per share amounts)

OVERVIEW

The table below presents the changes in comparative financial data from 2004 to 2006. 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 related notes that appear elsewhere in this document.

	2006			2005			2004	
	Amount	Percentage of Net Sales	Percentage Increase (Decrease)	Amount	Percentage of Net Sales	Percentage Increase (Decrease)	Amount	Percentage of Net Sales
Net sales								
Products	$1,469,250	50.6	13.6	$1,293,419	50.0	11.7	$1,158,340	49.1
Services	1,436,982	49.4	11.1	1,293,630	50.0	7.9	1,198,768	50.9
	2,906,232	100.0	12.3	2,587,049	100.0	9.8	2,357,108	100.0
Cost of sales								
Products	1,046,617	71.2	9.9	952,321	73.6	20.7	789,287	68.1
Services	1,149,097	80.0	13.9	1,009,246	78.0	12.3	898,925	75.0
	2,195,714	75.6	11.9	1,961,567	75.8	16.2	1,688,212	71.6
Gross profit	710,518	24.4	13.6	625,482	24.2	(6.5)	668,896	28.4
Selling and administrative expense	463,862	16.0	14.9	403,804	15.6	19.9	336,657	14.3
Research, development and engineering expense	70,995	2.4	17.5	60,409	2.3	2.8	58,759	2.5
	534,857	18.4	15.2	464,213	17.9	17.4	395,416	16.8
Operating profit	175,661	6.0	8.9	161,269	6.2	(41.0)	273,480	11.6
Other income (expense) net	(44,615)	(1.5)	175.6	(16,189)	(0.6)	–	(313)	–
Minority interest	(6,597)	(0.2)	(3.4)	(6,829)	(0.3)	(11.5)	(7,718)	(0.3)
Income from continuing operations before taxes	124,449	4.3	(10.0)	138,251	5.3	(47.9)	265,449	11.3
Taxes on income	37,902	1.3	(31.5)	55,347	2.1	(33.8)	83,640	3.5
Income from continuing operations	86,547	3.0	4.4	82,904	3.2	(54.4)	181,809	7.7
Income from discontinued operations – net of tax	–	–	(100.0)	909	–	(54.3)	1,988	0.1
Gain on sale of discontinued operations – net of tax	–	–	(100.0)	12,933	0.5	100.0	–	–
Income from discontinued operations	–	–	(100.0)	13,842	0.5	596.3	1,988	0.1
Net income	$86,547	3.0	(10.5)	$96,746	3.7	(47.4)	$183,797	7.8

Over 148 years ago, Diebold went into the business of making strong, reliable safes. Diebold, Incorporated has a long tradition of safeguarding assets and protecting investments. Today, the company is a global leader in providing integrated self-service delivery systems, security and services to customers within the financial, government, and retail sectors. In 2003, the company introduced Opteva®, a new automated teller machine (ATM) line within the financial self-service market that provides a higher

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level of security, convenience and reliability. Opteva is powered by Agilis®, which is a software platform for financial self-service equipment that was developed by the company. The combination of Opteva and Agilis provides the ability for financial institutions to customize solutions to meet their consumers' demands and positively affect equipment performance, while providing a safer ATM. The Agilis software platform gives customers the ability to run the same software across their entire network, which helps contain costs and improve financial self-service equipment availability. Security features were engineered into the design of Opteva, including consumer awareness mirrors to discourage shoulder surfing and provide consumers with increased security during ATM transactions. Opteva also includes PIN-pad positioning that helps maintain consumer security, a recessed fascia design, card reader technology with a jitter mechanism, an optional ink-dye system and an envelope depository that is designed to resist trapping. The company's software includes the industry's most advanced ATM

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protection against viruses, worms and other cyber security threats. Diebold is at the forefront in protecting ATMs from threats. The company established its own Global Security Task Force to collect, analyze, clarify and disseminate news and information about ATM fraud and security. The group includes employees from various departments around the world. These employees work to reduce fraud and to improve security for the industry. In addition to these advances in the company' s product line, the company has also continued to make strategic acquisitions, which have increased its presence in the security market, and in 2005, the company was awarded a sales contract to produce lottery machines in Brazil.

The election systems business continues to be a challenge for the company. A number of individuals and groups have raised concerns about the reliability and security of the company' s election systems products and services. The individuals and groups making these challenges oppose the use of technology in the electoral process generally and, specifically, have filed lawsuits and taken other actions to publicize what they view as flaws in the company' s election management software and firmware. These efforts have adversely affected some of the company' s relations with its election systems customers. Despite all of these challenges, the company continues to participate in new jurisdiction decisions to purchase voting equipment. Election systems revenues increased in 2006 compared to 2005, representing a combination of the recapture of delayed sales from 2004, a U.S. presidential election year, and growth from new sales due to demand generated by the Help America Vote Act (HAVA). Despite the positive revenue growth in 2006, future delays or increases in the costs of providing products and services may be encountered as a result of possible future challenges, changes in the laws and changes to product specifications, any of which may adversely affect the company' s election systems sales.

The markets the company serves are dynamic and continue to grow. Financial institutions continue to place increasing strategic importance on their retail networks. Demand is increasing for integrated security solutions. The company' s brand is trusted by its customers. The company has a growing global footprint with a broad customer base. Besides world-class products and services that offer a competitive advantage, one of the key features of the company is the commitment, energy and knowledge of its employees. As the company focuses on the future, its long-term strategic plan includes focusing on the customer to increase loyalty, improving product and service quality, strengthening the supply chain, enhancing communications through teamwork and rebuilding profitability. The company announced restructuring activities in 2005 and 2006 that are in line with long-term strategic plans including European and U.S. manufacturing capacity optimization, realignment of global research and development efforts, reorganization of its global information technology operation and rationalization of product development.

Also, the company has initiated its multi-year profit improvement plan that targets a $100,000 reduction in the company' s cost structure by the end of 2008. These improvements are focused on a number of key areas including forecasting, order management, product staging, improved accounts receivable collections and other elements of supply chain management. As of year-end 2006, the company has eliminated $12,000 in expense from its 2007 cost structure. The company has also identified an additional $23,000 in costs that it intends to eliminate by the end of 2007, with the remaining $65,000 expected to be eliminated by the end of 2008. The company remains confident with its goal of achieving a corporate operating margin of 11 to 12 percent in 2009.

Since assuming implementation and support responsibilities for the global enterprise resource planning (ERP) system and other IT-related functions on June 1, 2006, the company has made some progress addressing stabilization of the ERP system. The company hired key executive management with considerable experience in ITstrategic planning, business transformation and global ERP system implementation. In addition, the company has made substantial progress with the evaluation of its ERP implementation plan and global IT organization, as well as the completion of its evaluation of its software and hardware architecture. As a result of this completed evaluation, the company has determined that $22,462 in previously capitalized ERP costs have become impaired. The impairment charge was primarily a result of previous customizations made to the software and software-related costs that have been rendered obsolete due to adjustments in the implementation plan, process improvements and the decision to implement a newer release of the ERP software. The company remains committed to the ERP platform and achieving the resulting efficiencies from an integrated global ITsystem.

The company continued to optimize its manufacturing capacity, including a restructuring of its production operations, in 2006. A major component of this initiative was to establish a new manufacturing operation for financial self-service terminals and related components in the Eastern European region. The company identified Budapest, Hungary as the location for this production facility and successfully initiated serial production at the facility, producing approximately 1,000 Opteva ATMs during the fourth quarter. Quality levels and on-time delivery of products from this facility met or exceeded that achieved by the company' s manufacturing plants in Asia and North America. Additionally, as a result of this planned restructuring, the company engaged in the consultation process required in order to close its existing production facility located in Cassis, France. The company has determined it has fulfilled its obligation to the consultation process. As a result, the company has ended all production at the Cassis plant. On January 8, 2007, the company officially notified 101 of the 122 plant employees of termination of their employment. On an interim basis, however, the company is required to keep the remaining employees to facilitate the closure of the facility. One of the unions is legally challenging the process and the court is expected to rule on this challenge in the first quarter of 2007. Management remains committed to completing this realignment as quickly as possible.

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Diebold continues to refine its international operations. James Chen now leads all sales and service operations in the EMEA region, in addition to his previous responsibilities heading the company' s Asia Pacific operations. João Abud, Jr. now oversees our sales and service

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operations throughout all of Latin America, in addition to his leadership responsibilities in Brazil. The company' s international operations have evolved from a country-based management structure to a regional-based structure. This new organizational structure will enable the company to better serve customers in the regions by more effectively aligning its sales and service structure and leveraging resources across countries.

The company intends the discussion of its financial condition and results of operations that follows to provide information that will assist in understanding the financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect the financial statements.

The business drivers of the company' s future performance include several factors that include, but are not limited to:

- timing of a self-service upgrade and/or replacement cycle in mature markets such as the United States;
- high levels of deployment growth for new self-service products in emerging markets such as Asia Pacific;
- demand for new service offerings, including outsourcing or operating a network of ATMs;
- demand beyond expectations for security products and services for the financial, retail and government sectors;
- implementation and timeline for new election systems in the United States;
- the company' s strong financial position; and
- the company' s ability to successfully integrate acquisitions.

In addition to the business drivers above, as a global operation, the company is exposed to risks that 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;
- acceptance of the company' s product and technology introductions in the marketplace;
- unanticipated litigation, claims or assessments;
- the timely completion of the company' s new manufacturing operation for financial self-service terminals and related components in the Eastern European region;
- costs associated with the planned closure of the company' s Cassis production facility, including the timing of related restructuring charges;
- the completion of the company' s implementation of its ERP system and other IT-related functions;
- the company' s ability to reduce costs and expenses and improve internal operating efficiencies, including the optimization of the company' s manufacturing capacity;
- the company' s ability to successfully implement measures to improve pricing;
- variations in consumer demand for self-service technologies, products and services;
- challenges raised about the reliability and security of the company' s election systems products, including the risk that such products will not be certified for use or will be decertified;
- changes in laws regarding the company' s election systems products and services;
- potential security violations to the company' s information technology systems; and
- the company' s ability to achieve benefits from its cost-reduction initiatives and other strategic changes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management' s discussion and analysis of the company' s financial condition and results of operations are based upon the company' s condensed consolidated financial statements. The consolidated financial statements of the company are prepared in

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conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Management of the company uses historical information and all available information to make these estimates and assumptions. Actual amounts could differ from these estimates and different amounts could be reported using different assumptions and 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, allowance for bad debts and credit risk, inventories, goodwill, 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 The company' s product revenue consists of sales of ATMs, networking software, servers, security products, lottery and voting machines. Service revenue consists of sales of service contracts, installation revenue, maintenance revenue and consultation revenue of bank branch design and security system design. Revenue is recognized only after the earnings process is complete. For product sales, the company determines that the earnings process is complete when the customer has assumed risk of loss of the goods sold and all performance requirements are substantially complete. Election systems revenue is primarily generated through sales contracts consisting of multiple deliverable elements and custom terms and

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conditions. Each contract is analyzed based on the multiple elements included within the contract. The company determines fair value of deliverables within a multiple element arrangement based on the prices charged when each element is sold separately. Some contracts may contain discounts and, as such, revenue is recognized using the residual value method of allocation of revenue to the product and service components of contracts. For service sales, the earnings process is considered complete once the service has been performed or earned.

Allowance for Bad Debts and Credit Risk The company evaluates the collectibility of accounts receivable based on a number of criteria. A percentage of sales is reserved for uncollectible accounts as sales occur throughout the year. This percentage is based on historical loss experience and current trends. This estimate is periodically adjusted for known events such as specific customer circumstances and changes in the aging of accounts receivable balances. 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.

Inventories Domestic inventories, except for election systems, are valued at the lower of cost or market applied on a first-in, first-out (FIFO) basis. International and election systems inventories are valued using the average cost method, which approximates FIFO. At each reporting period, the company identifies and writes down its excess and obsolete inventory to its net realizable value based on forecasted usage, orders 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 using the fair value approach on a "reporting unit" basis in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets.* The company' s reporting units are defined as Domestic and Canada, Brazil, Latin America, Asia Pacific, Europe, Middle East and Africa (EMEA) and Election Systems. The company uses the discounted cash flow method for determining the fair value of its reporting units. As required by SFAS No. 142, the determination of implied fair value of the goodwill for a particular reporting unit is the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities in the same manner as the allocation in a business combination. Implied fair value goodwill is determined as the excess of the fair value of the reporting unit over the fair value of its assets and liabilities. The company' s fair value model uses inputs such as estimated future segment performance. The company uses the most current information available and performs the annual impairment analysis during the fourth quarter each year. However, actual circumstances could differ significantly from assumptions and estimates made and could result in future goodwill impairment.

Pensions and 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 healthcare trend rates are reviewed with the actuaries based upon the results of their review of claims experience. 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 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 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. The market-related value of plan assets is calculated under an adjusted market value method. The value is determined by adjusting the fair value of assets to reflect the investment gains and losses (i.e., the difference between the actual investment return and the expected investment return on the market-related value of assets) during each of the last five years at the rate of 20 percent per year. Postretirement benefits are not funded and the company' s policy is to pay these benefits as they become due.

At the end of 2006, the company adopted SFAS No. 158, *Employers' Accounting for Defined Pension and Other Postretirement Plans,* which changes the accounting requirements for defined benefit pension and other postretirement plans. SFAS No. 158 requires that the company recognize the funded status of each of its plans in the consolidated balance sheet. As a result of the implementation of SFAS No. 158, total assets decreased by $52,692, total liabilities increased by $3,691 and shareholders' equity was reduced by $35,652, after the effect of taxes. This change had no effect on the company' s results of operations, cash flow or debt covenants, nor did it otherwise impact the business operations of the company.

The following table highlights the sensitivity of the company' s postretirement obligations and expense to changes in the healthcare cost trend rate:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 87	$ (78)
Effect on postretirement benefit obligation	$ 1,506	$ (1,350)

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Amortization of unrecognized net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of net periodic benefit cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds five percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the amortization is that excess divided by the average remaining service period of participating employees expected to receive benefits under the plan.

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Based on the above assumptions, the company expects pension expense to increase by $171 in 2007, increasing from $8,546 in 2006 to $8,717 in 2007. Changes in any of the aforementioned assumptions could result in changes in the related retirement benefit cost and obligation.

The company' s qualified pension plans remain adequately funded as of December 31, 2006. Voluntary contributions were made in the amount of $12,761 in 2006. Pension expense excludes retiree medical expense, which is also included in operating expenses and was $1,488, $1,173 and $1,468 in 2006, 2005 and 2004, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Capital resources are obtained from income retained in the business, borrowings under the company' s committed and uncommitted credit facilities, long-term industrial revenue bonds, and operating and capital leasing arrangements. Refer to Notes 7 and 8 to the Consolidated Financial Statements regarding information on outstanding and available credit facilities and bonds. The company' s future commitments relating to operating lease agreements are reflected in the table below. Management expects that cash provided from operations, available credit, long-term debt and the use of operating leases will be sufficient to finance planned working capital needs, investments in facilities or equipment, and the purchase of company stock at least through 2007. 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 provided from operations, borrowings under available credit facilities, proceeds from debt or equity offerings and/or the issuance of common shares. On March 2, 2006, the company secured fixed-rate long-term financing of $300,000 in order to take advantage of attractive long-term interest rates.

During 2006, the company generated $250,424 in cash from operating activities, an increase of $147,710 or 143.8 percent from 2005. Cash flows from operating activities are generated primarily from operating income and controlling the components of working capital. Net cash provided by operations during 2006 was positively affected by the $81,993 decrease in accounts receivable compared with an increase in accounts receivable of $97,075 in 2005. Cash collections included approximately $18,505 of past due election receivables from counties in California. Total sales increased by $319,183 in 2006 versus 2005, while days sales outstanding (DSO) decreased six days over the same time period. DSO was 59 days at December 31, 2006 compared with 65 days at December 31, 2005. Improvements in DSO occurred in Diebold North America (DNA), EMEA, Latin America and Elections Systems. The change in certain other assets and liabilities positively affected cash flows from operations by $71,730 in 2006 as compared with a positive impact of $40,559 in 2005. The change in certain other assets and liabilities was primarily the result of an increase in estimated income taxes payable.

The company used $182,080 for investing activities in 2006, an increase of $75,818 or 71.4 percent over 2005. The increase over the prior year was largely the result of higher payments for acquisitions, which increased by $34,455, moving from $27,701 in 2005 to $62,156 in 2006. The company also had net payments for investments in 2006 of $45,152 compared to $20,829 in 2005, a $24,323 increase. These were both offset by the non-reoccurrence of proceeds from the sale of its campus card system business in 2005.

Cash used by financing activities was $24,062 in 2006 compared to cash provided of $27,220 in 2005, a $51,282 increase in cash used in financing activities. The overall negative impact of cash flow from financing activities was the result of decreased net borrowings of $44,136, moving from $214,541 in 2005 to $170,405 in 2006, and an increase of $9,849 in common shares repurchased, moving from $138,208 in 2005 to $148,057 in 2006.

On March 2, 2006, the company issued senior notes in an aggregate principal amount of $300,000. The maturity date of the senior notes are staggered, with $75,000, $175,000 and $50,000 becoming due in 2013, 2016 and 2018, respectively. The company used $270,000 of the net proceeds from this offering to repay notes payable under its revolving credit facility and used the remaining $30,000 in operations. See Note 7 to the Consolidated Financial Statements for further information.

The following table summarizes the company' s approximate obligations and commitments to make future payments under contractual obligations as of December 31, 2006:

		Payment due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$243,009	$75,221	$104,662	$45,842	$17,284
Industrial development revenue bonds	11,900	–	–	–	11,900
Financing arrangement	2,409	2,409	–	–	–
Notes payable	676,805	11,324	–	365,481	300,000
Purchase commitments	11,905	4,386	5,013	2,506	–
	$946,028	$93,340	$109,675	$413,829	$329,184

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RESULTS OF OPERATIONS

The company has classified the operations of its former campus card system business as a discontinued operation for 2005 and 2004 as a result of the sale of this business on July 1, 2005. Income from discontinued operations net of tax in 2005 and 2004 was $13,842 and $1,988, respectively. Included in the income from discontinued operations, net of tax in 2005 was a $12,933 gain from the sale of the campus card system business. The following discussion and analysis pertains to the company's continuing operations.

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2006 Comparison with 2005

Net Sales Net sales for 2006 totaled $2,906,232 and were $319,183 or 12.3 percent higher than net sales for 2005. Financial self-service revenue in 2006 increased by $128,165 or 7.2 percent over 2005, primarily due to strong growth in EMEA and Latin America. Security solutions revenue increased by $113,587 or 17.2 percent for 2006, due primarily to increases in the retail, government and financial security markets as a result of growth in the market, complemented by growth resulting from strategic acquisitions and increased market share. Election systems/lottery net sales of $231,807 increased by $77,431 or 50.2 percent compared to 2005. The year-over-year growth was related to both increased electronic voting equipment revenue of $64,054 and increased Brazilian lottery systems revenue of $13,377.

Gross Profit Gross profit for 2006 totaled $710,518 and was $85,036 or 13.6 percent higher than gross profit for 2005. Product gross margin was 28.8 percent in 2006 compared to 26.4 percent in 2005. The increase in product gross margin was due to improved pricing discipline in DNA, a lower cost structure and a more favorable geographic mix within the Americas and improved profitability in the elections systems business. Product gross margin was adversely impacted by $3,299 of restructuring charges in 2006 compared to $13,371 of restructuring charges in 2005. Services gross margin for 2006 was 20.0 percent compared with 22.0 percent for 2005. The decline in services gross margin was due to lower profitability in EMEA and DNA, service acquisitions that currently operate below expected gross margin levels and increased investments in customer service engineers and associated resources to continue improving performance in targeted areas. Services gross margin was adversely impacted by $3,959 of restructuring charges in 2006 compared to $4,505 of restructuring charges in 2005.

Operating Expenses Total operating expenses for 2006 were 18.4 percent of net sales, up from 17.9 percent for 2005. The increase in operating expenses as a percentage of sales was due in part to higher information technology expenses and professional fees associated with the company' s continued enterprise resource planning and software implementation project, acquisitions, which carried a higher operating expense as a percentage of revenues, and increased compensation costs due to adopting SFAS No. 123(R), which now requires share-based payments to be expensed. Operating expenses were adversely impacted by $19,817 of restructuring charges in 2006 compared to $18,588 of restructuring charges in 2005. In addition, in the fourth quarter of 2005, the company recorded $15,490 in expense to reserve for an approximately $32,500 election systems trade receivable related to two counties in California. In 2006, approximately $18,505 of the elections system trade receivable was collected and the reserve for this receivable was reduced by $1,318.

Other Income (Expense) Investment income for 2006 was $19,224 and increased $7,059 or 58.0 percent compared to 2005. The increase was due to a larger investment portfolio in 2006. Interest expense for 2006 was $36,024 and increased $19,513 or 118.2 percent compared to 2005. The increase was a result of both higher borrowing levels and higher interest rates year-over-year. Miscellaneous expense, net for 2006 was $5,353 and decreased $6,490 from 2005 due primarily to a decline in foreign exchange losses in 2006 compared with 2005. As discussed in Note 5 to the Consolidated Financial Statements, included in 2006 was a non-cash charge of $22,462 related to the impairment of a portion of the costs previously capitalized relative to the company' s ERP implementation.

Income from Continuing Operations Income from continuing operations for 2006 was $86,547 and increased $3,643 or 4.4 percent over income from continuing operations for 2005. The increase was primarily due to strong revenue growth and improved gross margins. Also contributing to the increase was a lower effective tax rate, which decreased to 30.5% in 2006 from 40.0% in 2005. The tax rate was primarily lower due to a change in income mix, which favored lower tax jurisdictions, and the successful implementation of global tax initiatives. For the details of the reconciliation between the U.S. statutory rate and the company' s effective tax rate see Note 13 to the Consolidated Financial Statements.

Net Income Net income for 2006 was $86,547 and decreased by $10,199 or 10.5 percent compared to net income for 2005. Included in the decrease in net income is the non-recurrence of income from discontinued operations of $13,842 in 2005, which resulted from the sale of the campus card systems business.

Segment Revenue and Operating Profit Summary DNA net sales of $1,503,822 for 2006 increased $81,652 or 5.7 percent over 2005 net sales of $1,422,170. The increase in DNA net sales was due to increased revenue from the security solutions product and service offerings. Diebold International (DI) net sales of $1,170,603 for 2006 increased by $160,100 or 15.8 percent over 2005 net sales of $1,010,503. The increase in DI net sales was due to revenue growth across all four reporting units, led by growth of $84,099 in EMEA and $50,884 in Latin America. Net sales were also positively impacted by the year-over-year strengthening of the Brazilian real. Election systems (ES) & Other net sales of $231,807 for 2006 increased $77,431 or 50.2 percent over 2005. The increase was helped by voting revenues from Brazil that increased $24,500 and U.S.-based revenue that increased $39,554, as more jurisdictions purchased electronic voting equipment in order to comply with HAVA. Revenue from lottery systems was $36,439 for 2006, an increase of $13,377 over 2005.

DNA operating profit for 2006 decreased by $16,319 or 12.5 percent compared to 2005. The decrease was due primarily to a higher mix of revenue from the lower margin security business and increased service costs. DI operating profit for 2006 decreased by $16,423 or 43.8 percent compared to 2005. The decrease was due to service pricing pressures in EMEA and

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higher restructuring charges of $3,144 compared to 2005. Operating profit in ES & Other increased by $47,134, moving from an operating loss of $6,990 in 2005 to an operating profit of $40,144 in 2006. The increase in ES & Other operating profit was a result of higher revenue associated with the sales of election systems products and services as well as the one-time charge in 2005 related to the reserve for California receivables.

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2005 Comparison with 2004

Net Sales Net sales for 2005 totaled $2,587,049 and were $229,941 or 9.8 percent higher than net sales for 2004. Financial self-service revenue in 2005 increased by $73,855 or 4.4 percent over 2004, primarily due to strong growth in Asia Pacific, Brazil, and Latin America, partially offset by market weakness and customer delayed installations in the North American market. Security solutions revenue increased by $91,742 or 16.1 percent for 2005, due primarily to increases in the retail, government and financial security markets as a result of growth in the market, complemented by growth resulting from strategic acquisitions and increased market share.

Election systems/lottery net sales of $154,376 increased by $64,344 or 71.5 percent compared to 2004. The increase was related to Brazilian lottery systems revenue of $23,062 and higher U.S.-based electronic voting equipment revenue in 2005, as more localities purchased equipment in order to comply with HAVA.

Gross Profit Gross profit for 2005 totaled $625,482 and was $43,414 or 6.5 percent lower than gross profit for 2004. Product gross margin was 26.4 percent in 2005 compared to 31.9 percent in 2004. The decline in product gross margin was due to unfavorable sales mix, lower pricing levels of approximately $16,800, manufacturing and supply chain inefficiencies of $10,025, and higher energy costs of $600. The unfavorable sales mix was driven by a lower mix of revenue from the higher-margin North American regional bank market and increased security and election system revenues, which carry a lower gross margin. In addition, included in product cost of sales were $13,371 of restructuring charges, which adversely affected the product gross margin. Services gross margin for 2005 was 22.0 percent compared with 25.0 percent for 2004. The decline in services gross margin was due to lower pricing levels and higher product maintenance, energy and pension costs. In addition, services gross margin was adversely affected by $4,505 of restructuring charges included in service cost of sales in 2005.

Operating Expenses Total operating expenses for 2005 were 17.9 percent of net sales, up from 16.8 percent for 2004. The increase in operating expenses as a percentage of sales was due in part to higher information technology expenses and professional fees associated with the company' s continued enterprise resource planning and software implementation project. The company also recorded in the fourth quarter $15,490 in expense to reserve for an approximately $32,500 ES trade receivable related primarily to two counties in California. Also included in operating expenses in 2005 were $18,588 in restructuring charges that further adversely affected other operating expenses as a percentage of sales. Finally, acquisitions which carried a higher operating expense as a percentage of revenues, also affected the year-over-year comparison.

Other Income (Expense) Investment income for 2005 was $12,165 and decreased $134 or 1.1 percent over investment income for 2004. The decrease was due to a smaller investment portfolio in 2005. Interest expense for 2005 was $16,511 and increased $5,854 or 54.9 percent compared to 2004. The increase was due to higher borrowing rates and higher borrowing levels year-over-year.

Miscellaneous expense, net for 2005 was $11,843 and increased $9,888 from 2004. Included in the increase in miscellaneous expense, net, was foreign exchange losses of $9,035. The increase in foreign exchange loss was primarily due to the weakening of the U.S. dollar as compared to the Brazilian real as well as a strengthening of the U.S. dollar compared to the euro.

Income from Continuing Operations Income from continuing operations for 2005 was $82,904 and decreased $98,905 or 54.4 percent over income from continuing operations for 2004. The decrease was primarily due to lower gross margins, higher operating expense, increased foreign exchange losses and a higher effective tax rate in 2005. The effective tax rate for 2005 was 40.0 percent as compared to 31.5 percent for 2004. The increase in the tax rate was primarily attributable to valuation allowances established in 2005 relating to certain international net operating losses.

Net Income Net income for 2005 was $96,746 and decreased by $87,051 or 47.4 percent over net income for 2004. Included in the decrease in net income is the impact of the increase in the effective tax rate during 2005 and lower income from continuing operations.

Segment Revenue and Operating Profit Summary DNA net sales of $1,422,170 for 2005 increased $22,347 or 1.6 percent over 2004 net sales of $1,399,823. The increase in DNA net sales was due to increased revenue from the security solutions product and service offerings which more than offset reduced financial self service product and service offerings. DI net sales of $1,010,503 for 2005 increased by $143,250 or 16.5 percent over 2004 net sales of $867,253. The increase in DI net sales was attributed to strong revenue growth of $34,636 in Asia Pacific and higher revenue from Latin America of $66,950 and from EMEA of $41,664. During 2005, revenue was positively impacted by the year-over-year strengthening of the Brazilian real, partially offset by a weakening euro and certain other currencies. ES & Other net sales of $154,376 for 2005 increased $64,344 or 71.5 percent over 2004. The increase was related to the result of higher U.S. based revenue in 2005, as more localities purchased electronic voting equipment in order to comply with HAVA.

DNA operating profit for 2005 decreased by $89,575 or 40.7 percent compared to 2004. The decrease was primarily due to unfavorable revenue mix and pricing pressure as well as restructuring charges of $20,326 for 2005. DI operating profit for 2005 decreased by $23,359 or 38.4 percent compared to 2004. The decrease was primarily due to sales mix and restructuring charges

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of $16,138 for 2005. The operating loss in ES & other decreased by $723 or 9.4 percent, moving from $7,713 in 2004 to $6,990 in 2005. This decrease in ES & Other operating loss was a result of higher margins on products sold in 2005.

Refer to Note 16 to the Consolidated Financial Statements for further details of segment revenue and operating profit.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158 (SFAS No. 158), *Employers' Accounting for Defined Benefit Pension*

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and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires an entity to recognize the funded status of a defined benefit postretirement plan in its statement of financial position measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement benefit plan, the benefit obligation would be the accumulated postretirement benefit obligation. The pronouncement also requires disclosure of additional information in the notes to financial statements about certain effects of net periodic benefit cost in the subsequent fiscal year that arise from delayed recognition of the actuarial gains and losses and the prior services costs and credits. The company has adopted these requirements as of December 31, 2006. The pronouncement also requires, for fiscal years ending after December 15, 2008, entities to recognize the actuarial gains and losses and the prior service costs and credits that arise during the period, but are not recognized as components of net periodic benefit cost as a component of other comprehensive income, and measure defined benefit plan assets and obligations as of the date of the employer's statement of financial position for fiscal years ending after December 15, 2008. The company is currently evaluating the impact of the adoption of the measurement requirement on its financial statements.

In September 2006, the FASB issued SFAS No. 157 (SFAS No. 157), *Fair Value Measurements*, which is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. This statement defines fair value, establishes a fair value hierarchy, and requires separate disclosure of fair value measurements by level within the hierarchy. The company is currently evaluating the impact of SFAS No. 157 on its financial statements.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the recognition, measurement, presentation and disclosure in the company's financial statements of uncertain tax positions taken or expected to be taken in a tax return. Under FIN 48 uncertain tax positions are initially recognized in the financial statements when it is more likely than not (i.e., greater than 50% probability) that the position will be sustained upon audit by a taxing authority. Tax positions recognized are initially and subsequently measured and recorded based on the most likely outcome. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The company will disclose the impact of adoption in its first quarter 2007 Form 10-Q. The company has consistently recorded benefits for uncertain tax positions only if the likelihood of success in an audit was 70% or greater. If the threshold was met, the entire benefit was recognized. Uncertain tax positions (i.e., those with a likelihood of success less than 70%) were fully reserved in the financial statements. Consequently, the company does not anticipate the adoption of FIN 48 to result in a material adjustment to beginning of the year retained earnings as it relates to initial recognition. The company is currently evaluating the impact of the adoption of FIN 48 on its financial statements.

In February 2006, the FASB issued SFAS No. 155 (SFAS No. 155), *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 resolves issues addressed in SFAS No. 133, Implementation Issue No.D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The company is currently evaluating the impact of the adoption of SFAS No. 155 on its financial statements.

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 unfavorable movement in the applicable foreign exchange rates would have resulted in a decrease in 2006 and 2005 year-to-date operating profit of approximately $8,134 and $6,002, 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 dollar/euro and dollar/real rates. There were no significant changes in the company's foreign exchange risks in 2006 compared with 2005.

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 $369,481 and $489,194 at December 31, 2006 and 2005, respectively, of which $50,000 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 $2,943 and $4,850 for 2006 and 2005, respectively. The company's primary exposure to interest rate risk is

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movements in the LIBOR rate, which is consistent with prior periods. As discussed in Note 7 to the Consolidated Financial Statements, the company hedged $200,000 of the fixed rate borrowings under its private placement agreement, 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.

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CONSOLIDATED BALANCE SHEETS At December 31,
Diebold, Incorporated and subsidiaries
(In thousands, except share and per share amounts)

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$253,814	$207,900
Short-term investments	99,571	52,885
Trade receivables, less allowances of $29,751 for 2006 and $27,216 for 2005	610,893	676,361
Inventories	442,804	397,858
Deferred income taxes	72,537	53,684
Prepaid expenses	37,019	20,816
Other current assets	79,043	71,089
Total current assets	1,595,681	1,480,593
Securities and other investments	70,088	54,154
Property, plant and equipment, at cost	489,188	490,397
Less accumulated depreciation and amortization	286,653	269,675
	202,535	220,722
Goodwill	460,339	389,134
Other assets	185,636	205,059
	$2,514,279	$2,349,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	$11,324	$34,472
Accounts payable	158,388	180,725
Deferred income	170,921	136,135
Other current liabilities	258,103	228,699
Total current liabilities	598,736	580,031
Notes payable – long term	665,481	454,722
Pensions and other benefits	41,142	39,856
Postretirement and other benefits	32,942	31,369
Deferred income taxes	28,412	45,504
Other long-term liabilities	28,814	23,785
Minority interest	27,351	21,546
Shareholders' equity		
Preferred shares, no par value, authorized 1,000,000 shares, none issued	–	–
Common shares, par value $1.25,		
Authorized 125,000,000 shares, issued 75,145,662 and 74,726,031 shares, respectively outstanding 65,595,596 and 68,721,847 shares, respectively	93,932	93,408
Additional capital	235,229	199,033
Retained earnings	1,169,607	1,140,468
Treasury shares, at cost (9,550,066 and 6,004,184 shares, respectively)	(403,098)	(256,336)
Accumulated other comprehensive loss	(4,269)	(23,437)
Other	–	(287)
Total shareholders' equity	1,091,401	1,152,849
	$2,514,279	$2,349,662

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME Years ended December 31,
Diebold, Incorporated and subsidiaries
(In thousands, except per share amounts)

	2006	2005	2004
Net sales			
Products	$1,469,250	$1,293,419	$1,158,340
Services	1,436,982	1,293,630	1,198,768
	2,906,232	2,587,049	2,357,108
Cost of sales			
Products	1,046,617	952,321	789,287
Services	1,149,097	1,009,246	898,925
	2,195,714	1,961,567	1,688,212
Gross profit	710,518	625,482	668,896
Selling and administrative expense	463,862	403,804	336,657
Research, development and engineering expense	70,995	60,409	58,759
	534,857	464,213	395,416
Operating profit	175,661	161,269	273,480
Other income (expense)			
Investment income	19,224	12,165	12,299
Interest expense	(36,024)	(16,511)	(10,657)
Impairment of asset	(22,462)	–	–
Miscellaneous, net	(5,353)	(11,843)	(1,955)
Minority interest	(6,597)	(6,829)	(7,718)
Income from continuing operations before taxes	124,449	138,251	265,449
Taxes on income	37,902	55,347	83,640
Income from continuing operations	86,547	82,904	181,809
Income from discontinued operations – net of tax	–	13,842	1,988
Net Income	$86,547	$96,746	$183,797
Basic weighted-average number of shares	66,669	70,577	72,000
Diluted weighted-average number of shares	66,885	70,966	72,534
Basic earnings per share:			
Income from continuing operations	$1.30	$1.17	$2.52
Income from discontinued operations	$–	$0.20	$0.03
Net income	$1.30	$1.37	$2.55
Diluted earnings per share:			
Income from continuing operations	$1.29	$1.17	$2.50
Income from discontinued operations	$–	$0.19	$0.03
Net income	$1.29	$1.36	$2.53

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Diebold, Incorporated and subsidiaries
(In thousands, except share amounts)

	Common Shares								
	Number	Par Value	Additional Capital	Retained Earnings	Treasury Shares	Compre-hensive Income (Loss)	Accumulated Other Compre-hensive Loss	Other	Total
Balance, January 1, 2004	73,795,416	$92,244	$159,610	$970,935	$(42,562)		$(43,055)	$(341)	$1,136,831
Net income				183,797		$183,797			183,797
Translation adjustment						33,027			33,027
Pensions						(710)			(710)
Other comprehensive income						32,317	32,317		
Comprehensive income						$216,114			
Stock options exercised	302,754	379	11,217						11,596
Restricted shares	5,000	6	259					131	396
Performance shares	200		10						10
Restricted stock units	130,014	163	6,723						6,886
NCI acquisition			1,440		3,127				4,567
Dividends declared and paid				(53,240)					(53,240)
Treasury shares					(74,252)				(74,252)
Balance, December 31, 2004	74,233,384	$92,792	$179,259	$1,101,492	$(113,687)		$(10,738)	$(210)	$1,248,908
Net income				96,746		$96,746			96,746
Translation adjustment						(16,053)			(16,053)
Pensions						3,354			3,354
Other comprehensive loss						(12,699)	(12,699)		
Comprehensive income						$84,047			
Stock options exercised	332,412	416	11,356						11,772
Restricted shares	9,050	11	467					(77)	401
Restricted stock units	3,140	4	149						153
Performance shares	148,045	185	7,802						7,987
Dividends declared and paid				(57,770)					(57,770)
Treasury shares					(142,649)				(142,649)

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Balance, December 31, 2005	74,726,031	$93,408	$ 199,033	$ 1,140,468	$ (256,336)		$ (23,437)	$(287)	$1,152,849
Net income				86,547		$86,547			86,547
Translation adjustment						56,168			56,168
Pensions						(1,348)			(1,348)
Other comprehensive income						54,820	54,820		
Comprehensive income						$141,367			
Stock options exercised	336,085	420	11,902						12,322
Restricted stock units issued	4,635	6	(6)						–
Performance shares issued	5,800	7	(7)						–
Other share-based compensation	73,111	91	1,881						1,972
SFAS 123(R) reclass			6,143					287	6,430
SFAS 158 adoption, net							(35,652)		(35,652)
Share-based compensation expense			15,431						15,431
Colombia acquisition			816		2,592				3,408
DIMS acquisition			36		905				941
Dividends declared and paid				(57,408)					(57,408)
Treasury shares					(150,259)				(150,259)
Balance, December 31, 2006	75,145,662	$93,932	$ 235,229	$ 1,169,607	$ (403,098)		$ (4,269)	$–	$1,091,401

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended December 31,
Diebold, Incorporated and subsidiaries
(In thousands)

	2006	2005	2004
Cash flow from operating activities:			
Net income	$86,547	$96,746	$183,797
Adjustments to reconcile net income to cash provided by operating activities:			
Income from discontinued operations	–	(909)	(1,988)
Minority interest	6,597	6,829	7,718
Depreciation and amortization	69,810	54,711	58,596
Share-based compensation	15,431	(2,444)	10,028
Deferred income taxes	(38,388)	10,063	28,486
Impairment of asset	22,462	–	–
Gain on sale of discontinued operations	–	(20,290)	–
(Gain) Loss on sale of assets, net	(287)	5,327	412
Cash provided (used) by changes in certain assets and liabilities:			
Trade receivables	81,993	(97,075)	2,293
Inventories	(24,768)	(16,181)	(47,081)
Prepaid expenses	(15,064)	1,860	(6,402)
Other current assets	4,157	(15,982)	(407)
Accounts payable	(29,796)	39,500	17,321
Certain other assets and liabilities	71,730	40,559	(31,163)
Net cash provided by operating activities	250,424	102,714	221,610
Cash flow from investing activities:			
Proceeds from sale of discontinued operations	–	29,350	–
Payments for acquisitions, net of cash acquired	(62,156)	(27,701)	(62,224)
Proceeds from maturities of investments	81,735	40,178	12,418
Payments for purchases of investments	(126,887)	(61,007)	(40,157)
Proceeds from sale of fixed assets	6,442	–	–
Capital expenditures	(44,277)	(48,454)	(50,200)
Increase in certain other assets	(36,937)	(38,628)	(33,111)
Net cash used by investing activities	(182,080)	(106,262)	(173,274)
Cash flow from financing activities:			
Dividends paid	(57,408)	(57,770)	(53,240)
Notes payable borrowings	1,680,475	1,184,746	917,632
Notes payable repayments	(1,510,070)	(970,205)	(837,944)
Distribution of affiliates' earnings to minority interest holder	(718)	(805)	(540)
Issuance of common shares	11,716	9,462	8,418
Repurchase of common shares	(148,057)	(138,208)	(71,897)
Net cash (used) provided by financing activities	(24,062)	27,220	(37,571)
Effect of exchange rate changes on cash	1,632	183	3,329
Increase in cash and cash equivalents	45,914	23,855	14,094
Cash and cash equivalents at the beginning of the year	207,900	184,045	169,951
Cash and cash equivalents at the end of the year	$253,814	$207,900	$184,045
Cash paid for:			
Income taxes	$43,065	$59,803	$85,893
Interest	33,235	16,274	10,430
Significant noncash items:			
Issuance of treasury shares for NCI acquisition	$–	$–	$4,567
Issuance of treasury shares for Colombia acquisition	3,408	–	–
Issuance of treasury shares for DIMS acquisition	941	–	–

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts and as noted)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The Consolidated Financial Statements include the accounts of the company and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparation of Consolidated Financial Statements The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation The company changed its method of accounting for rotable spares used in its service business in 2006. The previous accounting method incorrectly classified rotable spares as long-lived assets and depreciated the parts over their estimated useful life. The company's new method of accounting is to classify rotable spares within inventories and to expense the cost of the parts in the period that they are used. In addition, rotable spares expenditures, which were previously included as part of *Cash flows from investing activities*, are now included within *Cash flows from operating activities* on the Consolidated Statements of Cash Flows. The impact of this correction is not material to income from operations, net income or earnings per share, and as such the company has presented this correction as an immaterial revision of its financial statements consistent with the discussion of such matters within Staff Accounting Bulletin No. 108. As a result of applying this correction, net rotable spares of $53,697 and $56,244 are now classified within inventories at December 31, 2006 and 2005, respectively. Rotable spares expenditures of $14,749, $14,151 and $11,038 are now included within *Cash flows from operating activities* for the years ended December 31, 2006, 2005 and 2004, respectively. In addition, the related deferred income tax assets and deferred income tax liabilities were reduced by $2,356 and $3,531 at December 31, 2006 and 2005, respectively.

Reclassifications The company has reclassified the presentation of certain prior-year information to conform to the current presentation, including the above change in rotable spares.

Statements of Cash Flows For the purpose of the Consolidated Statements of Cash Flows, the company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

International Operations The financial statements of the company's international operations are measured using local currencies as their functional currencies, with the exception of Venezuela, Argentina, Barbados and Ecuador, which are measured using the U.S. dollar as their functional currency. The company translates the assets and liabilities of its non-U.S. subsidiaries at the exchange rates in effect at year-end and the results of operations at the average rate throughout the year. The translation adjustments are recorded directly as a separate component of shareholders' equity, while transaction gains (losses) are included in net income. Sales to customers outside the United States approximated 46.4 percent of net sales in 2006, 42.0 percent of net sales in 2005 and 39.7 percent of net sales in 2004.

Financial Instruments The carrying amount of financial instruments, including cash and cash equivalents, trade receivables and accounts payable, approximated their fair value as of December 31, 2006 and 2005 because of the relatively short maturity of these instruments.

Revenue Recognition The company's revenue recognition policy is consistent with the requirements of Statement of Position (SOP) 97-2, *Software Revenue Recognition* and Staff Accounting Bulletin 104 (SAB 104). In general, the company records revenue when it is realized, or realizable and earned. The company considers revenue to be realized or realizable and earned when the following revenue recognition requirements are met: persuasive evidence of an arrangement exists, which is a customer contract; the products or services have been provided to the customer; the sales price is fixed or determinable within the contract; and collectibility is probable. The sales of the company's products do not require production, modification or customization of the hardware or software after it is shipped.

The company offers the following product groups and related services:

Self-Service Products Self-service products pertain to ATMs. Included within the ATM is software, which operates the ATM. The related software is considered an integral part of the equipment since without it, the equipment cannot function. Revenue is recognized in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*. The company also provides service contracts on ATMs.

Service contracts typically cover a 12-month period and can begin at any given month during the year after the standard 90-day warranty period expires. The service provided under warranty is significantly limited as compared to those offered under service contracts. Further, warranty is not considered a separate element of the sale. The company's warranties cover only replacement of parts inclusive of labor. Service contracts are tailored to meet the individual needs of each customer. Service contracts provide

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additional services beyond those covered under the warranty, and usually include preventative maintenance service, cleaning, supplies stocking and cash handling all of which are not essential to the functionality of the equipment. For sales of service contracts, where the service contract is the only element of the sale, revenue is recognized ratably over the life of the contract period. In contracts that involve multiple-element arrangements, amounts deferred for services are determined based upon vendor specific objective evidence of the fair value of the elements as prescribed in SOP 97-2. The company determines fair value of deliverables within a multiple element arrangement based on the price charged when each element is sold separately.

Physical Security and Facility Products The company' s Physical Security and Facility Products division designs and manufactures several of the company' s financial service solutions offerings, including the RemoteTeller™ System (RTS). The business unit also develops vaults, safe deposit boxes and safes, drive-up banking equipment and a host of other banking facilities products. Revenue on sales of the products described above is recognized when the four revenue recognition requirements of SAB 104 have been met.

Election Systems The company, through its wholly owned subsidiaries, Diebold Election Systems, Inc. (DESI) and Amazonia Industria Eletronica S.A. Procomp, offers electronic voting systems. Election systems revenue consists of election equipment, software, training, support, installation and maintenance. The election equipment and software components are included in product revenue. The training, support, installation and maintenance components are included in service revenue. The election systems contracts contain multiple deliverable elements and custom terms and conditions. Revenue on election systems contracts is recognized in accordance with SOP 97-2. The

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company recognizes revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refund or return rights affecting the revenue recognized for delivered elements. The company determines fair value of deliverables within a multiple element arrangement based on the price charged when each element is sold separately. Some contracts may contain discounts and, as such, revenue is recognized using the residual value method of allocation of revenue to the product and service components of contracts.

Integrated Security Solutions Diebold Integrated Security Solutions provides global sales, service, installation, project management and monitoring of original equipment manufacturer (OEM) electronic security products to financial, government, retail and commercial customers. These solutions provide the company's customers a single-source solution to their electronic security needs. Revenue is recognized in accordance with SAB 104. Revenue on sales of the products described above is recognized upon shipment, installation or customer acceptance of the product as defined in the customer contract. In contracts that involve multiple-element arrangements, amounts deferred for services are determined based upon vendor specific objective evidence of the fair value of the elements as prescribed in EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*.

Software Solutions and Services The company offers software solutions consisting of multiple applications that process events and transactions (networking software) along with the related server. Sales of networking software represent software solutions to customers that allow them to network various different vendors' ATMs onto one network and revenue is recognized in accordance with SOP 97-2.

Included within service revenue is revenue from software support agreements, which are typically 12 months in duration and pertain to networking software. For sales of software support agreements, where the agreement is the only element of the sale, revenue is recognized ratably over the life of the contract period. In contracts that involve multiple-element arrangements, amounts deferred for support are determined based upon vendor specific objective evidence of the fair value of the elements as prescribed in SOP 97-2.

Depreciation and Amortization Depreciation of property, plant and equipment is computed using the straight-line method for financial statement purposes. Accelerated methods of depreciation are used for federal income tax purposes. Amortization of leasehold improvements is based upon the shorter of original terms of the lease or life of the improvement. Repairs and maintenance are expensed as incurred.

Shipping and Handling Costs The company recognizes shipping and handling fees billed when products are shipped or delivered to a customer, and includes such amounts in net sales. Third party freight payments are recorded in cost of sales.

Advertising Costs Advertising costs are expensed as incurred. Total advertising costs charged to expense were $13,525, $12,725 and $12,557 in 2006, 2005 and 2004, respectively.

Share-Based Compensation As of January 1, 2006, the company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payments* (SFAS No. 123(R)), which requires companies to recognize in the statement of income the grant-date fair value of stock awards issued to employees and directors. The company adopted SFAS No. 123(R) using the modified prospective transition method. In accordance with the modified prospective transition method, the company's financial statements for prior periods have not been restated to reflect the impact of SFAS No. 123(R). The company elected the short-cut method for determining the historical pool of windfall tax benefits.

Prior to the adoption of SFAS No. 123(R), the company applied Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations to account for awards of share-based compensation granted to employees.

Earnings per Share Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if common stock equivalents were exercised and then shared in the earnings of the company.

Trade Receivables The concentration of credit risk in the company's trade receivables with respect to financial and government sectors is substantially mitigated by the company's credit evaluation process and the geographical dispersion of sales transactions from a large number of individual customers. The company maintains allowances for potential credit losses, and such losses have been minimal and within management's expectations except for a 2005 expense of $15,490 to reserve for an approximate $32,500 election systems trade receivable related primarily to two counties in California. Approximately $18,505 of this election systems trade receivable has been collected in 2006, and no other significant customer-specific reserve was necessary in 2006 for any trade receivables. The allowance for doubtful accounts is estimated based on various factors including revenue, historical credit losses, current trends and changes in the aging of trade receivable balances and specific customer circumstances.

Inventories Domestic inventories, except for election systems, are valued at the lower of cost or market applied on a first-in, first-out (FIFO) basis. International and election systems inventories are valued using the average cost method, which approximates

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FIFO. At each reporting period, the company identifies and writes down its excess and obsolete inventory to its net realizable value based on forecasted usage, orders 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.

Other Assets Included in other assets are net capitalized computer software development costs of $36,924 and $30,841 as of December 31, 2006 and 2005, respectively. Amortization expense on capitalized software was $11,500, $11,417 and $10,039 for 2006, 2005 and 2004, respectively. Other long-term assets also consist of pension assets, finance receivables, tooling, investment in service contracts and customer demonstration equipment. Where applicable,

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other assets are stated at cost and, if applicable, are amortized ratably over the relevant contract period or the estimated life of the assets of three to five years.

Goodwill Goodwill is the cost in excess of the net assets of acquired businesses. These assets are stated at cost and, effective January 1, 2002, are not amortized, but evaluated at least annually for impairment, in accordance with SFAS No. 142 (SFAS No. 142), *Goodwill and Other Intangible Assets*. SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets in that goodwill and other intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their estimated useful lives.

Under SFAS No. 142, the company is required to test all existing goodwill for impairment on a "reporting unit" basis. The reporting units were determined on a geographical basis that combines two or more component-level reporting units with similar economic characteristics within a single reporting unit. A fair-value approach is used to test goodwill for impairment. The company uses the discounted cash flow method for determining the fair value of its reporting units. As required by SFAS No. 142, the determination of implied fair value of the goodwill for a particular reporting unit is the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities in the same manner as the allocation in a business combination. Implied fair value goodwill is determined as the excess of the fair value of the reporting unit over the assets and liabilities. When available and as appropriate, comparative market multiples were used to corroborate results of the discounted cash flows. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. The annual impairment tests were performed as of November 30, 2006, 2005 and 2004 and resulted in no impairment charges.

The changes in carrying amount of goodwill for the years ended December 31, 2006 and 2005 are as follows:

	DNA	DI	ES & Other	Total
Balance at January 1, 2005	$80,798	$285,209	$46,618	$412,625
Goodwill of acquired businesses & purchase accounting adjustments	(16,628)	3,843	–	(12,785)
Currency translation adjustment	70	(10,776)	–	(10,706)
Balance at December 31, 2005	$64,240	$278,276	$46,618	$389,134
Goodwill of acquired businesses & purchase accounting adjustments	34,483	10,226	1,816	46,525
Currency translation adjustment	(5)	24,685	–	24,680
Balance at December 31, 2006	$98,718	$313,187	$48,434	$460,339

Taxes on Income In accordance with SFAS No. 109, deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and 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.

Deferred Income Deferred income is largely related to service contracts and deferred installation revenue. Service contract revenue may be billed in advance of the service period. Service contract revenue is recognized as it is earned on a straight-line basis over the contract period.

Comprehensive Income (Loss) The company displays comprehensive income (loss) in the Consolidated Statements of Shareholders' Equity and accumulated other comprehensive loss separately from retained earnings and additional capital in the Consolidated Balance Sheets and Statements of Shareholders' Equity. Items considered to be other comprehensive income (loss) include adjustments made for foreign currency translation (under SFAS No. 52) and pensions (under SFAS No. 87 and No. 158).

Accumulated other comprehensive loss consists of the following:

	2006	2005	2004
Translation adjustment	$37,333	$(18,835)	$(2,783)
Pensions less accumulated taxes of $(23,073), $(1,572) and $(3,541), respectively	(41,602)	(4,602)	(7,955)
	$(4,269)	$(23,437)	$(10,738)

Translation Adjustments Are Not Booked Net of Tax. Those adjustments are accounted for under the indefinite reversal criterion of APB Opinion No. 23, *Accounting for Income Taxes – Special Areas*.

NOTE 2: SECURITIZATIONS

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In 2001, the company entered into a securitization agreement, which involved the sale of a pool of its lease receivables to a wholly owned, unconsolidated, qualified special purpose subsidiary, DCC Funding LLC (DCCF). One of the conditions set forth in the securitization agreement between DCCF and the conduit was that the composition of the pool of securitized lease receivables represent only customers with an AA credit rating or higher. The pool of lease receivables included within the securitized program consisted primarily of one large customer with such a credit rating. During the third quarter of 2004, this customer, with approval from the conduit, elected to transfer its leasing rights to another entity. This other entity had a credit rating of less than the required rating to remain securitized in accordance with the securitization agreement, which led to the termination of the securitization agreement. During 2004, as a result of the termination, the balance of the securitized pool of lease receivables of

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$35,905 was recorded on the company' s Consolidated Financial Statements and the 364-day facility agreement balance of $28,973 that funded the securitization was repaid.

The company did not initiate any unilateral right to cause the termination of the securitization, nor did the company have the unilateral ability to cause DCCF to liquidate or change DCCF.

The following schedule represents the activity pertaining to the securitization for the year ended December 31, 2004:

	2004
Proceeds:	
Securitizations	$–
Payments to DCCF	(37,639)
Net securitization payments*	$(37,639)
Cash received from DCCF*	$10,726

* Included as part of the change in certain other assets and liabilities within the operating activities section of the Consolidated Statement of Cash Flows.

NOTE 3: INVESTMENT SECURITIES

The marketable debt and equity securities are stated at fair value. The fair value of securities and other investments is estimated on quoted market prices. The company' s long-term investment securities consisted of the cash surrender value of insurance contracts of $57,510 and $54,154 as of December 31, 2006 and 2005, respectively, and other investments of $12,578 and $0 at December 31, 2006 and 2005, respectively. The company' s short-term investments consisted of certificates of deposit of $99,571 and $52,885 at December 31, 2006 and 2005, respectively, and are stated at cost basis, which equaled the fair value of the investments due to their short-term nature.

NOTE 4: INVENTORIES

Major classes of inventories at December 31 are summarized as follows:

	2006	2005
Finished goods	$119,466	$90,484
Service parts	152,066	140,508
Work in process	128,983	126,247
Raw materials	42,289	40,619
	$442,804	$397,858

Service parts includes rotable spares previously classified as property, plant and equipment.

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, at cost less accumulated depreciation, at December 31:

	2006	2005
Land and land improvements	$6,861	$8,287
Buildings	70,810	74,094
Machinery and equipment	384,876	281,097
Leasehold improvements	16,467	13,910
Construction in progress	10,174	113,009
	$489,188	$490,397
Less accumulated depreciation	(286,653)	(269,675)
	$202,535	$220,722

During the fourth quarter of 2006, the company hired key executive management with considerable experience in information technology (IT) strategic planning, business transformation and global ERP system implementation. In addition, the company made substantial progress related to an evaluation of its ERP implementation plan and global IT organization and completed an evaluation of the software and hardware architecture. As a result of this completed evaluation, the company determined that approximately $22,462 of previously capitalized ERP costs, net of $1,063 accumulated depreciation, were impaired. The impairment charge is primarily a result of previous customizations made to the software and software related costs that have

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been rendered obsolete due to adjustments in the implementation plan, process improvements, and the decision to implement a newer release of the ERP software. The capitalized costs associated with this ERP system of $82,260 are included within the company's DNA segment and within machinery and equipment at December 31, 2006. At December 31, 2005, costs of $103,794 associated with ERP software are included within construction in progress.

During 2006, 2005, and 2004, depreciation expense, computed on a straight-line basis over the estimated useful lives of the related assets, was $40,385, $28,349 and $37,052, respectively.

NOTE 6: FINANCE RECEIVABLES

The components of finance receivables for the net investment in sales-type leases are as follows:

	2006	2005
Total minimum lease receivable	$28,618	$32,649
Estimated unguaranteed residual values	2,142	2,629
	30,760	35,278
Less:		
Unearned interest income	(2,163)	(2,435)
Unearned residuals	(414)	(415)
	(2,577)	(2,850)
	$28,183	$32,428

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Future minimum lease receivables due from customers under sales-type leases as of December 31, 2006 are as follows:

2007	$10,152
2008	8,409
2009	5,258
2010	4,288
2011	511
Thereafter	—
	$28,618

NOTE 7: DEBT

The notes payable balances as of December 31 were as follows:

	2006	2005
Notes payable – current:		
Revolving foreign currency loans[1]	$7,263	$9,376
Revolving U.S. dollar loans	4,061	25,096
	$11,324	$34,472

	2006	2005
Notes payable – long term:		
Revolving euro loans[2]	$120,481	$154,722
Revolving U.S. dollar loans	545,000	300,000
	$665,481	$454,722

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1 INR 175,978 borrowings and other foreign currency loans translated at the applicable December 31, 2006 spot rate; INR 396,000 borrowings and other foreign currency loans translated at the applicable December 31, 2005 spot rate.

2 91,280 borrowing translated at the applicable December 31, 2006 spot rate; 130,578 borrowing translated at the applicable December 31, 2005 spot rate.

The company has a credit facility with JP Morgan Chase Bank, N.A. with borrowing limits of $300,000 and 150,000. In 2005, the company amended its credit facility. Under the terms of the facility agreement, the company has the ability to increase the borrowing limits an additional $150,000. This facility expires on April 27, 2010.

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. There are various covenants governing the senior notes, less restrictive than those that govern the company's existing revolving credit facility. 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 used $270,000 of the net proceeds from the senior notes to reduce the outstanding balance under its revolving credit facility, which has a variable interest rate.

The amount of committed loans at December 31, 2006 that remained available was $55,000 and 58,720 ($77,504 translated). In addition to the committed lines of credit, $61,000, 37,000 Brazilian real ($17,325 translated), and 263,000 Indian rupees ($5,942 translated) in uncommitted lines of credit were available as of December 31, 2006.

The average rate on the bank credit lines was 4.81 percent, 3.45 percent and 2.29 percent for the years ended December 31, 2006, 2005 and 2004, respectively. Interest on financing charged to expense for the years ended December 31 was $34,883, $12,874 and $9,000 for 2006, 2005 and 2004, respectively.

The company's financing agreements contain various restrictive covenants, including net debt to capitalization and interest coverage ratios. As of December 31, 2006, the company was in compliance with all restrictive covenants.

NOTE 8: OTHER LONG-TERM LIABILITIES

Included in other long-term liabilities are bonds payable and a financing agreement. Bonds payable at December 31 consisted of the following:

	2006	2005
Industrial Development Revenue Bond due January 1, 2017	$4,400	$5,800

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Industrial Development Revenue Bond due June 1, 2017	7,500	7,500
Long-term bonds payable	$11,900	$13,300

In 1997, industrial development revenue bonds were issued on behalf of the company. The proceeds from the bond issuances were used to construct new manufacturing facilities in the United States. The company guaranteed the payments of principal and interest on the bonds by obtaining letters of credit. Each industrial development revenue bond carries a variable interest rate, which is reset weekly by the remarketing agents. The average rate on the bonds was 3.55 percent, 2.56 percent and 1.37 percent for the years ended December 31, 2006, 2005 and 2004, respectively. Interest on the industrial development revenue bonds charged to expense for the years ended December 31 was $432, $324 and $176 for 2006, 2005 and 2004, respectively. As of December 31, 2006, the company was in compliance with the covenants of its loan agreements and believes the covenants will not restrict its future operations.

A financing agreement was entered into in July 2002 with Fleet Business Credit, LLC in order to finance the purchase of an enterprise resource planning system. The financing agreement was for $24,862, payable in quarterly installments of $1,225, which includes interest at 5.75 percent and service fees through May 2007. The outstanding balance of the financing agreement was $2,409 and $7,023 as of December 31, 2006 and 2005, respectively. Interest paid related to the financing agreement was $284, $541 and $784 in 2006, 2005 and 2004, respectively.

NOTE 9: SHAREHOLDERS' EQUITY

Dividends On the basis of amounts declared and paid, the annualized quarterly dividends per share were $0.86, $0.82 and $0.74 in 2006, 2005 and 2004, respectively.

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Employee Share-Based Compensation Stock options, restricted stock units (RSUs), restricted shares and performance shares have been issued to officers and other management employees under the company's 1991 Equity and Performance Incentive Plan, as amended and restated (1991 Plan). The stock options generally vest over a four- or five-year period and have a maturity of ten years from the issuance date. Option exercise prices equal the fair market value of the common stock on the date of grant. RSUs provide for the issuance of a share of the company's common stock at no cost to the holder and generally vest after three to seven years with no partial vesting. During the vesting period, employees are paid the cash equivalent of dividends on RSUs. Unvested RSUs are forfeited upon termination unless the Board of Directors determines otherwise. Restricted share grants are subject to forfeiture under certain conditions and have a three-year vesting period. Performance shares are granted based on certain management objectives, as determined by the Board of Directors each year. Each performance share earned entitles the holder to one common share. The performance share objectives are generally calculated over a three-year period and no shares are granted unless certain threshold management objectives are met. To cover the exercise and/or vesting of its share-based payments, the company generally issues new shares from its authorized, unissued share pool. The number of common shares that may be issued pursuant to the 1991 Plan was 4,191 of which 1,158 shares were available for issuance at December 31, 2006.

Effective January 1, 2006, the company adopted SFAS No. 123(R), which requires the company to recognize costs resulting from all share-based payment transactions in the financial statements, including stock options, RSUs, restricted shares and performance shares, based on the fair market value of the award as of the grant date. SFAS No. 123(R) supersedes SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and APB 25. The company has adopted SFAS No. 123(R) using the modified prospective application method of adoption, which requires the company to record compensation cost related to unvested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over the remaining requisite periods of those awards with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS No. 123(R) and recognized on a straight-line basis over the requisite periods of each award. The company estimated forfeiture rates for the year ended December 31, 2006 based on its historical experience.

As a result of adopting SFAS No. 123(R), the company's net income was lower for year ended December 31, 2006 by $5,707 (net of $2,505 tax benefit), than if the company had continued to account for share-based compensation under APB 25. The impact on both basic and diluted earnings per share for the year ended December 31, 2006 was $0.09 per share. The impact on cash flow from financing activities for the year ended December 31, 2006 was not material in relation to the company's financial statements.

Prior to 2006, the company accounted for stock-based compensation in accordance with APB 25 using the intrinsic value method, which did not require that compensation cost be recognized for the company's stock options provided the option exercise price was not below the common stock fair market value on the date of grant. Under APB 25, the company was required to record expense over the vesting period for the value of RSUs, restricted shares and performance shares granted. Prior to 2006, the company provided pro forma disclosure amounts in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, as if the fair value method defined by SFAS No. 123 was applied to its share-based compensation.

The estimated fair value of the options granted during 2006 and prior years was calculated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Expected life (in years)	3–6	4–6	4–6
Weighted-average volatility	33%	30%	38%
Risk-free interest rate	4.55–5.11%	3.54–4.46%	2.63–3.68%
Expected dividend yield	1.58–1.63%	1.59–1.63%	1.50–1.73%

The Black-Scholes model incorporates assumptions to value share-based awards. The risk-free rate of interest for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on historical volatility of the price of the company's common stock. The company generally uses the midpoint of the life of the grant to estimate option exercise timing within the valuation model. This methodology is not materially different from the company's historical data on exercise timing. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

Pro forma net income as if the fair value based method had been applied to all awards is as follows:

	2005	2004

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Net income as reported	$96,746	$183,797
Add: Share-based compensation programs recorded as expense, net of tax	(1,466)	6,869
Deduct: Total share-based employee compensation expense determined under fair value based method for all awards, net of tax	$4,561	$11,513
Pro forma net income*	$90,719	$179,153
Earnings per share:		
Basic – as reported	$1.37	$2.55
Basic – pro forma	$1.29	$2.49
Diluted – as reported	$1.36	$2.53
Diluted – pro forma	$1.28	$2.47

* Prior to January 1, 2006, any remaining unrecognized compensation cost was accelerated immediately upon the grantee's retirement. SFAS No. 123(R) requires that compensation cost be recognized over the shorter of the requisite service period or retirement eligible date for share-based awards granted subsequent to December 31, 2005. In 2006, the company recognized compensation cost of $2,164 on share-based awards granted prior to January 1, 2006 that would not have been recognized had the retirement eligible requirements of SFAS 123(R) been applied to those awards.

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As of December 31, 2006, unrecognized compensation cost of $7,406 for stock options, $5,711 for RSUs, $100 for restricted shares and $4,938 for performance shares is expected to be recognized over a weighted-average period of approximately 1.8, 2.9, 1.1 and 1.1 years, respectively.

Share-based compensation was recognized as a component of selling, general and administrative expenses. The accrual for performance share grants was reduced in 2005 based on the unfavorable financial performance of the company. The following table summarizes the components of the company's share-based compensation programs recorded as expense:

	2006	2005	2004
Stock Options:			
Pre-tax compensation expense	$7,123	$–	$–
Tax benefit	(2,173)	–	–
Stock option expense, net of tax	4,950	–	–
RSUs:			
Pre-tax compensation expense	$4,440	$2,497	$1,075
Tax benefit	(1,354)	(999)	(339)
RSU expense, net of tax	3,086	1,498	736
Restricted Shares:			
Pre-tax compensation expense	$188	$199	$396
Tax benefit	(57)	(79)	(125)
Restricted share expense, net of tax	131	120	271
Performance Shares:			
Pre-tax compensation expense	$3,680	$(5,140)	$8,557
Tax (benefit) expense	(1,122)	2,056	(2,695)
Performance share expense, net of tax	2,558	(3,084)	5,862
Total Share-Based Compensation			
Pre-tax compensation expense	$15,431	$(2,444)	$10,028
Tax benefit	(4,706)	978	(3,159)
Total share-based compensation, net of tax	$10,725	$(1,466)	$6,869

Options outstanding and exercisable under the 1991 Plan as of December 31, 2006 and changes during the year then ended were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value(1)
Outstanding at January 1, 2006	3,112	$40.20		
Options granted	290	40.16		
Options exercised	(336)	33.10		
Options expired or forfeited	(121)	47.56		
Outstanding at December 31, 2006	2,945	$40.70	6	$22,642
Options exercisable at December 31, 2006	2,016	$39.64	5	$17,421

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(1) The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the company's closing stock price on the last trading day of the year in 2006 and the exercise price, multiplied by the number of "in-the-money" options) that would have been received by the option holders had all option holders exercised their options on December 31, 2006. The amount of aggregate intrinsic value will change based on the fair market value of the company's common stock.

The aggregate intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $3,424, $5,207 and $6,685, respectively. The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2006, 2005 and 2004 was $13.15, $12.80 and $15.82, respectively. Total fair value of stock options vested for the years ended December 31, 2006, 2005 and 2004 was $24,754, $22,870 and $15,736, respectively. Exercise of options during the year ended December 31, 2006 and 2005 resulted in cash receipts of $10,615 and $9,523, respectively. The tax benefit

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during the year ended December 31, 2006 related to the exercise of employee stock options was not material in relation to the company' s financial statements.

The following tables summarize information on unvested RSUs and performance shares outstanding:

Restricted Stock Units (RSUs):	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2006	130	$ 53.94
Forfeited	(6)	$ 48.08
Vested	(7)	$ 51.49
Granted	191	$ 39.45
Unvested at December 31, 2006	308	$ 45.12

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Performance Shares:	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2006	363	$ 53.33
Forfeited	–	–
Vested	(6)	$ 36.55
Granted	199	$ 39.46
Unvested at December 31, 2006	556	$ 48.55

Unvested performance shares are based on a maximum potential payout. Actual shares granted at the end of the performance period may be less than the maximum potential payout level depending on achievement of performance share objectives.

The company had 5 unvested restricted shares as of December 31, 2006 with a weighted-average grant-date fair value of $55.20, and 10 unvested restricted shares as of December 31, 2005 with a weighted-average grant-date fair value of $54.10.

Non-Employee Share-Based Compensation In connection with the acquisition of Diebold Colombia, S.A. in December 2006, the company issued 7 restricted shares with a grant-date fair value of $46. These restricted shares vest in five years. The company also issued 35 warrants with an exercise price of $46 and grant-date fair value of $14.66. The grant-date fair value of the warrants was valued using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.45%, dividend yield of 1.63%, expected volatility of 30%, and contractual life of six years. The warrants vest 20% per year for five years and will expire in December 2016.

Rights Agreement On January 28, 1999, the Board of Directors announced the adoption of a Rights Agreement that provided for Rights to be issued to shareholders of record on February 11, 1999. The description and terms of the Rights are set forth in the Rights Agreement, dated as of February 11, 1999, between the company and The Bank of New York, as Agent. Under the Rights Agreement, the Rights trade together with the common shares and are not exercisable. In the absence of further Board action, the Rights generally will become exercisable and allow the holder to acquire common shares at a discounted price if a person or group acquires 20 percent or more of the outstanding common shares. Rights held by persons who exceed the applicable threshold will be void. Under certain circumstances, the Rights will entitle the holder to buy shares in an acquiring entity at a discounted price. The Rights Agreement also includes an exchange option. In general, after the Rights become exercisable, the Board of Directors may, at its option, effect an exchange of part or all of the Rights (other than Rights that have become void) for common shares. Under this option, the company would issue one common share for each Right, subject to adjustment in certain circumstances. The Rights are redeemable at any time prior to the Rights becoming exercisable and will expire on February 11, 2009, unless redeemed or exchanged earlier by the company.

NOTE 10: EARNINGS PER SHARE

(In thousands, except per share amounts)

The following data show the amounts used in computing earnings per share and the effect on the weighted-average number of shares of dilutive potential common stock.

	2006	2005	2004
Numerator:			
Income used in basic and diluted earnings per share:			
Income from continuing operations	$86,547	$82,904	$181,809
Income from discontinued operations	–	13,842	1,988
Net income	$86,547	$96,746	$183,797
Denominator:			
Weighted-average number of common shares used in basic earnings per share	66,669	70,577	72,000
Effect of dilutive fixed stock options and RSUs	216	389	534
Weighted-average number of common shares and dilutive potential common shares used in diluted earnings per share	66,885	70,966	72,534
Basic earnings per share			
Income from continuing operations	$1.30	$1.17	$2.52
Income from discontinued operations	–	0.20	0.03
Net income	$1.30	$1.37	$2.55
Diluted earnings per share			
Income from continuing operations	$1.29	$1.17	$2.50
Income from discontinued operations	–	0.19	0.03

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Net income	$1.29	$1.36	$2.53
Anti-dilutive shares not used in calculating diluted weighted-average shares	976	977	375

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NOTE 11: BENEFIT PLANS

Qualified Pension Benefits The company has several pension plans covering substantially all United States employees. Plans covering salaried employees provide pension benefits based on the employee' s compensation during the 10 years before retirement. The company' s funding policy for salaried plans is to contribute annually if required at an actuarially determined rate. Plans covering hourly employees and union members generally provide benefits of stated amounts for each year of service. The company' s funding policy for hourly plans is to make at least the minimum annual contributions required by applicable regulations. Employees of the company' s operations in countries outside of the United States participate to varying degrees in local pension plans, which in the aggregate are not significant. In addition to these plans, union employees in one of the company' s U.S. manufacturing facilities participate in the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communications Workers of America (IUE-CWA) multi-employer pension fund. Pension expense related to the multi-employer pension plan was $431, $434 and $489 for 2006, 2005 and 2004, respectively.

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

Other Benefits In addition to providing pension benefits, the company provides healthcare and life insurance benefits (referred to as Other Benefits) for certain retired employees. Eligible employees may be entitled to these benefits based upon years of service with the company, age at retirement and collective bargaining agreements. Currently, the company has made no commitments to increase these benefits for existing retirees or for employees who may become eligible for these benefits in the future. Currently there are no plan assets and the company funds the benefits as the claims are paid. The postretirement benefit obligation was determined by application of the terms of medical and life insurance plans together with relevant actuarial assumptions and healthcare cost trend rates.

The company uses a September 30 measurement date for its pension and other benefits.

The following table sets forth the change in benefit obligation, change in plan assets, funded status, Consolidated Balance Sheet presentation and relevant assumptions for the company' s defined benefit pension plans and other benefits at December 31:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Change in benefit obligation				
Benefit obligation at beginning of year	$408,699	$370,641	$ 23,194	$21,991
Service cost	11,179	12,374	8	3
Interest cost	23,045	22,266	1,294	1,255
Amendments	1,627	–	924	–
Actuarial loss (gain)	(1,278)	11,712	1,310	2,077
Benefits paid	(16,594)	(13,590)	(3,261)	(3,514)
Special termination benefits	–	6,730	(74)	1,382
Curtailments	–	(1,262)	–	–
Settlements	–	(49)	–	–
Other	113	(123)	–	–
Benefit obligation at end of year	$426,791	$408,699	$ 23,395	$23,194
Change in plan assets				
Fair value of plan assets at beginning of year	$366,143	$318,524	$ –	$–
Actual return on plan assets	32,849	43,148	–	–
Employer contribution	15,368	18,060	3,261	3,514
Benefits paid	(16,594)	(13,589)	(3,261)	(3,514)
Fair value of plan assets at end of year	$397,766	$366,143	$ –	$–
Funded status				
Funded status	$(29,025)	$(42,556)	$ (23,395)	$(23,194)
Unrecognized net actuarial loss (gain)	56,406	64,101	(4,164)	9,120
Unrecognized prior service cost (benefit)	2,795	1,931	9,638	(5,620)
Prepaid (accrued) pension cost	$30,176	$23,476	$ (17,921)	$(19,694)
Amounts recognized in Balance Sheets				
Prepaid benefit cost	$14,369	$56,731	$ –	$–
Accrued benefit cost	(43,394)	(39,428)	(23,395)	(19,694)
Intangible asset	–	–	–	–
Accumulated other comprehensive income	59,201	6,173	5,474	–

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Net amount recognized	$30,176	$23,476	$ (17,921)	$(19,694)

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	Pension Benefits			Other Benefits		
	2006	2005*	2004	2006	2005	2004
Components of net periodic benefit cost						
Service cost	$11,179	$ 12,374	$11,906	$8	$ 3	$39
Interest cost	23,045	22,266	21,201	1,294	1,255	1,434
Expected return on plan assets	(30,995)	(28,956)	(29,085)	–	–	–
Amortization of prior service cost	765	1,119	1,213	(532)	(613)	(478)
Amortization of initial transition asset	–	(658)	(1,495)	–	–	–
Recognized net actuarial loss (gain)	4,552	2,331	924	792	528	473
Special termination benefits	–	6,060	–	(74)	–	–
Curtailment loss	–	1,094	–	–	–	–
Settlement (gain) loss	–	(165)	–	–	–	–
Net periodic pension benefit cost	$8,546	$ 15,465	$4,664	$1,488	$ 1,173	$1,468

* Includes one-time charges of $3,800 resulting from the VERP and $3,300 for separation costs of former executives.

Information for pension plans with an accumulated benefit obligation in excess of plan assets.

December 31	2006	2005
Projected benefit obligation	$ 61,664	$ 58,987
Accumulated benefit obligation	59,053	57,075
Fair value of plan assets	18,269	18,122

Minimum liabilities have been recorded in 2005 and 2004 for the plans whose total accumulated benefit obligation exceeded the fair value of the plan’s assets. The accumulated benefit obligation for all defined benefit pension plans was $387,296 and $371,920 at December 31, 2006 and 2005, respectively. The decrease in minimum liability included in other comprehensive income, net of taxes, was ($3,354) and $0 for the pension benefits and other benefits at December 31, 2005, respectively.

At the end of 2006, the company adopted SFAS No. 158, *Employers’ Accounting for Defined Pension and Other Postretirement Plans*, which changes the accounting requirements for defined benefit pension and other postretirement plans. This new statement requires that the company recognize the funded status of each of its plans in the Consolidated Balance Sheet. The impact of SFAS No. 158 is summarized below:

Pension Benefits	**Before SFAS No. 158**	**Change**	**After SFAS No. 158**
Assets	$67,061	$(52,692)	$14,369
Liabilities	45,177	(1,783)	43,394
Accumulated Other Comprehensive Income	(8,292)	(50,909)	(59,201)
Other Benefits			
Assets	–	–	–
Liabilities	17,921	5,474	23,395
Accumulated Other Comprehensive Income	–	(5,474)	(5,474)

Additional Information

Weighted-average assumptions used to determine benefit obligations at December 31

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	6.125 %	5.750 %	6.125 %	5.750 %
Rate of compensation increase	3.000 %	3.000 %		

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Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.750 %	6.125 %	5.750 %	6.125 %
Expected long-term return on plan assets	8.750 %	8.500 %		
Rate of compensation increase	3.000 %	3.000 %		

The healthcare trend rates are reviewed with the actuaries based upon the results of their review of claims experience. 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 discount rate is determined by analyzing the average return of high-quality (i.e., AA-rated or better), fixed-income investments and the year-over-year comparison of certain widely used benchmark indices as of the measurement date. The rate of compensation increase assumptions reflects the com- pany's long-term actual experience and future and near-term outlook. Pension benefits are funded through deposits with trustees. The market-related value of plan assets is calculated under an adjusted market-value method. The value is determined by adjusting the fair

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value of assets to reflect the investment gains and losses (i.e., the difference between the actual investment return and the expected investment return on the market-related value of assets) during each of the last five years at the rate of 20 percent per year.

Assumed healthcare cost trend rates at

December 31	2006	2005
Healthcare cost trend rate assumed for next year	8.00 %	7.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that rate reaches ultimate trend rate	2014	2012

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	$ 87	$ (78)
Effect on postretirement benefit obligation	1,506	(1,350)

Plan Assets The company' s pension weighted-average asset allocations at December 31, 2006 and 2005, and target allocation for 2007, by asset category are as follows:

	Target Allocation	Percentage of Pension Plan Assets at December 31	
	2007	2006	2005
Asset Category			
Equity securities	70 %	69 %	70 %
Debt securities	30 %	31 %	30 %
Total	100 %	100 %	100 %

Amortization amounts expected to be recognized during 2007

	Pension Benefits	Other Benefits
Amount of net transition obligation/(asset)	$–	$–
Amount of net prior service cost/(credit)	$671	$(517)
Amount of net loss/(gain)	$4,007	$731

Cash Flows

Contributions – The company contributed $15,368 to its pension plans, including contributions to the nonqualified plan, and $3,261 to its other postretirement benefit plan in 2006. Also, the company expects to contribute $14,778 to its pension plans, including the nonqualified plan, and $2,441 to its other postretirement benefit plan in 2007.

Benefit Payments

	Pension Benefits	Other Benefits
2007	$17,318	$2,441
2008	18,257	2,430
2009	19,356	2,206
2010	20,665	2,145
2011	22,146	2,141
2012–2016	137,613	9,903

Retirement Savings Plan The company offers an employee 401(k) Savings Plan (Savings Plan) to encourage eligible employees to save on a regular basis by payroll deductions, and to provide them with an opportunity to become shareholders of the company. Effective July 1, 2003, a new enhanced benefit to the Savings Plan became effective. All new salaried employees hired on or after July 1, 2003 are provided with an employer basic matching contribution in the amount of 100 percent of the first

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three percent of eligible pay and 60 percent of the next three percent of eligible pay. This new enhanced benefit is in lieu of participation in the pension plan for salaried employees. For employees hired prior to July 1, 2003, the company matched 60 percent of participating employees' first three percent of contributions and 40 percent of participating employees' next three percent of contributions. Total company match was $10,099, $9,214 and $7,714 in 2006, 2005 and 2004, respectively.

Deferred Compensation Plans The company has deferred compensation plans that enable certain employees to defer receipt of a portion of their compensation and non-employee directors to defer receipt of director fees at the participants' discretion.

NOTE 12: LEASES

The company's future minimum lease payments due under operating leases for real and personal property in effect at December 31, 2006 are as follows:

	Total	Real Estate	Equipment
2007	$75,221	$28,956	$46,265
2008	59,443	23,385	36,058
2009	45,219	20,884	24,335
2010	28,324	17,952	10,372
2011	17,518	13,742	3,776
Thereafter	17,284	16,281	1,003
	$243,009	$121,200	$121,809

Under lease agreements that contain escalating rent provisions, lease expense is recorded on a straight-line basis over the lease term. Rental expense under all lease agreements amounted to approximately $83,397, $59,210 and $52,064 for 2006, 2005 and 2004, respectively.

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NOTE 13: INCOME TAXES

The components of income from continuing operations before income taxes were as follows:

	2006	2005	2004
Domestic	$28,962	$84,271	$192,336
Foreign	95,487	53,980	73,113
	$124,449	$138,251	$265,449

Income tax expense (benefit) from continuing operations is comprised of the following components:

	2006	2005	2004
Current:			
U.S. Federal	$13,480	$16,315	$27,277
Foreign	33,899	24,774	18,360
State and local	4,939	3,913	8,679
	$52,318	$45,002	$54,316
Deferred:			
U.S. Federal	$(5,918)	$9,540	$17,710
Foreign	(4,925)	2,275	9,467
State and local	(3,573)	(1,470)	2,147
	$(14,416)	$10,345	$29,324
Total income tax expense	$37,902	$55,347	$83,640

In addition to the income tax expenses listed above for 2006, 2005 and 2004, income tax impacts allocated directly to shareholders' equity for the same periods were $22,690, ($222) and $2,721, respectively.

A reconciliation of the U.S. statutory tax rate and the effective tax rate for continuing operations is as follows:

	2006	2005	2004
Statutory tax rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of federal tax benefit	0.7	1.2	1.7
Foreign income taxes	(3.6)	5.9	0.8
Accrual adjustments	0.2	2.9	(4.5)
U.S. taxed foreign income	1.1	0.1	(0.2)
Capital losses	(3.6)	–	–
Other	0.7	(5.1)	(1.3)
Effective tax rate	30.5 %	40.0 %	31.5 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's deferred tax assets and liabilities are as follows:

	2006	2005
Deferred Tax Assets:		
Postretirement benefits	$8,816	$7,528
Accrued expenses	37,282	33,118
Warranty accrual	1,397	2,448
Deferred compensation	9,795	10,907
Bad debts	6,542	6,638
Inventory	7,857	4,630
Deferred revenue	2,002	63
Net operating loss carryforwards	61,164	49,709
State deferred taxes	6,466	2,509
Other	14,430	9,144
	155,751	126,694
Valuation allowance	(45,948)	(35,541)
Net deferred tax assets	$109,803	$91,153

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Deferred Tax Liabilities:		
Pension	$(7,793)	$9,975
Property, plant and equipment	8,888	13,856
Goodwill	43,070	36,445
Finance receivables	6,315	6,535
Software capitalized	2,323	2,648
Partnership income	7,947	6,953
Other	4,928	6,561
Net deferred tax liabilities	65,678	82,973
Net deferred tax asset	$44,125	$8,180

At December 31, 2006, the company' s domestic and international subsidiaries had deferred tax assets relating to net operating loss (NOL) carryforwards of $61,164. Of these NOL carryforwards, $21,960 expires at various times between 2007 and 2025. The remaining NOL carryforwards of approximately $39,204 do not expire. The company has a valuation allowance to reflect the estimated amount of deferred tax assets that, more likely than not, will not be realized. The valuation allowance relates primarily to certain international NOLs.

The net change in the total valuation allowance for the years ended December 31, 2006 and 2005 was an increase of $10,407 and $26,990, respectively. The increase in 2005 included a $3,162 increase to the beginning of the year valuation allowance established for EMEA NOL carryforwards. The increase was necessary due to circumstances that caused a change in judgment about the company' s ability to utilize the NOL carryforwards in future years.

A determination of the unrecognized deferred tax liability on undistributed earnings of non-U.S. subsidiaries and investments in foreign unconsolidated affiliates is not practicable. However, no liability for U.S. income taxes on such undistributed earnings has been provided because it is the company' s policy to reinvest these earnings indefinitely in operations outside the United States.

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NOTE 14: COMMITMENTS AND CONTINGENCIES

At December 31, 2006, 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 financial statements would not be materially affected by the outcome of any present legal proceedings, commitments or asserted claims.

In addition to the routine legal proceedings noted above, the company has been served with various lawsuits, filed against it and certain current and former officers and directors, by shareholders and participants in the company's 401(k) savings plan, alleging violations of the federal securities laws and breaches of fiduciary duties with respect to the 401(k) plan. These complaints seek compensatory damages in an unspecific amount, fees and expenses related to such lawsuit and the granting of extraordinary equitable and/or injunctive relief. All of these cases have been consolidated into their respective plaintiffs groups, and lead plaintiffs and lead plaintiffs' counsel have been appointed as to each group. The company and the individual defendants deny the allegations made against them, regard them as without merit, and intend to defend themselves vigorously. Management is unable to determine the financial statement impact, if any, of these legal proceedings as of December 31, 2006.

The company was informed during the first quarter of 2006 that the staff of the SEC had begun an informal inquiry relating to the company's revenue recognition policy. The SEC indicated in its letter to the company that the inquiry should not be construed as an indication by the SEC that there has been any violation of the federal securities laws. In the second quarter of 2006, the company was informed that the SEC's inquiry had been converted to a formal, non-public investigation. The company is continuing to cooperate with the SEC in connection with the investigation. The company cannot predict the length, scope or results of the investigation, or the impact, if any, on its results of operations.

NOTE 15: GUARANTEES AND PRODUCT WARRANTIES

The company has applied the provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*, to its agreements that contain guarantees or indemnification clauses. These disclosure requirements expand those required by SFAS No. 5, *Accounting for Contingencies*, by requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of arrangements in effect as of December 31, 2006 in which the company is the guarantor.

In connection with the construction of certain manufacturing facilities, the company guaranteed repayment of principal and interest on variable rate industrial development revenue bonds by obtaining letters of credit. The bonds were issued with a 20-year original term and are scheduled to mature in 2017. Any default, as defined in the agreements, would obligate the company for the full amount of the outstanding bonds through maturity. At December 31, 2006, the carrying value of the liability was $11,900. 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. At December 31, 2006, the maximum future payment obligations relative to these various guarantees totaled $43,669, of which $21,163 represented standby letters of credit to insurance providers, and no associated liability was recorded. At December 31, 2005, the maximum future payment obligations relative to these various guarantees totaled $47,344, of which $16,786 represented standby letters of credit to insurance providers, and no associate liability was recorded.

The company provides its customers a standard manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. Changes in the company's warranty liability balance are illustrated in the following table:

	2006	2005
Balance at January 1	$21,399	$14,410
Current period accruals	23,111	22,751
Current period settlements	(23,013)	(15,762)
Balance at December 31	$21,497	$21,399

NOTE 16: SEGMENT INFORMATION

The company's segments are comprised of its three main sales channels: Diebold North America (DNA), Diebold International (DI) and Election Systems (ES) & Other. These sales channels are evaluated based on revenue from customers and operating profit contribution to the total corporation. The reconciliation between segment information and the Consolidated Financial Statements is disclosed. Revenue summaries by geographic area and product and service solutions are also disclosed. All income and expense items below operating profit are not allocated to the segments and are not disclosed.

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The DNA segment sells financial and retail systems and also 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. The ES & Other segment includes the operating results of DESI and the voting and lottery related business in Brazil. Each of the sales channels buys the goods it sells from the company's manufacturing plants through intercompany sales that are eliminated in consolidation, and intersegment revenue is not significant. Each year, intercompany pricing is agreed upon which drives sales channel operating profit contribution. As permitted under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, certain information not routinely used in the management of these segments, information not allocated back to the segments or information that is impractical to report is not shown. Items not allocated are as follows: interest income, interest expense, equity in the net income of investees accounted for by the equity method, income tax expense or benefit, and other non-current assets.

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Segment Information by Channel

	DNA	DI	ES & Other	Total
2006				
Customer revenues	$1,503,822	$1,170,603	$231,807	$2,906,232
Operating profit	114,424	21,093	40,144	175,661
Capital expenditures	25,442	16,239	2,596	44,277
Depreciation	24,312	14,667	1,406	40,385
Property, plant and equipment	334,650	148,354	6,184	489,188
2005				
Customer revenues	$1,422,170	$1,010,503	$154,376	$2,587,049
Operating profit (loss)	130,743	37,516	(6,990)	161,269
Capital expenditures	37,531	9,860	1,063	48,454
Depreciation	23,359	3,870	1,120	28,349
Property, plant and equipment	363,553	121,591	5,253	490,397
2004				
Customer revenues	$1,399,823	$867,253	$90,032	$2,357,108
Operating profit (loss)	220,318	60,875	(7,713)	273,480
Capital expenditures	36,997	12,851	352	50,200
Depreciation	22,508	13,636	908	37,052
Property, plant and equipment	387,165	111,531	4,044	502,740

Revenue Summary by Geographic Area

	2006	2005	2004
The Americas	$2,158,068	$1,945,326	$1,791,685
Asia Pacific	289,840	267,498	232,862
Europe, Middle East and Africa	458,324	374,225	332,561
Total revenue	$2,906,232	$2,587,049	$2,357,108

Total Revenue Domestic vs. International			
Domestic	$1,557,179	$1,499,445	$1,421,339
Percentage of total revenue	53.6 %	58.0 %	60.3 %
International	1,349,053	1,087,604	935,769
Percentage of total revenue	46.4 %	42.0 %	39.7 %
Total revenue	$2,906,232	$2,587,049	$2,357,108

Revenue Summary by Product and Service Solutions			
Financial self-service:			
Products	$957,698	$879,195	$814,236
Services	941,527	891,865	882,969
Total financial self-service	1,899,225	1,771,060	1,697,205
Security:			
Products	328,291	276,509	276,739
Services	446,909	385,104	293,132
Total security	775,200	661,613	569,871
Total financial self-service and security	2,674,425	2,432,673	2,267,076
Election systems/lottery	231,807	154,376	90,032
Total revenue	$2,906,232	$2,587,049	$2,357,108

The company had no customers that accounted for more than 10 percent of total net sales in 2006, 2005 and 2004.

NOTE 17: ACQUISITIONS

The following mergers and acquisitions were accounted for as purchase business combinations and, accordingly, the purchase price has been allocated to identifiable tangible and intangible assets acquired and liabilities assumed, based upon their

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respective fair values, with the excess allocated to goodwill and intangible assets. Results of operations of the companies acquired from the date of acquisition are included in the condensed consolidated results of operations of the company.

In December 2006, the company made payments to acquire Brixlogic, Inc. (Brixlogic) based in San Mateo, California for approximately $6,675. Brixlogic is a software development firm previously used by the company for various software development projects. The acquisition is effective January 1, 2007 and, accordingly, no goodwill, other intangible assets or results of operations are included in the company' s consolidated financial statements at December 31, 2006. Brixlogic is included as part of the company' s DNA segment.

In December 2006, the company acquired the remaining 45 percent interest of Diebold Colombia, S.A. (Colombia) held by J.J.F. Panama, Inc. and C.R. Panama, Inc. The acquisition was effected in a combination of 56 percent stock and 44 percent cash for a total purchase price of $6,800. Preliminary estimate of goodwill and other intangibles net of amortization amounted to approximately $6,800. As a result of this acquisition, this organization became a wholly owned subsidiary of the company and is included as part of the company' s DI segment.

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In August 2006, the company acquired Bitelco Telecommunications, Ltd. and Bitelco Services, Ltd. (Bitelco) based in Santiago, Chile for approximately $9,553. Bitelco is a leading security company specializing in product integration, installation, project management and service. Bitelco provides electronic security, fire detection and suppression, and telecommunications security solutions for the financial, commercial, government and retail markets. Preliminary estimate of goodwill and other intangibles net of amortization amounted to approximately $5,885 at December 31, 2006. Bitelco is included as part of the company' s DI segment.

In July 2006, the company acquired 100% of the capital stock of Firstline, Inc. (Firstline) for $14,058. Firstline, located in Gold River, California, is a first and second line ATM maintenance service provider operating throughout the west coast of the U.S. and also provides limited cash handling services. Goodwill and other intangibles net of amortization resulting from the acquisition amounted to approximately $4,859 and $7,407, respectively, at December 31, 2006. Firstline is included as part of the company' s DNA segment.

In June 2006, the company acquired Actcom, Incorporated (Actcom), a privately held company based in Virginia Beach, Virginia, for approximately $11,300. Actcom is a leader in identification and enterprise security. Actcom' s primary customers include U.S. federal government agencies, such as the Department of Defense, as well as state and municipal government agencies. Goodwill and other intangibles net of amortization resulting from the acquisition amounted to approximately $8,848 and $0, respectively, at December 31, 2006. Actcom is included as part of the company' s DNA segment.

In May 2006, the company acquired ERAS Joint Venture, LLP (ERAS) for $14,000. ERAS is a processing and imaging provider of out-sourced serviced and installed systems based in Miami, Florida. Goodwill and other intangibles net of amortization resulting from the acquisition amounted to approximately $7,921 and $4,448, respectively, at December 31, 2006. ERAS is included as part of the company' s DNA segment.

In February 2006, the company purchased the membership interests of Genpass Service Solutions, LLC (GSS) for approximately $11,931. GSS is an independent, third-party ATM maintenance and service provider for approximately 6,000 ATMs in 34 states within the U.S. and has been integrated within the company' s DNA service organization. Goodwill and other intangibles net of amortization resulting from the acquisition amounted to approximately $7,287 and $185, respectively, at December 31, 2006.

The company is party to a joint venture partnership with Shanghai Xinsheng Aviation Industry Investment Co., Ltd. In September 2005, an additional seven percent of ownership was purchased for approximately $9,500. With this purchase, the company increased its ownership interest from 78 to 85 percent in the joint venture.

In May 2005, the company acquired TASC Security (Holdings) Limited and its subsidiaries (TASC). TASC is a global leader in electronic security solutions headquartered in London, England with regional offices in Amsterdam, Netherlands; Tokyo, Japan; San Francisco, USA; Dublin, Ireland; Leeds, England; and Melbourne and Sydney, Australia; along with a network of offices in Europe, the Middle East, Africa and Asia Pacific. TASC was purchased for approximately $26,300, including the payoff of certain debt arrangements, and has been integrated within the company' s security group. Goodwill and other intangibles net of amortization resulting from the acquisition amounted to approximately $13,366 and $9,054, respectively, at December 31, 2006. Goodwill and other intangibles resulting from the acquisition were approximately $17,000 and $8,700, respectively, at December 31, 2005.

NOTE 18: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

SFAS No. 133 (SFAS No. 133), *Accounting for Derivative Instruments and Hedging Activities*, established accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recognized on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument' s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument' s gains and losses to partially or wholly offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

Since a substantial portion of the company' s operations and revenue arise outside of the United States, financial results can be significantly affected by changes in foreign exchange rate movements. The company' s financial risk management strategy uses forward contracts to hedge certain foreign currency exposures. Such contracts are designated at inception to the related foreign currency exposures being hedged. The company' s 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 any speculative positions with regard to derivative instruments. The company' s forward contracts mature within one year.

The company manages its debt portfolio by using interest rate swaps to achieve an overall desired position of fixed and variable rates. In 2005, the company entered into two interest rate swap contracts that remained outstanding at December 31, 2006. The interest rate swaps relate to debt held by the company and convert $50,000 notional amount from variable rates to fixed rates.

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The variable rate for these contracts at December 31, 2006, which is based on three-month LIBOR rate, was 5.36 percent versus fixed rates of 4.59 percent and 4.72 percent. The contracts mature in four and nine years.

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Based on current interest rates for similar transactions, the fair value of all interest rate swap agreements is not material to the financial statements as of December 31, 2006 and 2005, respectively. Credit and market risk exposures are limited to the net interest differentials. The net payments or receipts from interest rate swaps are recorded as part of interest expense and are not material to the financial statements for the years ended December 31, 2006 and 2005, respectively.

The company records all derivatives on the balance sheet at fair value. For derivative instruments not designated as hedging instruments, changes in their fair values are recognized in earnings in the current period. The fair value of the company' s forward contracts was not material to the financial statements as of December 31, 2006 and 2005, respectively.

NOTE 19: RESTRUCTURING CHARGES

During 2005, the company initiated a restructuring plan for its manufacturing and service operations, primarily in Western Europe, to remove its excess capacity. The company also initiated a separate restructuring plan for the announced closing of its Danville, Virginia manufacturing operations. Total pre-tax costs to be incurred in the plans were anticipated to be approximately $30,000. During 2005, $39,028 was expensed ($26,300 after tax) with an accrual of approximately $3,397 as of December 31, 2005. The restructuring charges were incurred as follows: $13,371 against product cost of sales; $4,505 against service cost of sales and $21,152 against selling, general and administrative and other costs. The restructuring charges for 2005 were $22,890 in DNA and $16,138 in DI. The charges were comprised primarily of severance and other employee costs associated with staff reductions. Staff reductions resulted in approximately 300 involuntary employee terminations.

During 2006, the company initiated an additional restructuring plan related to realignment of its global research and development efforts. Total pre-tax costs to be incurred related to research and development realignment were anticipated to be approximately $12,400. In addition to this plan, during the second quarter of 2006, the company incurred restructuring charges related to the termination of an IT outsourcing agreement and product development rationalization.

Full year restructuring charges in 2006 were $26,977 ($18,749 after tax). This included charges of $12,474 primarily associated with the consolidation of global R&D facilities and other service consolidations, $7,000 from the termination of the IT outsourcing agreement, $3,017 for realignment of the company' s global manufacturing operations, $3,486 of other restructuring charges related to the company' s relocation of its European headquarters and $1,000 for product development rationalization. The accrual balance as of December 31, 2006 was $7,510. Restructuring charges were incurred as follows: $3,299 related to product cost of sales, $3,959 related to service cost of sales and $19,719 related to operating expenses and other costs. The restructuring charges for 2006 were $19,282 in DI, $7,007 in DNA and $688 related to ES & Other. The restructuring charges were mainly related to severance and other employee costs associated with staff reductions and contract termination fees. Staff reductions resulted in approximately 320 involuntary employee terminations.

NOTE 20: DISCONTINUED OPERATIONS

The assets related to the company' s campus card systems business were considered held-for-sale as of June 30, 2005; therefore, the company has disclosed these operations as discontinued in the consolidated statements of income for all periods presented herein in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In July 2005, the company sold the card system business for $38,050, which consisted of $29,350 in cash and a promissory note of $8,700. The resulting gain on the sale was $20,290 million ($12,933 net of tax) in 2005. Furthermore, separate disclosure of the specific assets held-for-sale, both current and non-current, is not presented because the amounts are not material to the consolidated balance sheets. Income from discontinued operations, net of tax, was $909 and $1,988 in 2005 and 2004, respectively.

NOTE 21: SUBSEQUENT EVENTS

On February 14, 2007, the Board of Directors approved an increase in the company' s share repurchase program by authorizing the repurchase of up to an additional two million shares of the Company' s outstanding common stock.

NOTE 22: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

See "Comparison of Selected Quarterly Financial Data (Unaudited)" on page 50 of this Annual Report.

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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 (Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share Based Payment,* effective January 1, 2006. In addition, as discussed in Note 11 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R),* effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Diebold, Incorporated's internal control over financial reporting as of December 31, 2006, 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 March 1, 2007, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Cleveland, Ohio
March 1, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Diebold, Incorporated:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A(b) of Form 10-K), that Diebold, Incorporated (the Company) maintained effective internal control over financial reporting as of December 31, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by COSO. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

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 (Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006 and our report dated March 1, 2007, expressed an unqualified opinion on those consolidated financial statements.

Cleveland, Ohio
March 1, 2007

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MANAGEMENT' S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management, under the supervision and with the participation of the Company' s chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the Company' s internal control over financial reporting as of December 31, 2006, based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company concluded that its internal control over financial reporting was effective as of December 31, 2006.

KPMG LLP, the Company' s independent registered public accounting firm, has issued an auditors' report on management' s assessment of the effectiveness of the Company' s internal control over financial reporting as of December 31, 2006. This report is included at page 47 of this Annual Report.

OTHER INFORMATION

The Company had included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2006 filed with the Securities and Exchange Commission certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company' s public disclosure, and the Company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance standards.

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MANAGEMENT' S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Diebold, Incorporated is responsible for the contents of the Consolidated Financial Statements, which are prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements necessarily include amounts based on judgments and estimates. Financial information elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

The company maintains a comprehensive accounting system which includes controls designed to provide reasonable assurance as to the integrity and reliability of the financial records and the protection of assets. An internal audit staff is employed to regularly test and evaluate both internal accounting controls and operating procedures, including compliance with the company' s statement of policy regarding ethical and lawful conduct. The Audit Committee of the Board of Directors, composed of directors who are not members of management, meets regularly with management, the independent auditors and the internal auditors to ensure that their respective responsibilities are properly discharged. KPMG LLP and the Vice President of Internal Audit have full and free independent access to the Audit Committee. The role of KPMG LLP, an independent registered public accounting firm, is to provide an objective examination of the Consolidated Financial Statements and the underlying transactions in accordance with the standards of the Public Company Accounting Oversight Board. The report of KPMG LLP accompanies the Consolidated Financial Statements.

FORWARD-LOOKING STATEMENT DISCLOSURE

In this Annual Report, the use of the words "believes," "anticipates," "expects" 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, including statements concerning future operating performance, the company' s share of new and existing markets, the company' s short- and long-term revenue and earnings growth rates and the company' s implementation of cost-reduction initiatives and measures to improve pricing, including the optimization of the company' s manufacturing capacity. 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 affect 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. 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 may cause actual results to differ materially from those anticipated in 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 timely completion of the company' s new manufacturing operation for financial self-service terminals and related components in the Eastern European region;
- costs associated with the planned closure of the company' s Cassis production facility, including the timing of related restructuring charges;
- the completion of the company' s implementation of its ERP system and other IT-related functions;
- acceptance of the company' s product and technology introductions in the marketplace;
- unanticipated litigation, claims or assessments;
- the company' s ability to reduce costs and expenses and improve internal operating efficiencies; including the optimization of the company' s manufacturing capacity;
- the company' s ability to successfully implement measures to improve pricing;
- variations in consumer demand for financial self-service technologies, products and services;
- challenges raised about reliability and security of the company' s election systems products, including the risk that such products will not be certified for use or will be decertified;
- changes in laws regarding the company' s election systems products and services;
- potential security violations to the company' s information technology systems; and

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the company` s ability to achieve benefits from its cost-reduction initiatives and other strategic changes.

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COMPARISON OF SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)
(In thousands, except per share amounts)

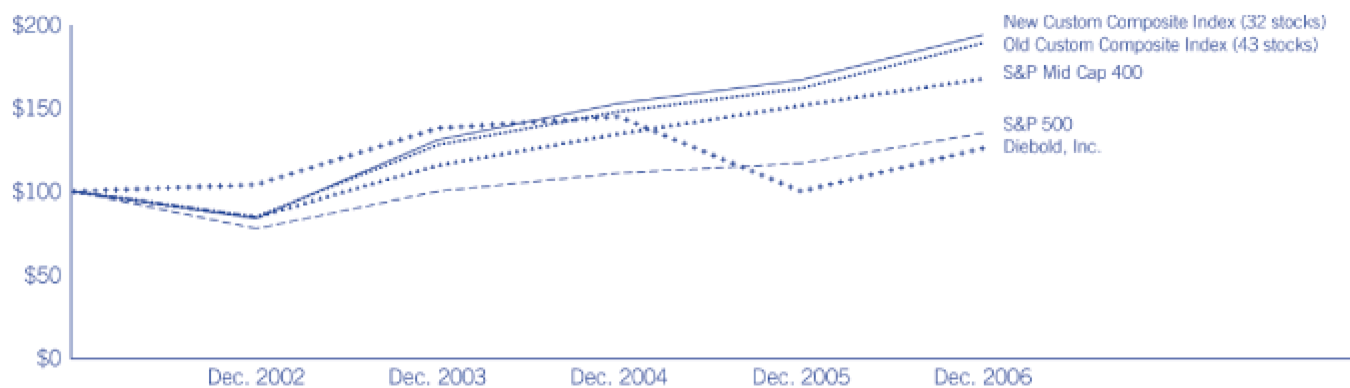
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	$ 623,691	$ 535,150	$ 726,396	$ 618,950	$ 730,739	$ 622,333	$ 825,406	$ 810,616
Gross profit	144,873	138,868	174,426	157,340	182,092	143,667	209,127	185,607
Income from continuing operations	12,701	27,852	17,222	31,150	29,542	13,499	27,082	10,403
Income from discontinued operations	–	89	–	820	–	12,933	–	–
Net income	$ 12,701	$ 27,941	$ 17,222	$ 31,970	$ 29,542	$ 26,432	$ 27,082	$ 10,403
Basic earnings per share*								
Income from continuing operations	$ 0.19	$ 0.39	$ 0.26	$ 0.44	$ 0.45	$ 0.19	$ 0.41	$ 0.15
Income from discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.18	$ 0.00	$ 0.00
Net income	$ 0.19	$ 0.39	$ 0.26	$ 0.45	$ 0.45	$ 0.37	$ 0.41	$ 0.15
Diluted earnings per share*								
Income from continuing operations	$ 0.18	$ 0.38	$ 0.26	$ 0.44	$ 0.45	$ 0.19	$ 0.41	$ 0.15
Income from discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.18	$ 0.00	$ 0.00
Net income	$ 0.18	$ 0.38	$ 0.26	$ 0.45	$ 0.45	$ 0.37	$ 0.41	$ 0.15

* The sums of the quarterly figures may not equal annual figures due to rounding or differences in the weighted-average number of shares outstanding during the respective periods.

See Note 22 to Consolidated Financial Statements and 6-Year Summary 2006-2001.

PERFORMANCE GRAPH

Cumulative Total Return
Based upon an initial investment of $100 on December 31, 2001 with dividends reinvested



The Old Custom Composite Index used in 2006 consists of 3Com Corp, Affiliated Computer Services- Class A, American Power Conversion, Ametek Inc., Avaya Inc., Benchmark Electronics Inc., Bisys Group Inc., Fidelity National Info Services (was Certegy Inc.), Cooper Industries Ltd., Corning Inc., Crane Co., Danaher Corp, Deluxe Corp, Donaldson Co., Inc., Dover Corp, Fiserv Inc., Fisher Scientific International Inc. (thru 3Q06), FMC Technologies Inc., Genlyte Group Inc., Harris Corp, Hubbell Inc.- Class B,

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International Game Technology, ITT Corp. (was ITT Industries Inc.), Lennox International Inc., Mettler-Toledo International Inc., NCR Corp, Pall Corp, Parker- Hannifin Corp, Perkinelmer Inc., Pitney Bowes Inc., Rockwell Automation, Rockwell Collins Inc., Sauer-Danfoss Inc., Scientific-Atlanta Inc.(thru 4Q05), Sungard Data Systems Inc. (thru 2Q05), Teleflex Inc., Thermo Fisher Scientific Inc. (was Thermo Electron Corp), Thomas & Betts Corp, Titan Corp (thru 2Q05), Unisys Corp, Intermec Inc. (formerly UNOVA Inc.), Varian Medical Systems Inc. and York International Corp (thru 4Q05).

The New Custom Composite Index superceded the Old Custom Composite Index as of December 2006 and consists of Affiliated Computer Services- Class A, American Power Conversion, Ametek Inc., Avaya Inc., Benchmark Electronics Inc., Cooper Industries Ltd., Corning Inc., Crane Co., Deluxe Corp, Donaldson Co., Inc., Dover Corp, Fiserv Inc., Fisher Scientific International Inc. (thru 3Q06), FMC Technologies Inc., Genlyte Group Inc., Harris Corp, Hubbell Inc.- Class B, International Game Technology, Lennox International Inc., Mettler-Toledo International Inc., NCR Corp, Pall Corp, Perkinelmer Inc., Pitney Bowes Inc., Rockwell Automation, Rockwell Collins Inc., Sauer-Danfoss Inc., Teleflex Inc., Thermo Fisher Scientific Inc. (was Thermo Electron Corp), Thomas & Betts Corp, Unisys Corp, and Varian Medical Systems Inc.

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2006–2001 SELECTED FINANCIAL DATA
Diebold, Incorporated and Subsidiaries
(In thousands, except per share amounts and ratios)

	2006	2005	2004	2003	2002	2001
Net sales	$ 2,906,232	$ 2,587,049	$ 2,357,108	$ 2,086,431	$ 1,918,837	$ 1,739,703
Cost of sales	2,195,714	1,961,567	1,688,212	1,469,628	1,350,338	1,230,178
Gross profit	710,518	625,482	668,896	616,803	568,499	509,525
Selling and administrative expense	463,862	403,804	336,657	306,333	278,351	273,542
Research, development and engineering expense	70,995	60,409	58,759	58,678	54,910	55,796
Operating profit	175,661	161,269	273,480	251,792	235,238	137,919
Other income (expense), net (Note A)	(44,615)	(16,189)	(313)	7,213	(15,110)	(34,173)
Minority interest	(6,597)	(6,829)	(7,718)	(7,547)	(5,654)	(4,897)
Income from continuing operations before taxes and cumulative effect of change in accounting principles	124,449	138,251	265,449	251,458	214,474	98,849
Taxes on income	37,902	55,347	83,640	80,188	84,563	32,514
Income from continuing operations before cumulative effect of change in accounting principle	86,547	82,904	181,809	171,270	129,911	66,335
Income from discontinued operations, net of tax	–	13,842	1,988	1,816	1,446	1,113
Net income before cumulative effect of a change in accounting principle	86,547	96,746	183,797	173,086	131,357	67,448
Cumulative effect of change in accounting principle – net of tax (Note B)	–	–	–	–	33,147	–
Net Income	86,547	96,746	183,797	173,086	98,210	67,448
Diluted earnings per share:						

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Income from continuing operations	1.29	1.17	2.50	2.35	1.80	0.92
Income from discontinued operations	0.00	0.19	0.03	0.02	0.02	0.02
Net income before cumulative effect of a change in accounting principle	1.29	1.36	2.53	2.37	1.82	0.94
Cumulative effect of change in accounting principle, net of tax (Note B)	–	–	–	–	0.46	–
Net income	1.29	1.36	2.53	2.37	1.36	0.94
Dividend and Common Share Data						
Basic weighted-average shares outstanding (Note C)	66,669	70,577	72,000	72,417	71,984	71,524
Diluted weighted-average shares outstanding (Note C)	66,885	70,966	72,534	72,924	72,297	71,783
Common dividends paid	$ 57,408	$ 57,770	$ 53,240	$ 49,242	$ 47,528	$ 45,774
Common dividends paid per share (Note C)	0.86	0.82	0.74	0.68	0.66	0.64
Year-End Financial Position (Note E)						
Current assets	$ 1,595,681	$ 1,480,593	$ 1,289,781	$ 1,163,845	$ 964,141	$ 941,772
Current liabilities	598,736	580,031	740,190	619,218	571,868	635,961
Net working capital	996,945	900,562	549,591	544,627	392,273	305,811
Property, plant and equipment, net	202,535	220,722	208,736	191,845	178,999	170,022
Total assets	2,514,279	2,349,662	2,131,347	1,897,878	1,623,700	1,621,083
Shareholders' equity	1,091,401	1,152,849	1,248,908	1,136,831	931,106	894,337
Shareholders' equity per share (Note D)	16.64	16.78	17.44	15.65	12.91	12.53
Ratios (Note E)						
Pretax profit as a percentage of net sales (%)	4.3	5.3	11.3	12.1	11.1	5.7

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Current ratio	2.7 to 1	2.6 to 1	1.7 to 1	1.9 to 1	1.7 to 1	1.5 to 1
Other Data (Note E)						
Capital expenditures	$ 44,277	$ 48,454	$ 50,200	$ 48,262	$ 37,593	$ 59,277
Depreciation	40,385	28,349	37,052	38,850	35,750	40,110

Note A – In 2006, amount includes an impairment charge of the company` s ERP system of $22,462; in 2002, amount includes a charge from the settlement of an IRS dispute regarding the deductibility of interest on debt-related to Corporate-Owned Life Insurance of $14,972; in 2001, amount includes a write-off of InnoVentry of $20,000.

Note B – In 2002, amounts include a one-time charge of $0.46 per diluted share resulting from the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*.

Note C – After adjustment for stock splits.

Note D – Based on shares outstanding at year-end adjusted for stock splits.

Note E – The company has reclassified the presentation of certain prior-year information to conform to the current presentation, including the method of accounting for rotable spares.

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DIRECTORS

Louis V. Bockius III2,3
Retired Chairman,
Bocko Incorporated
North Canton, Ohio
[Plastic Injection Molding]
Director since 1978

Phillip R. Cox1,4
President and
Chief Executive Officer,
Cox Financial Corporation
Cincinnati, Ohio
[Financial Planning and Wealth
Management Services]
Director since 2005

Richard L. Crandall2,4,5
Managing Partner,
Aspen Partners, LLC
Aspen, Colorado
[Private Equity]
Director since 1996

Gale S. Fitzgerald1,3,5
Director,
TranSpend, Inc.
Palm Bay, Florida
[Total Spend Optimization]
Director since 1999

Phillip B. Lassiter1,3
Retired Chairman of the Board
and Chief Executive Officer,
Ambac Financial Group, Inc.
New York, New York
[Financial Guarantee Insurance
Holding Company]
Director since 1995

John N. Lauer1,3
Non-executive Chairman of
the Board, Diebold, Incorporated
Canton, Ohio
Retired Chairman of
the Board,
Oglebay Norton Co.
Cleveland, Ohio
[Industrial Minerals]
Director since 1992

William F. Massy2,4,5
President,
The Jackson Hole
Higher Education Group, Inc.
Jackson Hole, Wyoming
Professor of Education and
Business Administration,
Emeritus, Stanford University,
Stanford, California

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[Education]
Director since 1984

Eric J. Roorda [2,4]
Former Chairman,
Procomp Amazônia
Indústria Eletronica, S.A.
São Paulo, Brazil
[Banking and Electoral
Automation; subsidiary
of Diebold]
Director since 2001

Thomas W. Swidarski
President and
Chief Executive Officer,
Diebold, Incorporated
Canton, Ohio
Director since 2005

Henry D. G. Wallace[2,4]
Former Group Vice President
and Chief Financial Officer,
Ford Motor Company
Detroit, Michigan
[Automotive Industry]
Director since 2003

Alan J. Weber[2,4,5]
Retired Chairman and
Chief Executive Officer,
U.S. Trust Corporation
New York, New York
[Financial Services Business]
Director since 2005

OFFICERS

Thomas W. Swidarski
President and
Chief Executive Officer

Kevin J. Krakora
Executive Vice President and
Chief Financial Officer

David Bucci
Senior Vice President,
Customer Solutions Group

James L. M. Chen
Senior Vice President,
EMEA/AP Divisions

Charles E. Ducey, Jr.
Senior Vice President,
Global Development and Services

George S. Mayers, Jr.
Senior Vice President,
Global Manufacturing and Supply

Dennis M. Moriarty
Senior Vice President,
Global Security Division

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John M. Crowther
Vice President and
Chief Information Officer

Warren W. Dettinger
Vice President,
General Counsel and Secretary

M. Scott Hunter
Vice President,
Chief Tax Officer

John D. Kristoff
Vice President,
Chief Communications Officer

Michael R. Moore
Vice President and
Corporate Controller

William E. Rosenberg
Vice President,
Corporate Development

Sheila M. Rutt
Vice President,
Chief Human Resources Officer

Robert J. Warren
Vice President and Treasurer

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1 Member of the Compensation Committee
2 Member of the Audit Committee
3 Member of the Board Governance Committee
4 Member of the Investment Committee
5 Member of IT Committee

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LIST OF SIGNIFICANT SUBSIDIARIES EXHIBIT 21.1

The following are the subsidiaries of the Registrant included in the Registrant' s consolidated financial statements at December 31, 2006. Other subsidiaries are not listed because such subsidiaries are inactive. Subsidiaries are listed alphabetically under either the domestic or international categories.

Domestic	Jurisdiction under which organized	Percent of voting securities owned by Registrant
ATM Finance, Inc.	Ohio	100%
BrixLogic Inc.	Delaware	100%
Central Security Systems, Inc.	Hawaii	100%
Data Information Management Systems, Inc.	California	100%
DBD Investment Management Company	Delaware	100%
Diebold Actcom Security Systems, Inc.	Delaware	100%
Diebold Australia Holding Company, Inc.	Delaware	100%
Diebold China Security Holding Company, Inc.	Delaware	100%
Diebold Election Systems, Inc.	Delaware	100% (11)
Diebold Election Systems Holding Company, Inc.	Delaware	100%
Diebold EMEA Management, Inc.	Ohio	100%
Diebold Enterprise Security Systems, Inc.	New York	100%
Diebold Eras, Incorporated	Ohio	100%
Diebold Finance Company, Inc.	Delaware	100% (1)
Diebold Fire Protection Services, Inc.	Delaware	100%
Diebold Foreign Sales Corporation	St. Thomas, U.S. Virgin Islands	100% (1)
Diebold Global Finance Corporation	Delaware	100%
Diebold Holding Company, Inc.	Delaware	100%
Diebold Information and Security Systems, LLC	Delaware	100%
Diebold Investment Company	Delaware	100%
Diebold Latin America Holding Company, LLC.	Delaware	100%
Diebold Mexico Holding Company, Inc.	Delaware	100%
Diebold Midwest Manufacturing, Inc.	Delaware	100%
Diebold of Nevada, Inc.	Nevada	100%
Diebold Safe and Lock Corporation	Ohio	100%

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Diebold Self-Service Systems	New York	100% (2)
Diebold Southeast Manufacturing, Inc.	Delaware	100% (3)
Diebold SST Holding Company, Inc.	Delaware	100%
Diebold Texas, Incorporated	Texas	100%
Diebold Transaction Services, Inc.	Delaware	100%
FirstLine, Inc.	California	100%
Griffin Technology, Incorporated	New York	100%
Guardian Burglar Proof Equipment Company	Ohio	100%
Herring-Hall-Marvin Safe Corp.	New York	100%
Impexa LLC	Texas	100% (4)

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Domestic	Jurisdiction under which organized	Percent of voting securities owned by Registrant
InterBold Technologies, Inc.	Delaware	100%(5)
Maintenance Acquisition Company No. 1, LLC	Delaware	100 %
Mayfair Software Distribution, Inc.	Delaware	100 %
Newell Communications, Inc.	Virginia	100 %
Nexus Software, Incorporated	Delaware	100 %
Pioneer Systems, Inc.	Pennsylvania	100 %
R. D. Products, Inc.	New York	100%(6)
Record Files, Incorporated	Ohio	100 %
Spectrum Print & Mail Services, Ltd.	Delaware	100%(31)
TASC Security Inc.	California	100%(36)
VDM Holding Company, Inc.	Delaware	100 %
Verdi & Associates, Inc.	New York	100 %
York Safe and Lock Company, Inc.	New York	100 %
York Safe and Lock Company	Pennsylvania	100 %

International	Jurisdiction under which organized	Percent of voting securities owned by Registrant
Cable Print N.V.	Belgium	100 %
Cardinal Brothers Consulting Pty. Ltd.	Australia	100%(10)
Cardinal Brothers Manufacturing & Operations, Pty. Ltd.	Australia	100%(30)
Caribbean Self Service and Security Ltd.	Barbados	50% (14)
Central de Alarmas Adler, S.A. de C.V.	Mexico	100%(27)
Comercializadora Diebold Chile Limitada	Chile	100%(28)
C.R. Panama, Inc.	Panama	100%(16)
DCHC, S.A.	Panama	100%(16)
Diebold Africa Investment Holdings Pty. Ltd.	South Africa	100 %
Diebold ATM Cihazlari Sanayi Ve Ticaret A.S.	Turkey	100%(21)
Diebold Argentina, S.A.	Argentina	100%(16)
Diebold Australia Pty. Ltd.	Australia	100%(7)

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Diebold Australia Pty. Ltd	New Zealand	100%(10)
Diebold Belgium B.V.B.A	Belgium	100%(24)
Diebold Brasil LTDA	Brazil	100%(16)
Diebold Brazil Services Holding Company ULC	Canada	100 %
Diebold Brazil Servicios e Participacoes Limitada	Brazil	100%(39)
Diebold Canada Holding Company Inc.	Canada	100 %
Diebold Cassis Manufacturing S.A.	France	100 %
Diebold Colombia S.A.	Colombia	100%(19)
The Diebold Company of Canada, Ltd.	Canada	100 %
Diebold – Corp Systems Sdn. Bhd.	Malaysia	100 %

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International	Jurisdiction under which organized	Percent of voting securities owned by Registrant
Diebold Czech Republic s.r.o	Czech Republic	100%(8)
Diebold Ecuador SA	Ecuador	100%(26)
Diebold Election Systems ULC	Canada	100 %
Diebold EMEA Processing Centre Limited	United Kingdom	100 %
Diebold Enterprise Security Systems, Benelux B.V.	Netherlands	100%(36)
Diebold Enterprise Security Systems Holdings UK Limited	United Kingdom	100%(34)
Diebold Enterprise Security Systems, Ireland Ltd.	Ireland	100%(36)
Diebold Enterprise Security Systems Japan Limited	Japan	100%(35)
Diebold Enterprise Security Systems Pacific, Inc.	Hong Kong	100 %
Diebold Enterprise Security Systems UK Limited	United Kingdom	100%(35)
Diebold Enterprise Security Systems NSW Pty Ltd	Australia	100%(35)
Diebold Enterprise Security Systems (VIC) Pty Ltd	Australia	100%(35)
Diebold Financial Equipment Company (China), Ltd.	Peoples Republic of China	85% (42)
Diebold France SARL	France	100%(8)
Diebold Germany GmbH	Germany	100%(8)
Diebold Global Finance Centre Ltd.	Ireland	100%(8)
Diebold Hungary Ltd.	Hungary	100%(8)
Diebold Hungary Self-Service Solutions, Ltd.	Hungary	100 %
Diebold India Private Limited	India	100 %
Diebold International Limited	United Kingdom	100%(8)
Diebold Italy S.r.l.	Italy	100%(18)
Diebold Mexico, S.A. de C.V.	Mexico	100%(4)
Diebold Netherlands B.V.	Netherlands	100%(8)
Diebold OLTP Systems, A.V.V.	Aruba, Dutch West Indies	50 %
Diebold OLTP Systems, C.A.	Venezuela	50% (14)
Diebold Osterreich Selbstbedienungssysteme GmbH	Austria	100%(8)
Diebold Pacific, Limited	Hong Kong	100 %

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Diebold Panama, Inc.	Panama	100%(16)
Diebold Paraguay S.A.	Paraguay	100%(28)
Diebold Peru S.r.l	Peru	100%(16)
Diebold Philippines, Inc.	Philippines	100%(25)
Diebold Poland S.p. z.o.o.	Poland	100%(8)
Diebold Portugal – Solucoes Informaticas, S.A.	Portugal	100%(8)
Diebold (Romania) S.R.L.	Romania	100 %
Diebold Safetell International Security Limited	Australia	100%(10)

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International	Jurisdiction under which organized	Percent of voting securities owned by Registrant
Diebold Security and Services Pty.	Australia	100%(10)
Diebold Security Systems Limited	United Kingdom	100%(33)
Diebold Selbstbedienyngssysteme (Schweiz) GmbH	Switzerland	100%(8)
Diebold Self-Service CIS Ltd.	Russia	100%(8)
Diebold Self Service Solutions Limited Liability Company	Switzerland	100%(20)
Diebold Self Service Solutions Namibia (Pty) Ltd.	Namibia	100%(23)
Diebold Service Solutions (Pty) Ltd.	South Africa	75% (44)
Diebold Singapore Pte. Ltd	Singapore	100 %
Diebold Software Services Private Limited	India	100%(12)
Diebold South Africa (Pty) Ltd.	South Africa	100%(43)
Diebold Spain, S.L.	Spain	100%(32)
Diebold Switzerland Holding Company, LLC	Switzerland	100%(20)
Diebold Systems Private Limited	India	100 %
Diebold (Thailand) Company Limited	Thailand	100 %
Diebold Uruguay S.A.	Uruguay	100%(16)
DSSS Panama, S.A.	Panama	55% (15)
I-Denti-Proof Ltd.	Canada	100%(6)
J.J.F. Panama, Inc.	Panama	100%(16)
Mecaf Impressoras S.A.	Brazil	100%(17)
Nexus Software UK Ltd.	United Kingdom	100%(13)
OLTP MoneyNet C.A.	Venezuela	50% (29)
P.T. Diebold Indonesia	Indonesia	100%(9)
P.T. Diebold Siaga Nusantara	Indonesia	100%(37)
P.T. Diebold Siaga Semesta	Indonesia	100%(37)
P.T. Diebold Solutions	Indonesia	100%(38)
Procomp Amazonia Industria Eletronica S.A.	Brazil	100%(17)
Procomp Comercio e Servicos LTDA	Brazil	100%(40)
Procomp Industria Eletronica LTDA	Brazil	100%(40)

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Servicios de Telecomunicaciones and Electronica Bitelco Limitada	Chile	100%(41)
SIAB (HK) Limited	Hong Kong	100%(5)
Shanghai Diebold King Safe Company, Limited	China	50% (22)
Shanghai Diebold Security Equipment Company, Ltd.	China	50% (22)
Shanghai Diebold Security Products Company, Limited	China	50% (22)
Sound Security Pty Ltd.	Australia	100%(10)
Starbuck Computer Empire, A.V.V.	Aruba, Dutch West Indies	50 %
Telecomunicaciones Bitelco Limitada	Chile	100%(41)

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(1) 100% of voting securities are owned by Diebold Investment Company, which is 100% owned by Registrant.

(2) 70% of partnership interest is owned by Diebold Holding Company, Inc., which is 100% owned by Registrant, while the remaining 30% partnership interest is owned by Diebold SST Holding Company, Inc., which is 100% owned by Registrant.

(3) 100% of voting securities are owned by Diebold Midwest Manufacturing, Inc., which is 100% owned by Registrant.

(4) 100% of voting securities are owned by Diebold Mexico Holding Company, Inc., which is 100% owned by Registrant.

(5) 100% of voting securities are owned by Diebold Self-Service Systems, which is 70% owned by Diebold Holding Company, Inc. and 30% owned by Diebold SST Holding Company, Inc., both of which are 100% owned by Registrant.

(6) 100% of voting securities are owned by Griffin Technology, Incorporated, which is 100% owned by Registrant.

(7) 100% of voting securities are owned by Diebold Australia Holding Company, Inc., which is 100% owned by Registrant.

(8) 100% of voting securities are owned by Diebold Self-Service Solutions Limited Liability Company, which is 95% owned by Registrant and 5% owned by Diebold Holding Company, Inc., which is 100% owned by Registrant.

(9) 88.89% of voting securities are owned by Registrant, and 11.11% of voting securities are owned by Diebold Pacific, Limited, which is 100% owned by Registrant.

(10) 100% of voting securities are owned by Diebold Australia Pty. Ltd., which is 100% owned by Diebold Australia Holding Company, Inc., which is 100% owned by Registrant.

(11) 100% of voting securities are owned by Diebold Election Systems ULC, which is 100% owned by Registrant.

(12) 99.99% of voting securities are owned by Diebold Self-Service Solutions Limited Liability Company, which is 95% owned by Registrant and 5% owned by Diebold Holding Company, Inc., which is 100% owned by Registrant, while the remaining .01% of voting securities is owned by Registrant.

(13) 100% of voting securities are owned by Nexus Software, Incorporated, which is 100% owned by Registrant.

(14) 50% of voting securities are owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant.

(15) 55% of voting securities are owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant.

(16) 100% of voting securities are owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant.

(17) 100% of voting securities are owned by Diebold Brasil LTDA, which is 100% owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant.

(18) 77% of voting securities are owned by Diebold International Limited, which is 100% owned by Diebold Self-Service Solutions Limited Liability Company, which is 95% owned by Registrant and 5% owned by Diebold Holding Company, Inc., which is 100% owned by Registrant, while the remaining 23% of the voting securities are owned by Diebold Cassis Manufacturing, S.A., which is 100% owned by Registrant.

(19) 21.44% of voting securities are owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant; 16.78 % of voting securities are owned by Diebold Panama, Inc., which is 100% owned by Diebold Latin America Holding Company, Inc., which is 100% owned by Registrant; 16.78% of voting securities are owned by DCHC SA, which is 100% owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant; 13.5% of voting securities are owned by J.J.F. Panama, Inc, which is 100% owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant; and the remaining 31.5% of voting securities are owned by C.R. Panama, Inc., which is 100% owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant.

(20) 95% of voting securities are owned by Registrant, while 5% of voting securities are owned by Diebold Holding Company, Inc., which is 100% owned by Registrant.

(21) 50% of voting securities are owned by Diebold Netherlands B.V., which is 100% owned by Diebold Self-Service Solutions Limited Liability Company, while the remaining 50% of voting securities are owned by Diebold Self-Service Solutions Limited Liability Company, which is 95% owned by Registrant and 5% owned by Diebold Holding Company, Inc., which is 100% owned by Registrant.

(22) 50% of voting securities are owned by Diebold China Security Holding Company, Inc., which is 100% owned by Registrant.

(23) 100% of voting securities are owned by Diebold South Africa (Pty) Ltd., which is 100% owned by Diebold Africa Investment Holdings Pty. Ltd., which is 100% owned by Registrant.

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(24) 10% of voting securities are owned by Diebold Selbstbedienungssysteme GmbH, which is 100% owned by Diebold Self Service Solutions Limited Liability Company, while the remaining 90% of voting securities are owned by Diebold Self -Service Solutions Limited Liability Company, which is 95% owned by Registrant and 5% owned by Diebold Holding Company, Inc., which is 100% owned by Registrant.

(25) 100% of voting securities are owned by Diebold (Thailand) Company Limited, which is 100% owned by Registrant.

(26) 99.99% of voting securities are owned by Diebold Colombia SA (refer to 20 for ownership), while the remaining 0.01% of voting securities are owned by Diebold Latin America Holding Company, Inc., which is 100% owned by Registrant.

(27) .01% of voting securities are owned by Registrant, while 99.99% of voting securities are owned by Impexa LLC, which is 100% owned by Diebold Mexico Holding Company, Inc., which is 100% owned by Registrant.

(28) 1% of voting securities are owned by Registrant, while 99% of voting securities are owned by Diebold Latin America Holding Company, LLC, which is 100% owned by Registrant.

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(29) 50% of voting securities are owned by Procomp Industria Eletronica LTDA, which is 100% owned by Diebold Brazil Servicios e Participacoes Limitada, which is 100% owned by Diebold Diebold Brazil Services Holding Company ULC., which is 100% owned by Registrant.

(30) 100% of voting securities are owned by Cardinal Brothers Consulting Pty. Ltd. (refer to 11 for ownership).

(31) 100% of voting securities are owned by Diebold Election Systems, Inc., which is 100% owned by Diebold Election Systems ULC, which is 100% owned by Registrant.

(32) 100% of voting securities are owned by VDM Holding Company, Inc., which is 100% owned by Registrant.

(33) 100% of voting securities are owned by Diebold Enterprise Security Systems, Inc., which is 100% owned by Registrant.

(34) 100% of voting securities are owned by Diebold Security Systems Limited, which is 100% owned by Diebold Enterprise Security Systems, Inc., which is 100% owned by Registrant.

(35) 100% of voting securities are owned by Diebold Enterprise Security Systems Holdings UK Limited, which is 100% owned by Diebold Security Systems Limited, which is 100% owned by Diebold Enterprise Security Systems, Inc., which is 100% owned by Registrant.

(36) 100% of voting securities are owned by Diebold Enterprise Security Systems UK Limited (refer to 35 for ownership).

(37) 2% of voting securities are owned by Diebold Pacific, Limited (Hong Kong), which is 100% owned by Registrant, while 98% of voting securities are owned by Diebold Holding Company, Inc., which is 100% owned by Registrant.

(38) 49% of voting securities are owned by P.T. Diebold Siaga Nusantara (refer to 37 for ownership), while 51% of voting securities are owned by P.T. Diebold Siaga Semesta (refer to 37 for ownership).

(39) 100% of voting securities are owned by Diebold Brazil Services Holding Company ULC, which is 100% owned by Registrant.

(40) 100% of voting securities are owned by Diebold Brazil Servicios e Participacoes Limitada, which is 100% owned by Diebold Brazil Services Holding Company ULC, which is 100% owned by Registrant.

(41) 100% of voting securities are owned by Comercializadora Diebold Chile Limitada (refer to 28 for ownership).

(42) 85% of voting securities are owned by Diebold Switzerland Holding Company, LLC (refer to 20 for ownership).

(43) 100% of voting securities are owned by Diebold Africa Investment Holdings Pty. Ltd., which is 100% owned by Registrant.

(44) 75% of voting securities are owned by Diebold Africa Investment Holdings Pty. Ltd., which is 100% owned by Registrant.

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EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Diebold, Incorporated:

We consent to the incorporation by reference in the registration statements (Nos. 33-32960, 33-39988, 33-55452, 33-54677, 33-54675, 333-32187 and 333-60578) on Form S-8 of Diebold, Incorporated of our reports dated March 1, 2007, with respect to the consolidated balance sheets of Diebold, Incorporated and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, and the effectiveness of internal control over financial reporting as of December 31, 2006, which reports appear in the December 31, 2006 annual report on Form 10-K of Diebold, Incorporated and subsidiaries.

Our report on the consolidated financial statements refers to the adoption of the provisions of Statement of Financial Accounting Standards No. 123(R), *Share Based Payment,* effective January 1, 2006 and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R),* effective December 31, 2006.

/s/KPMG LLP

Cleveland, Ohio
March 1, 2007

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Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, That the undersigned directors of Diebold, Incorporated, a corporation organized and existing under the laws of the State of Ohio, do for themselves and not for another, constitute and appoint Warren W. Dettinger, Chad F. Hesse, Kevin J. Krakora, or any one of them, a true and lawful attorney in fact in their names, place and stead, to sign their names to the report on Form 10-K for the year ended December 31, 2006, or to any and all amendments to such reports, and to cause the same to be filed with the Securities and Exchange Commission; it being intended to give and grant unto said attorneys in fact and each of them full power and authority to do and perform any act and thing necessary and proper to be done in the premises as fully and to all intents and purposes as the undersigned by themselves could do if personally present. The undersigned directors ratify and confirm all that said attorneys in fact or either of them shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands as of the date set opposite their signature.

Signed in the presence of:	**Signature**	**Date**
/s/Warren W. Dettinger	/s/Phillip R. Cox Phillip R. Cox, Director	March 1, 2007
/s/Warren W. Dettinger	/s/Gale S. Fitzgerald Gale S. Fitzgerald, Director	March 1, 2007
/s/Warren W. Dettinger	/s/Phillip B. Lassiter Phillip B. Lassiter, Director	March 1, 2007
/s/Warren W. Dettinger	/s/John N. Lauer John N. Lauer, Director	March 1, 2007

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EXHIBIT 31.1

DIEBOLD, INCORPORATED AND SUBSIDIARIES

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas W. Swidarski, certify that:

1) I have reviewed this annual report on Form 10-K of Diebold, Incorporated;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5) The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: March 1, 2007

DIEBOLD, INCORPORATED
(Registrant)

By: /s/ Thomas W. Swidarski
Thomas W. Swidarski
President and Chief Executive Officer (Principal Executive Officer)

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EXHIBIT 31.2

DIEBOLD, INCORPORATED AND SUBSIDIARIES

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin J. Krakora, certify that:

1) I have reviewed this annual report on Form 10-K of Diebold, Incorporated;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’ s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c) evaluated the effectiveness of the registrant’ s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant’ s internal control over financial reporting that occurred during the registrant’ s most recent fiscal quarter (the registrant’ s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’ s internal control over financial reporting; and

5) The registrant’ s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’ s auditors and the audit committee of registrant’ s board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’ s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’ s internal control over financial reporting.

Date: March 1, 2007

DIEBOLD, INCORPORATED
(Registrant)

By: /s/ Kevin J. Krakora
Kevin J. Krakora
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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EXHIBIT 32.1

DIEBOLD, INCORPORATED AND SUBSIDIARIES

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K of Diebold, Incorporated (the "Company") for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas W. Swidarski, President and Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Thomas W. Swidarski
Thomas W. Swidarski
President and Chief Executive Officer (Principal Executive Officer)

March 1, 2007

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EXHIBIT 32.2

DIEBOLD, INCORPORATED AND SUBSIDIARIES

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K of Diebold, Incorporated (the "Company") for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin J. Krakora, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Kevin J. Krakora
Kevin J. Krakora
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

March 1, 2007

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