

DIEBOLD INC
 Form 10-K
 February 15, 2013
Table of Contents

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, 2012

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)

(I.R.S. Employer Identification No.)

5995 Mayfair Road,

44720-8077

P.O. Box 3077, North Canton, Ohio

(Address of principal executive offices)

(Zip Code)

Registrants telephone number, including area code (330) 490-4000

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

Title of each class

Name of each exchange on which registered:

Common Shares \$1.25 Par Value

New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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.

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

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

Edgar Filing: DIEBOLD INC - Form 10-K

(do not check if a smaller reporting company)

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

Approximate aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2012, based upon the closing price on the New York Stock Exchange on June 30, 2012, was \$2,322,293,045.

Number of shares of common stock outstanding as of February 8, 2013 was 63,249,000.

DOCUMENTS INCORPORATED BY REFERENCE

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

Diebold, Incorporated Proxy Statement for 2013 Annual Meeting of Shareholders to be held on April 25, 2013, portions of which are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

<u>ITEM 1:</u>	<u>BUSINESS</u>	<u>3</u>
<u>ITEM 1A:</u>	<u>RISK FACTORS</u>	<u>6</u>
<u>ITEM 1B:</u>	<u>UNRESOLVED STAFF COMMENTS</u>	<u>14</u>
<u>ITEM 2:</u>	<u>PROPERTIES</u>	<u>14</u>
<u>ITEM 3:</u>	<u>LEGAL PROCEEDINGS</u>	<u>15</u>
<u>ITEM 4:</u>	<u>MINE SAFETY DISCLOSURES</u>	<u>15</u>

PART II

<u>ITEM 5:</u>	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>16</u>
<u>ITEM 6:</u>	<u>SELECTED FINANCIAL DATA</u>	<u>18</u>
<u>ITEM 7:</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>19</u>
<u>ITEM 7A:</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>36</u>
<u>ITEM 8:</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>37</u>
<u>ITEM 9:</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>82</u>
<u>ITEM 9A:</u>	<u>CONTROLS AND PROCEDURES</u>	<u>82</u>
<u>ITEM 9B:</u>	<u>OTHER INFORMATION</u>	<u>83</u>

PART III

<u>ITEM 10:</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>84</u>
<u>ITEM 11:</u>	<u>EXECUTIVE COMPENSATION</u>	<u>85</u>
<u>ITEM 12:</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>85</u>
<u>ITEM 13:</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>86</u>
<u>ITEM 14:</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>86</u>

PART IV

<u>ITEM 15:</u>	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>86</u>
-----------------	---	-----------

<u>SIGNATURES</u>	<u>89</u>
-------------------	-----------

<u>EXHIBIT INDEX</u>	<u>91</u>
----------------------	-----------

Table of Contents

PART I

ITEM 1: BUSINESS

(dollars in thousands)

GENERAL

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

The Company is a global leader in providing integrated software-led services and self-service delivery and security systems to primarily the financial, commercial, government and retail markets. The Company's vision is to be recognized as the essential partner in creating and implementing ideas that optimize convenience, efficiency and security. This vision is the guiding principle behind the Company's transformation to becoming a more software-led services company. Services comprise more than 50 percent of the Company's revenue. The Company expects that this percentage will continue to grow over time as the Company continues to build on its strong base of maintenance and advanced services to deliver world-class integrated services. Sales of systems and equipment are made directly to customers by the Company's sales personnel, manufacturers' representatives and distributors globally. The sales and support organizations work closely with customers and their consultants to analyze and fulfill the customers' needs.

SERVICE AND PRODUCT SOLUTIONS

The Company has two core lines of business: Self-Service Solutions and Security Solutions, which the Company integrates based on its customers' needs. Financial information for the service and product solutions can be found in note 19 to the consolidated financial statements, which is contained in Item 8 of this annual report on Form 10-K.

Self-Service Solutions

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

Self-Service Support and Managed Services

From analysis and consulting to monitoring and repair, the Company provides value and support to its customers every step of the way. Services include installation and ongoing maintenance of our products, OpteView® remote services, availability management, branch transformation and distribution channel consulting. Additionally, service revenue includes services and parts the Company provides on a billed-work basis that are not covered by warranty or service contract. The Company also provides outsourced and managed services including remote monitoring, troubleshooting for self-service customers, transaction processing, currency management, maintenance services and full support via person to person or online communication.

Self-Service Products

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

Self-Service Software

The Company offers software solutions consisting of multiple applications that process events and transactions. These solutions are delivered on the appropriate platform, allowing the Company to meet customer requirements while adding new functionality in a cost-effective manner.

Security Solutions

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

Table of Contents

Physical Security and Facility Products

The Company provides security solutions and facility products, pneumatic tube systems for drive-up lanes, vaults, safes, depositories, bullet-resistive items and undercounter equipment.

Electronic Security Products

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

Monitoring and Services

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

Integrated Solutions

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

Election Systems

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

OPERATIONS

The principal raw materials used by the Company in its manufacturing operations are steel, plastics, and electronic parts and components, which are purchased from various major suppliers. These materials and components are generally available in ample quantities. Within the Company's services operations, fuel is a significant cost factor.

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

The Company carries working capital mainly related to trade receivables and inventories. Inventories generally are only manufactured or purchased as orders are received from customers. The Company's normal and customary payment terms generally range from net 30 to 90 days from date of invoice. The Company generally does not offer extended payment terms. The Company also provides financing arrangements to customers that are largely classified and accounted for as sales-type leases. As of December 31, 2012, the Company's net investment in finance lease receivables was \$77,656.

SEGMENTS AND FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

The Company manages its businesses on a geographic basis and reports the following two segments: Diebold North America (DNA) and Diebold International (DI). The DNA segment sells and services financial and retail systems in

the United States and Canada. The DI segment sells and services financial and retail systems over the remainder of the globe through wholly-owned subsidiaries, majority-owned joint ventures and independent distributors in most major countries throughout Europe, the Middle East, Africa, Latin America and in the Asia Pacific region (excluding Japan and Korea). Segment financial information can be found in note 19 to the consolidated financial statements, which is incorporated herein by reference.

Sales to customers outside the United States in relation to total consolidated net sales were \$1,458,019 or 48.7 percent in 2012, \$1,494,681 or 52.7 percent in 2011 and \$1,560,879 or 55.3 percent in 2010.

Table of Contents

Property, plant and equipment, at cost, located in the United States totaled \$468,575, \$455,814 and \$454,666 as of December 31, 2012, 2011 and 2010, respectively, and property, plant and equipment, at cost, located outside the United States totaled \$193,335, \$186,442 and \$191,569 as of December 31, 2012, 2011 and 2010, respectively.

Additional financial information regarding the Company's international operations is included in note 19 to the consolidated financial statements, which is incorporated herein by reference. The Company's non-U.S. operations are subject to normal international business risks not generally applicable to domestic business. These risks include currency fluctuation, new and different legal and regulatory requirements in local jurisdictions, political and economic changes and disruptions, tariffs or other barriers, potentially adverse tax consequences and difficulties in staffing and managing foreign operations.

COMPETITION

The Company participates in many highly competitive businesses with some services and products in competition directly with similar services and products and others with alternative products that have similar uses or produce similar results. The Company distinguishes itself by providing unique value with a wide range of software-led services tailored to meet customers' needs. The Company believes, based upon outside independent industry surveys, that it is a leading service provider for and manufacturer of financial self-service systems in the United States and is also a market leader internationally. In the area of automated transaction systems, the Company competes on a global basis primarily with NCR Corporation and Wincor-Nixdorf. On a regional basis, the Company competes with many other hardware and software companies such as GRG Banking Equipment Co., Ltd. and Nautilus Hyosung in Asia Pacific and Itaotec and Perto in Latin America. In the security service and product markets, 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 broad spectrum of security services and products. The unavailability of comparative sales information and the large variety of individual services and products make it difficult to give reasonable estimates of the Company's competitive ranking in or share of the security market within the financial services, retail, commercial and government sectors. However, the Company is a uniquely positioned security service and solution provider to global, national, regional and local financial, commercial and industrial customers. The Company also has a strong position in North America and in global markets as a premier security service provider that offers a full portfolio of security monitoring and managed services, as well as a full spectrum of systems integration and enterprise level capabilities.

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

RESEARCH, DEVELOPMENT AND ENGINEERING

Customer demand for self-service and security technologies is growing. In order to meet this demand, the Company is focused on delivering innovation to its customers by continuing to invest in technology solutions that enable customers to reduce costs and improve efficiency. Expenditures for research, development and engineering initiatives were \$85,881, \$78,108 and \$74,225 in 2012, 2011 and 2010, respectively. In 2012, the Company introduced the first concept ATM in the world to utilize 4G technology. In collaboration with Verizon, operator of the largest 4G network in the United States, Diebold integrated 4G LTE technology to create a new, additional channel for communication to and from the ATM. Traditionally, the ATM has communicated only with the financial institution or the transaction processor. With the addition of the 4G LTE channel, the ATM also has the potential to communicate directly with third parties, such as service providers or monitoring centers, which would potentially allow for increased efficiencies, enhanced security and improved customer service at the ATM.

PATENTS, TRADEMARKS, LICENSES

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

ENVIRONMENTAL

Compliance with federal, state and local environmental protection laws during 2012 had no material effect upon the Company's business, financial condition or results of operations.

EMPLOYEES

At December 31, 2012, the Company employed 16,751 associates globally. The Company's service staff is one of the financial industry's largest, with professionals in more than 600 locations and representation in nearly 90 countries worldwide.

Table of Contents

EXECUTIVE OFFICERS

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

AVAILABLE INFORMATION

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

ITEM 1A: RISK FACTORS

(dollars in thousands)

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

We caution the reader to keep these risk factors in mind and refrain from attributing undue certainty to any forward-looking statements, which speak only as of the date of this annual report on Form 10-K.

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

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

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

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

Increased energy and raw material costs could reduce our income.

Energy prices, particularly petroleum prices, are cost drivers for our business. In recent years, the price of petroleum has been highly volatile, particularly due to the unstable political conditions in the Middle East and increasing

international demand from emerging markets. Price increases in fuel and electricity costs, such as those increases which may occur from climate change legislation or other environmental mandates, will continue to increase our cost of operations. Any increase in the costs of energy would also increase our transportation costs.

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

Table of Contents

Although we attempt to pass on higher energy and raw material costs to our customers, it is often not possible given the competitive markets in which we operate.

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

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

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

Additionally, the unstable political conditions in the Middle East or the sovereign debt concerns of certain countries could lead to further financial, economic and political instability, and this could lead to an additional deterioration in general economic conditions.

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

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

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

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

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

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

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

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

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

Table of Contents

Company, changes in tax legislation, changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns and continuing assessments of our income tax exposures.

Additionally, our future results could be adversely affected by the results of indirect tax audits and examinations, and continuing assessments of our indirect tax exposures. For example, in August 2012, one of our Brazilian subsidiaries was notified of a tax assessment of approximately \$133,000, including penalties and interest, regarding certain Brazilian federal indirect taxes for 2008 and 2009. The assessment alleges improper importation of certain components into the country's free trade zone that would nullify certain indirect tax incentives. We have filed administrative defenses with the tax authorities and are awaiting an administrative level decision that could negatively impact Brazilian federal indirect taxes in other years that remain open under statute. It is reasonably possible that we could be required to pay taxes, penalties and interest related to this matter, which could be material to our consolidated financial statements.

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

Because our operations are conducted worldwide, they are affected by risks of doing business abroad. We generate a significant percentage of revenue from operations conducted outside the United States. Revenue from international operations amounted to approximately 48.7 percent in 2012, 52.7 percent in 2011 and 55.3 percent in 2010 of total revenue during these respective years.

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

- fluctuations in currency exchange rates;
- transportation delays and interruptions;
- political and economic instability and disruptions;
- restrictions on the transfer of funds;
- the imposition of duties and tariffs;
- import and export controls;
- changes in governmental policies and regulatory environments;
- disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act (FCPA);
- labor unrest and current and changing regulatory environments;
- the uncertainty of product acceptance by different cultures;
- the risks of divergent business expectations or cultural incompatibility inherent in establishing joint ventures with foreign partners;
- difficulties in staffing and managing multi-national operations;
- limitations on the ability to enforce legal rights and remedies;
- reduced protection for intellectual property rights in some countries; and
- potentially adverse tax consequences, including repatriation of profits.

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

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

Table of Contents

conduct our business in additional currencies, we would be subjected to additional earnings volatility as amounts in these currencies are translated into U.S. dollars.

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

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

While our employees and agents are required to comply with these laws, we operate in many parts of the world that have experienced governmental and commercial corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Foreign companies, including some that may compete with us, may not be subject to the FCPA. Accordingly, such companies may be more likely to engage in activities prohibited by the FCPA, which could have a significant adverse impact on our ability to compete for business in such countries.

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

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

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

In addition, our business opportunities in select geographies have been or may be adversely affected by these reviews and any subsequent findings. Some countries in which we do business may also initiate their own reviews and impose penalties, including prohibition of our participating in or curtailment of business operations in those jurisdictions. If it is determined that a violation of the FCPA has occurred, such violation may give rise to an event of default under our loan agreements. We could also face third-party claims in connection with any such violation or as a result of the

outcome of the current or any future government reviews. Our disclosure, internal review, any current or future governmental review and any findings regarding any alleged violation of the FCPA could, individually or in the aggregate, have a material adverse affect on our reputation and our ability to obtain new business or retain existing business from our current clients and potential clients, to attract and retain employees and to access the capital markets.

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

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

Table of Contents

An inability to effectively manage acquisitions, divestitures and other significant transactions successfully could harm our operating results, business and prospects.

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

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

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

Managing these types of transactions requires varying levels of management resources, which may divert our attention from other business operations. These transactions could result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, we could incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with these transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a transaction becomes impaired, we may be required to incur additional material charges relating to

the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing shareholders, or borrow funds, affecting our financial condition and potentially our credit ratings. Any prior or future downgrades in our credit rating associated with a transaction could adversely affect our ability to borrow and result in more restrictive borrowing terms. In addition, our effective tax rate on an ongoing basis is uncertain, and such transactions could impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a transaction and the risk that an announced transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations.

Table of Contents

We have a significant amount of long-term assets, including goodwill and other intangible assets, and any future impairment charges could adversely impact our results of operations.

We review long-lived assets, including property, plant and equipment and identifiable intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, a significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life.

As of December 31, 2012, we had \$272,951 of goodwill. We assess all existing goodwill at least annually for impairment on a “reporting unit” basis. The Company’s five reporting units are defined as Domestic and Canada, Brazil, Latin America, Asia Pacific, and Europe, Middle East and Africa (EMEA). The techniques used in our qualitative and quantitative assessment and goodwill impairment tests incorporate a number of estimates and assumptions that are subject to change; although we believe these estimates and assumptions are reasonable and reflect market conditions forecast at the assessment date. Any changes to these assumptions and estimates due to market conditions or otherwise may lead to an outcome where impairment charges would be required in future periods. In particular, the amount of goodwill in our Brazil reporting unit was \$120,571 as of December 31, 2012, with excess fair value of approximately \$113,348 or 22.0 percent when compared to its carrying amount. Because actual results may vary from our forecasts and such variations may be material and unfavorable, we may need to record future impairment charges with respect to the goodwill attributed to any reporting unit, which could adversely impact our results of operations.

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

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

In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the system. The costs to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could result in interruptions, delays or cessation of service that could impede sales, manufacturing, distribution or other critical functions.

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

confidence resulting from these disruptions could adversely affect financial results, stock price and reputation.

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

Table of Contents

We may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments, or to pay dividends or continue dividend increases.

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

New service and product developments may be unsuccessful.

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

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

Changes in laws or regulations or the manner of their interpretation or enforcement could adversely impact our financial performance and restrict our ability to operate our business or execute our strategies.

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

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

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

Table of Contents

Any actions or other governmental investigations or proceedings related to or arising from the matters that resulted in the 2009 SEC settlement, including the related SEC investigation and Department of Justice investigation, could result in substantial costs to defend enforcement or other related actions that could have a materially adverse effect on our business, operating results or financial condition.

The Company had previously reached an agreement in principle in 2009 with the staff of the SEC to settle civil charges stemming from the staff's enforcement inquiry. We could incur substantial additional costs to defend and resolve third-party litigation or other governmental actions, investigations or proceedings arising out of, or related to, the completed investigations or the SEC settlement. In addition, we could be exposed to enforcement or other actions with respect to these matters by the SEC's Division of Enforcement or the DOJ. The diversion of resources to address issues arising out of any such third-party or governmental actions may harm our business, operating results and financial condition in the future.

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

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

Management identified control deficiencies during 2012 that constituted a material weakness. In August 2012, one of our Brazilian subsidiaries was notified of a tax assessment of approximately \$133,000, including penalties and interest, regarding certain Brazilian federal indirect taxes for 2008 and 2009, alleging improper importation of certain components into the country's free trade zone that would nullify certain indirect tax incentives. After evaluating relevant controls, we concluded that controls pertaining to manufacturing and supply chain processes that could materially impact indirect tax incentives in the Brazilian subsidiary and roles and responsibilities within this Brazilian subsidiary pertaining to the operation of these controls were not designed and/or operating effectively, and controls designed to ensure adequate and effective communication by operational management to regional and corporate management were not operating effectively. In 2012, we have enhanced, and in 2013 will continue to enhance, our internal control over financial reporting. As of December 31, 2012, we had not remediated the material weakness. If we are not able to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, financial condition and operating results could be harmed.

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

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

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

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

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

Table of Contents

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

Based on current guidelines, assumptions and estimates, including investment returns and interest rates, we plan to make contributions of \$3,343 to our pension plans in 2013. Changes in the current assumptions and estimates could result in contributions in years beyond 2013 that are greater than the projected 2013 contributions required. We cannot predict whether changing market or economic conditions, regulatory changes or other factors will further increase our pension expenses or funding obligations, diverting funds we would otherwise apply to other uses.

Our businesses are subject to inherent risks, some for which we maintain third-party insurance and some for which we self-insure. We may incur losses and be subject to liability claims that could have a material adverse effect on our financial condition, results of operations or cash flows.

We maintain insurance policies that provide limited coverage for some, but not all, of the potential risks and liabilities associated with our businesses. The policies are subject to deductibles and exclusions that result in our retention of a level of risk on a self-insurance basis. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. Even where insurance coverage applies, insurers may contest their obligations to make payments. Our financial condition, results of operations and cash flows could be materially and adversely affected by losses and liabilities from un-insured or under-insured events, as well as by delays in the payment of insurance proceeds, or the failure by insurers to make payments. We also may incur costs and liabilities resulting from claims for damages to property or injury to persons arising from our operations.

Our assumptions used to determine our self-insurance liability could be wrong and materially impact our business. We evaluate our self-insurance liability based on historical claims experience, demographic factors, severity factors and other actuarial assumptions. However, if future occurrences and claims differ from these assumptions and historical trends, our business, financial results and financial condition could be materially impacted by claims and other expenses.

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

A purported shareholder class action lawsuit has been filed against us and certain current former officers alleging violations of federal securities laws. Although we believe this lawsuit is without merit, and we intend to vigorously defend against the claim, we cannot determine with certainty the outcome or resolution of the claim or any future related claims, or the timing for their resolution. In addition to the expense and burden incurred in defending this litigation and any damages that we may suffer, management's efforts and attention may be diverted from the ordinary business operations in order to address these claims. It is reasonably possible that the resolution of this shareholder class action lawsuit could be material to the Company's consolidated financial statements.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The Company's corporate offices are located in North Canton, Ohio. The Company owns manufacturing facilities in Lynchburg, Virginia and Lexington, North Carolina. The Company also has manufacturing facilities in Belgium, Brazil, China, Hungary and India. The Company has selling, service and administrative offices in the following locations: throughout the United States, and in Australia, Austria, Barbados, Belgium, Belize, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, France, Greece, Guatemala, Haiti, Honduras, Hong Kong, Hungary, India, Indonesia, Italy, Jamaica, Kazakhstan, Malaysia, Mexico, Namibia, Netherlands, Nicaragua, Panama, Paraguay, Peru, Philippines, Portugal, Poland, 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.

Table of Contents

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

ITEM 3: LEGAL PROCEEDINGS

(dollars in thousands)

At December 31, 2012, the Company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the Company's financial position or results of operations. In management's opinion, the Company's consolidated financial statements would not be materially affected by the outcome of those legal proceedings, commitments, or asserted claims.

In addition to the routine legal proceedings noted above the Company was a party to the lawsuits described below at December 31, 2012:

Brazilian Federal Indirect Tax Assessment

In August 2012, one of the Company's Brazilian subsidiaries was notified of a tax assessment of approximately \$133,000, including penalties and interest, regarding certain Brazilian federal indirect taxes (Industrialized Products Tax, Import Tax, Programa de Integração Social and Contribution to Social Security Financing) for 2008 and 2009. The assessment alleges improper importation of certain components into the country's free trade zone that would nullify certain indirect tax incentives. On September 10, 2012, the Company filed its administrative defenses with the tax authorities. This proceeding is currently pending an administrative level decision, which could negatively impact Brazilian federal indirect taxes in other years that remain open under statute. It is reasonably possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's consolidated financial statements. Management believes that the possible range of loss associated with the Brazilian federal indirect tax assessment is \$0 to \$236,000.

Securities Action

On June 30, 2010, a shareholder filed a putative class action complaint in the United States District Court for the Northern District of Ohio alleging violations of the federal securities laws against the Company, certain current and former officers, and the Company's independent auditors (Louisiana Municipal Police Employees Retirement System v. KPMG et al., No. 10-CV-1461). The complaint seeks unspecified compensatory damages on behalf of a class of persons who purchased the Company's stock between June 30, 2005 and January 15, 2008 and fees and expenses related to the lawsuit. The complaint generally relates to the matters set forth in the court documents filed by the SEC in June 2010 finalizing the settlement of civil charges stemming from the investigation of the Company conducted by the Division of Enforcement of the SEC. It is reasonably possible that the resolution of this putative federal securities class action could be material to the Company's consolidated financial statements; however, management believes that any possible loss or range of loss cannot be estimated.

Global Foreign Corrupt Practices Act (FCPA) Review

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

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

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

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

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

	2012		2011		2010	
	High	Low	High	Low	High	Low
1st Quarter	\$40.38	\$29.21	\$36.35	\$30.20	\$32.23	\$26.47
2nd Quarter	42.93	35.03	37.12	29.26	35.18	24.22
3rd Quarter	38.49	31.48	33.89	24.70	31.59	25.72
4th Quarter	34.33	27.66	33.59	25.83	33.29	29.79
Full Year	\$42.93	\$27.66	\$37.12	\$24.70	\$35.18	\$24.22

There were approximately 52,329 shareholders at December 31, 2012, which includes an estimated number of shareholders who have shares held in their accounts by banks, brokers, and trustees for benefit plans and the agent for the dividend reinvestment plan.

On the basis of amounts paid and declared, the annualized dividends per share were \$1.14, \$1.12 and \$1.08 in 2012, 2011 and 2010, respectively.

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

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans (2)
October	792	\$32.56	—	2,426,177
November	11,611	30.21	—	2,426,177
December	—	—	—	2,426,177
Total	12,403	\$30.36	—	

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

(2) The total number of shares repurchased as part of the publicly announced share repurchase plan was 13,450,772 as of December 31, 2012. The plan was approved by the Board of Directors in April 1997. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans. The plan has no expiration date. The following table provides a summary of Board of Director approvals to repurchase the Company's outstanding common shares:

	Total Number of Shares Approved for Repurchase
1997	2,000,000
2004	2,000,000
2005	6,000,000
2007	2,000,000

2011	1,876,949
2012	2,000,000
	15,876,949

Table of Contents

PERFORMANCE GRAPH

The graph below compares the cumulative five-year total return to shareholders on Diebold, Inc.'s common stock relative to the cumulative total returns of the S&P 500 index, the S&P Midcap 400 index and two customized peer groups of twenty-five companies and twenty-four companies respectively, whose individual companies are listed in footnotes 1 and 2 below. The graph assumes that the value of the investment in our common stock, in each index, and in each of the peer groups (including reinvestment of dividends) was \$100 on December 31, 2007 and tracks it through December 31, 2012.

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

The twenty-four companies included in the company's new customized peer group are: Actuant Corp., Benchmark Electronics Inc., Brady Corp., Coinstar Inc., DTS Inc., Fidelity National Information Services, Fiserv Inc., Flowserve Corp., Global Payments Inc., Harris Corp., Imation Corp., International Game Technology, Lexmark International Inc., Logitech International SA, Mettler Toledo International Inc., NCR Corp., Pitney-Bowes Inc., Sensata Technologies Holding NV, SPX Corp., The Brinks Company, The Timken Company, Unisys Corp., Western Union Company (The) and Woodward Inc. This peer group originally included Cooper Industries, Limited, however, in November 2012, Cooper Industries was acquired by Eaton Corp. and, as such, was dropped from the peer group.

ITEM 6: SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in millions, except per share data)				
Results of operations					
Net sales	\$2,992	\$2,836	\$2,824	\$2,718	\$3,082
Cost of sales	2,256	2,100	2,104	2,068	2,307
Gross profit	\$736	\$736	\$720	\$650	\$775
Amounts attributable to Diebold, Incorporated					
Income (loss) from continuing operations, net of tax	\$82	\$144	\$(21)	) \$73	\$108
(Loss) income from discontinued operations, net of tax	(3)	) 1	1	(47)	) (19)
Net income (loss) attributable to Diebold, Incorporated	\$78	\$145	\$(20)	) \$26	\$89
Basic earnings per common share:					
Income (loss) from continuing operations, net of tax	\$1.29	\$2.24	\$(0.31)	) \$1.10	\$1.63
(Loss) income from discontinued operations, net of tax	(0.05)	) 0.01	—	(0.71)	) (0.29)
Net income (loss) attributable to Diebold, Incorporated	\$1.24	\$2.25	\$(0.31)	) \$0.39	\$1.34
Diluted earnings per common share:					
Income (loss) from continuing operations, net of tax	\$1.28	\$2.23	\$(0.31)	) \$1.09	\$1.62
(Loss) income from discontinued operations, net of tax	(0.05)	) 0.01	—	(0.70)	) (0.29)
Net income (loss) attributable to Diebold, Incorporated	\$1.23	\$2.24	\$(0.31)	) \$0.39	\$1.33
Number of weighted-average shares outstanding					
Basic shares	63	64	66	66	66
Diluted shares	64	65	66	67	66
Dividends					
Common dividends paid	\$73	\$73	\$72	\$69	\$67
Common dividends paid per share	\$1.14	\$1.12	\$1.08	\$1.04	\$1.00
Consolidated balance sheet data (as of period end)					
Current assets	\$1,815	\$1,732	\$1,714	\$1,588	\$1,614
Current liabilities	839	824	810	743	735

Edgar Filing: DIEBOLD INC - Form 10-K

Net working capital	976	908	904	845	879
Property, plant and equipment, net	184	193	203	205	204
Total long-term liabilities	909	835	720	740	838
Total assets	2,593	2,517	2,520	2,555	2,538
Total equity	845	858	990	1,072	964

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS as of December 31, 2012
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

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

OVERVIEW

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

Introduction

Diebold, Incorporated is a global leader in providing integrated self-service delivery and security systems and services primarily to the financial, commercial, government, and retail markets. Founded in 1859, the Company today has approximately 17,000 employees with representation in nearly 90 countries worldwide.

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

- A strategy that leverages its leadership in software-led services, attuned with the needs of the Company's core global markets for financial self-service (FSS) and security solutions.

- The financial capacity to implement that strategy and fund the investments necessary to drive growth, while preserving the ability to return value to shareholders in the form of reliable, growing dividends and, as appropriate, share repurchase.

- A disciplined risk assessment process, focused on proactively identifying and mitigating potential risks to the Company's continued success.

The Company achieved six percent revenue growth in 2012 as well as operating profitability in Europe, Middle East and Africa (EMEA) for the full year after completing extensive restructuring efforts in the region, which began in 2008. The Company is also taking appropriate actions and making the necessary investments to reduce its overall cost structure and improve its near-term delivery and execution. In addition, the Company is sharpening its focus on the execution of its core strategies in FSS and electronic security and making the appropriate investments to deliver growth within these areas. The Company's strategic focus remains sound and the growing backlog in Asia-Pacific and U.S. national accounts is encouraging. However, the Company maintains a cautious outlook for 2013 given a difficult year-over-year comparison and an uncertain environment in the U.S. regional bank space. In addition, the timing and outcome of large orders pending in Brazil could have a significant impact on the Company's earnings in 2013.

Income from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2012 was \$81,579 or \$1.28 per share, a decrease of \$62,713 or \$0.95 per share, respectively, from the year ended December 31, 2011. Total revenue for the year ended December 31, 2012 was \$2,991,693, an increase of \$155,845 from the year ended December 31, 2011. Income (loss) from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2011 was \$144,292 or \$2.23 per share, an increase of \$164,819 or \$2.54 per share respectively, from the year ended December 31, 2010. In 2010, the Company incurred a non-cash goodwill impairment charge of \$168,714 associated with the Company's EMEA business. Total revenue for the year ended December 31, 2011 was \$2,835,848, up slightly compared to 2010.

Vision and strategy

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

Several years ago, the Company launched its Diebold Integrated Services outsourcing business in North America. Initially the scale was small, generating about \$5,000 in contract value in year one. In the ensuing years, it has achieved substantial growth in this business. During 2012, the Company signed new integrated services contracts totaling approximately \$300,000. The Company also made appropriate investments within its services infrastructure in 2012 to support the sizable outsourcing business

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS as of December 31, 2012
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

secured in late 2011 from TD Bank Group, one of the largest financial institutions in North America, as well as the continued growth the Company expects in this space moving forward.

In addition to service and integrated services, another demand driver in the global ATM marketplace continued to be deposit automation. Among the largest U.S. national banks there has been extensive deployment of deposit automation-enabled terminals. Today, approximately 25 percent of ATMs globally are configured for automated deposits.

In its FSS business, during 2012, the Company's already strong solution set was further enhanced with the pilot of Concierge Video Services. The solution enables consumers with immediate access to bank call center representatives right at the ATM terminal for sales or bank account maintenance support. In addition to delivering a personal touch outside of regular business hours, Concierge Video Services ultimately assists financial institutions in maximizing operational efficiency, improving the consumer experience and enhancing the overall consumer relationship.

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

Moving forward, the Company intends to create shareholder value by leveraging its growing advantage in software and services capabilities, taking advantage of key market opportunities around the world and further leveraging opportunities in the security business. To this extent, the Company made two strategic acquisitions in 2012, Altus in Turkey and GAS Tecnologia in Brazil. Altus, an industry-leading multi-vendor service provider in Turkey, will allow the Company to better capitalize on the growth opportunities provided by one of the fastest growing ATM markets in the world. GAS Tecnologia, a leading Internet banking, online payment and mobile banking security company in Brazil, adds a meaningful addition to the Company's security portfolio as the Company looks to build upon its expertise within this space and expand into other international markets. Many additional opportunities lie ahead, and the Company will continue to invest in developing new software, services and security solutions, particularly in emerging markets.

Cost savings initiatives, restructuring and other charges

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

The Company is committed to making the strategic decisions that not only streamline operations, but also enhance its ability to serve its customers. The Company remains confident in its ability to continue to execute on cost-reduction

initiatives, deliver solutions that help improve customers' businesses and create shareholder value. During the years ended December 31, 2012, 2011 and 2010, the Company incurred pre-tax net restructuring charges of \$15,241 or \$0.17 per share, \$26,182 or \$0.32 per share and \$4,183 or \$0.05 per share, respectively. Restructuring charges in 2012 primarily related to the Company's global realignment plan, including realignment of resources and certain international facilities to better support opportunities in target markets and leverage software-led services technology to support customers in efforts to optimize overall operational performance. Also, the Company's shared services plan in 2012 entailed expanding the global shared services center and transferred IT and financial services-related jobs residing in other geographies to India. Restructuring charges in 2011 primarily related to the Company's EMEA reorganization plan, which realigns resources and further leverages the existing shared services center. Restructuring charges in 2010 were primarily related to reduction in the Company's global workforce.

Other charges consist of items that the Company has determined are non-routine in nature and are not expected to recur in future operations. Net non-routine expenses of \$42,328 or \$0.45 per share impacted the year ended December 31, 2012 compared to \$14,981 or \$0.16 per share and \$16,234 or \$0.21 per share in the same period of 2011 and 2010, respectively. Net non-routine expenses for 2012 primarily related to the FCPA investigation, including \$16,750 within miscellaneous, net of estimated pre-tax losses related to the potential outcome of this matter and \$21,907 within selling and administrative expense of pre-tax non-routine

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS as of December 31, 2012
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

expenses related to early pension buy-out payments made to certain deferred terminated vested participants. Net non-routine expenses for 2011 consisted primarily of legal and compliance costs related to the FCPA investigation and were recorded in selling and administrative expense and miscellaneous, net. Net non-routine expenses for 2010 consisted primarily of a settlement and legal fees related to a previously disclosed employment class-action lawsuit as well as legal and compliance costs related to the FCPA investigation.

Business Drivers

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

- demand for new service offerings, including software-led services and integrated services (i.e. outsourcing);
- demand for security products and services for the financial, commercial, retail and government sectors;
- demand for products and solutions related to bank branch transformation opportunities;
- timing of self-service equipment upgrades and/or replacement cycles, including deposit automation in mature markets such as the United States; and
- high levels of deployment growth for new self-service products in emerging markets, such as Asia Pacific.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS as of December 31, 2012

DIEBOLD, INCORPORATED AND SUBSIDIARIES

(unaudited)

(dollars in thousands, except per share amounts)

The table below presents the changes in comparative financial data for the years ended December 31, 2012, 2011 and 2010. Comments on significant year-to-year fluctuations follow the table. The following discussion should be read in conjunction with the consolidated financial statements and the accompanying notes that appear elsewhere in this annual report on Form 10-K.

	Year ended December 31, 2012			2011			2010		
		% of Net Sales	% Change		% of Net Sales	% Change		% of Net Sales	
Net sales									
Services	\$1,626,521	54.4	4.8	\$1,552,358	54.7	3.9	\$1,493,425	52.9	
Products	1,365,172	45.6	6.4	1,283,490	45.3	(3.5)	1,330,368	47.1	
	2,991,693	100.0	5.5	2,835,848	100.0	0.4	2,823,793	100.0	
Cost of sales									
Services	1,215,673	40.6	6.8	1,138,213	40.1	3.4	1,100,305	39.0	
Products	1,039,867	34.8	8.1	961,706	33.9	(4.2)	1,003,923	35.6	
	2,255,540	75.4	7.4	2,099,919	74.0	(0.2)	2,104,228	74.5	
Gross profit	736,153	24.6	—	735,929	26.0	2.3	719,565	25.5	
Selling and administrative expense	510,979	17.1	2.0	501,186	17.7	6.0	472,956	16.7	
Research, development and engineering expense	85,881	2.9	10.0	78,108	2.8	5.2	74,225	2.6	
Impairment of assets	15,783	0.5	N/M	2,962	0.1	N/M	175,849	6.2	
Gain on sale of assets, net	(1,202)	—	(37.4)	(1,921)	(0.1)	15.5	(1,663)	(0.1)	
	611,441	20.4	5.4	580,335	20.5	(19.6)	721,367	25.5	
Operating profit (loss)	124,712	4.2	(19.8)	155,594	5.5	N/M	(1,802)	(0.1)	
Other (expense) income, net	(7,286)	(0.2)	N/M	8,798	0.3	N/M	(595)	—	
Income (loss) from continuing operations before taxes	117,426	3.9	(28.6)	164,392	5.8	N/M	(2,397)	(0.1)	
Taxes on income	29,905	1.0	133.4	12,815	0.5	(12.0)	14,561	0.5	
Income (loss) from continuing operations	87,521	2.9	(42.3)	151,577	5.3	N/M	(16,958)	(0.6)	
(Loss) income from discontinued operations, net of tax	(3,125)	(0.1)	N/M	523	—	90.2	275	—	
Net income (loss)	84,396	2.8	(44.5)	152,100	5.4	N/M	(16,683)	(0.6)	
Net income attributable to	5,942	0.2	(18.4)	7,285	0.3	104.1	3,569	0.1	

noncontrolling interests
Net income (loss)
attributable to \$78,454
Diebold, Incorporated