

DIEBOLD INC  
Form 10-Q  
November 14, 2016

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

Form 10-Q

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

For the quarterly period ended September 30, 2016

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 (IRS Employer  
incorporation or organization) Identification Number)

5995 Mayfair Road, PO Box 3077, North Canton, Ohio 44720-8077  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (330) 490-4000

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

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

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

Non-accelerated filer  
Large accelerated filer  Accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

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

Number of shares of common stock outstanding as of November 9, 2016 was 75,140,213.

DIEBOLD, INCORPORATED AND SUBSIDIARIES

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## Part I – Financial Information

## Item 1: Financial Statements

## DIEBOLD, INCORPORATED AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(dollars in millions, except share and per share amounts)

	September 30, 2016	December 31, 2015
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 748.2	\$ 313.6
Short-term investments	39.9	39.9
Trade receivables, less allowances for doubtful accounts of \$48.0 and \$31.7, respectively	1,029.2	413.9
Inventories	887.5	369.3
Deferred income taxes	162.9	168.8
Prepaid expenses	62.7	23.6
Prepaid income taxes	108.3	18.0
Current assets held for sale	—	148.2
Other current assets	257.2	148.3
Total current assets	3,295.9	1,643.6
Securities and other investments	83.4	85.2
Property, plant and equipment, net of accumulated depreciation and amortization of \$462.5 and \$433.7, respectively	410.8	175.3
Goodwill	991.0	161.5
Deferred income taxes	67.4	65.3
Finance lease receivables	30.1	36.5
Intangible assets, net	869.7	67.5
Other assets	33.0	7.5
Total assets	\$ 5,781.3	\$ 2,242.4
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Notes payable	\$ 336.4	\$ 32.0
Accounts payable	698.2	281.7
Deferred revenue	312.7	229.2
Payroll and other benefits liabilities	274.4	76.5
Current liabilities held for sale	—	49.4
Other current liabilities	560.6	287.0
Total current liabilities	2,182.3	955.8
Long-term debt	1,722.5	606.2
Pensions and other benefits	296.8	195.6
Post-retirement and other benefits	19.8	18.7
Deferred income taxes	259.8	1.9
Other long-term liabilities	153.3	28.7
Commitments and contingencies		
Equity		
Diebold, Incorporated shareholders' equity		
Preferred shares, no par value, 1,000,000 authorized shares, none issued	—	—
	112.4	99.6

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Common shares, \$1.25 par value, 125,000,000 authorized shares, 89,916,879 and 79,696,694 issued shares, 75,139,661 and 65,001,602 outstanding shares, respectively		
Additional capital	712.2	430.8
Retained earnings	748.1	760.3
Treasury shares, at cost (14,777,218 and 14,695,092 shares, respectively)	(562.3	) (560.2 )
Accumulated other comprehensive loss	(274.2	) (318.1 )
Total Diebold, Incorporated shareholders' equity	736.2	412.4
Noncontrolling interests	410.6	23.1
Total equity	1,146.8	435.5
Total liabilities and equity	\$ 5,781.3	\$ 2,242.4
See accompanying notes to condensed consolidated financial statements.		

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## DIEBOLD, INCORPORATED AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(unaudited)

(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net sales				
Services	\$542.7	\$346.4	\$1,235.9	\$1,040.9
Products	440.6	243.2	837.0	768.0
	983.3	589.6	2,072.9	1,808.9
Cost of sales				
Services	388.7	235.2	852.6	699.4
Products	397.0	204.1	728.8	629.2
	785.7	439.3	1,581.4	1,328.6
Gross profit	197.6	150.3	491.5	480.3
Selling and administrative expense	253.5	117.8	506.4	363.2
Research, development and engineering expense	31.3	20.0	67.4	66.2
Impairment of assets	—	—	—	18.9
(Gain) loss on sale of assets, net	(0.5 )	0.1	(0.2 )	(1.4 )
	284.3	137.9	573.6	446.9
Operating profit (loss)	(86.7 )	12.4	(82.1 )	33.4
Other income (expense)				
Interest income	5.3	5.9	16.5	20.6
Interest expense	(32.4 )	(8.5 )	(68.2 )	(24.1 )
Foreign exchange gain (loss), net	2.0	1.3	(1.6 )	(9.2 )
Miscellaneous, net	(4.2 )	(1.4 )	3.6	(1.7 )
Income (loss) from continuing operations before taxes	(116.0 )	9.7	(131.8 )	19.0
Income tax (benefit) expense	(18.8 )	(8.5 )	(34.5 )	(8.8 )
Income (loss) from continuing operations, net of tax	(97.2 )	18.2	(97.3 )	27.8
Income (loss) from discontinued operations, net of tax	(4.6 )	4.7	143.7	13.4
Net income (loss)	(101.8 )	22.9	46.4	41.2
Net income attributable to noncontrolling interests	0.5	1.2	1.6	0.1
Net income (loss) attributable to Diebold, Incorporated	\$(102.3 )	\$21.7	\$44.8	\$41.1
Basic weighted-average shares outstanding	70.9	65.0	67.0	64.9
Diluted weighted-average shares outstanding	70.9	65.6	67.6	65.5
Basic earnings (loss) per share				
Income (loss) from continuing operations, net of tax	\$(1.38 )	\$0.26	\$(1.48 )	\$0.43
Income (loss) from discontinued operations, net of tax	(0.06 )	0.07	2.15	0.20
Net income (loss) attributable to Diebold, Incorporated	\$(1.44 )	\$0.33	\$0.67	\$0.63
Diluted earnings (loss) per share				
Income (loss) from continuing operations, net of tax	\$(1.38 )	\$0.26	\$(1.46 )	\$0.43
Income (loss) from discontinued operations, net of tax	(0.06 )	0.07	2.12	0.20
Net income (loss) attributable to Diebold, Incorporated	\$(1.44 )	\$0.33	\$0.66	\$0.63

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Amounts attributable to Diebold, Incorporated

Income (loss) before discontinued operations, net of tax	\$(97.7 )	\$17.0	\$(98.9 )	\$27.7
Income (loss) from discontinued operations, net of tax	(4.6 )	4.7	143.7	13.4
Net income (loss) attributable to Diebold, Incorporated	\$(102.3 )	\$21.7	\$44.8	\$41.1

Common dividends declared and paid per share \$0.2875 \$0.2875 \$0.8625 \$0.8625

See accompanying notes to condensed consolidated financial statements.

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## DIEBOLD, INCORPORATED AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(in millions)

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Net income (loss)	\$	(101.8)	\$	22.9	\$	46.4	\$	41.2
Other comprehensive income (loss), net of tax								
Translation adjustment	(4.2	)	(75.3	)	49.6	(137.4	)	
Foreign currency hedges (net of tax \$0.2, \$(2.2), \$4.2 and \$(4.0), respectively)	(0.4	)	4.0		(7.9	)	7.3	
Interest rate hedges								
Net gain recognized in other comprehensive income (net of tax \$(0.1) and \$(0.3) for the three and nine months ended September 30, 2015, respectively)	—		0.2		—		0.5	
Reclassification adjustment for amounts recognized in net income	—		(0.1	)	(0.1	)	(0.2	)
	—		0.1		(0.1	)	0.3	
Pension and other post-retirement benefits								
Net actuarial loss amortization (net of tax \$(0.3), \$(0.6), \$(1.3) and \$(1.9), respectively)	(0.1	)	1.1		1.8		3.4	
Net prior service benefit amortization, net of tax	—		—		—		(0.1	)
	(0.1	)	1.1		1.8		3.3	
Other comprehensive income (loss), net of tax	(4.7	)	(70.1	)	43.4		(126.5	)
Comprehensive income (loss)	(106.5	)	(47.2	)	89.8		(85.3	)
Less: comprehensive income (loss) attributable to noncontrolling interests	0.5		0.5		1.1		(0.3	)
Comprehensive income (loss) attributable to Diebold, Incorporated	\$	(107.0)	\$	(47.7)	\$	88.7	\$	(85.0)
See accompanying notes to condensed consolidated financial statements.								

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## DIEBOLD, INCORPORATED AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)

	Nine Months Ended September 30,	
	2016	2015
Cash flow from operating activities		
Net income (loss)	\$46.4	\$41.2
Income (loss) from discontinued operations, net of tax	143.7	13.4
Income (loss) from continuing operations, net of tax	(97.3 )	27.8
Adjustments to reconcile net income (loss) to cash flow used by operating activities:		
Depreciation and amortization	74.3	48.3
Share-based compensation	14.2	10.9
Excess tax benefits from share-based compensation	(0.3 )	(0.3 )
Devaluation of Venezuela balance sheet	—	7.5
(Gain) loss on sale of assets, net	(0.2 )	(1.4 )
Impairment of assets	—	18.9
Gain on foreign currency option and forward contracts, net	(9.3 )	—
Changes in certain assets and liabilities, net of the effects of acquisition		
Trade receivables	(85.3 )	(128.6)
Inventories	(18.9 )	(57.6 )
Prepaid expenses	0.7	(3.0 )
Prepaid income taxes	(90.3 )	(30.5 )
Other current assets	51.5	(17.3 )
Accounts payable	14.2	24.4
Deferred revenue	(42.9 )	(35.9 )
Deferred income taxes	(58.5 )	9.0
Certain other assets and liabilities	61.4	5.2
Net cash used by operating activities - continuing operations	(186.7)	(122.6)
Net cash (used) provided by operating activities - discontinued operations	(8.2 )	2.5
Net cash used by operating activities	(194.9)	(120.1)
Cash flow from investing activities		
Payments for acquisition, net of cash acquired	(890.6)	(59.4 )
Proceeds from maturities of investments	164.1	101.0
Proceeds from sale of foreign currency option and forward contracts, net	16.2	—
Payments for purchases of investments	(155.6)	(107.1)
Proceeds from sale of assets	28.7	5.6
Capital expenditures	(23.9 )	(40.6 )
Increase in certain other assets	(17.9 )	(2.9 )
Net cash used by investing activities - continuing operations	(879.0)	(103.4)
Net cash provided (used) by investing activities - discontinued operations	361.9	(2.4 )
Net cash used by investing activities	(517.1)	(105.8)
Cash flow from financing activities		
Dividends paid	(57.0 )	(56.5 )
Debt issuance costs	(39.2 )	(0.7 )
Revolving credit facility borrowings (repayments), net	(168.0)	(36.4 )
Other debt borrowings	1,825.7	317.7

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Other debt repayments	(419.2)	(91.2 )
Distributions to noncontrolling interest holders	(2.1 )	(0.2 )
Excess tax benefits from share-based compensation	0.3	0.3
Issuance of common shares	0.3	3.4
Repurchase of common shares	(2.1 )	(3.0 )
Net cash provided by financing activities	1,138.7	133.4
Effect of exchange rate changes on cash and cash equivalents	9.4	