

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) | |
| ASSETS | | |
| 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 |
| LIABILITIES AND EQUITY | | |
| 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, | | September 30, | |
| | 2016 | 2015 | 2016 | 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 | | | | |

SUPPLEMENTAL

PLAN OF

DISTRIBUTION

(CONFLICTS

OF

INTEREST)

Delivery

of the

Notes will

be made

against

payment

for the

Notes on

May 16,

2017,

which is

the third

(3rd)

business

day

following

the Pricing

Date (this

settlement

cycle

being

referred to

as "T+3").

See "Plan

of

Distribution"

in the

prospectus

dated

January 8,

2016. For

additional
information
as to the
relationship
between
us and
RBCCM,
please see
the section
“Plan of
Distribution-Conflicts
of Interest”
in the
prospectus
dated
January 8,
2016.
In the
initial
offering of
the Notes,
they will
be offered
to
investors
at a
purchase
price
equal to
par,
except
with
respect to
certain
accounts
as
indicated
on the
cover page
of this
document.
The value
of the
Notes
shown on
your
account
statement
may be
based on
RBCCM’s

estimate
of the
value of
the Notes
if
RBCCM
or another
of our
affiliates
were to
make a
market in
the Notes
(which it
is not
obligated
to do).
That
estimate
will be
based
upon the
price that
RBCCM
may pay
for the
Notes in
light of
then
prevailing
market
conditions,
our
creditworthiness
and
transaction
costs. For
a period of
approximately
12 months
after the
issue date
of the
Notes, the
value of
the Notes
that may
be shown
on your
account
statement

may be higher than RBCCM's estimated value of the Notes at that time. This is because the estimated value of the Notes will not include the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period is initially expected to be a higher amount, reflecting the addition of RBCCM's underwriting discount and our estimated costs and profits from hedging the Notes.

This excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value.

RBC
P-11 Capital
Markets,
LLC

Buffered
Enhanced
Return
Notes
Linked to
the EURO
STOXX
50® Index,
Due
November
16, 2021

STRUCTURING
THE
NOTES

The Notes
are our
debt
securities,
the return
on which
is linked
to the
performance
of the
Reference
Asset. As
is the case
for all of
our debt
securities,
including
our
structured
notes, the
economic
terms of
the Notes
reflect our
actual or
perceived
creditworthiness
at the time
of
pricing.
In

addition,
because
structured
notes
result in
increased
operational,
funding
and
liability
management
costs to
us, we
typically
borrow the
funds
under
these
Notes at a
rate that is
more
favorable
to us than
the rate
that we
might pay
for a
conventional
fixed or
floating
rate debt
security of
comparable
maturity.
Using this
relatively
lower
implied
borrowing
rate rather
than the
secondary
market
rate, is a
factor that
reduced
the initial
estimated
value of
the Notes
at the time

their terms
were set.
Unlike the
estimated
value
included
in this
pricing
supplement,
any value
of the
Notes
determined
for
purposes
of a
secondary
market
transaction
may be
based on a
different
funding
rate,
which
may result
in a lower
value for
the Notes
than if our
initial
internal
funding
rate were
used.
In order to
satisfy our
payment
obligations
under the
Notes, we
may
choose to
enter into
certain
hedging
arrangements
(which
may
include
call

options,
put
options or
other
derivatives)
on the
issue date
with
RBCCM
or one of
our other
subsidiaries.
The terms
of these
hedging
arrangements
take into
account a
number of
factors,
including
our
creditworthiness,
interest
rate
movements,
the
volatility
of the
Reference
Asset, and
the tenor
of the
Notes.
The
economic
terms of
the Notes
and their
initial
estimated
value
depend in
part on the
terms of
these
hedging
arrangements.
The lower
implied
borrowing

rate is a factor that reduced the economic terms of the Notes to you. The initial offering price of the Notes also reflects the underwriting commission and our estimated hedging costs. These factors resulted in the initial estimated value for the Notes on the Pricing Date being less than their public offering price. See “Selected Risk Considerations—The Initial Estimated Value of the Notes Is Less than the Price to the Public” above.

VALIDITY
OF THE
NOTES

In the
opinion of
Norton
Rose
Fulbright
Canada
LLP, the
issue and
sale of the
Notes has
been duly
authorized
by all
necessary
corporate
action of
the Bank
in
conformity
with the
Indenture,
and when
the Notes
have been
duly
executed,
authenticated
and issued
in
accordance
with the
Indenture
and
delivered
against
payment
therefor,
the Notes
will be
validly
issued
and, to the
extent
validity of
the Notes
is a matter
governed
by the
laws of
the
Province

of Ontario
or
Québec,
or the
laws of
Canada
applicable
therein,
and will
be valid
obligations
of the
Bank,
subject to
equitable
remedies
which
may only
be granted
at the
discretion
of a court
of
competent
authority,
subject to
applicable
bankruptcy,
to rights to
indemnity
and
contribution
under the
Notes or
the
Indenture
which
may be
limited by
applicable
law; to
insolvency
and other
laws of
general
application
affecting
creditors'
rights, to
limitations
under

applicable
limitations
statutes,
and to
limitations
as to the
currency
in which
judgments
in Canada
may be
rendered,
as
prescribed
by the
Currency
Act
(Canada).
This
opinion is
given as
of the date
hereof and
is limited
to the laws
of the
Provinces
of Ontario
and
Québec
and the
federal
laws of
Canada
applicable
thereto. In
addition,
this
opinion is
subject to
customary
assumptions
about the
Trustee's
authorization,
execution
and
delivery of
the
Indenture
and the

genuineness
of
signatures
and
certain
factual
matters,
all as
stated in
the letter
of such
counsel
dated
January 8,
2016,
which has
been filed
as Exhibit
5.1 to
Royal
Bank's
Form 6-K
filed with
the SEC
dated
January 8,
2016.
In the
opinion of
Morrison
& Foerster
LLP,
when the
Notes
have been
duly
completed
in
accordance
with the
Indenture
and issued
and sold
as
contemplated
by the
prospectus
supplement
and the
prospectus,
the Notes

will be
valid,
binding
and
enforceable
obligations
of Royal
Bank,
entitled to
the
benefits of
the
Indenture,
subject to
applicable
bankruptcy,
insolvency
and
similar
laws
affecting
creditors'
rights
generally,
concepts
of
reasonableness
and
equitable
principles
of general
applicability
(including,
without
limitation,
concepts
of good
faith, fair
dealing
and the
lack of
bad faith).
This
opinion is
given as
of the date
hereof and
is limited
to the laws
of the
State of

New
York.
This
opinion is
subject to
customary
assumptions
about the
Trustee's
authorization,
execution
and
delivery of
the
Indenture
and the
genuineness
of
signatures
and to
such
counsel's
reliance
on the
Bank and
other
sources as
to certain
factual
matters,
all as
stated in
the legal
opinion
dated
January 8,
2016,
which has
been filed
as Exhibit
5.2 to the
Bank's
Form 6-K
dated
January 8,
2016.

P-12 RBC
Capital
Markets,

