

DIEBOLD INC  
Form 10-K  
March 01, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2006**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-4879**

**DIEBOLD, INCORPORATED**

(Exact name of Registrant as specified in its charter)

Ohio

34-0183970

(State or other jurisdiction of incorporation or  
organization)

(IRS Employer Identification Number)

5995 Mayfair Road, P.O. Box 3077,  
North Canton, Ohio

44720-8077

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class  
Common Shares \$1.25 Par Value

Name of each exchange on which registered:  
New York Stock Exchange

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

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

Yes ☐ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes ☐ No ☐

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

Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

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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, or non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated Filer ☐ Accelerated Filer ☐ Non-accelerated filer ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐  
State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2006, the last business day of the Registrant's most recently completed second fiscal quarter. The aggregate market value was computed by using the closing price on the New York Stock Exchange on June 30, 2006 of \$40.62 per share.

Common Shares, Par Value \$1.25 per Share

\$2,629,410,875

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

| Class                          |
|--------------------------------|
| Common Shares \$1.25 Par Value |

| Outstanding at February 26, 2007 |
|----------------------------------|
| 65,706,215                       |

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**DOCUMENTS INCORPORATED BY REFERENCE**

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

- (1) Diebold, Incorporated Annual Report to shareholders for the year ended December 31, 2006, portions of which are incorporated by reference into Parts I and II of this Form 10-K; and
- (2) Diebold, Incorporated Proxy Statement for 2007 Annual Meeting of Shareholders to be held April 26, 2007, portions of which are incorporated by reference into Part III of this Form 10-K.

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PART I.

**ITEM 1. BUSINESS.**

(Dollars in thousands)

**(a) General Development of Business**

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

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

**(b) Financial Information about Segments**

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

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

**(c) Narrative Description of Business**

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

**Product Groups**

*Self-Service Products*

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

*Physical Security and Facility Products*

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

*Election Systems*

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

*Integrated Security Solutions*

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

*Software Solutions and Services*

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

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

### **Operations**

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

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

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

The company carries working capital mainly related to accounts receivable and inventories. Inventories, generally, are only manufactured as orders are received from customers. The company's normal and customary payment terms are net 30 days from date of invoice. The company generally does not offer extended payment terms. The company's government customers represent a small portion of the company's business. Typically, the company's contracts with its government customers do not contain fiscal funding clauses. In the event that such a clause exists, revenue would not be recognizable until the funding clause was satisfied. In general, the company recognizes revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refunds or return rights affecting the revenue recognized for the delivered elements.

### **Competition**

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

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

### **Patents, Trademarks, Licenses**

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

### **Research, Development & Engineering**

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

### **Environmental**

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



**Employees**

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

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

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### (d) Financial Information about Geographic Areas

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

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

The company's non-U.S. operations are subject to normal international business risks not generally applicable to domestic business. These risks include currency fluctuation, new and different legal and regulatory requirements in local jurisdictions, political and economic changes and disruptions, tariffs or other barriers, potentially adverse tax consequences and difficulties in staffing and managing foreign operations.

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

### (e) Additional Information

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

### ITEM 1A. RISK FACTORS.

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

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

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

- changes in the market acceptance of the company's products and services;

- customer and competitor consolidation;

- changes in customer preferences;

- declines in general economic conditions; and

- changes in environmental regulations that would limit the company's ability to sell products and services in specific markets.

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

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

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

company's products.

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

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

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

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

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

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

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

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

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

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

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

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

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

fluctuations in currency exchange rates;

transportation delays and interruptions;

political and economic instability and disruptions;

restrictions on the transfer of funds;

the imposition of duties and tariffs;

import and export controls;

changes in governmental policies and regulatory environments;

labor unrest and current and changing regulatory environments;

the uncertainty of product acceptance by different cultures;

the risks of divergent business expectations or cultural incompatibility inherent in establishing joint ventures with foreign partners;

difficulties in staffing and managing multi-national operations;

limitations on our ability to enforce legal rights and remedies;

reduced protection for intellectual property rights in some countries; and

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potentially adverse tax consequences.

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

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

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

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

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

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

the failure of jurisdictions to certify our election systems products;

jurisdictions decertifying products that had previously been certified;

the failure of prospective customers to conclude that our products are valuable and should be used;

the reluctance of our prospective customers to replace their existing solutions with our products; and

marketing efforts of our competitors.

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

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

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

A number of shareholder action lawsuits have been filed against us and certain of our current and former officers and directors, alleging violations of the federal securities laws and breaches of fiduciary duties with respect to the company's 401(k) savings plan. The company believes that these lawsuits are without merit and the company intends to defend ourselves vigorously. The company cannot, however, determine with certainty the outcome or resolution of these claims or any future related claims, or the timing for their resolution. In addition to the expense and burden

incurred in defending this litigation and any damages that the company may suffer, our management's efforts and attention may be diverted from the ordinary business operations in order to address these claims. If the final resolution of this litigation is unfavorable to us, our financial condition, results of operations and cash flows might be materially adversely affected.

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

As part of our business strategy, the company frequently engages in discussions with third parties regarding possible investments, acquisitions, strategic alliances, joint ventures, divestitures and outsourcing arrangements and enter into agreements relating to such extraordinary transactions in order to further our business objectives. In order to pursue this strategy successfully, the company must identify suitable candidates for and successfully complete extraordinary transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired companies or employees. Integration and other risks of extraordinary

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transactions can be more pronounced for larger and more complicated transactions, or if multiple transactions are pursued simultaneously. If the company failed to identify and complete successfully extraordinary transactions that further our strategic objectives, the company may be required to expend resources to develop products and technology internally, the company may be at a competitive disadvantage or the company may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our revenue, gross margin and profitability. Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business. The challenges involved in integration include:

- combining product offerings and entering into new markets in which the company is not experienced;

- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), and coordinating sales, marketing and distribution efforts;

- consolidating and rationalizing corporate information technology infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;

- minimizing the diversion of management attention from ongoing business concerns;

- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, integrating employees into the company, correctly estimating employee benefit costs and implementing restructuring programs;

- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures; and

- achieving savings from supply chain and administration integration.

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

Managing extraordinary transactions requires varying levels of management resources, which may divert our attention from other business operations. These extraordinary transactions could result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, the company could incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with extraordinary transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with an extraordinary transaction becomes impaired, the company may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, the company may issue common stock, potentially creating dilution for existing stockholders, or borrow funds, affecting our financial condition and potentially our credit ratings. Any prior or future downgrades in our credit rating associated with an acquisition could adversely affect our ability to borrow and result in more restrictive



borrowing terms. In addition, our effective tax rate on an ongoing basis is uncertain, and extraordinary transactions could impact our effective tax rate. The company also may experience risks relating to the challenges and costs of closing an extraordinary transaction and the risk that an announced extraordinary transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations.

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

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

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result in interruptions, delays or cessation of service that could impede our sales, manufacturing, distribution or other critical functions.

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

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

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

***The company may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.***

Our cash flows from operations depend primarily on sales and service margins. To develop new product and service technologies, support future growth, achieve operating efficiencies and maintain product quality, the company must make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and service technology. In addition to cash provided from operations, the company has from time to time utilized external sources of financing. Depending upon general market conditions or other factors, the company may not be able to generate sufficient cash flows to fund our operations and make adequate capital investments.

***New product developments may be unsuccessful.***

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

***An adverse determination that our products or manufacturing processes infringe the intellectual property rights of others could materially adversely affect the company's business, results of operations or financial condition.***

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

### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable.

### **ITEM 2. PROPERTIES.**

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

Hungary, India, Indonesia, Italy, Malaysia, Mexico, Namibia, Netherlands, New Zealand, Panama, Paraguay, Peru, Philippines, Portugal, Poland, Romania, Russia, Singapore, South Africa, Spain, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay, Venezuela and Vietnam. The company leases a majority of the selling, service and administrative offices under operating lease agreements.

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

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### ITEM 3. LEGAL PROCEEDINGS.

At December 31, 2006, the company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the company's financial position, results of operations or cash flow. In management's opinion, the financial statements would not be materially affected by the outcome of any of these present legal proceedings, commitments or asserted claims.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The company was informed during the first quarter of 2006 that the staff of the SEC had begun an informal inquiry relating to the company's revenue recognition policy. The SEC indicated in its letter to the company that the inquiry

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

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

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

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## PART II.

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

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

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

There were approximately 59,047 shareholders at December 31, 2006, which includes an estimated number of shareholders who have shares held in their accounts by banks, brokers, and trustees for benefit plans and the agent for the dividend reinvestment plan.

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

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

**ISSUER PURCHASES OF EQUITY SECURITIES**

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

(1) - The company purchased 95,700 common shares in the fourth quarter of 2006 pursuant to the company's Stock

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

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

ITEM 6. SELECTED FINANCIAL DATA.

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

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

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

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

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

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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

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

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

**ITEM 9A. CONTROLS AND PROCEDURES.**

**(a) Disclosure Controls and Procedures**

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

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

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

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

**(c) Changes In Internal Control Over Financial Reporting**

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

**ITEM 9B. OTHER INFORMATION.**

None.

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## PART III.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

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

**Executive Officers of the Registrant**

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

and Services  
2001-2005  
Vice President, Customer Service  
Solutions Diebold North America

|                      |    |  |      |   |
|----------------------|----|--|------|---|
| George S. Mayes, Jr. | 48 | Senior Vice President,<br>Global Manufacturing and<br>Supply Chain | 2006 | <u>2005-Apr 2006</u><br>Vice President, Manufacturing |
|----------------------|----|--|------|---|

**Table of Contents****Executive Officers of the Registrant (continued)**

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

Development (non executive)-  
Diebold, Inc.

1999 - 2002

Senior Vice President and Chief  
Financial Officer - Creative  
Management Services, LLC  
[Designer & Manufacturer of  
Custom Trade Show Exhibits]

**Table of Contents****Executive Officers of the Registrant (continued)**

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

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

**Code of Ethics**

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

**Section 16(a) Beneficial Ownership Reporting Compliance**

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

**ITEM 11. EXECUTIVE COMPENSATION.**

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

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

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

**Equity Compensation Plan Information**

| Plan category   | Number of securities to be<br>issued upon<br>exercise of<br>outstanding options,<br>warrants<br>and rights<br>(a) | Weighted-average<br>exercise<br>price of<br>outstanding<br>options,<br>warrants and<br>rights<br>(b) | Number of securities<br>remaining<br>available for future<br>issuance<br>under equity<br>compensation<br>plans (excluding<br>securities<br>reflected in column<br>(a))<br>(c) |
|---|---|--|---|
| Equity compensation plans approved by<br>security holders | 4,191,223   | \$ 42.35   | 1,157,713   |

Equity compensation plans not approved by  
security holders

|       |           |    |       |           |
|-------|-----------|----|-------|-----------|
| Total | 4,191,223 | \$ | 42.35 | 1,157,713 |
|-------|-----------|----|-------|-----------|

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

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

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

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



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PART IV.

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

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

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

Consolidated Balance Sheets at December 31, 2006 and 2005

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

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

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

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

(a) 2. Financial statement schedule

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

Report of Independent Registered Public Accounting Firm, and

Valuation and Qualifying Accounts.

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

(a) 3. Exhibits

3.1(i) Amended and Restated Articles of Incorporation of Diebold, Incorporated incorporated by reference to Exhibit 3.1 (i) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994. (Commission File No. 1-4879)

3.1(ii) Code of Regulations incorporated by reference to Exhibit 4(c) to Registrant's Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 33-32960.

3.2 Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated incorporated by reference to Exhibit 3.2 to Registrant's Form 10-Q for the quarter ended March 31, 1996. (Commission File No. 1-4879)

3.3 Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated incorporated by reference to Exhibit 3.3 to Registrant's Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879)

4.1 Rights Agreement dated as of February 11, 1999 between Diebold, Incorporated and The Bank of New York incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form 8-A, filed February 2, 1999. (Commission File No. 1-4879).

\* 10.1 Form of Employment Agreement as amended and restated as of September 13, 1990 incorporated by reference to Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990. (Commission File No. 1-4879).

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- \* 10.2 Schedule of Certain Officers who are Parties to Employment Agreements incorporated by reference to Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
- \* 10.5(i) Supplemental Employee Retirement Plan I as amended and restated July 1, 2002 incorporated by reference to Exhibit 10.5(i) to Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- \* 10.5(ii) Supplemental Employee Retirement Plan II as amended and restated July 1, 2002 incorporated by reference to Exhibit 10.5(ii) to Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- \* 10.7(i) 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992. (Commission File No. 1-4879)
- \* 10.7(ii) Amendment No. 1 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 (ii) to Registrant's Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879).

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

1-4879).

- 10.17(i) Amended and Restated Loan Agreement dated as of April 30, 2003 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. incorporated by reference to Exhibit 10.17 to Registrant's Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879).
- 10.17(ii) First Amendment to Loan Agreement, dated as of April 28, 2004 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. incorporated by reference to Exhibit 10.17 (ii) to Registrant's Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879).
- 10.17(iii) Second Amendment to Loan Agreement, dated as of April 27, 2005 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.) incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on May 3, 2005. (Commission File No. 1-4879).
- 10.17(iv) Third Amendment to Loan Agreement, dated as of November 16, 2005 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.) incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on November 22, 2005. (Commission File No. 1-4879).
- 10.17(v) Fourth Amendment to Loan Agreement, dated November 27, 2006 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.).

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- \* 10.18(i) Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. (Commission File No. 1-4879).
- \* 10.18(ii) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (ii) to Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- \* 10.18(iii) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (iii) to Registrant's Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879).
- \* 10.18(iv) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (iv) to Registrant's Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
- \* 10.18(v) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (v) to Registrant's Form 10-Q for the quarter ended March 31, 2005. (Commission File No. 1-4879).
- \* 10.18(vi) Extension of Retirement and Consulting Agreement with Robert W. Mahoney, dated March 7, 2006 incorporated by reference to Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
- 10.20(i) Transfer and Administration Agreement, dated as of March 30, 2001 by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association and the financial institutions from time to time parties thereto incorporated by reference to Exhibit 10.20 (i) to Registrant's Form 10-Q for the quarter ended March 31, 2001. (Commission File No. 1-4879).
- 10.20(ii) Amendment No. 1 to the Transfer and Administration Agreement, dated as of May 2001, by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association and the financial institutions from time to time parties thereto incorporated by reference to Exhibit 10.20 (ii) to Registrant's Form 10-Q for the quarter ended March, 31, 2001. (Commission File No. 1-4879).
- \* 10.21 Separation Agreement with Eric C. Evans incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on October 18, 2005. (Commission File No. 1-4879)
- \* 10.22 Form of Non-Qualified Stock Option Agreement incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- \* 10.23 Form of Restricted Share Agreement incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- \* 10.24 Form of RSU Agreement incorporated by reference to Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).

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- \* 10.25 Form of Performance Share Agreement incorporated by reference to Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2005 (Commission File No. 1-4879).
- \* 10.26 Diebold, Incorporated Annual Cash Bonus Plan incorporated by reference to Exhibit A to Registrant's Proxy Statement on Schedule 14A filed on March 16, 2005 (Commission File No. 1-4879).
- 10.27 Form of Note Purchase Agreement incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on March 8, 2006. (Commission File No. 1-4879).
- \* 10.28 Employment Agreement between Diebold, Incorporated and Thomas W. Swidarski incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on May 1, 2006 (Commission File No. 1-4879).
- \* 10.29 Compromise Agreement between Diebold International Limited, Diebold, Incorporated and Daniel J. O'Brien incorporated by reference to Exhibit 10.3 to Registrant's Form 8-K filed on May 1, 2006 (Commission File No. 1-4879).
- \* 10.30 Separation Agreement between Diebold, Incorporated and Michael J. Hillock, effective June 12, 2006 incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on June 16, 2006 (Commission File No. 1-4879).
- 10.31 Letter Agreement (including Term Note) dated as of November 27, 2006, between Diebold, Incorporated and PNC Bank, N.A.
- 13.1 Diebold, Incorporated 2006 Annual Report to shareholders (not deemed filed as part of this Form 10-K except for those portions that are expressly incorporated by reference).

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

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

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

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**SIGNATURES**

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

**DIEBOLD, INCORPORATED**

Date: March 1, 2007

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

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

| Signature                | Title  | Date          |
|--------------------------|--|---------------|
| /s/ Thomas W. Swidarski  | President, Chief Executive                         | March 1, 2007 |
| Thomas W. Swidarski      | Officer and Director (Principal Executive Officer) |               |
| /s/ Kevin J. Krakora     | Executive Vice President and Chief                 | March 1, 2007 |
| Kevin J. Krakora         | Financial Officer (Principal Financial Officer)    |               |
| /s/ Michael R. Moore     | Vice President and Corporate Controller            | March 1, 2007 |
| Michael R. Moore         | (Principal Accounting Officer)                     |               |
| *                        | Director   | March 1, 2007 |
| Phillip R. Cox           |  |               |
| /s/ Louis V. Bockius III | Director   | March 1, 2007 |
| Louis V. Bockius III     |  |               |
| /s/ Richard L. Crandall  | Director   | March 1, 2007 |
| Richard L. Crandall      |  |               |
| *                        | Director   | March 1, 2007 |
| Gale S. Fitzgerald       |  |               |
| *                        | Director   | March 1, 2007 |



Phillip B. Lassiter

|   |          |               |
|---|----------|---------------|
| * | Director | March 1, 2007 |
|---|----------|---------------|

John N. Lauer

|                      |          |               |
|----------------------|----------|---------------|
| /s/ William F. Massy | Director | March 1, 2007 |
|----------------------|----------|---------------|

William F. Massy

|                    |          |               |
|--------------------|----------|---------------|
| /s/ Eric J. Roorda | Director | March 1, 2007 |
|--------------------|----------|---------------|

Eric J. Roorda

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SIGNATURES (continued)

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

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

Dated: March 1, 2007

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Diebold, Incorporated:

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

/s/ KPMG LLP

Cleveland, Ohio

March 1, 2007

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DIEBOLD, INCORPORATED AND SUBSIDIARIES  
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS  
(DOLLARS IN THOUSANDS)  
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

|                                 | Balance at<br>beginning<br>of year | Additions | Deductions | Balance<br>at end<br>of year |
|---------------------------------|------------------------------------|-----------|------------|------------------------------|
| Year ended December 31, 2006    |                                    |           |            |                              |
| Allowance for doubtful accounts | \$27,216                           | \$15,119  | \$12,584   | \$29,751                     |
| Year ended December 31, 2005    |                                    |           |            |                              |
| Allowance for doubtful accounts | \$10,176                           | \$37,501  | \$20,461   | \$27,216                     |
| Year ended December 31, 2004    |                                    |           |            |                              |
| Allowance for doubtful accounts | \$ 8,713<br>24                     | \$11,761  | \$10,298   | \$10,176                     |

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**EXHIBIT INDEX**

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