DIEBOLD INC
Form 10-K
March 03, 2014
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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)	(I.R.S. Employer Identification No.)
5995 Mayfair Road, P.O. Box 3077, North Canton, Ohio	44720-8077
(Address of principal executive offices)	(Zip Code)

Registrants telephone number, including area code (330) 490-4000
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

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 o No x

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 x No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

(do not check if a smaller reporting company)

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

Approximate aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2013, based upon the closing price on the New York Stock Exchange on June 28, 2013, was $2,143,286,411.

Number of shares of common stock outstanding as of February 28, 2014 was 64,289,504.

DOCUMENTS INCORPORATED BY REFERENCE

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

Diebold, Incorporated Proxy Statement for 2014 Annual Meeting of Shareholders to be held on or about April 24, 2014, portions of which are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1: BUSINESS
(dollars in thousands)

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

The Company is a global leader in providing integrated services and software, financial self-service delivery and security systems to primarily the financial, commercial, retail and other markets. The Company today has approximately 16,000 employees with representation in more than 90 countries worldwide. The Company recently unveiled its multi-year turnaround strategy, Diebold 2.0, at the Investment Community Conference in November of 2013. The objective of Diebold 2.0 is to transform the Company into a world-class, services-led and software enabled provider of secure, convenient and efficient solutions for its customers. The turnaround strategy will follow a “Crawl, Walk, Run” approach, which requires the core business operations to be stabilized in the “Crawl” phase and build the foundation for future growth in the “Walk” and “Run” phases. Four core pillars provide the Company a clear path toward reaching this multi-year objective:

- Reduce its cost structure and improve its near-term delivery and execution.
- Generate increased free cash flow in order to fund the investments necessary to drive profitable growth, while preserving the ability to return value to shareholders in the form of reliable dividends and, as appropriate, share repurchases.
- Attract and retain the talent necessary to drive innovation and the focused execution of the transformation strategy.
- Return the Company to a sustainable, profitable growth trajectory.

The Company sees opportunities to leverage its capabilities in services, software and innovation to meet the needs of its rapidly evolving markets. Sales of systems and equipment are made directly to customers by the Company’s sales personnel, manufacturers’ representatives and distributors globally. The sales and support organizations work closely with customers and their consultants to analyze and fulfill the customers’ needs. The Company has sharpened its focus on executing its core strategies in financial self-service (FSS) and electronic security. This includes making the appropriate investments to deliver growth within these areas. Finally, the Company remains committed to a disciplined risk assessment process, focused on proactively identifying and mitigating potential risks to the Company's continued success.

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

Self-Service Solutions
One popular example of a self-service solution is the automated teller machine (ATM). The Company offers an integrated line of self-service technologies and services, including comprehensive ATM outsourcing, ATM security, deposit automation, recycling and payment terminals and software. The Company also offers advanced functionality terminals capable of supporting two-way video technology to support bank branch transformation. The Company is a leading global supplier of ATMs and related services and holds the leading market position in many countries around the world.

Self-Service Support and Managed Services

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

Table of Contents

Self-Service Products
The Company offers a wide variety of self-service solutions. Self-service products include a full range of teller automation terminals as well as ATMs capable of cash dispensing and a number of more advanced functionalities, including check and cash deposit automation, recycling and two-way video.

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

Security Solutions
From the safes and vaults that the Company first manufactured in 1859 to the full range of electronic security offerings it provides today, the Company’s integrated security solutions utilize advanced products and an extensive services portfolio for its customers' unique needs. The Company provides its customers with the latest technological advances to better protect their assets, improve their workflow and increase their return on investment. The Company also provides internet banking, online payment and mobile banking security solutions aimed at preventing various types of fraud, such as phishing, pharming, and key logging. All of these solutions are backed with experienced sales, installation and service teams. The Company is a leader in providing physical and electronic security systems as well as assisted transactions, providing total security systems solutions to financial, commercial, retail, and other markets.

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

Electronic Security Products
The Company provides a broad range of electronic security products including camera and video surveillance equipment, alarms, access control systems and biometric technologies.

Monitoring and Services
The Company provides security monitoring solutions, including remote monitoring and diagnostics, fire detection, intrusion protection, managed access control, energy management, remote video management and storage, logical security and web-based solutions like SecureStat®.

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

Election and Lottery Systems
The Company offers election and lottery systems product solutions and support to the government in Brazil. The Company provides elections and lottery equipment, networking, tabulation and diagnostic software development, training, support and maintenance.

OPERATIONS

The principal raw materials used by the Company in its manufacturing operations are steel, plastics, and electronic parts and components, which are purchased from various major suppliers. These materials and components are generally available in ample quantities.

The Company’s operating results and the amount and timing of revenue are affected by numerous factors including production schedules, customer priorities, sales volume and sales mix. During the past several years, the Company has changed the focus of its self-service business to that of a total solutions and integrated services approach.

Table of Contents

The Company carries working capital mainly related to trade receivables and inventories. Inventories generally are only manufactured or purchased as orders are received from customers. The Company’s normal and customary payment terms generally range from 30 to 90 days from date of invoice. The Company generally does not offer extended payment terms. The Company also provides financing arrangements to customers that are largely classified and accounted for as sales-type leases. As of December 31, 2013, the Company’s net investment in finance lease receivables was $105,491.

SEGMENTS AND FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

In the fourth quarter of 2013, the Company began management of its business on a regional geographic basis, changing from the previous model, which was a more condensed geographic basis. In order to align the Company's external reporting of its financial results with this change, the Company has modified its segment reporting. The Company now reports the following five segments: North America (NA), Asia Pacific (AP), Europe, the Middle East and Africa (EMEA), Latin America (LA) and Brazil.

The five geographic segments sell and service FSS and security systems around the globe, as well as election and lottery solutions in Brazil, through wholly-owned subsidiaries, majority-owned joint ventures and independent distributors in most major countries. Segment financial information can be found in note 19 to the consolidated financial statements, which is contained in Item 8 of this annual report on Form 10-K.

Sales to customers outside the United States in relation to total consolidated net sales were $1,493,386 or 52.3 percent in 2013, $1,458,019 or 48.7 percent in 2012 and $1,494,681 or 52.7 percent in 2011.

Property, plant and equipment, at cost, located in the United States totaled $413,315, $468,575 and $455,814 as of December 31, 2013, 2012 and 2011, respectively, and property, plant and equipment, at cost, located outside the United States totaled $185,779, $193,335 and $186,442 as of December 31, 2013, 2012 and 2011, respectively.

Additional financial information regarding the Company’s international operations is included in note 19 to the consolidated financial statements, which is contained in Item 8 of this annual report on Form 10-K. 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.

PRODUCT BACKLOG

The Company's product backlog was approximately $728,811 and $529,716 as of December 31, 2013 and 2012, respectively. The backlog includes orders estimated or projected to be shipped or installed within 12 months. Although the Company believes the orders included in the backlog are firm, some orders may be canceled by customers without penalty, and the Company may elect to permit cancellation of orders without penalty where management believes it is in the Company's best interests to do so. Historically, the Company has not experienced significant cancellations within its product backlog. Additionally, over 50 percent of the Company's revenues are derived from its service business, for which backlog information is not measured. Therefore, the Company does not believe that its product backlog, as of any particular date, is necessarily indicative of revenues for any future period.

COMPETITION

The Company participates in many highly competitive businesses with some services and products in direct competition with similar services and products and others with alternative products that have similar uses or produce similar results. The Company distinguishes itself by providing unique value with a wide range of services and software capabilities tailored to meet customers' needs. The Company believes, based upon outside independent industry surveys, that it is a leading service provider for and manufacturer of FSS systems in the United States and is also a market leader internationally. In the area of automated transaction systems, the Company competes on a global basis primarily with NCR Corporation and Wincor-Nixdorf. On a regional basis, the Company competes with many other hardware and software companies including, but not limited to, GRG Banking Equipment Co., Ltd. and Nautilus Hyosung in AP and Itautec and Perto in LA. In the security service and product markets, the Company competes with national, regional and local security companies. Of these competitors, some compete in only one or two product lines, while others sell a broad spectrum of security services and products. The unavailability of comparative sales information and the large variety of individual services and products make it difficult to give reasonable estimates of the Company's competitive ranking in or share of the security market within the financial services, commercial, retail and government sectors. However, the Company is a uniquely positioned security service and solution provider to global, national, regional and local financial, commercial and industrial customers. The Company also has a strong position in North America and in global markets as a premier security

Table of Contents

service provider that offers a full portfolio of security monitoring and managed services, as well as a full spectrum of systems integration and enterprise level capabilities.

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

RESEARCH, DEVELOPMENT AND ENGINEERING
Customer demand for self-service and security technologies is growing. In order to meet this demand, the Company is focused on delivering innovation to its customers by continuing to invest in technology solutions that enable customers to reduce costs and improve efficiency. Expenditures for research, development and engineering initiatives were $92,315, $85,881 and $78,108 in 2013, 2012 and 2011, respectively. In 2013, the Company introduced the first intelligent-powered ATM, the Diebold 429. Designed for urban and rural areas of India, this machine combines energy efficiency and environmental resistance with enhanced security and functionality. The Diebold 429 consumes approximately 40 percent less energy than previous cash dispensers available in these Indian markets and can switch between three possible power sources, ultimately lowering total cost of ownership and maximizing uptime while delivering unprecedented convenience to consumers.

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

ENVIRONMENTAL
Compliance with federal, state and local environmental protection laws during 2013 had no material effect upon the Company’s business, financial condition or results of operations.

EMPLOYEES
At December 31, 2013, the Company employed approximately 16,000 associates globally. The Company’s service staff is one of the financial industry’s largest, with professionals in more than 600 locations and representation in more than 90 countries worldwide.

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

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

Table of Contents

ITEM 1A: RISK FACTORS
(dollars in thousands)

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

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

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

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

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

Increased energy and raw material costs could reduce our income.
Energy prices, particularly petroleum prices, are cost drivers for our business. In recent years, the price of petroleum has been highly volatile, particularly due to the unstable political conditions in the Middle East and increasing international demand from emerging markets. Price increases in fuel and electricity costs, such as those increases that may occur from climate change legislation or other environmental mandates, will continue to increase our cost of operations. Any increase in the costs of energy would also increase our transportation costs.

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

Because our operations are conducted worldwide, they are affected by risks of doing business abroad.
We generate a significant percentage of revenue from operations conducted outside the United States. Revenue from international operations amounted to approximately 52.3 percent in 2013, 48.7 percent in 2012 and 52.7 percent in 2011 of total revenue during these respective years.

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

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

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

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

We may be exposed to liabilities under the Foreign Corrupt Practices Act, which could have a material adverse effect on our business.

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

While our employees and agents are required to comply with these laws, we operate in many parts of the world that have experienced governmental and commercial corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Foreign companies, including some that may compete with us, may not be subject

Table of Contents

to the FCPA. Accordingly, such companies may be more likely to engage in activities prohibited by the FCPA, which could have a significant adverse impact on our ability to compete for business in such countries.

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

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

The Company voluntarily self-reported its findings to the SEC and the U.S. Department of Justice (DOJ) and cooperated with these agencies in their review. The Company reached an agreement with the DOJ and the SEC to settle this matter for combined payments to the U.S. government of $48,000 in disgorgement, penalties, and pre-judgment interest and the appointment of an independent compliance monitor for a minimum period of 18 months. The Company remitted the combined payments to the U.S. government in November 2013.

In addition, our business opportunities in select geographies have been or may be adversely affected by the settlement of this review. Some countries in which we do business may also initiate their own reviews and impose penalties, including prohibition of our participating in or curtailment of business operations in those jurisdictions. We could also face third-party claims in connection with this matter or as a result of the outcome of the current or any future government reviews. Our disclosure, internal review and any current or future governmental review of this matter could, individually or in the aggregate, have a material adverse affect on our reputation and our ability to obtain new business or retain existing business from our current clients and potential clients, to attract and retain employees and to access the capital markets.

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

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

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

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

- combining service and product offerings and entering into new markets in which we are not experienced;
- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers or service providers(which could result in additional obligations to address customer uncertainty), and coordinating service, sales, marketing and distribution efforts;

10

Table of Contents

- consolidating and rationalizing corporate information technology infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;
- minimizing the diversion of management attention from ongoing business concerns;
- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, integrating employees into our Company, correctly estimating employee benefit costs and implementing restructuring programs;
- coordinating and combining administrative, service, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures; and
- achieving savings from supply chain and administration integration.

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

Managing these types of transactions requires varying levels of management resources, which may divert our attention from other business operations. These transactions could result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees and required payments to executive officers and key employees under retention plans. Moreover, we could incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with these transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing shareholders, or borrow funds,which could affect our financial condition and potentially our credit ratings. Any prior or future downgrades in our credit rating associated with a transaction could adversely affect our ability to borrow and result in more restrictive borrowing terms. In addition, our effective tax rate on an ongoing basis is uncertain, and such transactions could impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a transaction and the risk that an announced transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community’s expectations.

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

As of December 31, 2013, we had $179,828 of goodwill. We assess all existing goodwill at least annually for impairment on a reporting unit basis. The Company’s five reporting units are defined as Domestic and Canada, Brazil, LA, AP, and EMEA. The techniques used in our qualitative and quantitative assessment and goodwill impairment tests incorporate a number of estimates and assumptions that are subject to change; although we believe these estimates and assumptions are reasonable and reflect market conditions forecast at the assessment date. Any changes to these assumptions and estimates due to market conditions or otherwise may lead to an outcome where impairment charges would be required in future periods.

During the third quarter of 2013, the Company performed an other-than-annual assessment for its Brazil reporting unit based on a two-step impairment test as a result of a reduced earnings outlook for the Brazil business unit. This was due to a deteriorating macro-economic outlook, structural changes to an auction-based purchasing environment and new competitors entering the market. The Company concluded that the goodwill within the Brazil reporting unit was partially impaired and recorded a $70,000 pre-tax, non-cash goodwill impairment charge. In the fourth quarter of 2013, the Brazil reporting unit was reviewed for impairment based on a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. In addition, the remaining reporting units were reviewed based on a two-step test. These tests resulted in no additional impairment in any of the Company's reporting units. The Company concluded the AP reporting unit had excess fair value of approximately $23,000 or eight percent when compared to its carrying amount. Domestic and Canada and LA reporting units had excess fair value greater than 100 percent when compared to their carrying amounts.

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

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

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

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

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

trend of annual dividend increases or to continue to pay dividends at all, either in whole or in part. In addition, due to the recent economic downturn there has been a tightening of the credit markets, which may limit our ability to obtain alternative sources of cash to fund our operations.

New service and product developments may be unsuccessful.

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

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

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

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

Any actions or other governmental investigations or proceedings related to or arising from the matters that resulted in the 2009 SEC settlement or the 2013 SEC and DOJ settlement could result in substantial costs to defend enforcement or other related actions that could have a materially adverse effect on our business, operating results or financial condition.

The Company had previously reached an agreement in 2009 with the staff of the SEC to settle civil charges stemming from the staff's enforcement inquiry and an agreement with the staff of the SEC and DOJ to settle the FCPA review in 2013. We could incur substantial additional costs to defend and resolve third-party litigation or other governmental actions, investigations or proceedings arising out of, or related to, the completed investigations or these settlements. The diversion of resources to address issues arising out of any such third-party or governmental actions may harm our business, operating results and financial condition in the future.

Table of Contents

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

Management identified control deficiencies during 2013 that constituted a material weakness. Management concluded that controls pertaining to the reconciliation process that could materially impact financial reporting in its Indian subsidiary were not operating effectively because of the lack of full adoption of revised processes necessitated by a newly implemented enterprise resource planning system.

Management identified control deficiencies during 2012 that constituted a material weakness. In August 2012, one of our Brazilian subsidiaries was notified of a tax assessment of approximately $133,000, including penalties and interest, regarding certain Brazilian federal indirect taxes for 2008 and 2009, alleging improper importation of certain components into the country's free trade zone that would nullify certain indirect tax incentives. After evaluating relevant controls, we concluded that controls pertaining to manufacturing and supply chain processes that could materially impact indirect tax incentives in the Brazilian subsidiary and roles and responsibilities within this Brazilian subsidiary pertaining to the operation of these controls were not designed and/or operating effectively, and controls designed to ensure adequate and effective communication by operational management to regional and corporate management were not operating effectively. In 2013, we began implementing control procedures pertaining to manufacturing and supply chain processes that impact indirect tax incentives in our Brazilian subsidiary. In addition, we began fulfillment of related roles and responsibilities in the indirect tax compliance organization structure. In 2012 and 2013, we have enhanced our internal control over financial reporting. However, as of December 31, 2013, we had not remediated the material weakness.

If we are not able to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, financial condition and operating results could be harmed. Any material weakness could affect investor confidence in the accuracy and completeness of our financial statements. As a result, our ability to obtain any additional financing, or additional financing on favorable terms, could be materially and adversely affected. This, in turn, could materially and adversely affect our business, financial condition and the market value of our securities and require us to incur additional costs to improve our internal control systems and procedures. In addition, perceptions of our Company among customers, lenders, investors, securities analysts and others could also be adversely affected.

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

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

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

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

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

Table of Contents

a basis for the selected discount rate. An increase in the discount rate would reduce the future pension expense and, conversely, a decrease in the discount rate would increase the future pension expense.

Based on current guidelines, assumptions and estimates, including investment returns and interest rates, we plan to make contributions of $4,567 to our pension plans in 2014. Changes in the current assumptions and estimates could result in contributions in years beyond 2014 that are greater than the projected 2014 contributions required. We cannot predict whether changing market or economic conditions, regulatory changes or other factors will further increase our pension expenses or funding obligations, diverting funds we would otherwise apply to other uses.

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

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

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The Company's corporate offices are located in North Canton, Ohio. Within the NA segment, the Company leases manufacturing facilities in Greensboro, North Carolina and has selling, service and administrative offices throughout the United States and Canada. The AP segment owns and operates manufacturing facilities in China and India and selling, service and administrative offices in the following locations: Australia, China, Hong Kong, India, Indonesia, Malaysia, Philippines, Taiwan, Thailand, Singapore and Vietnam. The EMEA segment owns or leases and operates manufacturing facilities in Belgium and Hungary and has selling, service and administrative offices in the following locations: Austria, Belgium, France, Greece, Hungary, Italy, Kazakhstan, Luxembourg, Morocco, Namibia, Netherlands, Poland, Portugal, Russia, South Africa, Spain, Switzerland, Turkey, Uganda, the United Arab Emirates and the United Kingdom. The LA segment has selling, service and administrative offices in the following locations: Barbados, Belize, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. The Brazil segment also owns and operates manufacturing facilities and has selling, service and administrative offices in Brazil. 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.

Table of Contents

ITEM 3: LEGAL PROCEEDINGS
(dollars in thousands)

At December 31, 2013, the Company was a party to several lawsuits that were incurred in the normal course of business, none of which individually or in the aggregate is considered material by management in relation to the Company's financial position or results of operations. In addition, the Company has indemnification obligations with certain former employees and costs associated with these indemnifications are expensed as incurred. In management's opinion, the Company's consolidated financial statements would not be materially affected by the outcome of those legal proceedings, commitments, or asserted claims.

In addition to the routine legal proceedings noted above, the Company was a party to the legal proceedings described below at
December 31, 2013:

Indirect Tax Contingencies
In August 2012, one of the Company's Brazilian subsidiaries was notified of a tax assessment of approximately $133,000, including penalties and interest, regarding certain Brazilian federal indirect taxes (Industrialized Products Tax, Import Tax, Programa de Integração Social and Contribution to Social Security Financing) for 2008 and 2009. The assessment alleges improper importation of certain components into the country's free trade zone that would nullify certain indirect tax incentives. On September 10, 2012, the Company filed its administrative defenses with the tax authorities. This proceeding is currently pending an administrative level decision, which could negatively impact Brazilian federal indirect taxes in other years that remain open under statute. It is reasonably possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's consolidated financial statements. Additionally, in May 2013, the SEC requested that the Company retain certain documents and produce certain records relating to the assessment, and the Company is complying with that request.

In response to an order by the administrative court, the tax inspector provided further analysis with respect to the tax inspector's initial assessment in December 2013 that, if accepted by the administrative court, could indicate a potential exposure that is significantly lower than the initial tax assessment received in August 2012. However, this further analysis is not binding upon the administrative court and is subject to administrative court approval. Additionally, any decision by the administrative court is subject to automatic appeal. Accordingly, the Company cannot provide any assurance that its exposure pursuant to the initial assessment will be lowered significantly or at all. The Company has filed additional administrative defenses in response to the tax inspector's further analysis.

Securities Action
On June 30, 2010, a shareholder filed a putative class action complaint in the United States District Court for the Northern District of Ohio alleging violations of the federal securities laws against the Company, certain current and former officers, and the Company's independent auditors (Louisiana Municipal Police Employees Retirement System v. KPMG et al., No. 10-CV-1461). The complaint sought unspecified compensatory damages on behalf of a class of persons who purchased the Company's stock between June 30, 2005 and January 15, 2008 and fees and expenses related to the lawsuit. The complaint generally relates to the matters set forth in the court documents filed by the SEC in June 2010 finalizing the settlement of civil charges stemming from the investigation of the Company conducted by the Division of Enforcement of the SEC. In the second quarter 2013, the Company recorded a $30,000 pre-tax charge within selling and administrative expense related to an agreement in principle to settle this matter and an offsetting $12,755 pre-tax credit within selling and administrative expense related to the Company's insurance recovery. On November 14, 2013, the court entered an order preliminarily approving the parties' stipulated settlement agreement; however, the settlement was subject to notice to the putative class and final approval by the court. In the fourth quarter of 2013, the Company and insurance companies paid their respective settlement amounts into an escrow fund in

accordance with the terms of the settlement agreement.

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

The Company voluntarily self-reported its findings to the SEC and DOJ and cooperated with these agencies in their review. The Company was previously informed that the SEC's inquiry had been converted to a formal, non-public investigation. The Company reached an agreement with the DOJ and the SEC to the terms of a settlement of their inquiries, which terms were filed in federal court on October 22, 2013. These terms include combined payments to the U.S. government of $48,000 in disgorgement, penalties, and pre-judgment interest and the appointment of an independent compliance monitor for a minimum period of 18 months. The Company remitted the combined payments to the U.S. government in November 2013.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

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

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

	2013		2012		2011	
	High	Low	High	Low	High	Low
1st Quarter	$33.30	$27.59	$40.38	$29.21	$36.35	$30.20
2nd Quarter	33.95	28.26	42.93	35.03	37.12	29.26
3rd Quarter	35.40	27.89	38.49	31.48	33.89	24.70
4th Quarter	34.44	28.88	34.33	27.66	33.59	25.83
Full Year	35.40	27.59	42.93	27.66	37.12	24.70

There were approximately 81,435 shareholders of the Company at December 31, 2013, 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 quarterly, the annualized dividends per share were $1.15, $1.14 and $1.12 in 2013, 2012 and 2011, respectively.

Information concerning the Company's share repurchases made during the fourth quarter of 2013:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans (2)
October	—	$—	—	2,426,177
November	2,151	29.67	—	2,426,177
December	10,052	33.78	—	2,426,177
Total	12,203	$33.06	—	

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

(2) The total number of shares repurchased as part of the publicly announced share repurchase plan was 13,450,772 as of December 31, 2013. The plan was approved by the Board of Directors in April 1997. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans. The plan has no expiration date. The following table provides a summary of Board of Director approvals to repurchase the Company's outstanding common shares:

	Total Number of Shares Approved for Repurchase
1997	2,000,000
2004	2,000,000
2005	6,000,000
2007	2,000,000
2011	1,876,949

2012	2,000,000
	15,876,949

Table of Contents

PERFORMANCE GRAPH

The graph below compares the cumulative five-year total return provided to shareholders of the Company's common shares relative to the cumulative total returns of the S&P 500 index, the S&P Midcap 400 index and two customized peer groups of twenty-four companies and twenty-five companies, whose individual companies are listed in footnotes 1 and 2 below, respectively. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common shares, in each index and in each of the peer groups on December 31, 2008 and its relative performance is tracked through December 31, 2013.

(1) There are twenty-four companies included in the Company's old customized peer group which are: Actuant Corp., Benchmark Electronics Inc., Brady Corp., DTS Inc., Fidelity National Information Services, Fiserv Inc., Flowserve Corp., Global Payments Inc., Harris Corp., Imation Corp., International Game Technology, Lexmark International Inc., Logitech International SA, Mettler Toledo International Inc., NCR Corp., Outerwall Inc. (f/k/a Coinstar Inc.), Pitney-Bowes Inc., Sensata Technologies Holding NV, SPX Corp., The Brinks Company, The Timken Company, Unisys Corp., Western Union Company (The) and Woodward Inc.

(2) The twenty-five companies included in the Company's new customized peer group are: Actuant Corp., Benchmark Electronics Inc., Brady Corp., Convergys Corp., DTS Inc., Fidelity National Information Services, Fiserv Inc., Flowserve Corp., Global Payments Inc., Harris Corp., International Game Technology, Intuit Inc., Lexmark International Inc., Logitech International SA, Mettler Toledo International Inc., NCR Corp., Outerwall Inc. (f/k/a Coinstar Inc.), Pitney-Bowes Inc., Sensata Technologies Holding NV, SPX Corp., The Brinks Company, The Timken Company, Unisys Corp., Western Union Company (The) and Woodward Inc.

ITEM 6: SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in millions, except per share data)				
Results of operations					
Net sales	$2,857	$2,992	$2,836	$2,824	$2,718
Cost of sales	2,217	2,262	2,105	2,109	2,076
Gross profit	$640	$730	$731	$715	$642
Amounts attributable to Diebold, Incorporated					
(Loss) income from continuing operations, net of tax	$(182)	$77	$143	$(25)	$65
(Loss) income from discontinued operations, net of tax	—	(3)	1	1	(47)
Net (loss) income attributable to Diebold, Incorporated	$(182)	$74	$144	$(24)	$18
Basic earnings per common share:					
(Loss) income from continuing operations, net of tax	$(2.85)	$1.22	$2.23	$(0.37)	$0.99
(Loss) income from discontinued operations, net of tax	—	(0.05)	0.01	—	(0.71)
Net (loss) income attributable to Diebold, Incorporated	$(2.85)	$1.17	$2.24	$(0.37)	$0.28
Diluted earnings per common share:					
(Loss) income from continuing operations, net of tax	$(2.85)	$1.20	$2.21	$(0.37)	$0.97
(Loss) income from discontinued operations, net of tax	—	(0.05)	0.01	—	(0.70)
Net (loss) income attributable to Diebold, Incorporated	$(2.85)	$1.15	$2.22	$(0.37)	$0.27
Number of weighted-average shares outstanding					
Basic shares	64	63	64	66	66
Diluted shares	64	64	65	66	67
Dividends					
Common dividends paid	$74	$73	$73	$72	$69
Common dividends paid per share	$1.15	$1.14	$1.12	$1.08	$1.04
Consolidated balance sheet data (as of period end)					
Current assets	$1,555	$1,815	$1,732	$1,714	$1,588
Current liabilities	894	857	838	823	752

Net working capital	661	958	894	891	836
Property, plant and equipment, net	161	184	193	203	205
Total long-term liabilities	669	909	835	720	740
Total assets	2,183	2,593	2,517	2,520	2,555
Total equity	621	827	844	977	1,063

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

OVERVIEW

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

Introduction

The Company is a global leader in providing integrated services and software, financial self-service delivery and security systems to primarily the financial, commercial, retail and other markets. Founded in 1859, the Company today has approximately 16,000 employees with representation in more than 90 countries worldwide. The Company recently unveiled its multi-year turnaround strategy, Diebold 2.0, at the Investment Community Conference in November 2013. The objective of Diebold 2.0 is to transform the Company into a world-class, services-led and software enabled provider of secure, convenient and efficient solutions for its customers. The turnaround strategy will follow a “Crawl, Walk, Run” approach, which requires the core business operations to be stabilized in the “Crawl” phase and build the foundation for future growth in the “Walk” and “Run” phases. Four core pillars provide the Company a clear path toward reaching this multi-year objective:

- Reduce its cost structure and improve its near-term delivery and execution.
- Generate increased free cash flow in order to fund the investments necessary to drive profitable growth, while preserving the ability to return value to shareholders in the form of reliable dividends and, as appropriate, share repurchases.
- Attract and retain the talent necessary to drive innovation and the focused execution of the transformation strategy.
- Return the Company to a sustainable, profitable growth trajectory.

The Company sees opportunities to leverage its capabilities in services, software and innovation to meet the needs of its rapidly evolving markets. The Company has sharpened its focus on executing its core strategies in FSS and electronic security. This includes making the appropriate investments to deliver growth within these areas. In addition, the Company remains committed to a disciplined risk assessment process, focused on proactively identifying and mitigating potential risks to the Company's continued success.

(Loss) income from continuing operations attributable to Diebold, Incorporated, net of tax, for the year ended December 31, 2013 was $(181,605), or $(2.85) per share, a decrease of $258,333, or $4.05 per share from the year ended December 31, 2012. Total revenue for the year ended December 31, 2013 was $2,857,491, a decrease of $134,202 from the year ended December 31, 2012. The year ended December 31, 2013 included a $67,593 pre-tax non-cash pension charge related to the voluntary early retirement program, a $70,000 pre-tax goodwill impairment charge, $57,015 of pre-tax restructuring charges related to the Company's multi-year realignment plan, including $31,282 related to the voluntary early retirement program, $28,000 of additional pre-tax losses related to the settlement of the global FCPA investigation, a $17,245 pre-tax net charge related to settlement of the securities class action, and $9,300 of pre-tax executive severance. Additionally, a significant portion of the decline was associated with lower volume in NA resulting from the expiration of the Americans with Disabilities Act (ADA) compliance deadline in 2012. Internationally, improvement was driven by higher FSS sales in AP and EMEA combined with security sales growth in Brazil, mainly due to the GAS Tecnologia (GAS) acquisition in Brazil. These increases were partially offset by a reduction in election systems and lottery sales in Brazil as well as a decline in FSS volume for LA. Additionally, the 2013 results were significantly impacted by a higher tax rate, which is a result of tax expense related to the repatriation of previously undistributed earnings and the establishment of a valuation allowance on certain Brazil deferred tax assets.

Diebold 2.0 - Turnaround Strategy

The Company’s turnaround strategy, Diebold 2.0, is built on four core pillars: cost, cash, talent and growth. Underpinned by the four core pillars, the turnaround strategy encompasses eight specific actions to achieve top-tier performance and generate sustainable, profitable growth.

Table of Contents
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of December 31, 2013
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

Eight-Point Program:

1. Establish a Competitive Cost Structure

Reducing the Company's fixed cost envelope and driving operational rigor is fundamental. The $150,000 multi-year realignment plan launched in 2013 will drive efficiency while reducing general and administrative costs and the cost of goods sold.

2. Drive Sustainable Improvement in Cash Flow

The Company is committed to improving cash generation in order to increase shareholder value and fuel the investments necessary to grow the business. An emphasis on working capital improvements and cash generation now extends far beyond the finance organization - it is a main-stage requirement in every operation in every region.

3. Improve Sales Effectiveness

The Company's sales teams must enhance skills, tools and coverage to reach more prospects more effectively. For example, the global deployment of Salesforce.com will enhance the ability to plan, forecast and allocate resources more productively.

4. Increase Speed and Agility

Streamlining the management structure will drive greater accountability, accelerate decision-making and facilitate the transition to a truly global business. Change is being viewed as an enabler of progress and not as a disrupter.

5. Instill a Winning Culture Grounded in Execution

The message being driven to every member of the organization: The Company is not merely to participate in a market, but to succeed, and win through a culture built upon accountability and execution. As an example, the Company is taking steps to better align employee compensation with Company performance.

6. Collaborate With Customers and Partners to Drive Innovative Solutions

The Company must accelerate new ideas through teamwork with capable partners and collaboration with customers. For example, the India-originated Diebold 429 ATM solution reduced development time and costs while at the same time meeting defined market needs.

7. Further Leverage Services and Software

The Company expects the commoditization of hardware to continue, the size and importance of the software stack to increase, and our expertise in services and system integration to be a key differentiator. The objective is to further expand the percentage of sales derived from services and software, which is expected to exceed 60 percent during the transformation.

8. Generate Long-Term, Profitable Growth

The seven actions defined above are designed to put the Company on a sustainable, profitable growth trajectory. A commitment to operational rigor, improved analytics and data-driven decision-making is expected to position the Company to benefit from secular trends in outsourcing and mobility, expand its electronic security business and drive both organic and inorganic growth.

Solutions

The Company leverages its strong base of maintenance and advanced services to deliver comprehensive outsourcing and managed services. Banks are continuously being challenged to reduce costs while increasing operational efficiencies. Through outsourced services, banks entrust the management of their ATM and security operations to the Company, allowing their staffs to focus on core competencies. Furthermore, the Company's outsourcing and managed services offering provides banks and credit unions with the leading-edge technology they need to stay competitive in the marketplace. As a leader in outsourcing services, the Company is poised to capitalize on the secular outsourcing trends in the marketplace. Several years ago, the Company launched its outsourcing and managed services business in North America and has grown this business from $5,000 to over $200,000 in annual revenue with over 22,500 units under contract.

Another demand driver in the global ATM marketplace is branch transformation. The concept of branch transformation is to help financial institutions reduce their costs by migrating routine transactions, typically done inside the branch, to lower-cost automated channels, including the ATM. One area of branch transformation that continues to gain traction is deposit automation. Among the largest U.S. national banks, there has been extensive deployment of deposit automation-enabled terminals. Today, approximately 25 percent of ATMs globally are configured for automated deposits.

Another solution the Company offers as part of its branch transformation efforts is Concierge Video Services™, most recently launched in North America. The solution provides consumers with on-demand access to bank call center representatives right at the ATM for sales or bank account maintenance support. In addition to delivering a personal touch outside of regular business hours, Concierge Video Services™ ultimately assists financial institutions by maximizing operational efficiencies, improving the consumer experience and enhancing the overall consumer relationship.

Mobile integration is another emerging trend in the FSS space, as consumers look for multiple ways to interact with their financial institutions. In July 2013, Diebold introduced its cardless Mobile Cash Access solution, which allows consumers to stage a transaction with their mobile device and complete it at the ATM without the need for a card. This capability provides consumers with a more convenient and secure option, while giving financial institutions the opportunity to offer their own branded mobile wallet solution.

In its security business, the Company has another opportunity for a successful outsourcing and managed services approach. Security challenges and the systems to address them have grown increasingly complex. That has created a strong business case among financial institutions and commercial customers for outsourcing and managed service solutions, particularly in the areas of monitoring, services and software management. Today, the Company is bringing its expertise back into the financial sector and pursuing other areas, namely the commercial market, with a focused effort to secure large, complex and technologically demanding projects. The Company has customer-focused teams that possess high levels of logical and enterprise security expertise that are required in this business. The Company is also leveraging best practices and some of the best talent to continue building upon its security outsourcing and manged services business.

As it relates to security, the Company recently introduced a new online security management tool in in North America, called SecureStat®, that streamlines how customers manage their security operations. At the core of the solution is a personalized dashboard that utilizes customizable, distinct widgets to provide a snapshot of a user's entire security platform, including locations, security systems and devices. In addition, SecureStat® can unify security services and disparate systems, while providing a single interface for real-time administration of security operations across an enterprise. SecureStat® is a great example of the software-driven platforms the Company is investing in to strengthen its services offering and differentiate itself in the marketplace.

Moving forward, the Company intends to create shareholder value by leveraging the opportunities it sees within the area of branch transformation, growing its services, outsourcing and software capabilities, further building out its electronic security business and taking advantage of key secular trends around the world. Many opportunities lie ahead, and the Company will continue to invest in developing new services, software and security solutions that align with the needs of its core markets.

Multi-Year Realignment Plan

The Company is committed to its previously announced multi-year realignment plan aimed at establishing a competitive cost structure throughout the organization. The Company has currently identified targeted savings of $150,000 that are expected to be fully realized by the end of 2015 and is working to accelerate the cost savings efforts beyond this target longer-term. The Company expects to reinvest a portion of the savings to drive long-term growth. Areas of reinvestment include: research and development of innovative new customer solutions; improving and updating the Company's information technology systems and infrastructure; transforming the general and administrative back-office functions; and strengthening sales coverage, processes and tools. In addition, some of the savings should offset price erosion, wage inflation in emerging markets and volatile commodity prices in the Company’s core business. Given these factors, the Company anticipates that approximately 50 percent of the savings will positively impact operating profit. In addition to the cost savings impact, the plan will enhance its competitive position by focusing on globalizing the Company's service organization, creating a unified center-led global organization for research and development as well as transform the Company's general and administrative cost structure. Restructuring charges associated with the multi-year realignment plan were $57,015 and $15,241 for 2013 and 2012, respectively.

Segment Reporting

In the fourth quarter of 2013, the Company began managing its business on a regional geographic basis, changing from the previous model, which was a more condensed geographic basis. In order to align the Company's external reporting of its financial results with this change, the Company has modified its segment reporting. The Company now reports the following five segments: NA, AP, EMEA, LA and Brazil.

Business Drivers

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

• timing of self-service equipment upgrades and/or replacement cycles, including deposit automation in mature markets such as the United States;
• demand for products and solutions related to bank branch transformation opportunities;
• demand for services, including outsourcing and managed services;
• demand for security products and services for the financial and commercial sectors; and
• high levels of deployment growth for new self-service products in emerging markets, such as AP.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS as of December 31, 2013
DIEBOLD, INCORPORATED AND SUBSIDIARIES
(unaudited)
(dollars in thousands, except per share amounts)

The table below presents the changes in comparative financial data for the years ended December 31, 2013, 2012 and 2011. Comments on significant year-to-year fluctuations follow the table. The following discussion should be read in conjunction with the consolidated financial statements and the accompanying notes that appear elsewhere in this annual report on Form 10-K.

	Year ended December 31,							
	2013			2012			2011	
		% of Net Sales	% Change		% of Net Sales	% Change		% of Net Sales
Net sales								
Services	$1,637,056	57.3	0.6	$1,626,521	54.4	4.8	$1,552,358	54.7
Products	1,220,435	42.7	(10.6)	1,365,172	45.6	6.4	1,283,490	45.3
	2,857,491	100.0	(4.5)	2,991,693	100.0	5.5	2,835,848	100.0
Cost of sales								
Services	1,222,675	42.8	0.6	1,215,673	40.6	6.8	1,138,213	40.1
Products	994,460	34.8	(5.0)	1,046,400	35.0	8.2	967,161	34.1
	2,217,135	77.6	(2.0)	2,262,073	75.6	7.4	2,105,374	74.2
Gross profit	640,356	22.4	(12.2)	729,620	24.4	(0.1)	730,474	25.8
Selling and administrative expense	596,694	20.9	13.1	527,729	17.6	4.6	504,436	17.8
Research, development and engineering expense	92,315	3.2	7.5	85,881	2.9	10.0	78,108	2.8
Impairment of assets	72,017	2.5	356.3	15,783	0.5	432.8	2,962	0.1
Gain on sale of assets, net	(2,410)	(0.1)	100.5	(1,202)	—	(37.4)	(1,921)	(0.1)
	758,616	26.5	20.8	628,191	21.0	7.6	583,585	20.6
Operating (loss) profit	(118,260)	(4.1)	(216.6)	101,429	3.4	(30.9)	146,889	5.2
Other (expense) income, net	(1,547)	(0.1)	(116.3)	9,466	0.3	(21.4)	12,048	0.4
(Loss) income from continuing operations before taxes	(119,807)	(4.2)	(208.0)	110,895	3.7	(30.2)	158,937	5.6
Income tax expense	56,715	2.0	100.9	28,225	0.9	251.6	8,028	0.3
(Loss) income from continuing operations	(176,522)	(6.2)	(313.5)	82,670	2.8	(45.2)		