

DIEBOLD INC
Form 10-Q/A
August 12, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form 10-Q/A
(Amendment No. 1)**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2005
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-4879
Diebold, Incorporated
(Exact name of registrant as specified in its charter)

Ohio 34-0183970

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

5995 Mayfair Road, PO Box 3077, North Canton, Ohio 44720-8077

(Address of principal executive offices) (Zip Code)

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

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

Yes No

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

| Class | Outstanding at April 29, 2005 |
|--------------------------------|-------------------------------|
| Common Shares \$1.25 Par Value | 71,373,635 Shares |

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EXPLANATORY NOTE**(Dollars in thousands)**

This amendment No. 1 to the Diebold, Incorporated Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 (the Form 10-Q/A) includes unaudited restated condensed consolidated financial statements as of March 31, 2005 and for the three months ended March 31, 2005, and a restated condensed consolidated balance sheet as of December 31, 2004. The accompanying restated condensed consolidated financial statements, including the notes thereto, have been revised to reflect restatement adjustments.

The following table summarizes the restatement effects on the company's condensed consolidated balance sheets and condensed consolidated statements of income as of and for the first quarter ended March 31, 2005 and 2004.

| | March 31, 2005 | December 31, 2004 |
|--|----------------------------|------------------------------|
| | Increase/(Decrease) | Increase/(Decrease) |
| Effect on Consolidated Balance Sheets | | |
| Other current liabilities | \$ 10,301 | \$ 11,567 |
| Retained earnings | (10,301) | (11,567) |
| | | |
| | March 31, 2005 | March 31, 2004 |
| | Increase/(Decrease) | Increase/(Decrease) |
| Effect on Consolidated Statements of Income | | |
| Service cost of sales | \$ (50) | \$ 148 |
| Gross profit | 50 | (148) |
| Selling and administrative expense | (1,739) | (73) |
| Operating profit | 1,789 | (75) |
| Income before taxes | 1,789 | (75) |
| Taxes on income | 523 | (28) |
| Net income | 1,266 | (47) |
| | | |
| Earnings per share: | | |
| Basic | \$ 0.02 | \$ |
| Diluted | \$ 0.01 | \$ |

The restatement had no effect on net cash provided by operating activities as the change in net income for the three months ended March 31, 2005 and 2004 was offset entirely by the change in certain other assets and liabilities for the same period.

Refer to Note 1(a), *Restatement*, to the Condensed Consolidated Financial Statements contained in this Form 10-Q/A for further information on the restatement impact for the three months ended March 31, 2005. Refer also to Note 1(a), *Restatement*, to the Consolidated Financial Statements contained in the company's Form 10-K/A filed with the SEC on August 12, 2005 for additional discussion on the nature of the restatement adjustments.

This Form 10-Q/A amends and restates in their entirety Items 1, 2 and 4 of Part I of the original Form 10-Q filed with the SEC on May 5, 2005, and no other information included in the original 10-Q is amended hereby.

All referenced amounts in this Form 10-Q/A for prior periods and prior period comparisons reflect the balances and amounts on a restated basis, as applicable.

This Form 10-Q/A has not been updated for changes in events, estimates or other developments subsequent to May 5, 2005, the date of the original filing of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005. For a discussion of subsequent events and developments as well as revisions to prior estimates, please refer to the company's current filings with the Securities and Exchange Commission subsequent to May 5, 2005.

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PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

| | (Unaudited) March 31, 2005 | Restated December 31, 2004 |
|--|-----------------------------------|----------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 153,396 | \$ 184,045 |
| Short-term investments | 26,605 | 31,654 |
| Trade receivables, less allowances of \$9,506 and \$10,176, respectively | 537,763 | 583,658 |
| Inventories | 341,236 | 322,293 |
| Prepaid expenses | 25,504 | 22,892 |
| Other current assets | 92,607 | 90,090 |
| Total current assets | 1,177,111 | 1,234,632 |
| Securities and other investments | 50,016 | 52,248 |
| Property, plant and equipment, at cost | 630,813 | 614,114 |
| Less accumulated depreciation and amortization | 354,675 | 346,024 |
| | 276,138 | 268,090 |
| Goodwill | 405,146 | 412,625 |
| Other assets | 173,489 | 167,957 |
| | \$2,081,900 | \$2,135,552 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities | | |
| Notes payable | \$ 212,097 | \$ 289,510 |
| Accounts payable | 109,675 | 140,324 |
| Deferred income | 187,758 | 92,862 |
| Other current liabilities | 173,710 | 217,494 |
| Total current liabilities | 683,240 | 740,190 |
| Long-term liabilities | 148,546 | 146,454 |
| Shareholders' equity | | |
| Preferred Shares, no par value, authorized 1,000,000 shares, none issued | | |
| Common shares, par value \$1.25, authorized 125,000,000 shares; issued 74,442,671 and 74,233,384 shares, respectively outstanding 71,725,081 and | 93,053 | 92,792 |

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| | | |
|---|-------------|-------------|
| 71,592,293 shares, respectively | | |
| Additional capital | 188,304 | 179,259 |
| Retained earnings | 1,114,736 | 1,101,492 |
| Treasury shares, at cost (2,717,590 and 2,641,091 shares, respectively) | (117,397) | (113,687) |
| Accumulated other comprehensive loss | (28,159) | (10,738) |
| Other | (423) | (210) |
| Total shareholders' equity | 1,250,114 | 1,248,908 |
| | \$2,081,900 | \$2,135,552 |

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

| | Restated | |
|---|---------------------------|-------------|
| | Three Months Ended | |
| | March 31, | |
| | 2005 | 2004 |
| Net Sales | | |
| Products | \$238,756 | \$219,592 |
| Services | 301,478 | 278,663 |
| | 540,234 | 498,255 |
| Cost of sales | | |
| Products | 169,711 | 148,296 |
| Services | 230,072 | 210,080 |
| | 399,783 | 358,376 |
| Gross Profit | 140,451 | 139,879 |
| Selling and administrative expense | 83,091 | 80,586 |
| Research, development and engineering expense | 14,624 | 15,538 |
| | 97,715 | 96,124 |
| Operating Profit | 42,736 | 43,755 |
| Other income (expense) | | |
| Investment income | 2,715 | 2,719 |
| Interest expense | (2,752) | (2,001) |
| Miscellaneous, net | (259) | (100) |
| Minority interest | (956) | (1,552) |
| Income before taxes | 41,484 | 42,821 |
| Taxes on income | 13,543 | 13,699 |
| Net income | \$ 27,941 | \$ 29,122 |
| Basic weighted-average shares outstanding | 71,661 | 72,777 |
| Diluted weighted-average shares outstanding | 72,246 | 73,371 |

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| | | |
|----------------------------|---------|---------|
| Basic earnings per share | \$ 0.39 | \$ 0.40 |
| Diluted earnings per share | \$ 0.38 | \$ 0.40 |

| | | |
|--------------------------------------|----------|----------|
| Cash dividends paid per common share | \$ 0.205 | \$ 0.185 |
|--------------------------------------|----------|----------|

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | (restated) | |
| | 2005 | 2004 |
| Cash flow from operating activities: | | |
| Net income | \$ 27,941 | \$ 29,122 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Minority share of income | 956 | 1,552 |
| Depreciation and amortization | 19,897 | 18,903 |
| Deferred income taxes | 6,289 | 547 |
| Loss on sale of assets, net | 175 | 24 |
| Cash (used) provided by changes in certain assets and liabilities: | | |
| Trade receivables | 43,182 | (1,208) |
| Inventories | (20,846) | (30,346) |
| Prepaid expenses | (2,775) | (3,473) |
| Other current assets | (10,966) | (10,371) |
| Accounts payable | (29,659) | (18,560) |
| Certain other assets and liabilities | 44,236 | 29,864 |
| Net cash provided by operating activities | 78,430 | 16,054 |
| Cash flow from investing activities: | | |
| Payments for acquisitions, net of cash acquired | | (979) |
| Proceeds from maturities of investments | 12,717 | 816 |
| Payments for purchases of investments | (6,229) | (4,089) |
| Capital expenditures | (13,712) | (12,785) |
| Rotable spares expenditures | (6,322) | (4,506) |
| Increase in certain other assets | (8,426) | (6,617) |
| Net cash used by investing activities | (21,972) | (28,160) |
| Cash flow from financing activities: | | |
| Dividends paid | (14,697) | (13,473) |
| Notes payable borrowings | 257,027 | 167,504 |
| Notes payable repayments | (328,823) | (151,465) |
| Distribution of affiliate's earnings to minority interest holder | (251) | (498) |
| Issuance of common shares | 2,209 | 3,358 |
| Repurchase of common shares | | (16,488) |
| Net cash used by financing activities | (84,535) | (11,062) |
| Effect of exchange rate changes on cash | (2,572) | (169) |

| | | |
|--|------------|------------|
| Decrease in cash and cash equivalents | (30,649) | (23,337) |
| Cash and cash equivalents at the beginning of the period | 184,045 | 169,951 |
| Cash and cash equivalents at the end of the period | \$ 153,396 | \$ 146,614 |

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except per share amounts)

1(a). RESTATEMENT

The condensed consolidated financial statements have been restated in order to reflect certain adjustments to the company's financial statements previously reported on Form 10-Q for the quarterly period ended March 31, 2005 related to a reconciliation issue in its North America sales commission accrual account. Refer to Note 1(a) to the Consolidated Financial Statements contained in the company's Annual Report on Form 10-K/A for the year ended December 31, 2004 filed with the SEC on August 12, 2005 for further discussion of this restatement including the adjustments recorded in annual and quarterly periods other than the first quarter of 2005.

The effects of restatement on the company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Income as of and for the first quarter in the years 2005 and 2004 follow:

| | (Unaudited) | | | |
|---|------------------------------------|----------------|------------------------------|----------------|
| | March 31, 2005 | | December 31, 2004 | |
| | As previously reported | As restated | As previously reported | As restated |
| Condensed Consolidated Balance Sheets | | | | |
| Other current liabilities | 163,409 | 173,710 | \$ 205,927 | \$ 217,494 |
| Total current liabilities | 672,939 | 683,240 | 728,623 | 740,190 |
| Retained earnings | 1,125,037 | 1,114,736 | 1,113,059 | 1,101,492 |
| Total shareholders' equity | 1,260,415 | 1,250,114 | 1,260,475 | 1,248,908 |
| | Three-month period ended March 31, | | | |
| | 2005 | | 2004 | |
| | As previously reported | As restated | As previously reported | As restated |
| Condensed Consolidated Income Statements (Unaudited) | | | | |
| Cost of sales - service | \$ 230,122 | \$ 230,072 | \$ 209,932 | \$ 210,080 |
| Total cost of sales | 399,833 | 399,783 | 358,228 | 358,376 |
| Gross profit | 140,401 | 140,451 | 140,027 | 139,879 |
| Selling and administrative expense | 84,830 | 83,091 | 80,659 | 80,586 |
| Total operating expenses | 99,454 | 97,715 | 96,197 | 96,124 |
| Operating profit | 40,947 | 42,736 | 43,830 | 43,755 |
| Income before taxes | 39,695 | 41,484 | 42,896 | 42,821 |
| Taxes on income | 13,020 | 13,543 | 13,727 | 13,699 |
| Net income | 26,675 | 27,941 | 29,169 | 29,122 |
| Basic earnings per share | \$ 0.37 | \$ 0.39 | \$ 0.40 | \$ 0.40 |
| Diluted earnings per share | \$ 0.37 | \$ 0.38 | \$ 0.40 | \$ 0.40 |

The restatement had no effect on net cash provided by operating activities as the change in net income for the three months ended March 31, 2005 and 2004 was offset entirely by the change in certain other assets and liabilities for the same period.

Management has determined that a control deficiency related to the reconciliation of the North America sales commission accrual account giving rise to the restatement constituted a material weakness in our internal control over financial reporting. The company has taken steps to fully remediate that weakness as of the date of this report. See Item 4 - Controls and Procedures.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(In thousands, except per share amounts)

1. CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with United States generally accepted accounting principles; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto together with management's discussion and analysis of financial condition and results of operations contained in the company's Annual Report on Form 10-K/A for the year ended December 31, 2004 filed with the SEC on August 12, 2005.

In addition, some of the company's statements in this Form 10-Q report may be considered forward-looking and involve risks and uncertainties that could significantly impact expected results. A discussion of these risks and uncertainties is contained in management's discussion and analysis of financial condition and results of operations in this Form 10-Q. The results of operations for the three-month period ended March 31, 2005 are not necessarily indicative of results to be expected for the full year.

The company has reclassified the presentation of the cash flow statement for the three months ended March 31, 2004 to conform to the current-year presentation.

2. STOCK OPTION PLANS

Under the 1991 Equity and Performance Incentive Plan, as amended and restated (1991 Plan), the company has granted stock options which are outstanding as of March 31, 2005. The company applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, in accounting for stock options granted under the 1991 Plan. No stock-based compensation cost is reflected in net income, as all options granted under the 1991 Plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. The fair value of each option grant was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions for 2005 and 2004, respectively: risk-free interest rate of 3.6 and 3.0 percent; dividend yield of 1.4 and 1.6 percent; volatility of 30 and 39 percent; and average expected lives of six years for options granted to management and four years for options granted to executive management and nonemployee directors.

| | Restated Three Months Ended March 31, | |
|--|---|----------|
| | 2005 | 2004 |
| Net income, as reported | \$27,941 | \$29,122 |
| Deduct: Total stock-based employee compensation expense determined under fair value method, net of tax | (1,186) | (1,110) |
| Net income, pro forma | \$26,755 | \$28,012 |

Earnings per share:

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| | | | |
|---------|-------------|---------|---------|
| Basic | as reported | \$ 0.39 | \$ 0.40 |
| Basic | pro forma | \$ 0.37 | \$ 0.38 |
| Diluted | as reported | \$ 0.38 | \$ 0.40 |
| Diluted | pro forma | \$ 0.37 | \$ 0.38 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(In thousands, except per share amounts)

3. EARNINGS PER SHARE

The basic and diluted earnings per share computations in the condensed consolidated statements of income are based on the weighted-average number of shares outstanding during each period reported. The following data shows the amounts used in computing earnings per share and the effect on the weighted-average number of shares of potentially dilutive common stock.

| | Restated Three Months Ended March 31, | |
|--|---|----------|
| | 2005 | 2004 |
| Numerator: | | |
| Income used in basic and diluted earnings per share | \$27,941 | \$29,122 |
| Denominator: | | |
| Basic weighted-average shares | 71,661 | 72,777 |
| Effect of dilutive fixed stock options | 585 | 594 |
| Diluted weighted-average shares | 72,246 | 73,371 |
| Basic earnings per share | \$ 0.39 | \$ 0.40 |
| Diluted earnings per share | \$ 0.38 | \$ 0.40 |
| Anti-dilutive shares not used in calculating diluted weighted-average shares | 208 | 229 |

4. INVENTORIES

Domestic inventories are valued at the lower of cost or market applied on a first-in, first-out (FIFO) basis, and international inventories are valued using the average cost method, which approximates FIFO. At each reporting period, the company regularly identifies and writes down its excess or obsolete inventory to its net realizable value based on forecasted usage, orders and inventory aging. With the development of new products, the company also rationalizes its product offerings and will write down discontinued product to the lower of cost or net realizable value. Major classes of inventories are summarized as follows:

| | March 31, 2005 | December 31, 2004 |
|-----------------|-------------------|----------------------|
| Finished goods | \$ 115,744 | \$ 92,806 |
| Spare parts | 74,264 | 77,715 |
| Work in process | 119,763 | 123,156 |
| Raw materials | 31,465 | 28,616 |
| Total inventory | \$ 341,236 | \$ 322,293 |

5. OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive loss is reported separately from retained earnings and additional capital in the condensed consolidated balance sheets. Items considered to be other comprehensive loss include adjustments made for foreign currency translation (under SFAS No. 52) and pensions (under SFAS No. 87). Components of other accumulated comprehensive loss consist of the following:

| | March 31, 2005 | December 31, 2004 |
|---|-------------------|----------------------|
| Translation adjustment | \$(20,204) | \$ (2,783) |
| Pensions, less accumulated taxes of \$(3,541) for 2005 and 2004 | (7,955) | (7,955) |
| Total accumulated other comprehensive loss | \$(28,159) | \$(10,738) |

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FORM 10-Q/A****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(In thousands, except per share amounts)****5. OTHER COMPREHENSIVE INCOME (LOSS) (continued)**

Components of comprehensive income consist of the following for the three months ended March 31:

| | Restated 2005 | Restated 2004 |
|-----------------------------|------------------|------------------|
| Net income | \$ 27,941 | \$29,122 |
| Other comprehensive income: | | |
| Translation adjustment | (17,421) | (6,532) |
| Comprehensive income | \$ 10,520 | \$22,520 |

6. BENEFIT PLANS

The company has several pension plans covering substantially all United States employees. Plans covering salaried employees provide pension benefits that are based on the employee's compensation during the 10 years before retirement. The company's funding policy for salaried plans is to contribute annually if required at an actuarially determined rate. Plans covering hourly employees and union members generally provide benefits of stated amounts for each year of service. The company's funding policy for hourly plans is to make at least the minimum annual contributions required by applicable regulations. Employees of the company's operations in countries outside of the United States participate to varying degrees in local pension plans, which in the aggregate are not significant. In addition to providing pension benefits, the company provides healthcare benefits (referred to as Other Benefits) for certain retired employees. Eligible employees may be entitled to these benefits based upon years of service with the company, age at retirement and collective bargaining agreements. Currently, the company has made no commitments to increase these benefits for existing retirees or for employees who may become eligible for these benefits in the future. As of September 30, 2004, the company eliminated life insurance coverage for its retirees. Currently, there are no plan assets and the company funds the benefits as the claims are paid.

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|-------------|-----------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Components of Net Periodic Benefit Cost | | | | |
| Three months ended March 31 | | | | |
| Service cost | \$ 3,099 | \$ 2,977 | \$ 1 | \$ 19 |
| Interest cost | 5,570 | 5,300 | 313 | 389 |
| Expected return on plan assets | (7,239) | (7,271) | | |
| Amortization of prior service cost | 280 | 303 | (153) | (73) |
| Amortization of initial transition asset | (164) | (374) | | |
| Recognized net actuarial loss (gain) | 584 | 231 | 132 | 115 |
| Net periodic pension benefit cost | \$ 2,130 | \$ 1,166 | \$ 293 | \$450 |

Employer Contributions

Previously, the company disclosed in its financial statements for the year ended December 31, 2004 that it expected to contribute \$1,880 to its pension plans and \$3,018 to its other postretirement benefit plan in 2005. There have been no

significant changes to the 2005 contribution amounts previously disclosed. As of March 31, 2005, no contributions have been made.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(In thousands, except per share amounts)

7. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Also, SFAS No. 123(R) provides significant additional guidance regarding the valuation of employee stock options. While SFAS No. 123(R) does not require the use of a specific option-pricing model; it does indicate that lattice models usually will provide a better estimate of fair value of an employee stock option. The company currently prepares the pro forma disclosures required under SFAS No. 123 using the Black-Scholes option-pricing model. On April 14, 2005, the U.S. Securities and Exchange Commission announced a deferral of the effective date of FAS 123(R) for calendar year companies until the beginning of 2006, however, early adoption is permitted. The company has not decided whether it will implement this standard early or wait until January 1, 2006.

As permitted by SFAS No. 123, the company currently accounts for share-based payments to employees using the APB Opinion No. 25 intrinsic-value method and, as such, generally recognizes no compensation cost for employee stock options because options granted equal fair market value on date of grant. Accordingly, the adoption of the SFAS No. 123(R) fair value method will affect the company's results of operations. The impact of adoption of SFAS No. 123(R) on future net income and earnings per share has not yet been determined. However, had the company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 2. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current accounting guidance. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

8. SEGMENT INFORMATION

The company's segments are comprised of its three main sales channels: Diebold North America (DNA), Diebold International (DI) and Election Systems (ES). These sales channels are evaluated based on revenue from customers and operating profit contribution to the total corporation. The reconciliation between segment information and the Condensed Consolidated Financial Statements is disclosed. Revenue summaries by geographic area and product and service solutions are also disclosed. All income and expense items below operating profit are not allocated to the segments and are not disclosed.

The DNA segment sells and services financial and retail systems in the United States and Canada. The DI segment sells and services financial and retail systems over the remainder of the globe. The ES segment includes the operating results of Diebold Election Systems, Inc. and the voting-related business in Brazil. Each of the sales channels buys the goods it sells from the company's manufacturing plants through intercompany sales that are eliminated in consolidation, and intersegment revenue is not significant. Each year, intercompany pricing is agreed upon, which drives sales channel operating profit contribution. As permitted under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, certain information not routinely used in the management of these segments, information not allocated back to the segments or information that is impractical to report is not shown. Items not allocated are as follows: interest income, interest expense, equity in the net income of investees accounted for by the equity method, income tax expense or benefit, and other non-current assets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(In thousands, except per share amounts)

8. SEGMENT INFORMATION (continued)

| | DNA | DI | ES | Total |
|--|-----------|-----------|----------|-----------|
| Segment Information by Channel as of and for the quarter ended March 31, 2005 | | | | |
| Customer Revenue | \$341,577 | \$192,801 | \$ 5,856 | \$540,234 |
| Operating profit/(loss) (restated) | 48,465 | (1,897) | (3,832) | 42,736 |
| Capital and rotatable expenditures | 11,122 | 8,523 | 389 | 20,034 |
| Depreciation | 7,936 | 4,902 | 348 | 13,186 |
| Property, plant and equipment, at cost | 435,842 | 190,893 | 4,078 | 630,813 |

Segment Information by Channel as of and for the quarter ended March 31, 2004

| | | | | |
|--|-----------|-----------|----------|-----------|
| Customer Revenue | \$305,327 | \$178,055 | \$14,873 | \$498,255 |
| Operating profit/(loss) (restated) | 39,528 | 8,355 | (4,128) | 43,755 |
| Capital and rotatable expenditures | 12,110 | 5,049 | 132 | 17,291 |
| Depreciation | 7,642 | 5,545 | 202 | 13,389 |
| Property, plant and equipment, at cost | 399,937 | 159,455 | 3,824 | 563,216 |

Revenue Summary by Geographic Area

| | For the quarter ended March 31: | |
|----------------------------------|---------------------------------|-----------|
| | 2005 | 2004 |
| The Americas: | | |
| Financial self-service solutions | \$286,065 | \$258,156 |
| Security solutions | 139,538 | 115,685 |
| Election systems | 5,856 | 14,873 |
| | 431,459 | 388,714 |
| Asia-Pacific: | | |
| Financial self-service solutions | 41,379 | 35,839 |
| Security solutions | 6,337 | 5,940 |
| | 47,716 | 41,779 |
| Europe, Middle East and Africa: | | |
| Financial self-service solutions | 61,059 | 67,762 |
| Security solutions | | |
| | 61,059 | 67,762 |

| | | |
|---------------|-----------|-----------|
| Total Revenue | \$540,234 | \$498,255 |
|---------------|-----------|-----------|

Revenue Summary by Products and Services

| | For the quarter ended March 31: | |
|---|---------------------------------|-----------|
| | 2005 | 2004 |
| Financial self-service: | | |
| Products | \$173,347 | \$154,262 |
| Services | 215,156 | 207,495 |
| Total financial self-service | 388,503 | 361,757 |
| Security: | | |
| Products | 62,535 | 57,415 |
| Services | 83,340 | 64,210 |
| Total security | 145,875 | 121,625 |
| Total financial self-service & security | 534,378 | 483,382 |
| Election systems | 5,856 | 14,873 |
| Total Revenue | \$540,234 | \$498,255 |

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FORM 10-Q/A****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(In thousands, except per share amounts)****9. GUARANTEES AND PRODUCT WARRANTIES**

The company has applied the provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*, to its agreements that contain guarantees or indemnification clauses. These requirements expand those required by FASB Statement No. 5, *Accounting for Contingencies*, by requiring a guarantor to disclose certain types of guarantees and recognize liabilities in certain instances, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of arrangements in effect as of March 31, 2005 in which the company is the guarantor.

In connection with the construction of two of its manufacturing facilities, the company guaranteed repayment of principal and interest on a total of \$13,300 variable rate industrial development revenue bonds by obtaining letters of credit. The bonds were issued with a 20-year original term and are scheduled to mature in 2017. Any default, as defined in the agreements, would obligate the company for the full amount of the outstanding bonds through maturity. At March 31, 2005, the carrying value of the liability was \$13,300 and is included in long-term liabilities.

The company provides its global operations guarantees and standby letters of credit through various financial institutions to suppliers, regulatory agencies and insurance providers. If the company is not able to make payment, the suppliers, regulatory agencies and insurance providers may draw on the pertinent bank. As of March 31, 2005, the maximum future payment obligations relative to these various guarantees totaled \$39,719, of which \$18,541 represented standby letters of credit to insurance providers, and no associated liability was recorded.

The company provides its customers a standard manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. Changes in the company's warranty liability balance are illustrated in the following table:

| | 2005 | 2004 |
|----------------------------|----------|----------|
| Balance at January 1 | \$14,410 | \$12,096 |
| Current period accruals | 2,831 | 1,565 |
| Current period settlements | (3,364) | (3,117) |
| Balance at March 31 | \$13,877 | \$10,544 |

10. RESTRUCTURING CHARGES

During the first quarter of 2005, the company entered into a restructuring plan for its manufacturing and service operations, primarily in Western Europe, to remove its excess capacity. Total pretax costs to be incurred in the plan are anticipated to be in the range of \$9,000 to \$12,000, of which \$7,300 (\$4,906 after tax or \$0.07 per diluted share) was expensed for the period ended March 31, 2005 resulting in an accrual of \$5,400 as of March 31, 2005. The restructuring charges were incurred as follows: \$6,800 against product cost of sales; \$400 against service cost of sales and \$100 against general and administrative costs. These restructuring charges were incurred in the following segments: \$6,900 within DI and \$400 within DNA.

The actions taken occurred during the first quarter of 2005 with the associated expenses expected to be incurred through December of 2005. The charge was comprised primarily of severance and other employee costs associated with staff reductions. Staff reductions resulted in 90 involuntary employee terminations.

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11. SUBSEQUENT EVENTS

On April 27, 2005, the company amended its credit facility with JPMorgan Chase Bank, N.A. The credit facility borrowing limit remains the same at \$200,000 and 150,000 euros (\$193,088). However, the company was given the ability to add additional borrowing capacity to the facility of \$150,000 if the company chooses to do so. The term of the amendment was increased from one year to five years expiring on April 27, 2010. All covenants remain the same. On May 2, 2005, the company announced the acquisition of TASC Security. TASC Security is a global leader in electronic security solutions headquartered in London, England with regional offices in Amsterdam, Netherlands; Tokyo, Japan; San Francisco, USA; Dublin, Ireland; Leeds, England; and Melbourne and Sydney, Australia; along with a network of offices in Europe, the Middle East, Africa and Asia Pacific. TASC Security was purchased for approximately \$29,000, including the payoff of certain debt arrangements, and will be integrated within the company's Electronic Security and Currency Systems Group.

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OVERVIEW

Over 145 years ago, Diebold went into the business of making strong, reliable safes. Diebold, Incorporated has a long tradition of safeguarding assets and protecting investments. Today, the company is a global leader in providing integrated self-service delivery systems, security and services to customers within the financial, government, education and retail sectors. In 2003, the company introduced Opteva, a new ATM line within the financial self-service market that provides a higher level of security, convenience and reliability. The new line is powered by Agilis, which is a software platform for financial self-service equipment that was developed by the company in 2002. The combination of Opteva and Agilis provides the ability for financial institutions to customize solutions to meet their consumers' demands and positively affect equipment performance, while providing a safer ATM. The Agilis software platform gives customers the ability to run the same software across their entire network, which helps contain costs and improve financial self-service equipment availability. The new award-winning generation of financial self-service solutions was developed to deter or discourage ATM fraud. Security features were engineered into the design, including consumer awareness mirrors to discourage shoulder surfing and provide consumers with increased security during ATM transactions. Opteva also includes PIN-pad positioning that helps maintain consumer security, a recessed fascia design, card reader technology with a jitter mechanism, an optional ink-dye system and an envelope depository that is designed to resist trapping. The company's software includes the industry's most advanced ATM protection against viruses, worms and other cyber security threats. Diebold is at the forefront in protecting ATMs from threats even before patches are developed and made available. The company established its own Global Security Task Force to collect, analyze, clarify and disseminate news and information about ATM fraud and security. The group includes associates from various departments around the world. These associates work to reduce fraud and to improve security for the industry.

As a result of the company's continued focus to remain a leader in technology, service and security, significant growth in product revenue was attributable to favorable reaction by the financial sector to this new generation of financial self-service solutions. In addition to the advances in the company's product line, the company also made a couple of strategic domestic acquisitions during 2004, which increased its presence in the security market.

The election systems business continues to be a challenge for the company, as lower revenue and the settlement of the civil action in California with the state of California and Alameda County in 2004 had a significant negative impact on margin and earnings per share. The company continues to face a variety of challenges and opportunities in responding to customer needs within the election systems market. A number of individuals and groups have raised challenges in the media and elsewhere, including legal challenges, about the reliability and security of the company's election systems products and services. The parties making these challenges oppose the use of technology in the electoral process generally and, specifically, have filed lawsuits and taken other actions to publicize what they view as significant flaws in the company's election management software and firmware. These efforts have adversely affected some of the company's customer relations with its election systems customers. Also, the election systems market continues to evolve. Funding is being provided by the federal government and utilized by the states; however, the guidelines and rules governing the election software and hardware have not yet been fully established. As a result, various states and industry experts are interpreting the election requirements differently. Recent changes in the laws under which election-related products must be certified by a number of states have lengthened the certification process and, in some cases, required changes to the company's products. For example, some states are requiring paper receipt printers.

As a result of these challenges, and because 2004 was a presidential election year, the company believes that prospective purchases of voting equipment and services by certain government entities were delayed in 2004. Those

entities did not want to introduce a new voting solution in a presidential election year and also wanted to see how successful electronic voting was in states that had already implemented the technology. The delay in orders resulted in higher inventory levels of approximately \$32 million and lower voting sales in the range of approximately \$65 million to \$75 million in 2004. As a result of the positive performance of the company's voting equipment, the positive performance of electronic voting

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systems, in the past presidential election, and the Help America Vote Act (HAVA) requirement that jurisdictions must have HAVA-compliant equipment installed by January 1, 2006, the company expects to recover a significant portion of the delayed sales in 2005, as well as participate in new jurisdiction decisions to purchase voting equipment in 2005, although the delay in orders continued in the first quarter of 2005. Despite these expectations for 2005, future delays or increases in the costs of providing products and services may be encountered as a result of possible future challenges, changes in the laws and changes to product specifications, any of which may adversely affect the company's election systems sales.

The company intends the discussion of its financial condition and results of operations that follows to provide information that will assist in understanding the financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect the financial statements.

The business drivers of the company's future performance include several factors that include, but are not limited to:

- timing of a self-service upgrade and/or replacement cycle in mature markets such as the United States;
- high levels of deployment growth for new self-service products in emerging markets such as Asia-Pacific;
- demand for new service offerings, including outsourcing or operating a network of ATMs;
- demand beyond expectations for security products and services for the financial, retail and government sectors;
- implementation and timeline for new election systems in the United States;
- the company's strong financial position; and
- the company's ability to successfully integrate acquisitions.

In addition to the business drivers above, as a global operation, the company is exposed to risks that include, but are not limited to:

- competitive pressures, including pricing pressures and technological developments;
- changes in the company's relationships with customers, suppliers, distributors and/or partners in its business ventures;
- changes in political, economic or other factors such as currency exchange rates, inflation rates, recessionary or expansive trends, taxes and regulations and laws affecting the worldwide business in each of the company's operations;
- acceptance of the company's product and technology introductions in the marketplace;
- unanticipated litigation, claims or assessments;
- ability to reduce costs and expenses and improve internal operating efficiencies;

variations in consumer demand for financial self-service technologies, products and services;

challenges raised about reliability and security of the company's election systems products, including the risk that such products will not be certified for use or will be decertified;

changes in laws regarding the company's election systems products and services; and

potential security violations to the company's information technology systems.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the condensed consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Management of the company uses historical information and all available information to make these estimates and assumptions. Actual amounts could differ from these estimates and different amounts could be reported using different assumptions and estimates.

Management believes that, of its significant accounting policies, its policies concerning revenue recognition, allowance for bad debts, goodwill, inventory and pensions and postretirement benefits are the most critical because they are affected significantly by judgments, assumptions and estimates. Additional information regarding these policies is included below.

Revenue Recognition

The company's product revenue consists of sales of ATMs, networking software, servers, electronic security products and voting machines. Service revenue consists of sales of service contracts, installation revenue, maintenance revenue and consultation revenue of bank branch design and security system design. Revenue is recognized only after the earnings process is complete. For product sales, the company determines that the earnings process is complete when the customer has assumed risk of loss of the goods sold and all performance requirements are substantially complete. Election systems revenue is primarily generated through sales contracts consisting of multiple deliverable elements and custom terms and conditions. Each contract is analyzed based on the multiple elements included within the contract. The company determines fair value of deliverables within a multiple element arrangement based on the prices charged when each element is sold separately. Some contracts may contain discounts and, as such, revenue is recognized using the residual value method of allocation of revenue to the product and service components of contracts. For service sales, the earnings process is considered complete once the service has been performed or earned.

Allowance for Bad Debts and Credit Risk

The company evaluates the collectibility of accounts receivable based on a number of criteria. A percentage of sales is reserved for uncollectible accounts as sales occur throughout the year. This percentage is based on historical loss experience and current trends. This estimate is periodically adjusted for known events such as specific customer circumstances and changes in the aging of accounts receivable balances. Since the company's receivable balance is concentrated primarily in the financial and government sectors, an economic downturn in these sectors could result in higher than expected credit losses.

Inventories

Domestic inventories are valued at the lower of cost or market applied on a first-in, first-out (FIFO) basis, and international inventories are valued using the average cost method, which approximates FIFO. At each reporting period, the company identifies and writes down its excess and obsolete inventory to its net realizable value based on forecasted usage, orders and inventory aging. With the development of new products, the company also rationalizes its product offerings and will write down discontinued product to the lower of cost or net realizable value.

Goodwill

The company tests all existing goodwill at least annually for impairment using the fair value approach on a reporting unit basis in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets*. The company's reporting units are defined as Domestic and Canada, Brazil, Latin America, Asia Pacific, Europe, Middle East and Africa (EMEA) and Election Systems. The company uses the discounted cash flow method for determining the fair value of its reporting units. As required by SFAS 142, the determination of implied fair value of the goodwill for a particular reporting unit is the excess of the fair value of a reporting unit over the

amounts assigned to its assets and liabilities in the same manner as the allocation in a business combination. Implied fair

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value goodwill is determined as the excess of the fair value of the reporting unit over the fair value of its assets and liabilities. The company's fair value model uses inputs such as estimated future segment performance. The company uses the most current information available and performs the annual impairment analysis during the fourth quarter each year. However, actual circumstances could differ significantly from assumptions and estimates made and could result in future goodwill impairment.

Pensions and Postretirement Benefits

Annual net periodic expense and benefit liabilities under the company's defined benefit plans are determined on an actuarial basis. Assumptions used in the actuarial calculations have a significant impact on plan obligations and expense. Annually, management and the investment committee of the Board of Directors review the actual experience compared with the more significant assumptions used and makes adjustments to the assumptions, if warranted. The healthcare trend rates are reviewed with the actuaries based upon the results of their review of claims experience. The expected long-term rate of return on plan assets is determined using the plans' current asset allocation and their expected rates of return based on a geometric averaging over 20 years. The discount rate is determined by analyzing the average return of high-quality (i.e., AA-rated) fixed-income investments and the year-over-year comparison of certain widely used benchmark indices as of the measurement date. The rate of compensation increase assumptions reflects the company's long-term actual experience and future and near-term outlook. Pension benefits are funded through deposits with trustees. The market-related value of plan assets is calculated under an adjusted market value method. The value is determined by adjusting the fair value of assets to reflect the investment gains and losses (i.e., the difference between the actual investment return and the expected investment return on the market-related value of assets) during each of the last five years at the rate of 20 percent per year. Postretirement benefits are not funded and the company's policy is to pay these benefits as they become due.

The following table highlights the sensitivity of our pension obligations and expense to changes in the healthcare cost trend rate:

| | One-Percentage- Point Increase | One-Percentage- Point Decrease |
|--|---|---|
| Effect on total of service and interest cost | \$ 86 | \$ (77) |
| Effect on postretirement benefit obligation | 1,424 | (1,273) |

Amortization of unrecognized net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of net periodic benefit cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds five percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the amortization is that excess divided by the average remaining service period of participating employees expected to receive benefits under the plan.

Certain accounting guidance, including the guidance applicable to pensions, does not require immediate recognition of the effects of a deviation between actual and assumed experience or the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted. Although this netting occurs outside the basic financial statements, the net amount is disclosed as an unrecognized gain or loss.

Based on the above assumptions, the company expects pension expense to increase by \$3,836 in 2005, increasing from \$4,664 in 2004 to approximately \$8,500 in 2005. Changes in any of the aforementioned assumptions could result in changes in the related retirement benefit cost and obligation. The company's qualified pension plans remain adequately funded, and the company is not required to make any additional contributions in 2005. Pension expense excludes retiree medical expense, which is also included in operating expenses and was \$334 and \$340 in the first

quarter 2005 and 2004, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

Capital resources are obtained from income retained in the business, borrowings under the company's committed and uncommitted credit facilities, long-term industrial revenue bonds, and operating and capital leasing arrangements. At March 31, 2005, the company had U.S. dollar denominated outstanding bank credit lines approximating \$79,730, euro denominated outstanding bank credit lines approximating 99,717 (translated at \$129,258) and Indian rupee denominated outstanding bank credit lines approximating 136,000 (translated at \$3,109). An additional \$195,180 was available under committed credit line agreements and \$57,655 was available under uncommitted lines of credit. Management expects that cash provided from operations, available credit, long-term debt and the use of operating leases will be sufficient to finance planned working capital needs, investments in facilities or equipment, and the purchase of company stock. Part of the company's growth strategy is to pursue strategic acquisitions. The company has made acquisitions in the past and intends to make acquisitions in the future. The company intends to finance any future acquisitions with either cash provided from operations, borrowings under available credit facilities, proceeds from debt or equity offerings and/or the issuance of common shares.

During the first quarter 2005, the company generated \$78,430 in cash from operating activities, an increase of \$62,376 or 388.5 percent from the same period in 2004. Cash flows from operating activities are generated primarily from operating income and controlling the components of working capital. First quarter 2005 cash flows from operations were positively affected by the \$43,182 decrease in accounts receivable compared with an increase of \$1,208 in the first quarter 2004. Total sales increased by \$41,979 in the first quarter 2005 versus first quarter 2004, while days sales outstanding (DSO) improved 13 days over the same time period. DSO was 83 days at March 31, 2005 compared with 96 days at March 31, 2004. The improvement in DSO was due to a new order-to-cash process implemented during 2004. Included in the March 31, 2005 trade receivables were amounts due from San Diego and San Joaquin counties in California totaling approximately \$32,000 related to the election systems business. The company anticipates collection of these receivables beginning in the second quarter of 2005. The increase in inventories in the first quarter 2005 was \$20,846 and was \$9,500 less than the \$30,346 increase in inventories during the first quarter 2004. The increase in inventories was due to the continued impact of transitioning to the new Opteva product solution, as well as anticipated strong future orders. In addition, the change in certain other assets and liabilities positively affected cash flows from operations for first quarter 2005 by \$44,236 (as restated) as compared with a positive impact of \$29,864 (as restated) in 2004. The change was primarily the result of an increase in deferred income due to increased volume of customer service contract billings.

The company used \$21,972 for investing activities in the first quarter 2005, a decrease of \$6,188 or 22.0 percent over first quarter 2004. The decrease over the prior quarter was the result of higher net investment proceeds in 2005 which increased by \$9,761. Net investment proceeds equal the combination of proceeds from maturity of investments and payments for purchases of investments. The increase in net investment proceeds was partially offset by increased capital and rotatable expenditures of \$2,743 and slightly higher other asset purchases.

The company used \$84,535 for financing activities in the first quarter 2005, an increase of \$73,473 or 664.2 percent over 2004. The overall increase in the first quarter of 2005 was due to increased net repayments on notes payable of \$71,796 as compared with net borrowings of \$16,039 in the first quarter of 2004. The increased cash use from the change in borrowings was partially offset by a \$16,488 decrease in stock repurchases as the company did not repurchase company stock in the first quarter 2005. In addition, the company paid cash dividends of \$14,697 in the first quarter 2005, an increase of \$1,224 or 9.1 percent versus the first quarter of 2004.

Contractual cash obligations with initial and remaining terms in excess of one year and contingent liabilities remained generally unchanged at March 31, 2005 compared to December 31, 2004.

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RESULTS OF OPERATIONS

First Quarter 2005 Comparisons with First Quarter 2004

Net Sales

Net sales for first quarter 2005 totaled \$540,234 and were \$41,979 or 8.4 percent higher than net sales for first quarter 2004. Financial self-service product revenue increased by \$19,085, or 12.4 percent, over the comparable period in 2004 primarily due to market growth. Security product revenue increased by \$5,120 or 8.9 percent over first quarter 2004, due to increases in the retail, government and financial security markets as a result of strategic acquisitions, growth in the market and increased market share. Total service revenue for financial self-service and security solutions increased \$26,791 or 9.9 percent over first quarter 2004, as the company continued to expand its service customer base. Election systems net sales of \$5,856 decreased by \$9,017 or 60.6 percent over first quarter 2004 due to purchasing delays resulting from ongoing political debates regarding electronic voting that have adversely affected the election systems business. In addition to increased financial self-service and security sales, revenue was positively impacted by the year-over-year strengthening of the euro and certain other currencies. The positive currency impact in the first quarter 2005 was approximately \$8,900 or 1.8 percent as compared to the first quarter 2004.

Gross Profit

Gross profit for first quarter 2005 totaled \$140,451 (as restated) and was \$572 or 0.4 percent higher than gross profit (as restated) in first quarter 2004. Product gross margin was 28.9 percent compared to 32.5 percent in the comparable period of 2004. Included in product cost of sales in the first quarter 2005 was approximately \$6,800 in restructuring charges, related primarily to realignment actions taken in Western Europe, which adversely affected product gross margin by 2.9 percentage points. The remaining decrease in product gross margin was attributable to weaker international product gross margins, especially in Europe, and lower election system product margin on overall lower voting sales. Service gross margin was 23.7 percent (as restated) compared to 24.6 percent (as restated) in first quarter 2004. The decrease in service gross margin was the result of continued pricing pressures and increased fuel costs. Included in the service cost of sales in first quarter 2005 was approximately \$400 in restructuring charges, which adversely affected service gross margin by 0.1 percentage points.

Operating Expenses

Total operating expenses (as restated) were 18.1 percent of net sales, down from 19.3 percent (as restated) in first quarter 2004. Reduced selling, general and administrative expenses as a percentage of net sales accounted for 0.5 percentage points of the overall improvement to operating expenses. The improved leveraging of selling, general and administrative expenses was achieved due to aggressive controls on personnel costs, including strictly limiting the rate of replacement and new hires, limited base compensation increases and implementing a corporate-wide efficiency program. Reduced research and development expenses resulting from the ongoing product rationalization created by the Opteva rollout accounted for the balance of the improvement in operating expenses.

Other Income (Expense)

Other income and expense and minority interest in the first quarter 2005 remained consistent with the first quarter 2004. The total of other income and expense was \$1,252 compared to \$934 in first quarter 2004. The increase in interest expense quarter over quarter of \$751 was due mainly to higher interest rates.

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Net Income

Net income for first quarter 2005 was \$27,941 (as restated) and decreased \$1,181 or 4.1 percent over net income for the first quarter 2004. The decline in net income was mainly the result of \$7,300 in total restructuring charges in 2005. In addition, the effective tax rate in first quarter 2005 was 32.6 percent (as restated) compared to 32.0 percent (as restated) in first quarter 2004. The higher effective tax rate in first quarter 2005 was due to the settlement of a prior-year U.S. state tax issue.

Segment Revenue and Operating Profit Summary

Diebold North America (DNA) first quarter 2005 net sales of \$341,577 increased \$36,250 or 11.9 percent over first quarter 2004 net sales of \$305,327. The increase in DNA net sales was due to increased product and service revenue from market growth as a result of the continued favorable response to the Opteva financial self-service product line. Diebold International (DI) first quarter 2005 net sales of \$192,801 increased by \$14,746 or 8.3 percent compared with net sales in the comparable period in 2004 of \$178,055. The increase in DI net sales was attributed to strong Latin American and Brazilian revenue growth of \$15,512 and Asia-Pacific revenue growth of \$5,937, partially offset by approximately \$6,703 decrease in Europe, Middle East and Africa net sales. Election Systems (ES) first quarter 2005 net sales of \$5,856 decreased by \$9,017 or 60.6 percent compared to first quarter 2004 net sales of \$14,873 due to purchasing delays resulting from ongoing political debates regarding electronic voting that have adversely affected the election systems business.

DNA operating profit (as restated) in the first quarter of 2005 increased by \$8,937 or 22.6 percent compared with first quarter 2004 (as restated). The increase was primarily due to increased sales and efficiencies gained from various internal cost control initiatives, which more than offset the adverse impact from higher material and fuel costs. DI operating profit for first quarter 2005 decreased by \$10,252 or 122.7 percent compared with the comparable period in 2004, moving from an operating profit of \$8,355 in first quarter 2004 to an operating loss of \$1,897 in first quarter 2005. The decrease in DI operating profit was primarily due to \$6,900 of restructuring charges recorded in Western Europe. In addition, DI experienced lower gross margins because of pricing pressure, higher material and fuel costs, and unfavorable geographic sales mix. Operating loss in ES decreased by \$296 or 7.2 percent; moving from an operating loss of \$4,128 in first quarter 2004 to a loss of \$3,832 in first quarter 2005. This favorable movement in the ES operating loss was a result of lower operating expense levels in first quarter 2005 in the election systems business. Refer to Note 8 to the condensed consolidated financial statements for further details of segment revenue and operating profit.

OUTLOOK

The following statements are based on current expectations. These statements are forward-looking and actual results may differ materially. These statements do not include the potential impact of any future mergers, acquisitions, disposals or other business combinations, or the effect of expensing stock options under the new accounting standard, SFAS No. 123(R), *Share-Based Payment*.

Expectations for the second quarter 2005 include:

- Second quarter revenue is expected to increase 10 to 15 percent on a fixed exchange rate basis.
 - o Financial self-service revenue growth of 11 to 14 percent, fixed rate.
 - o Security revenue growth of 17 to 21 percent, fixed rate.
 - o Election systems revenue is expected to be \$20 to \$40 million in the second quarter.

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The company anticipates restructuring charges in the range of \$.01 to \$.02 per share related to the continued realignment of its operations in Western Europe.

Currency exchange is anticipated to be approximately 2 percent favorable versus prior year.

Depreciation and amortization to be approximately \$20 million.

An effective tax rate of approximately 32 percent.

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS (Continued)**

March 31, 2004

(Unaudited)

(Dollars in thousands, except per share amounts)

OUTLOOK (continued)

An increase in pension expense of approximately \$.01 per share versus prior year.

EPS in the range of \$.60 to \$.66 per share, including the anticipated restructuring charge. This compares to \$.60 in the second quarter of 2004.

Expectations for the full year 2005 include:

Revenue growth of 10 to 13 percent, on a fixed exchange rate basis.

- o Financial self-service revenue growth of 7 to 10 percent, fixed rate.

- o Security revenue growth of 17 to 20 percent, fixed rate.

- o Election systems revenue is anticipated to be in the range of \$85 to \$95 million.

Favorable currency impact of approximately 1 percent versus prior year.

Depreciation and amortization in the range of \$75 to \$80 million.

An effective tax rate of approximately 32 percent.

Pension expense is expected to be \$.03 per share higher in 2005, moving from \$.05 per share in 2004 to \$.08 per share in 2005.

Research and development expense will be approximately 2.5 percent of revenue, consistent with prior year.

EPS in the range of \$2.80 to \$2.93, including the anticipated full-year impact of restructuring charges in the range of \$.09 to \$.12.

FORWARD-LOOKING STATEMENT DISCLOSURE

In the company's written or oral statements, the use of the words "believes," "anticipates," "expects" and similar expressions is intended to identify forward-looking statements that have been made and may in the future be made by or on behalf of the company, including statements concerning future operating performance, the company's share of new and existing markets, and the company's short- and long-term revenue and earnings growth rates. Although the company believes that its outlook is based upon reasonable assumptions regarding the economy, its knowledge of its business, and on key performance indicators which impact the company, there can be no assurance that the company's goals will be realized. The company is not obligated to report changes to its outlook. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The company's uncertainties could cause actual results to differ materially from those anticipated in forward-looking statements. These include, but are not limited to:

- competitive pressures, including pricing pressures and technological developments;

- changes in the company's relationships with customers, suppliers, distributors and/or partners in its business ventures;

- changes in political, economic or other factors such as currency exchange rates, inflation rates, recessionary or expansive trends, taxes and regulations and laws affecting the worldwide business in each of the company's

operations;

acceptance of the company's product and technology introductions in the marketplace;

unanticipated litigation, claims or assessments;

ability to reduce costs and expenses and improve internal operating efficiencies;

variations in consumer demand for self-service technologies, products and services;

challenges raised about the reliability and security of the company's election systems products, including the risk that such products will not be certified for use or will be decertified;

changes in laws regarding the company's election systems products and services; and

potential security violations to the company's information technology systems.

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A**

ITEM 4. CONTROLS AND PROCEDURES

(Dollars in thousands)

(a) Evaluation of Disclosure Controls and Procedures

Management, under the supervision and with the participation of the chief executive officer and the chief financial officer, has evaluated the company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report.

During the review of the North America sales commission accrual, it was noted that the reconciliation was not performed properly and the North America sales commission accrual appeared to be understated. A detailed analysis of this reconciliation has been performed and the company has determined that the sales commission accrual was under-accrued by approximately \$13,200 at December 31, 2004 and approximately \$11,400 at March 31, 2005. First quarter 2005 sales commission expense was overstated by approximately \$1,800. Sales commission expense was understated by approximately \$300, \$2,700 and \$1,500 in 2004, 2003 and 2002, respectively. The remaining approximately \$8,700 understatement of sales commission expense was related to periods prior to fiscal year 2002. The results of the analysis were reported to KPMG LLP and to the Audit Committee of the Board of Directors by management. During the discussions with the Audit Committee, management recommended to the Audit Committee that previously reported results for the company be restated to reflect the correction of the error. On July 26, 2005, the Audit Committee agreed with this recommendation. The Audit Committee of the Board of Directors has discussed the matter with KPMG LLP.

In connection with the restatement, under the direction of the chief executive officer and the chief financial officer, the company reevaluated its disclosure controls and procedures and identified the material weakness noted in Management's Report on Internal Control over Financial Reporting (as restated) in its internal control over financial reporting. As a result of this material weakness, management has concluded that the company's disclosure controls and procedures were not effective as of December 31, 2004 or March 31, 2005.

As previously reported, management has not identified any change in internal controls over financial reporting occurring during the first quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting. However, subsequent to March 31, 2005, the company has taken the remedial actions described below.

(b) Management's Report on Internal Control over Financial Reporting (as restated)

The management of Diebold, Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the company conducted an evaluation of the effectiveness of the company's internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In the company's Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 8, 2005, management concluded that our internal control over financial reporting was effective as of December 31, 2004. Subsequently, management determined that its controls did not exist to provide for a proper reconciliation of its North American sales commission accrual account. As a result of this deficiency, the Company has determined that the sales commission accrual account and related commission expense were understated. This material weakness has caused us to amend our Annual Report on Form 10-K for the year ended December 31, 2004, in order to restate the financial statements for the years ended December 31, 2004, 2003 and 2002 and to restate financial information for the years ended December 31, 2001 and 2000 and each of the quarters in 2003 and 2004.

As a result of this material weakness, our management has revised its earlier assessment and has now concluded that our internal control over financial reporting was not effective as of December 31, 2004.

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Management's revised assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2004 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which accompanies the Consolidated Financial Statements.

(c) Remediation of Material Weakness in Internal Controls

Management is confident that, as of the date of this filing, the company has taken appropriate measures to fully remediate the material weakness in the company's internal control over financial reporting with respect to the North America sales commission accrual reconciliation. The remedial actions included:

- revised the reconciliation procedures to focus on the balance sheet position of the accrual account for North America sales commissions as well as the sales commission expense reported each period, including more senior management review of the reconciliation; and

- implemented corporate monitoring procedures to ensure timely completion of the reconciliation of accrual accounts. In connection with this amended Form 10-Q, under the direction of the chief executive officer and the chief financial officer, the company has evaluated its disclosure controls and procedures as currently in effect, including the remedial actions discussed above, and we have concluded that, as of this date, our disclosure controls and procedures are effective.

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A
PART II. OTHER INFORMATION**

ITEM 6. EXHIBITS

- 3.1 (i) Amended and Restated Articles of Incorporation of Diebold, Incorporated incorporated by reference to Exhibit 3.1(i) of Registrant's Annual Report on Form 10-K for the year ended December 31, 1994. (Commission File No. 1-4879).
- 3.1 (ii) Code of Regulations incorporated by reference to Exhibit 4(c) to Registrant's Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 33-32960.
- 3.2 Certificate of Amendment by Shareholders to Amended Articles of Incorporation of Diebold, Incorporated incorporated by reference to Exhibit 3.2 to Registrant's Form 10-Q for the quarter ended March 31, 1996. (Commission File No. 1-4879).
- 3.3 Certificate of Amendment to Amended Articles of Incorporation of Diebold, Incorporated incorporated by reference to Exhibit 3.3 to Registrant's Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879).
- 4. Rights Agreement dated as of February 11, 1999 between Diebold, Incorporated and The Bank of New York incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form 8-A dated February 11, 1999.
- *10.1 Form of Employment Agreement as amended and restated as of September 13, 1990 incorporated by reference to Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990. (Commission File No. 1-4879).
- *10.2 Schedule of Certain Officers who are Parties to Employment Agreements in the form of Exhibit 10.1 incorporated by reference to Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended September 30, 2004. (Commission File No. 1-4879).
- *10.5 (i) Supplemental Employee Retirement Plan I as amended and restated July 1, 2002 incorporated by reference to Exhibit 10.5 (i) of Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- *10.5 (ii) Supplemental Employee Retirement Plan II as amended and restated July 1, 2002 incorporated by reference to Exhibit 10.5 (ii) of Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- *10.7 (i) 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992. (Commission File No. 1-4879).
- *10.7 (ii) Amendment No. 1 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 (ii) to Registrant's Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879).
- *10.7 (iii)

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Amendment No. 2 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 (ii) to Registrant's Form 10-Q for the quarter ended March 31, 2003. (Commission File No. 1-4879).

- *10.8 (i) 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 4 (a) to Form S-8 Registration Statement No. 333-60578.
- *10.8 (ii) Amendment No. 1 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 10.8(ii) on Registrant's Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A**

PART II. OTHER INFORMATION (continued)

ITEM 6. EXHIBITS (continued)

- *10.8 (iii) Amendment No. 2 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 10.8(iii) on Registrant's Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
- *10.8 (iv) Amendment No. 3 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 10.8(iv) on Registrant's Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879).
- *10.9 Long-Term Executive Incentive Plan incorporated by reference to Exhibit 10.9 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1993. (Commission File No. 1-4879).
- *10.10 (i) 1992 Deferred Incentive Compensation Plan (as amended and restated) incorporated by reference to Exhibit 10.10 (i) of Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- *10.11 Annual Incentive Plan incorporated by reference to Exhibit 10.11 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. (Commission File No. 1-4879).
- *10.13 (i) Forms of Deferred Compensation Agreement and Amendment No. 1 to Deferred Compensation Agreement incorporated by reference to Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996. (Commission File No. 1-4879).
- *10.13 (ii) Section 162(m) Deferred Compensation Agreement (as amended and restated January 29, 1998) incorporated by reference to Exhibit 10.13 (ii) to Registrant's Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879).
- *10.14 Deferral of Stock Option Gains Plan incorporated by reference to Exhibit 10.14 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879).
- *10.15 Employment Agreement with Walden W. O Dell incorporated by reference to Exhibit 10.15 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1999. (Commission File No. 1-4879).
- *10.17 (i) Amended and Restated Loan Agreement dated as of April 30, 2003 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. incorporated by reference to Exhibit 10.17 to Registrant's Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879).
- *10.17 (ii) Amendment No. 1 to the Amended and Restated Loan Agreement dated as of April 30, 2003 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. incorporated by reference to Exhibit 10.17(ii) to Registrant's Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879).
- *10.18 (i) Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

(Commission File No. 1-4879).

- *10.18 (ii) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (ii) of Registrant's Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879).
- *10.18 (iii) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (iii) to Registrant's Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879).
- *10.18 (iv) Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (iv) to Registrant's Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
- *10.18 (v) Extension of Retirement and Consulting Agreement with Robert W. Mahoney.

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A**

PART II. OTHER INFORMATION (Continued)

ITEM 6. EXHIBITS (continued)

- 10.20 (ii) Amendment No. 1 to the Transfer and Administration Agreement by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association incorporated by reference to Exhibit 10.20 (ii) on Registrant's Form 10-Q for the quarter ended March 31, 2001. (Commission File No. 1-4879).
- *10.21 Employment Agreement with Eric C. Evans incorporated by reference to Exhibit 10.21 on Registrant's Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879).
- *10.22 Form of Non-qualified Stock Option Agreement incorporated by reference to Exhibit 10.1 on Registrant's Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- *10.23 Form of Restricted Share Agreement incorporated by reference to Exhibit 10.2 on Registrant's Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- *10.24 Form of RSU Agreement incorporated by reference to Exhibit 10.3 on Registrant's Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- *10.25 (i) Form of 2003-2005 Performance Share Agreement incorporated by reference to Exhibit 10.4 on Registrant's Form or 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- *10.25 (ii) Form of 2004-2006 Performance Share Agreement incorporated by reference to Exhibit 10.5 on Registrant's Form 8-K filed on February 16, 2005. (Commission File No. 1-4879).
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * Reflects management contract or other compensatory arrangement.

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIEBOLD, INCORPORATED

(Registrant)

Date : August 12, 2005

By: /s/ Walden W. O Dell

Walden W. O Dell
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date : August 12, 2005

By: /s/ Gregory T. Geswein

Gregory T. Geswein
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

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**DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q/A
INDEX TO EXHIBITS**

EXHIBIT NO.

- ** 10.18(v) Extension of Retirement and Consulting Agreement with Robert W. Mahoney.

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

- ** Previously filed as an exhibit to the original Quarterly Report on Form 10-Q for the period ended March 31, 2005.