DIEBOLD INC
Form 10-Q
September 30, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from __________ to __________

Commission file number 1-4879

Diebold, Incorporated

(Exact name of registrant as specified in its charter)

Ohio	34-0183970
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
5995 Mayfair Road, 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 o No þ

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. (Check one):

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

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

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

Common Stock, $1.25 Par Value 66,100,607 shares as of August 29, 2008

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Special Note

This quarterly report on Form 10-Q for the quarter ended March 31, 2008 was delayed due to the Company s discussions with the Office of the Chief Accountant (OCA) of the Securities and Exchange Commission (SEC) with regard to the Company s practice of recognizing certain revenue on a bill and hold basis in its North America business segment, as well as due to the review of other accounting matters described below. On December 21, 2007, the Company announced that in consultation with outside advisors, it was conducting an internal review into certain accounting and financial reporting matters, including, but not limited to, the review of various balance sheet accounts such as prepaid expenses, accrued liabilities, capitalized assets, deferred revenue and reserves within both the Company s North America and International businesses. On January 15, 2008, the Company announced that it had concluded its discussion with the OCA and, as a result of those discussions, the Company determined that its previous long-standing method of accounting for bill and hold transactions was in error, representing a misapplication of United States generally accepted accounting principles (GAAP). Management of the Company determined that the corrected method of recognizing revenue would be adopted retroactively after an in-depth analysis and review with its outside auditors, KPMG LLP (KPMG), an independent registered public accounting firm, the Audit Committee of the Company s Board of Directors, and the OCA. Accordingly, management concluded that the previously issued financial statements for the fiscal years ended December 31, 2006, 2005, 2004 and 2003; the quarterly data in each of the quarters for the years ended December 31, 2006 and 2005; and the quarter ended March 31, 2007, must be restated and should no longer be relied upon. As a result, the Company restated its previously issued financial statements for those periods. Restated financial information is presented in this quarterly report as well as Diebold s annual report on Form 10-K for the year ended December 31, 2007. This quarterly report contains a discussion of the restatement and the adjustments made as a result of the restatement.

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PART I FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

DIEBOLD, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 142,015	$ 206,334
Short-term investments	123,718	104,976
Trade receivables, less allowances of $29,556 and $33,707, respectively	550,708	544,501
Inventories	559,041	533,619
Deferred income taxes	81,769	80,443
Prepaid expenses	48,550	46,347
Other current assets	126,376	114,312
Total Current Assets	1,632,177	1,630,532
Securities and other investments	74,311	75,227
Property, plant and equipment, at cost	589,623	575,796
Less accumulated depreciation and amortization	370,413	355,740
Property, plant and equipment, net	219,210	220,056
Goodwill	491,778	465,484
Other assets	227,523	239,827
Total Assets	$ 2,644,999	$ 2,631,126
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable	$ 7,556	$ 14,807
Accounts payable	167,311	170,632
Deferred revenue	315,595	301,248
Other current liabilities	264,082	263,951
Total Current Liabilities	754,544	750,638
Notes payable long term	593,148	609,264
Pensions and other benefits	37,148	36,708
Postretirement and other benefits	31,946	29,417
Deferred income taxes	41,210	39,393
Other long-term liabilities	35,774	37,115
Minority interest	16,795	13,757

Commitments and contingencies		
Shareholders equity		
Preferred shares, no par value, authorized 1,000,000 shares, none issued		
Common shares, authorized 125,000,000 shares, issued 75,792,982 and 75,579,237, shares, respectively outstanding 66,100,607, and 65,965,749 shares, respectively	94,741	94,474
Additional capital	270,693	261,364
Retained earnings	1,030,076	1,036,824
Treasury shares, at cost (9,692,375 and 9,613,488 shares, respectively)	(408,373)	(406,182)
Accumulated other comprehensive income	147,297	128,354
Total shareholders equity	1,134,434	1,114,834
Total liabilities and shareholders equity	$ 2,644,999	$ 2,631,126

See accompanying Notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2008 (Unaudited)	Three Months Ended March 31, 2007 (As Restated)
Net sales		
Products	$ 308,479	$ 294,415
Services	388,502	351,871
	696,981	646,286
Cost of sales		
Products	219,555	233,278
Services	303,367	283,131
	522,922	516,409
Gross profit	174,059	129,877
Selling, general, and administrative expense	128,297	106,974
Research, development and engineering expense	19,755	16,389
Impairment of assets	4,376	
Loss on sale of assets, net	1	17
	152,429	123,380
Operating profit	21,630	6,497
Other income (expense)		
Investment income	6,529	5,608
Interest expense	(10,767)	(9,385)
Miscellaneous, net	3,805	4,273
Minority interest	(2,186)	(657)
Income before taxes	19,011	6,336
Taxes on income	5,216	4,702
Net income	$ 13,795	$ 1,634
Weighted-average shares outstanding:		

Basic		66,018		65,673
Diluted		66,306		66,468
Earnings per common share:				
Basic	$	0.21	$	0.02
Diluted	$	0.21	$	0.02

See accompanying Notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2008 (Unaudited)	Three Months Ended March 31, 2007 (As Restated)
Cash flow from operating activities:		
Net income	$ 13,795	$ 1,634
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Minority share of income	2,186	657
Depreciation and amortization	13,280	17,330
Share-based compensation	3,003	3,516
Excess tax benefits from share-based compensation		(42)
Deferred income taxes	(552)	4,502
Impairment of assets	4,376	
Loss on sale of assets, net	1	17
Cash provided (used) by changes in certain assets and liabilities:		
Trade receivables	2,947	19,654
Inventories	(16,061)	(18,927)
Prepaid expenses	(1,938)	(185)
Other current assets	(10,119)	(739)
Accounts payable	(6,859)	(29,908)
Deferred revenue	12,649	28,694
Certain other assets and liabilities	(1,083)	(44,749)
Net cash provided (used) by operating activities	15,625	(18,546)
Cash flow from investing activities:		
Payments for acquisitions, net of cash acquired	(3,733)	(2,677)
Proceeds from maturities of investments	84,226	15,825
Payments for purchases of investments	(100,994)	(6,180)
Capital expenditures	(8,227)	(11,964)
Increase in certain other assets	(6,774)	(2,496)
Net cash used by investing activities	(35,502)	(7,492)
Cash flow from financing activities:		
Dividends paid	(16,572)	(15,564)
Notes payable borrowings	121,171	227,353
Notes payable repayments	(150,245)	(333,647)
Distribution of affiliates earnings to minority interest holder		(15,440)
Excess tax benefits from share-based compensation		42

Issuance of common shares		1,267
Net cash used by financing activities	(45,646)	(135,989)
Effect of exchange rate changes on cash	1,204	2,504
Decrease in cash and cash equivalents	(64,319)	(159,523)
Cash and cash equivalents at the beginning of the period	206,334	253,968
Cash and cash equivalents at the end of the period	$ 142,015	$ 94,445

See accompanying Notes to condensed consolidated financial statements.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of March 31, 2008
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(In thousands, except per share amounts)

NOTE 1: CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Diebold, Incorporated and its subsidiaries (collectively, the Company) 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 U.S. generally accepted accounting principles (GAAP); 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 for the years ended December 31, 2007 and 2006. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature, as well as all restatement adjustments discussed in Note 2, Background of the Restatement, considered necessary to fairly state the financial position of Diebold s and its consolidated subsidiaries at March 31, 2008 and December 31, 2007; the results of its operations for the three-month periods ended March 31, 2008 and March 31, 2007 and its cash flows for the three-month periods ended March 31, 2008 and March 31, 2007.

In addition, some of the Company s statements in this quarterly report on Form 10-Q may be considered forward-looking and involve risks and uncertainties that could significantly impact expected results. The results of operations for the three-month period ended March 31, 2008 are not necessarily indicative of results to be expected for the full year.

On January 1, 2008, the Company adopted the provision of SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)* that requires entities to measure defined benefit plan assets and obligations as of the date of the employer s statement of financial position. The adoption of this SFAS had a cumulative effect reduction to beginning retained earnings of $1,387 as of January 1, 2008.

On January 1, 2008, the Company adopted Emerging Issues Task Force (EITF) Issue No. 06-10, *Accounting for Collateral Assignment Split Dollar Life Insurance,* which applies to entities that participate in collateral assignment split-dollar life insurance arrangement that extend into an employee s retirement period (often referred to as key person life insurance). The pronouncement requires employers to recognize a liability for the postretirement obligation associated with a collateral assignment arrangement if, based on an agreement with an employee, the employer has agreed to maintain a life insurance policy during the postretirement period or to provide a death benefit. The adoption of this EITF had a cumulative effect reduction to beginning retained earnings of $2,583 as of January 1, 2008.

NOTE 2: BACKGROUND OF THE RESTATEMENT

In the first quarter of 2006, the Division of Enforcement of the Securities and Exchange Commission (SEC) initiated an informal inquiry into certain of the Company s accounting and financial reporting matters and requested the Company provide certain documents and information, specifically related to its practice of recognizing certain revenue on a bill and hold basis. In the third quarter of 2006, the Company was informed that the SEC s previous informal inquiry related to revenue recognition had been converted to a formal, non-public investigation.

On July 25, 2007, the Company announced that it would delay the release of its earnings results for the quarter ended June 30, 2007, as well as the filing of its quarterly report on Form 10-Q for that quarter, while the Company sought guidance from the Office of the Chief Accountant of the SEC (OCA) as to the Company s revenue recognition policy. The guidance sought related to the Company s long-standing practice of recognizing certain revenue on a bill and hold basis within its North America business segment.

On October 2, 2007, the Company announced it was discontinuing its use of bill and hold as a method of revenue recognition in both its North America business segment and its International businesses.

On December 21, 2007, the Company announced that, in consultation with outside advisors, it was conducting an internal review into certain accounting and financial reporting matters, including, but not limited to, the review of various balance sheet accounts such as prepaid expenses, accrued liabilities, capitalized assets, deferred revenue, and reserves within both the Company s North America and International businesses. The review was conducted primarily by outside counsel of the Company and was done in consultation and participation with the Company s internal audit staff and management, as well as outside advisors including forensic accountants and independent legal counsel to the Audit Committee.

During the course of the review, certain questions were raised as to certain prior accounting and financial reporting items in addition to bill and hold revenue recognition, including whether the prepaid expenses, accrued liabilities, capitalized assets, deferred revenue and reserves had been recorded accurately and timely. Accordingly, the scope of the review was expanded beyond the initial revenue recognition issues to include these additional items. This review has been completed as of the date of the filing of this quarterly report.

On January 15, 2008, the Company announced that it had concluded its discussion with the OCA and, as a result of those

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(In thousands, except per share amounts)

discussions, the Company determined that its previous long-standing method of accounting for bill and hold transactions was in error, representing a misapplication of GAAP. In addition, the Company disclosed that revenue previously recognized on a bill and hold basis would be recognized upon customer acceptance of products at a customer location. Management of the Company determined that this corrected method of recognizing revenue would be adopted retroactively after an in-depth analysis and review with its outside auditors, KPMG LLP (KPMG), an independent registered public accounting firm, the Audit Committee of the Company s Board of Directors, and the OCA. Accordingly, management concluded that previously issued financial statements for the fiscal years ended December 31, 2006, 2005, 2004, and 2003; the quarterly data in each of the quarters for the years ended December 31, 2006 and 2005; and the quarter ended March 31, 2007, must be restated and should no longer be relied upon. As a result, the Company has restated its previously issued financial statements for those periods. Restated financial information is presented in this quarterly report as well as in Diebold s annual report on Form 10-K for the year ended December 31, 2007.

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The following tables present the effects of the restatement adjustments by financial statement line item for the three-month period ended March 31, 2007:

		Three-Month Period Ended March 31, 2007 Adjustments								
		Revenue Recognition								
	As Reported	Bill & Hold	Other	Account Reconciliation	Inventory	Capitalization	Other	Total Adjustments	Provision for Income Tax	As Restated
				(in thousands)						
Net sales										
Products	$ 282,149	$ 16,058	$ (3,529)	$ (263)	$	$	$	$ 12,266	$	$ 294,415
Services	346,295	4,037	291	1,248				5,576		351,871
	628,444	20,095	(3,238)	985				17,842		646,286
Cost of sales										
Products	229,672	7,986	(4,112)	(649)	939		(558)	3,606		233,278
Services	278,586	3,037	63	1,514	(69)			4,545		283,131
	508,258	11,023	(4,049)	865	870		(558)	8,151		516,409
Gross profit	**120,186**	**9,072**	**811**	**120**	**(870)**		**558**	**9,691**		**129,877**
Selling and administrative expense	102,432	7		3,129	273	1,240	(107)	4,542		106,974
Research, development and engineering expense	16,576	(200)		13				(187)		16,389
Loss on sale of assets, net	17									17
	119,025	(193)		3,142	273	1,240	(107)	4,355		123,380
Operating profit	**1,161**	**9,265**	**811**	**(3,022)**	**(1,143)**	**(1,240)**	**665**	**5,336**		**6,497**

Other income (expense)										
Investment income	5,622		(14)					(14)		5,608
Interest (expense) income	(9,426)			(28)			69	41		(9,385)
Miscellaneous, net	3,252			513	2,651		(2,143)	1,021		4,273
Minority interest	(769)	112						112		(657)
Income (loss) before taxes	**(160)**	**9,377**	**797**	**(2,537)**	**1,508**	**(1,240)**	**(1,409)**	**6,496**		**6,336**
Taxes on income	5,725								(1,023)	4,702
Net income (loss)	**$ (5,885)**	**$ 9,377**	**$ 797**	**$ (2,537)**	**$ 1,508**	**$ (1,240)**	**$ (1,409)**	**$ 6,496**	**$ 1,023**	**$ 1,634**
Weighted-average shares outstanding:										
Basic	65,673									65,673
Diluted	66,156									66,468
Earnings per common share:										
Basic	$ (0.09)									$ 0.02
Diluted	$ (0.09)									$ 0.02

Bill and Hold The largest of the revenue recognition adjustments relates to the Company s previous long-standing method of accounting for bill and hold transactions under Staff Accounting Bulletin 104, *Revenue Recognition in Financial Statements* (SAB 104), in its North America and International businesses. On January 15, 2008, the Company announced that it had concluded its discussions with the OCA with regard to its practice of recognizing certain revenue on a bill and hold basis in its North America business segment. As a result of those discussions, the Company determined that its previous, long-standing method of accounting for bill and hold transactions was in error, representing a misapplication of GAAP. To correct for this error, the Company announced it would discontinue the use of bill and hold as a method of revenue recognition in its North America and International businesses and restate its financial statements for this change.

The Company completed an analysis of transactions and recorded adjusting journal entries related to revenue and costs recognized previously under a bill and hold basis that is now recognized upon customer acceptance of products at a customer location. Within the North America business segment, when the Company is contractually responsible for installation, customer acceptance will be upon completion of the installation of all of the items at a job site and the Company s demonstration that the items are in operable condition. Where items are contractually only delivered to a customer, revenue recognition of these items will continue

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upon shipment or delivery to a customer location depending on the terms in the contract. Within the International business segment, customer acceptance is upon either the delivery of or completion of the installation depending on the terms in the contract with the customer. The Company restated for transactions affecting both product revenue for hardware sales and service revenue for installation and other services that had been previously recognized on a bill and hold basis.

Other Revenue Adjustments The Company also adjusted for other specific revenue transactions in both its North America and International businesses related to transactions largely where the Company recognized revenue in incorrect periods. The majority of these adjustments were related to misapplication of GAAP related to revenue recognition requirements as defined within SAB 104. Generally, the Company recorded adjustments for transactions when the Company previously recognized revenue prior to title and/or risk of loss transferring to the customer.

Account Reconciliations

Many of the restatement adjustments relate to inaccurate account balances not identified timely due to lack of account reconciliations or inaccurate reconciliations of various accrued liabilities, reserves, prepaid expenses, and select other balance sheet accounts. During the course of the internal review, the Company reviewed certain accrued liabilities, reserves, prepaid expenses and select other balance sheet accounts, including the underlying supporting documentation and estimates to evaluate and determine if the account balances required adjustment. The Company determined that a number of accounts required adjustments related to either inaccurate or incomplete data extracted from systems, misinterpretations of data from systems, faulty analysis, and/or known differences not previously recorded. These adjustments were made across various accounts and accounting periods. The largest of these adjustments related to the following areas:

Service Contract Revenue The Company records deferred service revenue upon billing to customers and recognizes the related revenue ratably over the life of the service contract. Within the North America business segment, the sub ledger that tracks the service contract activity is the National Service Contract Administration (NSCA) system. During 2007, the Company determined that the reconciliations since 2003 were in error as there was a misinterpretation of system data and exclusion of certain leasing transactions within the prior reconciliations, which created a difference between the NSCA sub ledger system and the general ledger. The Company subsequently initiated and completed a project to reconstruct the sub ledger balance and reconcile differences between the deferred service revenue accounts in the general ledger and the NSCA sub ledger system. The Company determined that the above errors largely originated in 2003 creating a carry forward out of balance condition in the deferred service revenue general ledger account balance into 2007. The Company corrected the deferred service revenue balance in the general ledger for these errors.

Accounts Payable Float and Related Reserve Within the North America business segment, the Accounts Payable Float account is used to record liabilities for goods received that were ordered via purchase order, but not yet invoiced from a supplier, as well as invoices that have been received and matched to a purchase order for goods received, but not yet approved for payment due to differences between the invoice and the purchase order. At times, and in error, these same invoices could be processed via direct payment and expensed a second time. This results in the Accounts Payable Float account accruing for items that ultimately are paid via direct payment of invoices, which results in an overstatement of the Accounts Payable Float account. To adjust for this overstatement, the Company recorded a reserve to the Accounts Payable Float account representing the Company s estimate of the overstatement of the Accounts Payable Float balances based on historical aging trends and final disposition of purchases with suppliers, which indicated that a percentage of these vendors had previously been paid via the direct payment process.

In the 2003 reconciliation between the Accounts Payable Float aged sub ledger balance and the reserve for the Account Payables Float general ledger account balance, it was determined that the general ledger account balance was not properly stated. The reserve balance within the general ledger was not adjusted for aged unmatched and aged receipts from vendors within the Accounts Payable Float account. At that time, the Company adjusted the account related to the reserve for the Accounts Payable Float to reflect the balance as supported by the aged sub ledger report. During the course of the restatement, the Company evaluated the Accounts Payable Float and related reserve general ledger account balances in conjunction with the existing reconciliation process related to the reconciliation performed in 2003 and identified an error in the Company s analysis. The error related to improper inclusion of intercompany related transactions in the establishment of the adjustment as well as the lack of timely adjustments of the general ledger to the supported subledger data.

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(Unaudited)
(In thousands, except per share amounts)

The Company made the necessary adjustments to reflect the proper account balances in both the Accounts Payable Float and Related Reserve for all accounting periods.

Installation Allowance Within the North America business segment, Installation Allowance historically related to the liability for the installation work yet to be performed related to uninstalled equipment for which revenue had been recognized. The installation allowance liability is based on an estimated percentage of the installation sales price. During 2005, the Company determined that the general ledger installation allowance liability balance and the balance per the installation sub ledger were out of balance and that the sub ledger did not include specific uninstalled sales orders thereby understating the installation allowance liability. As a result, an analysis of detailed sales orders was performed and an adjustment was recorded to the general ledger to reflect the underlying supporting detail as of November 2005. During the restatement process, the Company reconciled the year end sub ledger information to the general ledger for the restatement periods and made adjustments to record the correction originally recorded in November 2005 into the proper accounting periods.

With the Company s discontinuance of its use of bill and hold as a method of revenue recognition, the need to record an Installation Allowance has been eliminated for these sales. As such, the restated Installation Accrual reflects only installation services performed or outsourced by the Company for which revenue has been recognized, but liabilities for the installation services have not been paid. Further, an Installation Prepaid is recognized for Company payments for installation services performed by third parties prior to revenue recognition.

A/P Wire Clearing (Prepaid Wire Account) The A/P Wire Clearing relates to the Company s process for making payments to vendors by wire transfer rather than by check. Verification between departments is required in order to ensure that payments via wire transfer are properly and timely recorded as an expense or asset. In 2006, it was determined that the A/P Wire Clearing account balance had not been reconciled in recent years and that the account balance was not supported. Based on the analysis performed in 2006, the Company adjusted the account to record the unsupported difference in the account balance. During the restatement process, the Company determined the account balances for periods prior to 2006 based on detailed supporting documentation contained errors, and recorded the 2006 adjustment in the proper time periods.

Other Accruals, Reserves and Prepaids During the restatement process, the Company identified several accrual accounts related to warranty, freight, product trade-ins and stock-based compensation, as well as reserves and prepaid expense accounts, that were either not adjusted to supported balances on a timely basis or not reconciled on a timely basis. The Company reviewed these accruals, reserves and prepaid expenses accounts including the underlying estimates to assess whether any previously recorded balances required adjustment. During the restatement process, the Company recorded adjustments where necessary to the accrual, reserve and prepaid expense accounts.

Inventory

During the restatement process, the Company adjusted its inventory balances to accurately record the differences between sub ledger detail and general ledger balances, to adjust select inventory balances to lower-of-cost-or-market valuations and to adjust balances for excess, slow-moving and obsolete inventory. Several of the more significant adjustments are described below:

Finished Goods Inventory The largest of the inventory adjustments recorded related to the Company s finished goods inventory within its North America business segment. The Company s finished goods inventory largely includes inventory to be installed, but also includes returned goods from customers pending manufacturing rework or final disposition. Prior to 2005, the Company did not maintain a sub ledger report that detailed the inventory account balances at an order level and thus used analyses and trends to support the recorded general ledger balance. During 2005, the Company was able to construct the finished goods inventory sub ledger at an order level and reconcile the sub ledger balance to the general ledger account balance. As a result, adjustments were recorded in 2005 to the finished goods inventory account to correct for differences between the general ledger and sub ledger.

During the restatement process, the Company reconstructed the inventory sub ledger detail by order for periods prior to 2005 and evaluated the methodology and process for determining finished good account balances and inventory reserve amounts. As a result, the Company recorded the above 2005 adjustments into the proper time periods, as well, as made adjustments based on further improvements to the accuracy of the sub ledger reports created.

Refurbished Inventory The Company s refurbished inventory within its North America business segment consists of used equipment that is acquired through purchases, lease transfers, returned goods and trade-ins. During the restatement process, it was determined that the general ledger account balances were not properly stated as the balances were not supported by sub ledger detail and reconciliations were not consistently performed during periods prior to 2006. In addition, the Company determined that the valuation of the inventory was not being recorded at the lower of cost or market and adjustments for excess and obsolete inventory were not being recorded.

During the restatement, the Company reconstructed the refurbished equipment sub ledger quantities and determined the appropriate inventory value for the refurbished equipment. The Company adjusted the inventory account balances for the refurbished inventory to the calculated amounts making adjustments for both lower of cost or market valuations as well as excess and obsolete inventory.

Capitalization

During the restatement process, the Company recorded adjustments related to amounts recorded for fair value assigned to select assets based on a review of the underlying transactions related to the assets. The most significant capitalization adjustment is described below:

ERP Capitalization During 2006, the Company employed a consulting firm to analyze the future value of specific functionality designed previously within its enterprise resource planning system (ERP). Previous to this, the Company had outsourced its information technology function and ERP implementation to another consulting firm. As a result of additional analysis performed by the Company, in December 2006, the Company recorded an impairment charge against the gross asset value of the ERP system.

During the restatement process, the Company reviewed the history and accounting composition of the ERP asset. As a result of this analysis, the Company determined that the ERP asset value was overstated due to a number of factors, including unsupported manual journal entries, errors related to amounts of cost capitalized to the asset, and certain capitalized costs which failed to meet the criteria of capitalization under SOP 98-1. Portions of the improperly capitalized costs identified in the restatement were included in the impairment charge originally recorded in 2006, thus an adjustment to the original 2006 impairment charge was also recorded to exclude these costs in the restated impairment charge.

Other

In conjunction with the restatement process, the Company also made other adjustments and reclassifications to its financial statements in various years, including, but not limited to: (1) past immaterial unrecorded audit adjustments, (2) adjustments for liabilities for contingencies and intangible assets identified at the date of acquisition in connection with certain acquisitions, (3) select intercompany and related elimination transactions, and (4) correction for previous gain calculations on sale of discontinued operations.

Statement of Cash Flows

The following tables present the major subtotals for Diebold s Consolidated Statement of Cash Flows and the effects of the related impacts of the restatement adjustments discussed above for the three months ended March 31, 2007:

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	Three Months Ended March 31, 2007	
	(As Reported)	**(As Restated)**
Net cash provided by:		
Net income (loss)	$ (5,885)	$ 1,634
Non-cash adjustments	27,625	25,980
Changes in working capital	(33,022)	(1,411)
Changes in noncurrent assets and liabilities	6,864	(44,749)
Operating activities	(4,418)	(18,546)
Investing activities	(20,502)	(7,492)
Financing activities	(136,820)	(135,989)
Effect of exchange rate changes on cash and cash equivalents	2,221	2,504
Net decrease in cash and cash equivalents	(159,519)	(159,523)
Cash and cash equivalents at beginning of period	253,814	253,968
Cash and cash equivalents at end of period	$ 94,295	$ 94,445

NOTE 3: SHARE-BASED COMPENSATION

The Company s share-based compensation policy is consistent with the requirements of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), which requires that all share-based payments to employees be recognized in the statement of income based on their grant-date fair values during the period in which the employee is required to provide services in exchange for the award.

Share-based compensation was recognized as a component of selling, general and administrative expenses. Total share-based compensation expense for the three months ended March 31, 2008 and 2007 was $3,003 and $3,516, respectively.

Options outstanding and exercisable under the Company s 1991 Equity and Performance Incentive Plan, as amended and restated, as of March 31, 2008 and changes during the three months ended March 31, 2008 were as follows:

	Number of Shares (in thousands)	Weighted-Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding at January 1, 2008	2,884	$ 41.56		
Granted	335	25.53		
Exercised				
Expired or forfeited	(164)	47.17		

Outstanding at March 31, 2008	3,055	$	39.50	6	$	8,629
Exercisable at March 31, 2008	2,211	$	40.56	5	$	4,524

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(1) The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the closing price of the Company s common shares on the last trading day of the first quarter of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Company s common shares.

The following tables summarize information on unvested restricted stock units and performance shares outstanding for the three month period ended March 31, 2008:

Restricted Stock Units (RSUs):	Number of Shares	Weighted-Average Grant-Date Fair Value

Unvested at January 1, 2008	325	$	45.14
Exercised			
Forfeited	(7)		44.82
Vested	(46)		55.20
Granted	132		27.97
Unvested at March 31, 2008	404	$	38.39

Performance Shares:	**Number of Shares**		**Weighted-Average Grant-Date Fair Value**
Unvested at January 1, 2008	519	$	54.49
Granted	232		28.91
Forfeited	(113)		57.08
Exercised			
Vested	(15)		57.08
Unvested at March 31, 2008	623	$	44.43

Unvested performance shares are based on a maximum potential payout. Actual shares granted at the end of the performance period may be less than the maximum potential payout level depending on achievement of performance share objectives.

NOTE 4: 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 table shows the amounts used in computing earnings per share and the effect on the weighted-average number of shares of potentially dilutive common shares.

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	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (As Restated)
Numerator:		
Net income	$ 13,795	$ 1,634
Denominator:		
Basic weighted-average shares	66,018	65,673
Effect of dilutive shares	288	795
Diluted weighted-average shares	66,306	66,468
Earnings per common share:		
Basic	$ 0.21	$ 0.02
Diluted	$ 0.21	$ 0.02
Anti-dilutive shares not used in calculating diluted weighted-average shares	2,759	1,020

NOTE 5: INVENTORIES

The Company primarily values inventories at the lower of cost or market applied on a first-in, first-out (FIFO) basis, with the notable exceptions of Brazil and Premier Elections Solutions, Inc. that value inventory using the average cost method, which approximates FIFO. At each reporting period, the Company 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, 2008	December 31, 2007
Finished goods	$ 269,489	$ 252,729
Service parts	160,842	152,039
Work in process	66,538	64,414
Raw Materials	62,172	64,437
Total inventory	$ 559,041	$ 533,619

NOTE 6: OTHER COMPREHENSIVE INCOME (LOSS)

Items considered to be other comprehensive income (loss) include adjustments made for foreign currency translation (under SFAS No. 52) and pensions (under SFAS No. 87 and SFAS No. 158), and hedging activities (under SFAS No. 133).

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Components of comprehensive income (loss) consist of the following:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (As Restated)
Net income	$ 13,795	$ 1,634
Other comprehensive income:		
Translation adjustment	21,006	17,499
Realized and unrealized loss on hedges	(2,391)	(285)
Pension adjustment	328	1,182
Comprehensive income	$ 32,738	$ 20,030

Accumulated other comprehensive income (loss) is reported separately from retained earnings and additional capital in the condensed consolidated balance sheets. Components of accumulated other comprehensive income (loss) consist of the following for the three months ended March 31, 2008 and the year ended December 31, 2007:

	March 31, 2008	December 31, 2007
Translation adjustment	$ 159,014	$ 138,008
Realized and unrealized (loss)/gain on hedges	(358)	2,033
Pension adjustment	(11,359)	(11,687)
Total accumulated other comprehensive income	$ 147,297	$ 128,354

NOTE 7: INCOME TAXES

The effective tax rate for the three-months ended March 31, 2008 was 27.4 percent versus 74.2 percent for the same period in 2007.

Included in the first quarter of 2007 were taxes associated with the repatriation of earnings from a foreign subsidiary. Consequently, the Company recorded taxes of $4,702 on a pre-tax profit $6,336.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the recognition, measurement, presentation and disclosure in the Company s financial statements of uncertain tax positions taken or expected to be taken in a tax return. The adoption of FIN 48 had no material effect on the financial statements. As a result, there was no cumulative effect related to adoption. However, certain amounts have been reclassified in the statement of financial position in order to comply with the requirements of FIN 48.

At December 31, 2007, the Company had an unrecognized tax benefit of approximately $10,714. The entire amount of unrecognized tax benefits, if recognized, would affect the Company s effective tax rate. The Company anticipates a decrease in the total unrecognized tax benefits during the next 12 months of approximately $1,527. The Company is currently under federal audit by the Internal Revenue Service (IRS) for tax years 2003 and 2004. All federal tax years prior to 2003 are closed by statute.

The Company is subject to tax examination in various U.S. state jurisdictions for tax years 2002 to the present, as well as various foreign jurisdictions for tax years 1997 to the present.

The Company classifies interest expense and penalties related to the underpayment of income taxes in the financial statements as income tax expense. Consistent with the treatment of interest expense, the Company accrues interest income on overpayments of income taxes where applicable and classifies interest income as a reduction of income tax expense in the financial statements. Total net interest expense and penalties as of December 31, 2007 were $2,474.

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NOTE 8: 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. Currently, there are no plan assets and the Company funds the benefits as the claims are paid.

	Three Months Ended March, 31			
	2008	2007	2008	2007
	Pension Benefits		Other Benefits	
Components of Net Periodic Benefit Cost				
Service cost	$ 2,460	$ 2,865	$ 1	$ 2
Interest cost	7,012	6,403	305	339
Expected return on plan assets	(8,937)	(8,252)		
Amortization of prior service cost	95	154	(129)	(129)
Recognized net actuarial loss	255	974	107	183
Net periodic pension benefit cost	$ 885	$ 2,144	$ 284	$ 395

Cash Flows

Previously, the Company disclosed expected payments related to the 2008 plan year of $2,776 to its qualified and non-qualified pension plans and $2,262 to its other postretirement benefit plan. There have been no significant changes to the 2008 plan year contribution amounts previously disclosed. As of March 31, 2008 and 2007, contributions of $700 and $3,661 were made to the qualified and non-qualified pension plans, respectively.

NOTE 9: 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) & Other. 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 segment 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 & Other segment includes the operating results of Premier Election Solutions, Inc. and the voting and lottery related business in Brazil. Each of the sales channels buys the goods it sells from the Company s manufacturing plants or through external suppliers. Intercompany sales between legal entities are eliminated in consolidation and intersegment revenue is not significant.

Each year, intercompany pricing is agreed upon which drives sales channel operating profit

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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 and income tax expense or benefit.

The following table presents Diebold s revenue by reportable segment for the three-month periods ended March 31, 2008 and 2007, respectively.

	DNA	DI	ES & Other	Total
For the quarter ended March 31, 2008				
Customer revenue	$357,566	$ 321,430	$ 17,985	$ 696,981
Operating profit (loss)	13,453	10,261	(2,084)	21,630
Capital expenditures	2,402	5,692	133	8,227
Depreciation	4,687	4,312	853	9,852
Property, plant and equipment, at cost	417,857	158,896	12,870	589,623
Total Assets	701,563	1,840,799	102,637	2,644,999
For the quarter ended March 31, 2007 (As Restated)				
Customer revenue	$356,265	$ 280,788	$ 9,233	$ 646,286
Operating profit (loss)	22,829	(19,039)	2,707	6,497
Capital expenditures	5,096	6,633	235	11,964
Depreciation	8,043	4,098	173	12,314
Property, plant and equipment, at cost	401,462	145,669	5,632	552,763
Total Assets	697,440	1,603,215	172,367	2,473,022

The following table presents Diebold s revenue by geographic region for the three-month periods ended March 31, 2008 and 2007, respectively.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (As Restated)
The Americas	$ 495,349	$ 470,784
Asia Pacific	108,200	67,785
Europe, Middle East, and Africa	93,432	107,717
Revenue from customers	$ 696,981	$ 646,286

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The following table presents Diebold s revenue by Product and Service Solution for the three-month periods ended March 31, 2008 and 2007, respectively.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (As Restated)
Financial self-service:		
Products	$ 229,125	$ 221,025
Services	264,353	235,725
Total financial self-service	493,478	456,750
Security:		
Products	70,363	70,686
Services	115,155	109,617
Total security	185,518	180,303
Total financial self-service & security	678,996	637,053
Election systems:		
Products	5,700	2,704
Services	8,994	6,529
Total election systems	14,694	9,233
Lottery systems	3,291	
Revenue from customers	$ 696,981	$ 646,286

NOTE 10: GUARANTEES AND PRODUCT WARRANTIES

The Company has applied the provisions of Financial Accounting Standards Board (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 disclosure requirements expand those required by SFAS No. 5, *Accounting for Contingencies*, by requiring a guarantor to disclose certain types of guarantees, 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, 2008 in which the Company is the guarantor.

In connection with the construction of certain manufacturing facilities, the Company guaranteed repayment of principal and interest on 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. At March 31, 2008, the carrying value of the liability was $11,900.

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. At March 31, 2008, the maximum future payment obligations related to these various guarantees totaled $65,550, of which $22,628 represented standby letters of credit to insurance providers. There was no associated liability recorded for any guarantees. At March 31, 2007, the maximum future payment obligations relative to these various guarantees totaled $47,466, of which $22,663 represented standby letters of credit to insurance providers. There was no associated liability recorded for any guarantees as of March 31, 2008 and 2007.

The Company provides its customers a standard manufacturer s warranty and records, at the time of the sale, a corresponding

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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:

	2008
Warranty Liability	
Balance at January 1	$ 26,494
Current period accruals	10,696
Current period settlements	(8,803)
Balance at March 31	$ 28,387

NOTE 11: ACQUISITIONS

The following mergers and acquisitions were accounted for as purchase business combinations and, accordingly, the purchase price has been or will be allocated to identifiable tangible and intangible assets acquired and liabilities assumed, based upon their respective fair values, with the excess allocated to goodwill. Results of operations from the date of acquisition of these companies are included in the condensed consolidated statements of operations of the Company. The Company elected not to disclose proforma information as the amounts are immaterial.

In February 2008, the Company formed a partnership, D&G Centroamerica, S. de R.L. (D&G), based in the Republic of Panama for approximately $6,423. The Company owns 51 percent of the partnership. The minority partner of D&G was previously used by the Company as a distributor in Central America. Goodwill and other intangibles resulting from the acquisition amounted to approximately $6,423 as of March 31, 2008. D&G is included as part of the Company s DI segment.

In January 2007, the Company acquired Brixlogic, Inc. (Brixlogic) based in San Mateo, California for approximately $8,349. Brixlogic is a software development firm previously used by the Company for various software development projects. Other intangibles, net of amortization, resulting from the acquisition amounted to approximately $7,665 as of March 31, 2008. Brixlogic is included as part of the Company s DNA segment.

NOTE 12: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivatives to mitigate the negative economic consequences associated with the fluctuations in currencies and interest rates. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* requires that all derivative instruments be recorded on the balance sheet at fair value and that the changes in the fair value be recognized, currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows derivative gains and losses to be reflected in the income statement together with the hedged exposure, and requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. The Company does not enter into any speculative positions with regard to derivative instruments.

NOTE 13: RESTRUCTURING CHARGES

During the first quarter of 2006, the Company announced a plan to close its production facility in Cassis, France (DCM Plan) in an effort to optimize its global manufacturing operations. During the first quarter of 2007, the Company identified one hundred twenty-five Cassis employees to be terminated. Actual termination dates varied based upon each individual employees circumstances. The Company expects the restructuring plan, including all terminations, to be substantially complete by the end of the second quarter of 2008. For the quarter ended March 31, 2008, the Company incurred $886 in expenses in DNA related to the DCM plan.

As of March 31, 2007, the company expected total costs incurred related to the closure of this facility to be in the range of $24,000 to $27,000. For the quarter ended March 31, 2007, total restructuring expenses incurred were $21,366 included as part of product cost of sales.

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As of March 31, 2008, the Company anticipates total remaining costs related to the closure of the Cassis, France production facility to be approximately $1,242 of which $785 were employee severance costs and $457 are other costs.

During the first quarter of 2008 there were no restructuring expenses related to the Company s DI or ES & Other operating segments.

As of March 31, 2008, the restructing accrual related to the DCM Plan is presented in the following table:

	Balance January 1, 2008	Liabilities Incurred	Liabilities Paid (Settled)	Adjustments (2)	Balance March 31, 2008
Employee severance costs	$ 2,515	$	$ (1,959)	$ 82	$ 638
Other (1)	2,902	886	(3,048)	178	918
Total costs	$ 5,417	$ 886	$ (5,007)	$ 260	$ 1,556

(1) Other costs include legal and contract termination fees, asset impairment costs, and costs to transfer usable inventory and equipment.

(2) Foreign currency translation.

During the third quarter of 2007, DI announced plans to downsize its operations in Germany (Germany plan) in an effort to remove excess capacity. During the first quarter of 2008, the plan was modified to initiate a full closure of operations in Germany in light of further declines in sales opportunities resulting from a fully mature market. As of March 31, 2008, the Company anticipates total remaining costs to be incurred of approximately $4,652. For the quarter ended March 31, 2008 no restructuring charges were incurred related to the Germany plan. No employees were notified of termination during the first quarter of 2008. The Company expects the Germany restructuring plan, including all terminations, to be substantially complete by the end of fiscal year 2008. As of March, 31, 2008, the Germany plan accrual balance was immaterial to the Company.

During the fourth quarter of 2007, the Company announced a plan to reduce its global workforce (RIF plan) in an effort to optimize overall operational performance. As of March 31, 2008, the Company anticipates total costs to be incurred of approximately $34,401. For the quarter ended March 31, 2008, total DNA RIF plan restructuring charges incurred were $299 through product cost of sales, $645 through service cost of sales, and $504 through operating expense. Total DI RIF plan restructuring charges incurred were $108 through product cost of sales, $237 through service cost of sales, and $1,002 through operating expense. During the first quarter of 2008, the Company notified one hundred twenty-two employees of termination. The Company expects the RIF restructuring plan, including all terminations, to be substantially complete by the end of fiscal year 2008. As of March 31, 2008, the RIF plan accrual balance was not material to the Company.

During the first quarter of 2008, the Company incurred an impairment charge of $4,376 related to the write down of intangible assets from the 2004 acquisition of TFE Technology Holdings, a maintenance provider of network and hardware service solutions to federal and state government agencies and commercial firms.

NOTE 14: FAIR VALUE OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), for its financial assets and liabilities, as required. In February 2008, the FASB issued FASB Staff Position No. 157-2 which deferred the effective date of SFAS 157 for nonfinancial assets and liabilities except for those recognized or disclosed on a recurring basis. SFAS 157 establishes a common definition for fair value to be applied to GAAP guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands disclosure requirements about such fair value measurements. The standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements.

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The Company adopted SFAS No. 157 on January 1, 2008 with respect to financial assets and financial liabilities that are measured at fair value within the condensed consolidated financial statements and deferred the adoption for non-financial assets and non-financial liabilities until January 1, 2009. Accordingly, the provisions of SFAS No. 157 were not applied to long-lived assets and goodwill and other intangible assets measured for impairment testing purposes.

The hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is divided into three levels:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs for which there is little or no market data.

The Company measures its financial assets and liabilities using one or more of the following three valuation techniques outlined in SFAS 157:

Market approach Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach Amount that would be required to replace the service capacity of an asset (replacement cost).

Income approach Techniques to convert future amounts to a single present amount based upon market expectations.

The Company has no financial assets or liabilities for which fair value was measured using Level 3 inputs. Assets and liabilities subject to fair value measurement are as follows:

		Fair Value Measurements at Reporting Date Using	
	Fair Value as of March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Short-term investments	$ 123,718	$ 123,718	$
Deferred Compensation	13,492	13,492	
Forward Exchange Forward Contracts	3,826		3,826
Total	$ 141,036	$ 137,210	$ 3,826
Liabilities			
Interest Rate Swaps	$ 3,008	$	$ 3,008

Total	$	3,008	$		$	3,008

Short-Term Investments The Company has investments in certificates of deposit that are recorded at cost, which approximates fair value due to their short term nature and lack of volatility.

Deferred Compensation Plan The fair value of the Company s deferred compensation plan is derived from investments in a mix of money market, fixed income and equity funds managed by Vanguard.

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Foreign Exchange Forward Contracts A substantial portion of the Company s operations and revenues are international. As a result, changes in foreign exchange rates can create substantial foreign exchange gains and losses from the revaluation of non-functional currency monetary assets and liabilities. The foreign exchange contracts are valued using the market approach based on observable market transactions of forward rates.

Interest Rate Swaps The Company has variable rate debt and is subject to fluctuations in interest related cash flows due to changes in market interest rates. The Company s policy allows it to periodically enter into derivative instruments designated as cash flow hedges to fix some portion of future variable rate based interest expense. The Company has executed two pay-fixed receive-variable plain vanilla interest rate swaps to hedge against changes in the LIBOR benchmark interest rate on a portion of the Company s LIBOR- based credit facility. The fair value of the swap is determined using the income approach and is calculated based on LIBOR rates at the reporting date.

NOTE 15: SUBSEQUENT EVENTS

The Company has previously announced that it had identified a series of actions that it planned to initiate during 2008 in order to realign its global manufacturing footprint, including a transition from a four-plant global Opteva production footprint down to two plants. While the Company is still finalizing its plans in connection with this manufacturing realignment, on August 11, 2008, the Company notified its employees and the union representing the bargaining unit at its Newark, Ohio-area manufacturing facility that it intends to close this operation and move all of its production to the Company s plant in Lexington, North Carolina. As a result of this planned closure, the Company is anticipating total restructuring charges of approximately $12,000, consisting of approximately $11,000 in cash charges and approximately $1,000 in non-cash charges. The cash charges consist primarily of employee separation charges, including pension obligations, while the non-cash charges consist primarily of charges to reduce select property, plant and equipment to their net realizable value. The Company also expects a small gain of approximately $1,000 to $2,000 in connection with the potential subsequent sale of the facility that will partially offset the restructuring charges. The Company anticipates the product relocation and employee reductions to begin in October 2008, and that the Newark-area facility will be closed no later than the end of the first quarter of 2009. The job eliminations associated with this planned closing will be included in the global workforce reduction target that was announced on February 6, 2008.

As previously disclosed, five shareholder lawsuits were filed against the Company and certain current and former officers and directors in 2005 and 2006, alleging violations of the federal securities laws. The complaints sought unspecified compensatory damages, attorney s fees and extraordinary equitable and/or injunctive relief. The cases were consolidated into a single proceeding in the Northern District of Ohio, captioned *In re Diebold, Inc. Securities Litigation.* On August 22, 2008, the court granted the Company s motion to dismiss the consolidated cases, and entered a judgment in favor of the Company and the other defendants, dismissing the complaint with prejudice; however, the plaintiffs have filed a notice of appeal. A separate class action against the Company and certain current and former officers and directors filed by participants in the Company s 401(k) plan, alleging breaches of duties under the Employee Retirement Income Security Act of 1974, remains outstanding.

The Company filed a lawsuit on May 30, 2008 against the Board of Elections of Cuyahoga County, Ohio, the Board of County Commissioners of Cuyahoga County, Ohio, Cuyahoga County, Ohio (collectively, the County), and Ohio Secretary of State Jennifer Brunner (Secretary) regarding several Ohio contracts under which the Company provided electronic voting systems and related services to the State of Ohio and a number of its counties. The lawsuit was precipitated by the County s threats to sue the Company for unspecified damages. The complaint seeks a declaration that the Company met its contractual obligations. In response, on July 15, 2008, the County filed an answer and counterclaim alleging that the voting system was defective and seeking declaratory relief and unspecified damages under several theories of recovery. The Secretary has also filed an answer and counterclaim seeking declaratory relief and unspecified damages under a number of theories of recovery.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of March 31, 2008
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ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BACKGROUND OF THE RESTATEMENT

In the first quarter of 2006, the Division of Enforcement of the Securities and Exchange Commission (SEC) initiated an informal inquiry into certain of the Company s accounting and financial reporting matters and requested the Company provide certain documents and information, specifically related to its practice of recognizing certain revenue on a bill and hold basis. In the third quarter of 2006, the Company was informed that the SEC s previous informal inquiry related to revenue recognition had been converted to a formal, non-public investigation.

On July 25, 2007, the Company announced that it would delay the release of its earnings results for the quarter ended June 30, 2007, as well as the filing of its quarterly report on Form 10-Q for that quarter, while the Company proactively sought guidance from the Office of the Chief Accountant of the SEC (OCA) as to the Company s revenue recognition policy. The guidance sought related to the Company s long-standing practice of recognizing certain revenue on a bill and hold basis within its North America business segment.

On October 2, 2007, the Company announced it was discontinuing its use of bill and hold as a method of revenue recognition in both its North America business segment and its International businesses.

On December 21, 2007, the Company announced that, in consultation with outside advisors, it was conducting an internal review into certain accounting and financial reporting matters, including, but not limited to, the review of various balance sheet accounts such as prepaid expenses, accrued liabilities, capitalized assets, deferred revenue and reserves within both the Company s North America and International businesses. The review was conducted primarily by outside counsel of the Company and was done in consultation and participation with the Company s internal audit staff and management, as well as outside advisors including forensic accountants and independent legal counsel to the Audit Committee.

During the course of the review, certain questions were raised as to certain prior accounting and financial reporting items in addition to bill and hold revenue recognition, including whether prepaids, accruals, capitalized assets, deferred revenue, and reserves had been recorded accurately and timely. Accordingly, the Company informed the SEC that the scope of the review was expanded beyond the initial revenue recognition issues to include these additional items. This review has been completed as of the date of the filing of this quarterly report on Form 10-Q.

On January 15, 2008, the Company announced that it had concluded its discussion with the OCA and, as a result of those discussions, the Company determined that its previous long-standing method of accounting for bill and hold transactions was in error, representing a misapplication of U.S. generally accepted accounting principles (GAAP). In addition, the Company disclosed that revenue previously recognized on a bill and hold basis would be recognized upon customer acceptance of products at a customer location. Management of the Company determined that this corrected method of recognizing revenue would be adopted retroactively after an in-depth analysis and review with its outside auditors, KPMG LLP (KPMG), an independent registered public accounting firm, the Audit Committee of the Company s Board of Directors, and the OCA. Accordingly, management concluded that previously issued financial statements for the fiscal years ended December 31, 2006, 2005, 2004, and 2003; the quarterly data in each of the quarters for the years ended December 31, 2006 and 2005; and the quarter ended March 31, 2007, must be restated and should no longer be relied upon. As a result, the Company has restated its previously issued financial statements for those periods. Restated financial information is presented in this quarterly report as well as in Diebold s annual report on Form 10-K for the year ended December 31, 2007.

OVERVIEW

Diebold is at the threshold of its 150^{th} year in business, providing self-service delivery and security innovations and solutions to the financial, retail, commercial and government markets. Drawing from its history as the premier manufacturer of safes and vaults in the United States, Diebold today is transforming itself into a leading provider of integrated services for the industries in which it operates. To this end, since January 2006, Diebold has taken several actions to refine and realign its global manufacturing and supply chain

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footprint. These actions include closing manufacturing plants in Cassis, France; Danville, Virginia; and Buenos Aires, Argentina, selling its plant in Sumter, South Carolina.; establishing a manufacturing presence in Eastern Europe, migrating supply chain infrastructure to lower-cost regions and aggressively collaborating with its suppliers to improve quality and reduce costs. Because of these and other efforts, Diebold continues to meet its goals associated with its three-year, $100,000 cost-reduction initiative which will be complete by the end of 2008.

To assist in its goal of further streamlining operations and reducing costs while retaining high levels of quality, the Company has been engaged with external consultants in a detailed assessment of its global manufacturing and supply chain footprint. As a result of these efforts, Diebold has identified a series of additional actions that it plans to initiate during 2008. These actions include:

- Additional strategic global manufacturing realignment
  - Transitioning from a four-plant global Opteva production footprint down to two plants, driving significant improvements in plant capacity utilization and improving the return on assets. Further details on these efforts will be provided as these actions progress.
- Further consolidate supply chain and distribution network
  - Expanding partnership with Menlo Worldwide Logistics with a focus on warehouse network rationalization and optimization, and implementation of processes to eliminate waste and inefficiency across global supply chain operations.
  - Continuing to partner with Ariba to optimize procurement and supply chain functions.
- Initiate a product rationalization/simplification program to improve margins, reduce the cash conversion cycle and improve inventory turnover.
  - Transitioning from a build-to-order manufacturing model to a just-in-time pull system.
  - Building a global capability for post-production customization.

In conjunction with these actions, along with the 5 percent workforce reduction announced in February 2008 and the Company s exiting of unprofitable business segments in certain geographies, the Company believes it has a solid basis to eliminate an additional $100,000 in cost, with approximately $70,000 to be realized by the middle of 2010.

Also during the first quarter of 2008, Diebold launched a cross-country Integrated Services (IS) symposium in California, Massachusetts and Illinois, designed to allow current and prospective customers to engage in personal discussions about IS solutions to their businesses challenges. Subject matter experts showcased products and key capabilities and held individual consultations. Outsourcing today is more than just a cost-reduction exercise. It has become a business strategy that equips customers with leading-edge technology and innovative products and services on a continuous basis.

With regard to the Company s Premier Election Solutions business, the performance and near-term expectations for this subsidiary remain weak. The market and political uncertainty surrounding voting technology has, to date, not been resolved. While Diebold continues to fully support its elections subsidiary, the Company also continues to pursue strategic alternatives to ownership of the subsidiary.

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, commercial and government sectors;

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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.

RESULTS OF OPERATIONS

The following table summarizes the results of our operations for the three-month periods ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31,			
	2008		2007	
	Dollars	% of Net Sales	Dollars (As Restated)	% of Net Sales (As Restated)
Net sales	$696,981	100.0%	$646,286	100.0%
Gross profit	174,059	25.0%	129,877	20.1%
Operating expenses	152,429	21.9%	123,380	19.1%
Operating profit	21,630	3.1%	6,497	1.0%
Net income	13,795	2.0%	1,634	0.3%
Diluted earnings per share	0.21	N/A	0.02	N/A

First Quarter 2008 Comparisons with First Quarter 2007

Net Sales

The following table represents information regarding our net sales for the three-month periods ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31,		
	2008	2007 (As Restated)	% Change
Net sales	$696,981	$646,286	7.8%

Net sales for the first quarter of 2008 totaled $696,981 and were $50,695 or 7.8 percent higher than net sales for the first quarter of 2007. The increase in net sales included a net positive currency impact of approximately $33,514 or 5.2 percent. Financial self-service revenue increased by $36,728 or 8.0 percent over the comparable period in 2007 with revenue growth of 59.6 percent in Asia Pacific and 5.2 percent in the Americas offset by a decrease in revenue of 13.3 percent in Europe, Middle East, and Africa (EMEA). Security solutions revenue increased by $5,215 or 2.9 percent over first quarter of 2007. Election systems revenue increased by $5,461 to $14,694, which represented an increase of 59.1 percent over the first quarter of 2007 due to growth in the U.S. based election systems business. All growth was due to an increase in PESI. There was no Brazil revenue. There was $3,291 of lottery systems revenue in the first quarter of 2008 compared to no revenue in the comparable period of 2007.

Gross Profit

The following table represents information regarding our gross profit for the three-month periods ended March 31, 2008 and March 31, 2007:

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	Three Months Ended March 31,		
	2008	**2007 (As Restated)**	**% Change**
Gross profit	$174,059	$129,877	34.0%
Gross profit margin	25.0%	20.1%	4.9%

Gross profit for the first quarter of 2008 totaled $174,059 and was $44,182 or 34.0 percent higher than gross profit in the first quarter of 2007. Product gross margin was 28.8 percent compared to 20.8 percent in the comparable period of 2007. Restructuring charges of approximately $1,302 were included in product costs of sales for the first quarter of 2008 while restructuring charges of approximately $21,366 were recorded in the first quarter of 2007. Restructuring charges in the first quarter of 2008 related primarily to severance costs from the previously announced ongoing reduction in the Company s global workforce, which is on track to be completed by the end of 2008. Restructuring charges in the first quarter of 2007 related entirely to the closing of the manufacturing operations in Cassis, France and adversely affected product gross margin by 7.3 percent. The increase in product gross margin was the result of higher restructuring charges in 2007. In addition, savings realized from the Company s ongoing cost reduction program were offset by a higher mix of revenue from lower margin market segments, some pricing pressure in Asia Pacific and Europe and significant increases in certain commodity prices. Service gross margin was 21.9 percent compared to 19.5 percent in the first quarter of 2007. The year-over-year improvement in service margin was driven by better product quality, improved international margins as a result of previous restructuring actions, and continued gains in productivity and efficiency as the Company continues to implement the latest tools and technology across its global service organization.

Operating Expenses

The following table represents information regarding our operating expenses for the three-month periods ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31,		
	2008	**2007 (As Restated)**	**% Change**
Selling, general, and administrative expense	$ 128,297	$ 106,974	19.9%
Research, development and engineering expense	19,755	16,389	20.5%
Impairment of asset	4,376		100.0%
(Gain) loss on sale of assets, net	1	17	-94.1%
Total operating expenses	$ 152,429	$ 123,380	23.5%
Percent of net sales	21.9%	19.1%	2.8%

Selling and administrative expense for the first quarter of 2008 was $128,297 or 18.4 percent of net sales compared to $106,974 or 16.6 percent of net sales in 2007. The increase in selling and administrative expense as a percent of sales between years resulted in part due to higher non-routine expenses and restructuring charges in the first quarter of 2008 as compared to the first quarter of 2007, a weakening of the U.S. dollar, and a $3,882 reduction in the reserve for bad debts in 2007 related to the collection of the previously reserved for election receivables from counties in California. Non-routine expenses of $8,715 or 1.3 percent of net sales impacted the first quarter of 2008 compared to $227 of non-routine expenses in the first quarter of 2007. The non-routine expenses were mainly from legal, audit and consultation fees related to the internal review of other accounting items, restatement of financial statements and the ongoing SEC and DOJ investigations and other advisory fees. Additionally, restructuring charges of approximately $1,293 or 0.2 percent of net sales were included in selling and administrative expense for the first quarter of 2008. The restructuring charges were primarily related to severance costs from the previously announced ongoing reduction in the Company s global workforce, which is on track to be completed by the end of 2008. There were no restructuring charges included in selling and administrative expense for the first quarter of 2007. Research, development, and engineering expense for 2008 was 2.8 percent of net sales as

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compared to 2.5 percent in 2007. The company incurred a charge of $4,376 for the impairment of asset in the quarter ended March 31, 2008 related to the write down of intangible assets from the 2004 acquisition of TFE Technology Holdings, a maintenance provider of network and hardware service solutions to federal and state government agencies and commercial firms.

Operating Profit

The following table represents information regarding our operating profit for the three-month periods ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31,		
	2008	2007 (As Restated)	% Change
Operating profit	$21,630	$ 6,497	232.9%
Operating profit margin	3.1%	1.0%	2.1%

Operating profit for the first quarter of 2008 totaled $21,630 and was $15,133 or 232.9 percent higher than operating profit for the comparable period of 2007 mainly due to higher international financial self-service sales and gross profit. Operating profit was adversely impacted by restructuring charges of $3,690 or 0.5 percent of net sales in the first quarter of 2008 compared to $21,366 or 3.3 percent of net sales for the comparable period in 2007. In addition, non-routine expenses of $8,715 or 1.3 percent of net sales affected the operating profit in the first quarter of 2008 compared to $227 of non-routine expenses for the comparable period in 2007.

Other Income (Expense) and Minority Interest

The following table represents information regarding our other income (expenses) and minority interest for the three-month periods ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31,		
	2008	2007 (As Restated)	% Change
Investment income	$ 6,529	$ 5,608	16.4%
Interest expense	(10,767)	(9,385)	14.7%
Miscellaneous, net	3,805	4,273	-11.0%
Other income (expense)	$ (433)	$ 496	-187.3%
Percentage of net sales	-0.1%	0.1%	-0.2%
Minority interest	$ (2,186)	$ (657)	232.7%

Investment income for the first quarter of 2008 was $6,529 and increased $921 or 16.4 percent compared to the first quarter of 2007. Interest expense for the first quarter of 2008 increased $1,382 or 14.7 percent from the comparable period in 2007. The increase in interest expense was mainly the result of higher borrowing levels year-over-year. Miscellaneous income, net for the first quarter of 2008 was $3,805 as compared to miscellaneous income, net for the first quarter of 2007 of $4,273. The decrease in miscellaneous income was primarily due to movement from a position of foreign exchange gain in 2007 to a foreign exchange loss in 2008, partially offset by higher other income in 2008 due to a reduction in the reserve for the note related to the sale of the Campus System business discontinued operation. Minority interest was higher in the first quarter of 2008 by $1,529.

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Net Income

The following table represents information regarding our net income for the three-month periods ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31,		
	2008	2007 (As Restated)	% Change
Net income	$13,795	$ 1,634	744.2%
Percent of net sales	2.0%	0.3%	1.7%
Effective tax rate	27.4%	74.2%	-46.8%

Net income for the first quarter of 2008 was $13,795 and increased $12,161 or 744.2 percent compared with the first quarter of 2007. The effective tax rate for the first quarter of 2008 was 27.4 percent versus 74.2 percent in the first quarter of 2007.

Segment Analysis and Operating Profit Summary

Diebold North America (DNA) first quarter of 2008 net sales of $357,566 increased 0.4 percent over first quarter of 2007 net sales of $356,265. Diebold International (DI) first quarter of 2008 net sales of $321,430 increased by $40,642 or 14.5 percent compared with net sales in the comparable period in 2007 of $280,788. The increase in DI net sales was attributable to strong Asia Pacific revenue growth of $40,415 as well as growth in Brazil and Latin America. Election Systems (ES) & Other first quarter of 2008 net sales of $17,985 increased by $8,752 or 94.8 percent compared to first quarter of 2007 net sales of $9,233. This included Brazilian lottery systems revenue of $3,291 in the first quarter of 2008 with no lottery revenue in the comparable period for 2007.

DNA first quarter of 2008 operating profit of $13,453 decreased $9,376 compared with first quarter of 2007 operating profit of $22,829. This decrease was due primarily to non-routine expenses and workforce optimization restructuring charges incurred in 2008. DI operating profit for the first quarter of 2008 was $10,261, an increase of $29,300 or 153.9 percent compared with the first quarter of 2007. The 2007 DI operating profit was impacted by restructuring expense of $21,366 related to the closure of the manufacturing operation in Cassis, France. ES & Other first quarter of 2008 operating profit was a loss of $2,084 and deteriorated by $4,791 compared to an operating profit of $2,707 in the first quarter of 2007. This decrease includes a $3,882 accounts receivable reserve reduction in the first quarter of 2007, due to collection of previously reserved for receivables related to counties in California.

Refer to Note 9 to the condensed consolidated financial statements for details of segment revenue and operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Capital resources are obtained from income retained in the business, senior notes, borrowings under the Company s committed and uncommitted credit facilities, long-term industrial revenue bonds, and operating and capital leasing arrangements. Management expects that cash provided from the Company s capital resources will be sufficient to finance planned working capital needs, investments in facilities or equipment, and the purchase of the Company s common shares for at least the next twelve months. 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.

The following table summarizes the results of our Condensed Consolidated Statement of Cash Flows for the three-month periods ended March 31, 2008 and 2007:

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	Three Months Ended March 31,	
	2008	2007 (As Restated)
Net cash flow provided (used) by:		
Operating activities	$ 15,625	$ (18,546)
Investing activities	(35,502)	(7,492)
Financing activities	(45,646)	(135,989)
Effect of exchange rate changes on cash and cash equivalents	1,204	2,504
Net decrease in cash and cash equivalents	$ (64,319)	$ (159,523)

Net cash provided by operating activities increased by $34,171 in the first quarter of 2008, moving from $15,625 of cash provided by operating activities in the first quarter of 2008 to cash used by operating activities of $18,546 in the first quarter of 2007. Cash flows from operating activities are generated mainly from net income and controlling the components of working capital. The primary reasons for the increase were the $15,625 increase in net income, changes in certain other assets and liabilities and accounts payable offset by lower decreases in trade receivables, lower increase in deferred revenue related to service contract billings and the increase in other current assets. The change in certain other assets and liabilities was $43,666, moving from ($44,749) in the first quarter of 2007 to ($1,083) in the first quarter of 2008 and was primarily the result of timing of tax payments, a lower decrease in other current liabilities and a decrease in notes receivables in the first quarter of 2008 compared to an increase in the first quarter of 2007. The decrease in accounts payable was $6,859 as compared with $29,908 in 2007. Trade receivables decreased to $2,947 in the first quarter of 2008 as compared with $19,654 in first quarter of 2007, with days sales outstanding improving from 77 days at March 31, 2007 to 64 days at March 31, 2008. The lower decrease in trade receivables in the first quarter of 2008 was largely attributed to higher 2008 first quarter revenue.

Net cash used for investing activities was $35,502 in the three months ended March 31, 2008, an increase of $28,010 from the same period in 2007. The increase was primarily due to the $26,413 change in investments, moving from proceeds from maturities of investments of $9,645 during the first quarter of 2007 compared to net payments for purchases of investments of $16,768 during the same period in 2008. In addition, the Company used $3,733 for the final acquisition payment of D&G Centroamerica, S. de R.L. and an earn-out payment for a previous acquisition in the first quarter of 2008 compared to $2,677 of payments for acquisitions in the first quarter of 2007. This was partially offset by a $3,737 decrease in capital expenditures and lower investments in certain other assets.

Net cash used by financing activities was $45,646 in the three months ended March 31, 2008, a decrease of $90,343 compared with $135,989 for the three months ended March 31, 2007. The decrease was largely attributable to decreases in net note payable borrowings of $77,220 and distributions to minority interest holders of $15,440.

In March 2006, the Company secured fixed-rate long-term financing of $300,000 in senior notes in order to take advantage of attractive long-term interest rates. The maturity dates of the senior notes are staggered, with $75,000, $175,000 and $50,000 becoming due in 2013, 2016 and 2018, respectively. The Company used $270,000 of the net proceeds from the offering to reduce the outstanding balance under its revolving credit facility. All other contractual cash obligations with initial and remaining terms in excess of one year and contingent liabilities remained generally unchanged at March 31, 2008 compared to December 31, 2007.

At March 31, 2008, the Company had U.S. dollar denominated private placement debt outstanding of $300,000, U.S. dollar denominated outstanding bank credit lines approximating $235,098, euro denominated outstanding bank credit

lines approximating 38,775 (translated at $61,148) and Indian rupee denominated outstanding bank credit lines approximating 178,802 (translated at $4,458). An additional $255,402 was available under committed credit line agreements, and $73,397 was available under uncommitted lines of credit.
The Companys financing agreements contain various restrictive covenants, including net debt to capitalization and interest coverage ratios. Under both the agreements with J.P. Morgan Chase Bank, N.A. and the note purchase agreement governing the senior notes, we are obligated to provide financial statements within a specified period of time after the end of each quarter and to provide audited financial statements within a specified period of time after the end of our fiscal year. Due to the delay in completing our financial statements, we received waivers under both aforementioned agreements from the lenders that allow

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us to waive the requirement to provide financial statements until September 30, 2008. Giving effect to the waivers, we were in compliance with the covenants as of March 31, 2008.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s discussion and analysis of the Company s financial condition and results of operations is based upon the Company s consolidated financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. The Company bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Management believes there have been no significant changes during the quarter ended March 31, 2008 to the items that the Company disclosed as its critical accounting policies and estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 161 In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivatives Instruments and Hedging Activities an amendment of FASB Statement No. 133.* SFAS 161 applies to all entities and requires specified disclosures for derivative instruments and related hedged items accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The Statement amends and expands SFAS 133 s existing disclosure requirements to provide financial statement users with a better understanding of how and why an entity uses derivatives, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 is not expected to have a material impact on the Company s financial position, results of operations or liquidity.

Statement of Financial Accounting Standards No. 160 In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51.* SFAS 160 applies to all entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Under SFAS 160, noncontrolling interests in a subsidiary that are currently recorded within mezzanine (or temporary) equity or as a liability will be included in the equity section of the balance sheet. In addition, this statement requires expanded disclosures in the financial statements that clearly identify and distinguish between the interests of the parent s owners and the interest of the noncontrolling owners of the subsidiary. SFAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Application of SFAS 160 s disclosure requirements is retroactive. The Company is in the process of determining the effects that adoption of SFAS 160 will have on its consolidated financial statements.

Statement of Financial Accounting Standards No. 141(R) In December 2007, the FASB issued SFAS No. 141(R) (SFAS 141(R)), *Business Combinations*, which amends the accounting and reporting requirements for business combinations. SFAS 141(R) places greater reliance on fair value information, requiring more acquired assets and liabilities to be measured at fair value as of the acquisition date. The pronouncement also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as a capitalized cost of acquisition. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and the Company will implement its requirements in future business combinations. The Company does not expect the adoption of SFAS 141(R) to have a material impact on the Company s historical financial position, results of operations or liquidity.

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FORWARD-LOOKING STATEMENT DISCLOSURE

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historical information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. These forward-looking statements relate to, among other things, the Company s future operating performance, the Company s share of new and existing markets, the Company s short- and long-term revenue and earnings growth rates, the Company s implementation of cost-reduction initiatives and measures to improving pricing, including the optimization of the Company s manufacturing capacity and the ongoing SEC and DOJ investigations. The use of the words will, believes, anticipates, expects, intends 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. Although the Company believes that these forward-looking statements are based upon reasonable assumptions regarding, among other things, the economy, its knowledge of its business, and on key performance indicators that impact the Company, these forward-looking statements involve risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in or implied by the forward-looking statements. The Company is not obligated to update forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Some of the risks, uncertainties and other factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements include, but are not limited to:

- results of the SEC and DOJ investigations;
- 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, including Brazil, where a significant portion of the Company s revenue is derived;
- acceptance of the Company s product and technology introductions in the marketplace;
- amount of cash and non-cash charges in connection with the planned closure of the Company s Newark, Ohio facility;
- unanticipated litigation, claims or assessments;
- 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;
- potential security violations to the Company s information technology systems;

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS as of March 31, 2008
(Unaudited)
(In thousands, except per share amounts)

the Company s ability to successfully execute its strategy related to the elections systems business; and

the Company s ability to achieve benefits from its cost-reduction initiatives and other strategic changes.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to foreign currency exchange rate risk inherent in its international operations denominated in currencies other than the U.S. dollar. A hypothetical 10 percent unfavorable movement in the applicable foreign exchange rates would have resulted in a decrease in 2008 year-to-date operating profit of approximately $2,011. The sensitivity model assumes an instantaneous, parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in an instantaneous or parallel fashion may overstate the impact of changing exchange rates on amounts denominated in a foreign currency.

The Company s risk-management strategy uses derivative financial instruments such as forwards to hedge certain foreign currency exposures. The intent is to offset gains and losses that occur on the underlying exposures, with gains and losses on the derivative contracts hedging these exposures. The Company does not enter into derivatives for trading purposes. The Company s primary exposures to foreign exchange risk are movements in the dollar/euro, dollar/yuan, dollar/forint, and dollar/real rates. For the three months ended March 31, 2008, there were no significant changes in the Company s foreign exchange risks compared with the prior period.

The Company manages interest rate risk with the use of variable rate borrowings under its committed and uncommitted credit facilities, fixed rate borrowings under its private placement agreement and interest rate swaps. Variable rate borrowings totaled $305,048 at March 31, 2008, of which $50,000 was effectively converted to fixed rate using interest rate swaps. A one percentage point increase or decrease in interest rates would have resulted in an increase or decrease in interest expense for the three months ended March 31, 2008 of approximately $633 on the variable debt including the impact of the swap agreements. The Company s primary exposure to interest rate risk is movement in the three month LIBOR rate. The Company hedged $200,000 of the fixed rate borrowings under a its private placement agreement, which was treated as a cash flow hedge. This reduced the effective interest rate by 14 basis points from 5.50 to 5.36 percent.

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ITEM 4: CONTROLS AND PROCEDURES

This quarterly report includes the certifications of our CEO and CFO required by Rule 13a-14 of the Exchange Act. See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Background of Restatement

As previously disclosed under Part II Item 9A Controls and Procedures in our Annual Report on Form 10-K for the year ended December 31, 2007, management has concluded that our internal control over financial reporting was not effective as of December 31, 2007.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding required disclosures.

In connection with the preparation of this quarterly report, Diebold s management, under the supervision and with the participation of the CEO and CFO, conducted an evaluation of disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, including restatement of previously issued financial statements and the identification of certain material weaknesses in internal control over financial reporting, discussed in detail below, the CEO and CFO concluded that the Company s disclosure controls and procedures were not effective as of March 31, 2008 and as of the filing of this quarterly report. Certain material weaknesses described below have not been remediated.

Nevertheless, based on a number of factors, including the completion of the Company s internal review, internal procedures that identified revisions to previously issued financial statements and the performance of additional procedures by management designed to ensure the reliability of financial reporting, the Company s management believes that the consolidated financial statements fairly present, in all material respects, the Company s financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

Management identified the following control deficiencies that constituted material weaknesses:

Description of Material Weaknesses

Control Environment: The Company s control environment was not effective at establishing sufficient control consciousness or the appropriate culture to promote the consistent application of accounting policies and procedures, adherence to GAAP, and the importance of effective internal control over financial reporting. This material weakness contributed to the material weaknesses noted below.

Selection, Application and Communication of Accounting Policies: The Company s policies and procedures for the selection of accounting policies and the communication of those accounting policies to the Company s personnel for consistent application were ineffective. This material weakness results from insufficient accounting and finance personnel with skills, knowledge, and training in GAAP in light of the Company s geographic dispersion of the Company s operations, decentralization of accounting functions, and disparity in accounting systems. This material weakness resulted in additional material weaknesses in the accounting for certain revenue transactions under SAB 104 and inventory valuation that arise from policies and procedures that do not effectively apply GAAP in the Company s financial statements. These material weaknesses resulted in material errors in the preparation of the Company s financial statements.

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Monitoring: The Company did not maintain monitoring activities that were effective at ensuring that breakdowns in the operation of controls at the individual business units are detected and corrected on a timely basis. This material weakness led to the failure to detect deficiencies in the compliance with the Company s policies and procedures on a timely basis, including balance sheet account review controls operated by business unit personnel. Specifically, certain asset and accrual accounts were recorded and reconciled by numerous individual business units without a review or reconciliation at a higher level on a total account basis. This material weakness resulted in material errors in the preparation of the Company s financial statements.

Manual Journal Entries: The Company did not maintain effective policies and procedures over non-recurring manual journal entries. Specifically, effective policies and procedures were not in place to ensure that non-recurring manual journal entries were accompanied by sufficient supporting documentation, that supporting documentation was properly retained, and that these journal entries were adequately reviewed and approved. This material weakness resulted in material errors in the Company s financial statements.

Contractual Agreements: The Company did not have appropriate policies and procedures to ensure that non-routine contractual agreements or supporting information with financial reporting implications are received completely or in a timely manner by accounting personnel. This material weakness resulted in material errors in the presentation and disclosure of certain acquisitions, divestitures, sales arrangements and legal matters.

Account Reconciliations: The Company s policies and procedures did not adequately address the steps necessary for an adequate reconciliation, the supporting documentation that should be maintained, the timing of the performance or their review and approval. This resulted in material weaknesses in the Company s policies and procedures with respect to account reconciliations for accounts receivable, inventory, other assets, accounts payable, accrued expenses, deferred revenue, and intercompany accounts.

These deficiencies give rise to a reasonable possibility of a material error occurring in each of these accounts and not being prevented or detected on a timely basis and resulted in material errors in the Company s financial statements. These material weaknesses resulted in material errors and in the restatement of Diebold s historical financial statements and resulted in errors in the Company s preliminary 2007 financial statements.

Changes in Internal Control Over Financial Reporting

Other than disclosed below there are no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 that occurred during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the quarter ended March 31, 2008, management continued the process of implementing certain of the remediation measures described below including (a) development and execution of portions of a specific and targeted communication plan involving the executive leadership and the Board of Directors, (b) certain personnel actions, (c) implementation of the revised revenue recognition policy, (d) the establishment of more rigorous financial reporting policies, procedures and processes involving the review and approval of account reconciliations, journal entries, and corresponding supporting documentation, (e) the design and implementation of training programs, (f) an increased emphasis by the corporate accounting, internal audit and finance controls compliance groups on reviewing key accounting controls and process, including documentation requirements, and (g) engaging expert accounting consultants to assist management with the implementation and optimization of controls, the documentation of complex accounting transactions and the reconciliation of deferred revenue accounts. Management continued to implement these remediation measures during the quarter ended March 31, 2008.

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Diebold s management believes the remediation measures described below will remediate the identified control deficiencies and strengthen the Company s internal control over financial reporting. As management continues to evaluate and work to improve its internal control over financial reporting, it may be determined that additional measures must be taken to address control deficiencies or it may be determined that the Company needs to modify, or in appropriate circumstances not to complete, certain of the remediation measures described below.

Remediation Steps to Address Material Weaknesses

In response to the material weaknesses identified above, management, along with the CEO and CFO, proposed and began the implementation of several key initiatives and remediation efforts to address the material weaknesses, as well as other areas of identified risk. These remediation efforts, outlined below, are intended both to address the identified material weaknesses and to enhance the Company s overall financial control environment.

<u>Control Environment</u>: Commencing in 2006, major efforts have been made by current senior executives to communicate and establish an effective culture and tone necessary to support the Company s control environment. Substantial progress has been made in addressing the remediation of this weakness at all levels within the Company, but ongoing efforts were still in process as of date of the filing of this quarterly report. In order to reinforce an environment of strong consciousness and the appropriate culture within the Company to ensure the consistent application of accounting policies, adherence with GAAP, and the importance of internal control over financial reporting, management has developed and executed portions of a specific and targeted communication plan involving the executive leadership and the Board of Directors. These communications are focused on setting the tone and highlighting the requirements and expectations for all employees related to financial reporting controls compliance, personnel responsibilities, processes and avenues for reporting suspected violations of the Code of Conduct, and mechanisms to answer questions and address potential concerns. In addition, the Company s executives will be required to attend educational courses that will focus on executive fiduciary responsibilities and duties relating to financial reporting and controls.

<u>Selection, Application and Communication of Accounting Policies</u>: Management has made some personnel changes in the accounting and financial reporting functions. Actions have been taken, related to appropriate remedial actions with respect to certain employees, including terminations, reassignments, reprimands, increased supervision, and the imposition of financial penalties in the form of compensation adjustments. In addition, management will continue to enhance its accounting and finance organization personnel to better align individuals with job responsibilities commensurate with skills sets, experience, and capabilities. The Company is also evaluating the structure of the finance department, to further align and segregate, where necessary, the responsibilities within the accounting, financial reporting, planning and forecasting responsibilities. In addition, the Company is continuing to recruit additional qualified senior accounting personnel for the accounting and finance departments, including certified public accountants with public accounting firm experience, and designing and implementing retention programs to ensure that personnel with this background and experience can be retained. Management also is implementing training programs that are designed to ensure that the Company s personnel have knowledge, experience and training in the application of GAAP commensurate with the Company s financial reporting requirements.

In 2007, management began expansion of its existing accounting policies and procedures manual, and issued several new policies. To date, these policies and procedures address account reconciliations, manual journal entries, fixed assets, non-routine contractual agreements, and access to financial information systems. Management will expand, strengthen and distribute a financial and accounting policies and procedures manual that will specifically address revenue recognition, recording of expenses, recording and valuation of assets, accruals and reserves and other accounting matters. In addition, in 2007, management increased the focus and expanded testing by internal audit and the financial controls compliance group on the review and monitoring of key accounting processes, including journal entries, account reconciliations and their corresponding supporting documentation and the review of complex accounting areas, including revenue recognition. Management will

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continue this increased focus and expanded testing of controls compliance related to these key accounting processes in 2008.

Starting in August 2007, management conducted training courses for numerous accounting and finance personnel regarding accounting policies, account reconciliations and revenue recognition. Management will continue to identify, develop and deliver targeted training, as necessary, to global accounting and finance personnel on current financial accounting issues and policies, internal controls and GAAP compliance, including specific revenue recognition training. This training will cover proper capitalization of assets, including inventory and accrual of costs. Finally, the training will also include the fundamentals of accounting and financial reporting matters, including accounting policies, financial reporting requirements, account reconciliations, documentation requirements, and other specific areas of financial reporting.

In January 2008, management formed a multi-discipline project team that has implemented procedures and proper financial controls related to compliance with the revised revenue recognition policy to ensure revenue is properly recognized.

Monitoring: Management continues to enhance its accounting and finance processes and structure to facilitate completion of detailed analytical reviews of the consolidated balance sheet at a financial statement line item level. This process will include an additional review separate from the account owner or business unit personnel at a level of precision that is designed to detect a breakdown in controls which could lead to errors that could be material. The process includes a review to identify inconsistencies in application of GAAP, reporting misclassifications of balances and/or validates that variances in balance sheet accounts are consistent with fluctuations in related income statement accounts.

Manual Journal Entries: In October 2007, management established a global journal entry accounting policy governing requirements for support, review and approval of non-recurring manual journal entries. This policy was established to ensure accuracy and completeness of non-recurring manual journal entries on a global basis, and implemented authorization levels for the approval of non-recurring manual journal entries that includes the review of certain material non-recurring manual journal entries by the Vice President Corporate Controller and/or CFO. Compliance with this policy will be tested on a regular basis by the financial controls compliance group. In addition, management is reviewing the utilization of the systematic application control of journal entry approvals within its ERP system.

Contractual Agreements: Management continues to evaluate and enhance controls to develop a more formalized process for monitoring, updating, and disseminating non-routine contractual agreements to facilitate a complete and timely review by accounting personnel. Additional controls include the implementation of a global contractual agreement database related to existence, completeness, approval, and retention of global contractual agreements amongst the various departments.

Account Reconciliations: In 2006, 2007 and 2008, management engaged expert accounting consultants to assist management with the implementation and optimization of financial controls in various areas including the administration of existing controls and procedures, the documentation of complex accounting transactions and the reconciliation of deferred revenue accounts. In August 2007, management established a global account reconciliation policy governing account reconciliation content, format, review and approval procedures. Compliance with this policy will be tested on a regular basis by the financial controls compliance group. In December 2007, management began implementing a global account reconciliation compliance monitoring tool related to existence, completeness, accuracy and retention of account reconciliations. To date, approximately 80% of the total balance sheet account reconciliations prepared in the United States are monitored utilizing this tool. Global deployment of this tool is contemplated by the end of 2009. In the meantime, management utilizes manual monitoring processes to ensure that reconciliations are completed, reviewed and approved in a timely fashion.

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The material weaknesses identified by management and discussed above are not fully remediated as of the date of the filing of this quarterly report. Substantive procedures have been performed by the Company in consultation with external accounting advisors to ensure the underlying transactions within this quarterly report are supported and the financial statements are fairly stated as of the date of the filing of this quarterly report. The Audit Committee has directed management to develop a detailed plan and timetable for the implementation of the above-referenced remedial measures, to the extent not already complete, and will monitor their implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company is 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 management s opinion, the Company s consolidated financial statements would not be materially affected by the outcome of any present legal proceedings, commitments, or asserted claims.

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

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

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

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

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

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

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

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

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

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

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

The *Konkol*, *Ziolkowski*, *New Jersey Carpenter s Pension Fund*, *Rein* and *Graham* cases, which allege violations of the federal securities laws, have been consolidated into a single proceeding. The *McDermott*, *Barnett*, *Farrell*, *Forbes* and *Gromek* cases, which allege breaches of fiduciary duties under the Employee Retirement Income Security Act of 1974 with respect to the 401(k) plan, likewise have been consolidated into a single proceeding. The Company and the individual defendants deny the allegations made against them, regard them as without merit, and intend to defend themselves vigorously. On August 22, 2008, the court dismissed the consolidated amended complaint in the consolidated securities litigation and entered a judgment in favor of the defendants. On September 16, 2008, the plaintiffs in the consolidated securities litigation filed a notice of appeal with the U.S. Court of Appeals for the Sixth Circuit.

The Company filed a lawsuit on May 30, 2008 (*Premier Election Solutions, Inc., et al. v. Board of Elections of Cuyahoga County, et al.*, Case No. 08-CV-05-7841, (Franklin Cty. Ct Common Pleas)) against the Board of Elections of Cuyahoga County, Ohio, the Board of County Commissioners of Cuyahoga County, Ohio, Cuyahoga County, Ohio (collectively, the County), and Ohio Secretary of State Jennifer Brunner (Secretary) regarding several Ohio contracts under which the Company provided electronic voting systems and related services to the State of Ohio and a number

of its counties. The lawsuit was precipitated by the County s threats to sue the Company for unspecified damages. The complaint seeks a declaration that the Company met its contractual obligations. In response, on July 15, 2008, the County filed an answer and counterclaim alleging that the voting system was defective and seeking declaratory relief and unspecified damages under several theories of recovery. The Secretary has also filed an answer and counterclaim seeking declaratory relief and unspecified damages under a number of theories of recovery.
Management is unable to determine the financial statement impact, if any, of the federal securities class action, the 401(k) class action and the electronic voting systems action.
Additionally, certain current and former officers and directors had been named as defendants in two shareholder derivative actions filed in federal court, purportedly on behalf of the Company (*Recht v. O Dell et al.*, No. 5:06CV233 (N.D. Ohio, filed January 31, 2006) and *Wietschner v. Diebold, Inc., et al.*, No. 5:06CV418 (N.D. Ohio, filed February 23, 2006)). The complaints asserted claims of breach of fiduciary duties against the defendants on behalf of the Company in connection with alleged violations of the federal securities laws. The derivative cases were consolidated into a single proceeding. On February 29, 2008, the court dismissed the consolidated amended derivative complaint.

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The Company and certain directors had been named as defendants by an individual purporting to seek relief on behalf of a putative class of shareholders (*Albert Stein v. Diebold Incorporated, et al.*, Case No. 2008 CV 01144 (Stark Cty. Ct. Common Pleas, filed March 4, 2008)). The complaint was voluntarily dismissed by the plaintiff on June 25, 2008. The complaint alleged breaches of fiduciary duties with respect to the Company s rejection of an unsolicited offer by United Technologies Corporation to purchase all of the Company s outstanding shares. The complaint sought an injunction requiring certain actions and other equitable relief and attorneys fees and expenses. The Company and the individual defendants had moved to dismiss the complaint, which motion was pending as of the dismissal.

The Company was informed during the first quarter of 2006 that the staff of the SEC had begun an informal inquiry relating to the Company s revenue recognition policy. In the second quarter of 2006, the Company was informed that the SEC s inquiry had been converted to a formal, non-public investigation. In the fourth quarter of 2007, the Company also learned that the DOJ had begun a parallel investigation. The Company is continuing to cooperate with the government in connection with these investigations. The Company cannot predict the length, scope or results of the investigations, or the impact, if any, on its results of operations.

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ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information concerning the Company s share repurchases made during the first quarter of 2008:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans (2)
January		N/A		2,926,500
February	20,639	$ 25.50		2,926,500
March	57,748	$ 28.55		2,926,500
Total	78,387	$ 27.75		2,926,500

(1) Includes 20,639 and 57,748 shares in February and March, respectively, surrendered or deemed surrendered to the Company in order to satisfy tax withholding obligations in connection with the distribution of common shares under employee share-based compensation plans.

(2) The total number of shares repurchased as part of the publicly announced share

repurchase plan was 9,073,500 as of March 31, 2008. The plan was approved by the Board of Directors in April 1997 and authorized the repurchase of up to two million shares. The plan was amended in June 2004 to authorize the repurchase of an additional two million shares, and was further amended in August and December 2005 to authorize the repurchase of an additional six million shares. On February 14, 2007, the Board of Directors approved an increase in the Company s share repurchase program by authorizing the repurchase of up to an additional two million of the Company s outstanding common shares. The plan has no expiration date.

ITEM 6: EXHIBITS

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

3.1 (ii) Amended and Restated Code of Regulations of Diebold, Incorporated. incorporated by reference to Exhibit 3.1 (ii) to Registrant s Form 10-Q for the quarter ended March 31, 2007. (Commission File

No. 1-4879)

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 Annual Report on Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879)
4.1	Rights Agreement dated as of February 11, 1999 between Diebold, Incorporated and The Bank of New York incorporated by reference to Exhibit 4.1 to Registrant s Registration Statement on Form 8-A dated February 2, 1999. (Commission File No. 1-4879)

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*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 incorporated by reference to Exhibit 10.2 to Registrant s Annual Report on Form 10-K for the year ended December 31, 2005. (Commission File No. 1-4879)
*10.5 (i)	Supplemental Employee Retirement Plan I as amended and restated July 1, 2002 incorporated by reference to Exhibit 10.5 (i) to Registrant s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879)
*10.5 (ii)	Supplemental Employee Retirement Plan II as amended and restated July 1, 2002 incorporated by reference to Exhibit 10.5 (ii) to Registrant s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879)
*10.7 (i)	1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 to Registrant s Annual Report on Form 10-K for the year ended December 31, 1992. (Commission File No. 1-4879)
*10.7 (ii)	Amendment No. 1 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 (ii) to Registrant s Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879)
*10.7 (iii)	Amendment No. 2 to the Amended and Restated 1985 Deferred Compensation Plan for Directors of Diebold, Incorporated incorporated by reference to Exhibit 10.7 (ii) to Registrant s Form 10-Q for the quarter ended March 31, 2003. (Commission File No. 1-4879)
*10.7 (iv)	2005 Deferred Compensation Plan for Directors of Diebold, Incorporated, effective as of January 1, 2005 incorporated by reference to Exhibit 10.7(iv) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2005. (Commission File No. 1-4879)
*10.8 (i)	1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 4(a) to Form S-8 Registration Statement No. 333-60578.
*10.8 (ii)	Amendment No. 1 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 10.8 (ii) to Registrant s Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879)
*10.8 (iii)	Amendment No. 2 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 10.8 (iii) to Registrant s Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879)
*10.8 (iv)	Amendment No. 3 to the 1991 Equity and Performance Incentive Plan as Amended and Restated as of February 7, 2001 incorporated by reference to Exhibit 10.8 (iv) to Registrant s Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879)

*10.9	Long-Term Executive Incentive Plan incorporated by reference to Exhibit 10.9 of Registrant s Annual Report on Form 10-K for the year ended December 31, 1993. (Commission File No. 1-4879)

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*10.10	(i)	Amended and Restated 1992 Deferred Incentive Compensation Plan incorporated by reference to Exhibit 10.10 (i) to Registrant s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879)
*10.10	(ii)	2005 Deferred Incentive Compensation Plan, effective as of January 1, 2005 incorporated by reference to Exhibit 10.10 (ii) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2005. (Commission File No. 1-4879)
*10.11		Annual Incentive Plan incorporated by reference to Exhibit 10.11 to Registrant s Annual Report on Form 10-K for the year ended December 31, 2000. (Commission File No. 1-4879)
*10.13	(i)	Forms of Deferred Compensation Agreement and Amendment No. 1 to Deferred Compensation Agreement incorporated by reference to Exhibit 10.13 to Registrant s Annual Report on Form 10-K for the year ended December 31, 1996. (Commission File No. 1-4879)
*10.13	(ii)	Section 162(m) Deferred Compensation Agreement (as amended and restated January 29, 1998) incorporated by reference to Exhibit 10.13 (ii) to Registrant s Form 10-Q for the quarter ended March 31, 1998. (Commission File No. 1-4879)
*10.14		Deferral of Stock Option Gains Plan incorporated by reference to Exhibit 10.14 to Registrant s Annual Report on Form 10-K for the year ended December 31, 1998. (Commission File No. 1-4879)
10.17	(i)	Amended and Restated Loan Agreement dated as of April 30, 2003 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. incorporated by reference to Exhibit 10.17 to Registrant s Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 1-4879)
10.17	(ii)	First amendment to Loan Agreement dated as of April 28, 2004 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and Bank One, N.A. incorporated by reference to Exhibit 10.17(ii) to Registrant s Form 10-Q for the quarter ended June 30, 2004. (Commission File No. 1-4879)
10.17	(iii)	Second amendment to Loan Agreement dated as of April 27, 2005 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, N.A.) incorporated by reference to Exhibit 10.1 to Registrant s Form 8-K filed on May 3, 2005. (Commission File No. 1-4879)
10.17	(iv)	Third amendment to Loan Agreement dated as of November 16, 2005 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, N.A.) incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 22, 2005. (Commission File No. 1-4879)
10.17	(v)	Fourth Amendment to Loan Agreement, dated November 27, 2006 among Diebold, Incorporated, the Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank N.A. (successor by merger to Bank One, N.A.) incorporated by reference to Exhibit 10.17(v) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2006. (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)

DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of March 31, 2008

*10.18	(ii)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (ii) to Registrant s Form 10-Q for the quarter ended September 30, 2002. (Commission File No. 1-4879)
*10.18	(iii)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (iii) to Registrant s Form 10-Q for the quarter ended June 30, 2003. (Commission File No. 14879)
*10.18	(iv)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (iv) to Registrant s Form 10-Q for the quarter ended March 31, 2004. (Commission File No. 1-4879)
*10.18	(v)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney incorporated by reference to Exhibit 10.18 (v) to Registrant s Form 10 -Q for the quarter ended March 31, 2005. (Commission File N0. 1-4879)
*10.18	(vi)	Extension of Retirement and Consulting Agreement with Robert W. Mahoney dated March 7, 2006 incorporated by reference to Exhibit 10.18(vi) to Registrant s Annual Report on Form 10-K for the year ended December 31, 2005. (Commission File No. 1-4879)
10.20	(i)	Transfer and Administration Agreement, dated as of March 31, 2001 by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association and the financial institutions from time to time parties thereto incorporated by reference to Exhibit 10.20 (i) to Registrant s Form 10-Q for the quarter ended March 31, 2001. (Commission File No. 1-4879)
10.20	(ii)	Amendment No. 1 to the Transfer and Administration Agreement, dated as of May 2001, by and among DCC Funding LLC, Diebold Credit Corporation, Diebold, Incorporated, Receivables Capital Corporation and Bank of America, National Association and the financial institutions from time to time parties thereto incorporated by reference to Exhibit 10.20 (ii) to Registrant s Form 10-Q for the quarter ended March 31, 2001. (Commission File No. 1-4879)
*10.22		Form of Non-qualified Stock Option Agreement incorporated by reference to Exhibit 10.22 to Registrant s Form 10-Q for the quarter ended March 31, 2007. (Commission File No. 1-4879)
*10.23		Form of Restricted Share Agreement incorporated by reference to Exhibit 10.2 to Registrant s Form 8-K filed on February 16, 2005. (Commission File No. 1-4879)
*10.24		Form of RSU Agreement incorporated by reference to Exhibit 10.24 to Registrant s Form 10-Q for the quarter ended March 31, 2007. (Commission File No. 1-4879)
*10.25		Form of Performance Share Agreement Agreement incorporated by reference to Exhibit 10.25 to Registrant s Form 10-Q for the quarter ended March 31, 2007. (Commission File No. 1-4879)
*10.26		Diebold, Incorporated Annual Cash Bonus Plan incorporated by reference to Exhibit A to Registrant s Proxy Statement on Schedule 14A filed on March 16, 2005. (Commission File No. 1-4879)

10.27	Form of Note Purchase Agreement incorporated by reference to Exhibit 10.1 to Registrant s Form 8-K filed on March 8, 2006. (Commission File No. 1-4879)
*10.28	Employment Agreement between Diebold, Incorporated and Thomas W. Swidarski incorporated by reference to Exhibit 10.1 to Registrant s Form 8-K filed on May 1, 2006. (Commission File No. 1-4879)

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of March 31, 2008

*10.29	Employment [Change in Control] Agreement between Diebold, Incorporated and Thomas W. Swidarski incorporated by reference to Exhibit 10.2 to Registrant s Form 8-K filed on May 1, 2006. (Commission File No. 1-4879)
*10.31	Separation Agreement between Diebold, Incorporated and Michael J. Hillock, effective June 12, 2006 incorporated by reference to Exhibit 10.1 to Registrant s Form 8-K filed on June 16, 2006. (Commission File No. 1-4879)
10.32	Letter Agreement (including Term Note) dated as of November 27, 2006, between Diebold, Incorporated and PNC Bank, N.A. incorporated by reference to Exhibit 10.31 to Registrant s Annual Report on Form 10-K for the year ended December 31, 2006. (Commission File No. 1-4879)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

* Reflects management contract or other compensatory arrangement.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of March 31, 2008
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: September 30, 2008	By: /s/ Thomas W. Swidarski Thomas W. Swidarski President and Chief Executive Officer (Principal Executive Officer)
Date : September 30, 2008	By: /s/ Kevin J. Krakora Kevin J. Krakora Executive Vice President and Chief Financial Officer (Principal Financial Officer)

DIEBOLD, INCORPORATED AND SUBSIDIARIES
FORM 10-Q as of March 31, 2008
EXHIBIT INDEX

EXHIBIT NO.	DOCUMENT DESCRIPTION
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.