

DIEBOLD INC
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 1-4879

Diebold, Incorporated
(Exact name of registrant as specified in its charter)

Ohio 34-0183970
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

5995 Mayfair Road, PO Box 3077, North Canton, Ohio 44720-8077
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (330) 490-4000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Number of shares of common stock outstanding as of July 27, 2012 was 63,212,049.

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PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

DIEBOLD, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$320,541	\$333,920
Short-term investments	270,859	286,853
Trade receivables, less allowances for doubtful accounts of \$23,144 and \$22,128, respectively	451,038	414,969
Inventories	486,089	440,900
Deferred income taxes	109,097	114,250
Prepaid expenses	31,206	31,452
Other current assets	132,168	110,011
Total current assets	1,800,998	1,732,355
Securities and other investments	74,946	74,869
Property, plant and equipment, at cost	635,422	642,256
Less accumulated depreciation and amortization	455,739	449,562
Property, plant and equipment, net	179,683	192,694
Goodwill	245,163	253,063
Deferred income taxes	89,522	91,090
Other assets	179,017	173,372
Total assets	\$2,569,329	\$2,517,443
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable	\$61,717	\$21,722
Accounts payable	229,371	221,964
Deferred revenue	243,074	241,992
Payroll and other benefits liabilities	61,904	79,854
Other current liabilities	244,335	258,685
Total current liabilities	840,401	824,217
Long-term debt	630,037	606,154
Pensions and other benefits	135,837	148,399
Postretirement and other benefits	23,222	23,196
Deferred income taxes	30,186	32,029
Other long-term liabilities	26,885	25,188
Commitments and contingencies	—	—
Equity		
Diebold, Incorporated shareholders' equity		
Preferred shares, no par value, 1,000,000 authorized shares, none issued	—	—
Common shares, \$1.25 par value, 125,000,000 authorized shares, 77,591,365 and 76,840,956 issued shares, 63,188,535 and 62,513,615 outstanding shares, respectively	96,989	96,051
Additional capital	348,574	327,805

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Retained earnings	1,026,562	991,210	
Treasury shares, at cost (14,402,830 and 14,327,341 shares, respectively)	(550,633) (547,737)
Accumulated other comprehensive income	(70,755) (40,343)
Total Diebold, Incorporated shareholders' equity	850,737	826,986	
Noncontrolling interests	32,024	31,274	
Total equity	882,761	858,260	
Total liabilities and equity	\$2,569,329	\$2,517,443	

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net sales				
Services	\$396,909	\$388,951	\$793,774	\$753,325
Products	346,279	273,431	647,905	523,214
	743,188	662,382	1,441,679	1,276,539
Cost of sales				
Services	294,092	288,123	579,488	564,013
Products	263,527	204,769	483,382	393,632
	557,619	492,892	1,062,870	957,645
Gross profit	185,569	169,490	378,809	318,894
Selling and administrative expense	118,803	122,051	238,598	243,162
Research, development and engineering expense	20,172	19,375	38,973	38,799
Impairment of assets	6,701	2,962	6,701	2,962
	145,676	144,388	284,272	284,923
Operating profit	39,893	25,102	94,537	33,971
Other income (expense)				
Investment income	8,039	9,669	19,994	20,567
Interest expense	(7,461)	(9,515)	(15,069)	(18,188)
Foreign exchange gain, net	1,102	1,492	1,647	446
Miscellaneous, net	431	1,434	341	1,457
Income from continuing operations before taxes	42,004	28,182	101,450	38,253
Taxes on income	14,212	6,580	27,693	12,505
Income from continuing operations	27,792	21,602	73,757	25,748
Income from discontinued operations, net of tax	—	529	—	518
Net income	27,792	22,131	73,757	26,266
Net income attributable to noncontrolling interests	1,290	1,327	2,092	2,961
Net income attributable to Diebold, Incorporated	\$26,502	\$20,804	\$71,665	\$23,305
Basic weighted-average shares outstanding	63,064	65,028	62,899	65,393
Diluted weighted-average shares outstanding	64,035	65,482	63,795	65,842
Basic earnings per share				
Income from continuing operations, net of tax	\$0.42	\$0.31	\$1.14	\$0.35
Income from discontinued operations, net of tax	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	\$0.42	\$0.32	\$1.14	\$0.36
Diluted earnings per share				
Income from continuing operations, net of tax	\$0.41	\$0.31	\$1.12	\$0.34
Income from discontinued operations, net of tax	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	\$0.41	\$0.32	\$1.12	\$0.35

Amounts attributable to Diebold, Incorporated

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Income from continuing operations, net of tax	\$26,502	\$20,275	\$71,665	\$22,787
Income from discontinued operations, net of tax	—	529	—	518
Net income attributable to Diebold, Incorporated	\$26,502	\$20,804	\$71,665	\$23,305

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited)
 (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$27,792	\$22,131	\$73,757	\$26,266
Other comprehensive income, net of tax:				
Foreign currency hedges and translation	(66,033)	34,149	(40,468)	49,094
Interest rate hedges:				
Net (loss) gain recognized in other comprehensive income	(101)	(262)	69	(222)
Less: reclassification adjustment for net gains included in net income	76	78	170	167
	(177)	(340)	(101)	(389)
Pension and other postretirement benefits:				
Net actuarial loss amortization	4,305	2,491	8,637	4,994
Net prior service cost (benefit) amortization	(65)	(65)	(129)	(129)
Other	5	(894)	10	(2,604)
	4,245	1,532	8,518	2,261
Unrealized gain (loss), net on securities:				
Net gain (loss) recognized in other comprehensive income	3,333	(1,167)	2,917	(2,004)
Less: reclassification adjustment for net gain (loss) included in net income	1,180	(1,304)	1,508	(1,468)
	2,153	137	1,409	(536)
Other comprehensive (loss) income, net of tax	(59,812)	35,478	(30,642)	50,430
Comprehensive (loss) income	(32,020)	57,609	43,115	76,696
Less: comprehensive income attributable to noncontrolling interests	1,068	1,659	1,862	3,564
Comprehensive (loss) income attributable to Diebold, Incorporated	\$(33,088)	\$55,950	\$41,253	\$73,132

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)

	Six Months Ended	
	June 30,	
	2012	2011
Cash flow from operating activities:		
Net income	\$73,757	\$26,266
Adjustments to reconcile net income to cash flow from operating activities:		
Depreciation and amortization	38,795	39,034
Share-based compensation	5,704	6,617
Excess tax benefits from share-based compensation	(1,591)	(1,390)
Impairment of assets	6,701	2,962
Equity in earnings of an investee	(592)	(859)
Cash flow from changes in certain assets and liabilities:		
Trade receivables	(44,841)	(28,284)
Inventories	(54,882)	(36,452)
Prepaid expenses	84	3,055
Other current assets	(32,583)	(34,952)
Accounts payable	10,406	(13,392)
Deferred revenue	1,908	8,611
Certain other assets and liabilities	(36,836)	(71,190)
Net cash used in operating activities	(33,970)	(99,974)
Cash flow from investing activities:		
Proceeds from sale of discontinued operations	—	2,520
Proceeds from maturities of investments	156,491	139,020
Proceeds from sale of investments	16,157	26,761
Payments for purchases of investments	(176,404)	(135,798)
Proceeds from sale of assets	283	182
Capital expenditures	(20,669)	(23,687)
Collections on purchased finance receivables	7,072	12,976
Increase in certain other assets	(4,549)	(9,183)
Net cash (used in) provided by investing activities	(21,619)	12,791
Cash flow from financing activities:		
Dividends paid	(36,313)	(37,090)
Debt issuance costs	—	(1,733)
Debt borrowings	430,260	350,679
Debt repayments	(366,773)	(227,563)
Distributions of affiliates earnings to noncontrolling interest holders	(1,112)	(1,045)
Excess tax benefits from share-based compensation	1,591	1,390
Issuance of common shares	16,003	4,017
Repurchase of common shares	(2,896)	(57,591)
Net cash provided by financing activities	40,760	31,064
Effect of exchange rate changes on cash and cash equivalents	1,450	6,201
Decrease in cash and cash equivalents	(13,379)	(49,918)
Cash and cash equivalents at the beginning of the period	333,920	328,658
Cash and cash equivalents at the end of the period	\$320,541	\$278,740

See accompanying notes to condensed consolidated financial statements.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of June 30, 2012

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars 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 contained in the Company's annual report on Form 10-K for the year ended December 31, 2011. In addition, some of the Company's statements in this quarterly report on Form 10-Q may involve risks and uncertainties that could significantly impact expected future results. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of results to be expected for the full year.

RECENTLY ADOPTED ACCOUNTING GUIDANCE

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income (ASU 2011-05), which eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, in December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (ASU 2011-12), which indefinitely defers the requirement in ASU 2011-05 to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The Company has provided the required statements of comprehensive income for the three and six months ended June 30, 2012 and 2011.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amended Accounting Standards Codification 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Disclosure requirements have been expanded to include additional information about transfers between level 1 and level 2 of the fair value hierarchy and level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. Additionally, ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurements including: (a) the application of the highest and best use valuation premise concepts; (b) measuring the fair value of an instrument classified in a reporting entity's stockholders' equity; and (c) quantitative information required for fair value measurements categorized within level 3. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements; however, the Company provided additional disclosure as required by ASU 2011-04 in note 16.

RECENTLY ISSUED ACCOUNTING GUIDANCE

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which requires certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. The adoption of this update will not have an impact on the financial statements of the Company.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of June 30, 2012

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

NOTE 2: EARNINGS PER SHARE

Basic earnings per share is based on the weighted-average number of common shares outstanding. Diluted earnings per share includes the dilutive effect of potential common shares outstanding. Under the two-class method of computing earnings per share, non-vested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's participating securities include restricted stock units (RSUs), deferred shares and shares that were vested, but deferred by the employee. The Company calculated basic and diluted earnings per share under both the treasury stock method and the two-class method. For the three and six months ended June 30, 2012 and 2011, there was no impact in the per share amounts calculated under the two methods. Accordingly, the treasury stock method is disclosed below.

The following represents amounts used in computing earnings per share and the effect on the weighted-average number of shares of dilutive potential common shares:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Income used in basic and diluted earnings per share:				
Income from continuing operations, net of tax	\$26,502	\$20,275	\$71,665	\$22,787
Income from discontinued operations, net of tax	—	529	—	518
Net income attributable to Diebold, Incorporated	\$26,502	\$20,804	\$71,665	\$23,305
Denominator (in thousands):				
Weighted-average number of common shares used in basic earnings per share	63,064	65,028	62,899	65,393
Effect of dilutive shares	971	454	896	449
Weighted-average number of shares used in diluted earnings per share	64,035	65,482	63,795	65,842
Basic earnings per share:				
Net income from continuing operations	\$0.42	\$0.31	\$1.14	\$0.35
Income from discontinued operations	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	\$0.42	\$0.32	\$1.14	\$0.36
Diluted earnings per share:				
Net income from continuing operations	\$0.41	\$0.31	\$1.12	\$0.34
Income from discontinued operations	—	0.01	—	0.01
Net income attributable to Diebold, Incorporated	\$0.41	\$0.32	\$1.12	\$0.35
Anti-dilutive shares (in thousands):				
Anti-dilutive shares not used in calculating diluted weighted-average shares	1,980	2,092	1,985	2,057

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FORM 10-Q as of June 30, 2012

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

NOTE 3: EQUITY

The following table presents changes in shareholders' equity attributable to Diebold, Incorporated and the noncontrolling interests:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Diebold, Incorporated shareholders' equity				
Balance at beginning of period	\$ 894,047	\$ 947,030	\$ 826,986	\$ 961,155
Comprehensive (loss) income attributable to Diebold, Incorporated	(33,088)	55,950	41,253	73,132
Common shares	252	43	938	580
Additional capital	7,756	2,865	20,769	11,122
Treasury shares	(11)	(36,140)	(2,896)	(57,591)
Dividends declared and paid	(18,219)	(18,440)	(36,313)	(37,090)
Balance at end of period	\$ 850,737	\$ 951,308	\$ 850,737	\$ 951,308
Noncontrolling interests				
Balance at beginning of period	\$ 30,956	\$ 30,254	\$ 31,274	\$ 28,659
Comprehensive income attributable to noncontrolling interests	1,068	1,659	1,862	3,564
Distributions to noncontrolling interest holders	—	(735)	(1,112)	(1,045)
Balance at end of period	\$ 32,024	\$ 31,178	\$ 32,024	\$ 31,178

NOTE 4: SHARE-BASED COMPENSATION

The Company's share-based compensation payments to employees are 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 is recognized as a component of selling and administrative expense. Total share-based compensation expense was \$1,907 and \$3,181 for the three months ended June 30, 2012 and 2011, respectively, and \$5,704 and \$6,617 for the six months ended June 30, 2012 and 2011, respectively.

Options outstanding and exercisable as of June 30, 2012 under the Company's 1991 Equity and Performance Incentive Plan (as Amended and Restated as of April 13, 2009) and changes during the six months ended June 30, 2012, were as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
	(in thousands)	(per share)	(in years)	
Outstanding at January 1, 2012	3,201	\$36.70		
Expired or forfeited	(447)	\$37.24		
Exercised	(532)	\$30.05		
Granted	570	\$34.98		
Outstanding at June 30, 2012	2,792	\$37.53	6	\$9,293
Options exercisable at June 30, 2012	1,669	\$40.83	4	\$4,470
	2,761	\$37.59	6	\$9,152

Options vested and expected to vest (2) at June 30, 2012

The aggregate intrinsic value (the difference between the closing price of the Company's common shares on the last trading day of the second quarter of 2012 and the exercise price, multiplied by the number of "in-the-money" (1) options) that would have been received by the option holders had all option holders exercised their options on June 30, 2012. The amount of aggregate intrinsic value will change based on the fair market value of the Company's common shares.

(2) The options expected to vest are the result of applying the pre-vesting forfeiture rate assumption to total outstanding non-vested options.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of June 30, 2012

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The following table summarizes information on non-vested RSUs, performance shares and deferred shares for the six months ended June 30, 2012:

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value
RSUs:		
Non-Vested at January 1, 2012	717	\$ 30.69
Forfeited	(44)) \$ 30.43
Vested	(127)) \$ 24.84
Granted	235	\$ 35.31
Non-Vested at June 30, 2012	781	\$ 33.05
Performance Shares (1):		
Non-Vested at January 1, 2012	727	\$ 34.70
Forfeited	(216)) \$ 31.01
Vested	(86)) \$ 29.25
Granted	301	\$ 44.25
Non-Vested at June 30, 2012	726	\$ 40.40
Director Deferred Shares:		
Non-Vested at January 1, 2012	19	\$ 33.98
Vested	(19)) \$ 33.98
Granted	28	\$ 40.54
Non-Vested at June 30, 2012	28	\$ 40.54
Vested at June 30, 2012	115	\$ 33.90
Outstanding at June 30, 2012	143	\$ 35.22

Non-vested performance shares are based on a maximum potential payout. Actual shares granted at the end of the (1) performance period may be less than the maximum potential payout level depending on achievement of performance share objectives.

NOTE 5: INCOME TAXES

The effective tax rate on continuing operations for the three months ended June 30, 2012 was 33.8 percent compared to 23.3 percent for the same period of 2011. The 10.5 percentage point increase is attributable to the growth of income during 2012 in regions with higher tax rates. Additionally, a non-recurring discrete item related to state tax benefits reduced the effective tax rate for the three months ended June 30, 2011.

The effective tax rate on continuing operations for the six months ended June 30, 2012 was 27.3 percent compared to 32.7 percent for the same period of 2011. The 5.4 percentage point decrease was mainly due to operating losses in certain Europe, Middle East and Africa (EMEA) jurisdictions for which no tax benefit was recognized in the 2011 effective tax rate. The impact was significant on the 2011 tax rate because these operating losses were relatively large when compared to consolidated income from continuing operations before taxes for the period.

NOTE 6: INVESTMENTS

The Company's investments, primarily in Brazil, consist of certificates of deposit and U.S. dollar indexed bond funds, which are classified as available-for-sale and stated at fair value based upon quoted market prices and net asset values, respectively. Unrealized gains and losses are recorded in OCI. Realized gains and losses are recognized in investment

income and are determined using the specific identification method. Realized gains (losses), net from the sale of securities were \$1,180 and \$(1,304) for the three months ended June 30, 2012 and 2011, respectively, and \$1,508 and \$(1,468) for the six months ended June 30, 2012 and 2011, respectively. Proceeds from the sale of available-for-sale securities were \$16,157 and \$26,761 during the six months ended June 30, 2012 and 2011, respectively.

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DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of June 30, 2012

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The Company's investments, excluding cash surrender value of insurance contracts of \$68,053 and \$67,699 as of June 30, 2012 and December 31, 2011, respectively, consist of the following:

	Cost Basis	Unrealized Gain (Loss)	Fair Value
As of June 30, 2012			
Short-term investments:			
Certificates of deposit	\$245,989	\$—	\$245,989
U.S. dollar indexed bond funds	22,123	2,747	24,870
	\$268,112	\$2,747	\$270,859
Long-term investments:			
Assets held in a rabbi trust	\$6,765	\$128	\$6,893
As of December 31, 2011			
Short-term investments:			
Certificates of deposit	\$269,033	\$—	\$269,033
U.S. dollar indexed bond funds	16,482	1,338	17,820
	\$285,515	\$1,338	\$286,853
Long-term investments:			
Assets held in a rabbi trust	\$7,428	\$(258)	\$7,170

NOTE 7: ALLOWANCE FOR CREDIT LOSSES

Trade Receivables The Company evaluates the collectability of trade receivables based on (1) a percentage of sales related to historical loss experience and current trends and (2) periodic adjustments for known events such as specific customer circumstances and changes in the aging of accounts receivable balances. After all efforts at collection have been unsuccessful, the account is deemed uncollectible and is written off.

Financing Receivables The Company evaluates the collectability of notes and finance lease receivables (collectively, financing receivables) on a customer-by-customer basis and evaluates specific customer circumstances, aging of invoices, credit risk changes and payment patterns and historical loss experience. When the collectability is determined to be at risk based on the above criteria, the Company records the allowance for credit losses, which represents the Company's current exposure less estimated reimbursement from insurance claims. After all efforts at collection have been unsuccessful, the account is deemed uncollectible and is written off. The following table summarizes the Company's allowance for credit losses and recorded investment in financing receivables for the six months ended June 30, 2012:

	Finance Leases	Notes Receivable	Total
Allowance for credit losses			
Balance at January 1, 2012	\$210	\$2,047	\$2,257
Provision for credit losses	247	—	247
Recoveries	41	—	41
Write-offs	—	—	—
Balance at June 30, 2012	\$498	\$2,047	\$2,545
Allowance resulting from individual impairment evaluation	\$498	\$2,047	\$2,545
Allowance resulting from collective impairment evaluation	—	—	—

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Financing receivables individually evaluated for impairment	\$95,753	\$13,829	\$109,582
Financing receivables collectively evaluated for impairment	—	—	—

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DIEBOLD, INCORPORATED AND SUBSIDIARIES

FORM 10-Q as of June 30, 2012

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share amounts)

The following table summarizes the Company's allowance for credit losses and recorded investment in financing receivables for the six months ended June 30, 2011:

	Finance	Notes
	Leases	Receivable