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Trouble at Diebold hastens demise of bill and hold

Discredited accounting method, traditionally employed by manufacturers, may have been used to inflate earnings at voting machine and ATM maker

By Nicholas Rummell

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NO CANDIDATE Diebold has been unable to find a buyer for its voting machine business.

An ongoing probe of the accounting practices of automated teller and voting machine company Diebold, which now involves the Department of Justice as well as the Securities and Exchange Commission, may be one more reason companies abandon the aggressive accounting practice known as bill and hold.

The SEC began the initial investigation of Diebold, which the Ohio-based company announced in May 2006. That probe reportedly has been looking into whether Diebold improperly recognized revenue from voting machine sales under bill and hold accounting. The Justice Department recently began its own investigation, according to a Diebold news release last month.

In bill and hold, the seller bills the buyer and recognizes the revenue from a transaction even though it maintains physical possession of the goods for some period of time.

Diebold has been working with the SEC over the last few months to come up with a new revenue recognition method for the voting machine sales, and the company is conducting a separate internal review due in the next three months to determine whether it needs to restate earnings. The company hasn't recorded such revenue since mid-July, a company spokesman said.

Bill and hold has fallen out of favor in recent years after several cases showed companies abused the practice to inflate earnings. "It can be extremely problematic," said Greg Regan, director of forensic consulting at Hemming Morse. The accounting standards "are so restrictive that bill and hold can't be utilized much of the time. It is largely extinct."

The case against Diebold—which has since abandoned the method—could push bill and hold further out of favor, sources say.

Bill and hold has traditionally been used more by companies that provide tangible goods rather than those that provide software or services, according to Dan Noll, director of accounting standards at the American Institute of Certified Public Accountants. But many companies abandoned the practice after the SEC provided accounting guidance in 1999 that laid out seven requirements for using bill and hold.

One of the biggest impediments is that the customer now must request that the company use bill and hold. This option can come in handy, for example, for customers that have had fires at their facilities or had key personnel leave, according to Mr. Noll. "[Bill and hold] could be viewed negatively, but it could [also] be a favorable business practice."

Some companies are even more conservative about booking revenue from shipped products. Brainware, a company that provides both software and hardware, does not recognize revenue for software it ships until the client signs off on the installation, said James Zubok, Brainware's chief financial officer. At companies that

use bill and hold, “CEOs pop the champagne cork and then all the bubbles fizz out,” he explained.

Mr. Zubok said Brainware’s method has more to do with customer relations than anything else; if it doesn’t book revenue until after installation is complete, it still has skin in the game and clients can get results. Plus, even though Virginia-based Brainware is a private company, Mr. Zubok said he doesn’t want to run afoul of the tough bill and hold accounting standards.

The involvement of the Justice Department in the Diebold case is unusual and may be related to controversial allegations regarding its voting machine business. “You almost never see the DOJ involved in something like bill and hold,” Hemming Morse’s Mr. Regan said. “It makes you wonder what else was going on [at Diebold].”

Diebold tried to sell off its voting machine business following a controversy related to its former CEO’s donations to President Bush’s 2004 campaign and promises to bring in Ohio votes during that 2004 election. However, Diebold has been unable to find any company willing to buy the voting machine business line and now plans to keep it until at least 2009, Diebold spokesman Mike Jacobson said.

The Justice Department probe is looking at all aspects of Diebold’s business, but it began because of the SEC investigation, Mr. Jacobson said. He declined to elaborate on details of the probe.

Calls to the Justice Department were not returned. SEC officials declined to comment. **FW**

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