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Potential buyers can cast lot with Sequoia

Voting system is being sold due to 'hostile environment' for foreign owners

By Ian Hoffman and Barbara Grady STAFF WRITERS

Article Last Updated: 12/22/2006 06:17:31 PM PST

Citing a "hostile environment" for foreign ownership of U.S. infrastructure, the parent company of Sequoia Voting Systems Inc. is selling the Oakland-based firm, one of the nation's three largest suppliers of voting equipment.

The Venezuelan owners of Smartmatic Corp. were expected to announce today that they are putting Sequoia up for sale.

Almost one-third of California counties use the firm's voting machines, including Alameda and Santa Clara counties, and Sequoia is the largest seller of ATM-like touch-screen voting machines in the state.

Smartmatic executives say the reason for the sale is a persistent controversy over foreign ownership of a U.S. voting company, which has included allegations of Smartmatic ties to the government of Venezuelan President Hugo Chavez, a critic of U.S. policies.

"Senior management was spending far too much of their time dealing with the issue of foreign ownership and not with the core business," Smartmatic Chief Executive Officer Antonio Mugica said Thursday.

Elections market observers said it could be hard to find a U.S. buyer because other large domestic voting-equipment firms could be barred by antitrust laws and because the market for voting equipment is tightening.

"The bottom line question is, who would want to get into this marketplace — and it's probably gotten worse for anyone wanting to come in now," said Kimball Brace, founder and president of Election Data Services, a Washington-based consultancy. "There's so much that's already been sold, so anybody coming in with something new, who are they going to sell it to? Everyone's already spent their money."

Sequoia has about 150 employees, half of them in Oakland and the rest in Denver, and a manufacturing plant in Jamestown, N.Y.

"We've come to the conclusion that both Sequoia and Smartmatic are having good years and growing extremely fast, and we just think the best way to keep growing fast is to sell Sequoia to U.S. interests," Mugica said.

The decision to sell came midway through a review by the Committee on Foreign Investment in the United States, a federal multiagency panel that looks at whether a foreign purchase should be reversed as a matter of national security. The committee allowed Sequoia to withdraw from the review on news of the impending sale.

More recently, the U.S. Justice Department began looking into allegations that Smartmatic was evading taxes and bribed its way into handing Venezuelan elections by paying \$1.8 million to a businessman with ties to the Chavez government. The probe was first reported by El

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Neuvo Herald, a Spanish-language newspaper in Miami.

Smartmatic attorney Jeffrey Bialos said those claims, as well as the allegation of ties to the Chavez government, "will lead to nothing."

"They're baseless," he said, "and there's nothing to any of them."

The sale "relates to the climate for foreign companies that own firms that touch on our critical infrastructure is just more complicated now in a post-9/11, post-Dubai world," Bialos said.

Dubai Ports recently sold its interest in management of U.S. ports after a political furor erupted over a foreign — and particularly Middle Eastern — corporation overseeing vulnerable U.S. cargo destinations.

The Smartmatic decision marks the third time in four years that Sequoia has been put up for sale, reflecting aggressive competition among U.S. voting-equipment firms for billions of federal dollars set aside by Congress for modernizing voting systems after the 2000 elections.

Sequoia changed hands rapidly in the last few years, passing from Irish to British firms to Smartmatic, a Boca Raton, Fla.-based voting and computer firm that, in turn, is owned by an offshore parent headquartered in the Netherlands Antilles, with other offices in Taiwan and subsidiaries in Venezuela, Barbados and Mexico.

Under its last owner, De La Rue PLC, Sequoia was losing money on revenue of about 23.1 million British pounds, or about \$50 million. Those revenues were down by almost half the previous year's when, according to De La Rue, the Sequoia division brought in 44.2 million pounds, about \$86 million. But the operating loss was much larger in 2003-04, at 1.9 million pounds, or nearly \$4 million.

Smartmatic executives said they turned the company around and quadrupled revenues to more than \$200 million, with an undisclosed amount of profit.



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The last 24 years of Sequoia's 100-year history have been under foreign ownership. The announced sale would bring it back into U.S. ownership.

Brace, of Election Data Services, said the top three U.S. voting equipment firms — Sequoia, Diebold Election Systems Inc., and Election Systems & Software — all made big sales gains in the last year as counties spent the last, large installment of federal voting modernization money. Now all of those firms are taking on additional staff and expenses as support for local voting officials, Brace said.

That adds financial pressures to the controversy of the safety and security of voting machinery. The same kinds of pressures drove IBM out of the voting market 30 years ago.

"You could end up seeing the same thing that happened to IBM happen to Sequoia," Brace said, "and maybe it will happen to Diebold."

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