TAKE THAT, HBO!

BY LOUIS JACOBSON

This week, the biggest buzz among lobbyists was not the television series *K Street*. Instead, HBO's half-fictional show was supplanted by a story that is 100 percent real: the $50 million deal between the Dutko Group and the Chicago-based venture-capital firm Lake Capital.

In some ways, the Dutko deal suggests a return to the 1990s frenzy of mergers and acquisitions on K Street. But the transaction differs in important ways, starting with the pointed absence of "acquisition" in the two parties' description of the deal.

The deal-makers hope to avoid some of the problems that other lobbying firms have faced after being acquired by larger entities. Indeed, over the years Dutko has turned down as many as 10 serious buyout offers, President Mark Irion told *National Journal*. With Lake Capital, the company finally found a deal it wanted to close.

When Daniel A. Dutko opened his firm in 1981, he decided to approach expansion cautiously. Dutko died four years ago from injuries sustained in a bicycling accident, but the firm has continued to grow steadily. Lobbying revenue for the Dutko Group alone exceeded $10 million in 2002, placing the company just outside the top-10 lobbying firms in Washington. And the firm now extends beyond the Dutko Group proper.

Since 1994, the firm has launched the state-based public-affairs entity K*N*P, the public opinion research firm Andres-McKenna Research, and a public-relations component called DCS, which was eventually folded into Ogilvy Public Relations. Dutko and Ogilvy maintain an agreement to collaborate on public-relations projects.

With their firm's slow-but-steady expansion, the Dutko principals decided they had taken the firm "as far we could have taken it by the sweat of our own brow," Irion said. Lake Capital, he says, is "an equity-capital partner that could finance our continued build-out."

One reason K Street is intrigued by the deal is the apparently unprecedented pairing of a lobbying shop with a venture-capital firm. Most K Street acquisitions have been by major communications conglomerates, particularly the Interpublic Group of Cos., Omnicom Group, and WPP Group. These and other publicly traded holding companies involved in the buyout boom grew large—and before the stock market slide, profitable—through the sequential purchase of smaller firms.

Beginning primarily as advertising agencies, most conglomerates had either thrived or starved based on the broader economy. To such companies, lobbying firms seemed to be a reliable—even a countercyclical—source of revenue because lobbying income does not depend on the health of the economy at large. Instead, it tends to rise and fall with the intensity of action in Congress.

LIZ LYNCH

DUTKO TEAM MEMBERS: Left to right, front row: Arthur Silverman, Kim Koontz Bayliss, Bill Simmons. Back row: Craig Pattee, Steve Perry, Mark Irion, Gary Andres.

For lobbyists, the buyout deals proved lucrative for equity stakeholders in the acquired firm. Operational friction often resulted, however, with conglomerates insisting that their new acquisitions produce a certain revenue stream. Lobbyists often resented taking orders from corporate managers in other cities who knew little of the Washington policy world. "We have friends who were part of" the buyout frenzy, said Dutko principal Craig Pattee. "Not many of them have been very happy."

The Lake deal was structured with such concerns in mind, Dutko executives say. Lake Capital isn't traded publicly, and it isn't forced to pump up its bottom line to keep its stock price high. "The profits are going to go into building up Dutko," Irion said, rather than go to stockholders. Lake "is a half-billion-dollar fund made up of investors with very patient money," he added. Equally important, while Lake will be the majority owner, Dutko principals are keeping equity shares and sharing control over the way the business is run.

Dutko is looking to expand geographically from its current offices in such cities as Boston, Denver, Des Moines, Las Vegas, and Washington. Irion said that the plan is to open offices in the Southeast, in the Southwest, and along the West Coast "in relatively short order," and in London and Brussels "in the not-too-distant future."

The firm will be more cautious in expanding its services. Dutko may branch into military appropriations work and grassroots advocacy, but the principals do not foresee trying the "one-stop-shopping" model of the conglomerates. Critics of that model say it prevents clients from hiring the best talent, because multifaceted firms usually push a client to hire in-house affiliates. "There is convenience in going to Safeway and getting everything in one place," Irion said, "but if you're having a dinner party, you may not be able to get the best seafood there."

Outsiders generally greeted the Dutko-Lake deal warmly, but a bit warily. "It seems like a really interesting way to go, but the concept is completely uncharted," said Tony Podesta, whose firm, Podesta/Mattoon, is one of the other remaining unaffiliated lobbying shops in Washington. Another lobbyist suggested that Dutko could face obstacles down the road if "the venture-capital firm has certain investments that could be at odds with the interests of one of the lobbying firm's clients."

Dutko officials say they are comfortable with the agreement. "With the more traditional kind of deal, the transaction is really the end for the partners," Irion said. "For us, this is a new beginning." ■

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