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Merger extends reach of both Dowl, HKM

NEW PARTNERSHIP: Businesses' cultures are good matches.

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Stewart Osgood is president of Anchorage-based Dowl Engineers, a provider of civil and transportation engineering services. The company merged in March with HKM Engineering, a Montana-based consulting engineering firm.

Dowl Engineers is an Anchorage company that recently doubled its size overnight.

Well, not quite. Last month, the company grew from about 200 employees to 400, and \$25 million to \$50 million in annual revenue, but the deal took several years for Dowl to execute.

The company's owners, which include NANA Regional Corp., decided in 2002 that it needed to find a merger partner in the Lower

48 to diversify outside Alaska to grow and provide additional job opportunities for its employees and NANA shareholders.

Two years ago, the company began talking to HKM Engineering, a similar-sized business in Billings, Mont., that appeared to be a good fit. Like Dowl, it does a lot of work in rural areas and its clients also include tribes and other Native organizations.

Dowl began negotiating the merger two years ago. With no assistance from business consultants or brokers, it took awhile for the companies, which are keeping their own names, to hash out the details. The deal was finalized on March 31.

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Below are excerpts from a recent interview with Dowl president Stewart Osgood about how the deal came together.

Q. How did you find HKM?

A. It was more scientific than Google.

Through trade organizations and contacts with our peer group in the Lower 48 we came to know of HKM. They had a good reputation. Everyone in the community thought highly of them. We did some basic research on them. We also talked to business leaders in the communities they served to get an idea of the quality of their services and their leadership. And once we got to a point where we thought it was worth discussions, we just opened a

dialogue with them about doing some projects together. We were upfront about our overall intentions to grow and diversify outside the state, and from there the discussion moved into, "Well, we can do these projects together, does it make sense to go past the dating stage and is there more of a marriage here between the companies that makes sense?"

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Q. Why did Dowl want to get bigger and what were you looking for in a potential partner?

A. This wasn't purchasing of revenue and clients and just getting bigger. We were trying to create something where we could get a one plus one equals three out of it.

We still wanted to grow within Alaska and serve our Alaska clients, but (realized) that we probably needed to diversify into the Lower 48 to expand. We were doing that at the time by opening new offices in new locations ... but we felt that we probably needed a merger partner to allow us to significantly enter new markets. We established a list of criteria of (Lower 48) markets that we thought fit with the way that our company does business. We decided that more rural areas in the West were better. We decided (to look for) a firm that not only added new revenue but also brought in new service lines -- for example, structural engineering will be part of our business now but it wasn't before.

Q. How many other potential merger partners did you evaluate?

A. We probably seriously looked at six to eight companies in the past five years, and for a variety of reasons, usually cultural in nature, it didn't look like it was a good fit with some our core values and mission statements.

Q. How did you tackle the actual merger?

A. We approached the project like we approach engineering projects in a lot of ways. In engineering we talk about having a scope, a schedule and a budget for every project. We broke this down into definable tasks. We assigned a project manager and a task leader to complete each phase of the project. And we kind of marched through it getting legal assistance or other things where we needed. Of course there was a good deal of legal help that we needed to complete the deal. But other than a relatively small team of attorneys, it was a face-to-face transaction with the owners on the other side.

Because of their ownership, (which also involved) about 20 owners ... that kind of lengthened out the discussions. There are many parties that need to feel good about moving the deal forward and making sure that everybody believes that this is the right decision for them and for the company.

Our approach was probably softer, kinder and gentler and more drawn out than it is in most cases. The benefit of what we did is that we are starting out with positive momentum and the employees feeling like their needs, desires and concerns were part of the discussion.

(HKM president Karen Fagg) made the statement ... that had we approached them through a broker they would not have been interested in the overtures that we were making.

Q. What was one of the toughest parts of the negotiation?

A. Often people feel that getting to the price was the difficult part. The price was the easy part, because that was just numbers. The more difficult part was the cultural making it fit, blending the benefits and also making certain that our clients would benefit from this merger as well.

The thing that took the longest in the deal was working out the blended benefits plan for the two companies. You can imagine these two equally sized companies that have grown up over the last 40 to 50 years, each one (with) our own sets of benefits plans, including everything from health care benefits and profit sharing to 401(k). We spent probably several months sitting down looking at the two plans and coming up with ... a blended version, which took the best out of what they had and the best out of what we had and what we could afford to provide our employees. This doesn't happen in most mergers.

Q. So how does the ownership change?

A. NANA will continue to own 51 percent of our shares and the other 49 percent will be the current 18 managing partners of Dowl, plus we're adding about the same number of HKM managing owners.

Q. What new services will you provide in Alaska or the Lower 48?

A. In the area of water and wastewater treatment and structural engineering, we've enhanced our capabilities that we can offer to our clients here. Likewise, we have services we perform in Alaska that will export very well to these new markets: airport engineering, planning, GIS, landscape architecture are all services that we offer in Dowl that HKM doesn't.

We also talk within Dowl about adding constructive turbulence to the organization. If you are talking to a young person and you tell them that the next year is going to be identical to the last year, and the year before that, as far as challenges, that may not light their fire. We try to evolve the firm in a reasonable way but provide new opportunities.

Q. Have you already started sharing work?

A. We have been successful at several projects where we have used HKM as a sub to us here in Alaska. We have some work that we're doing down at the port now where we are using HKM as a sub because we signed the (port) contract before the merger. We also have a project in Juneau that we are using them on. The project in Juneau is the airport runway expansion project.

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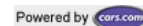
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Q. What advice do you have for other Alaska businesses considering mergers?

A. For Dowl, it took a great deal of patience and perseverance to find a partner we were 100 percent comfortable with. If the goals are similar to ours, it's been worth the four or five years to advance the ball to get to today. If the goal is to grow and add revenue as quickly as possible, I don't think that the way we did it is the right way to do it.

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