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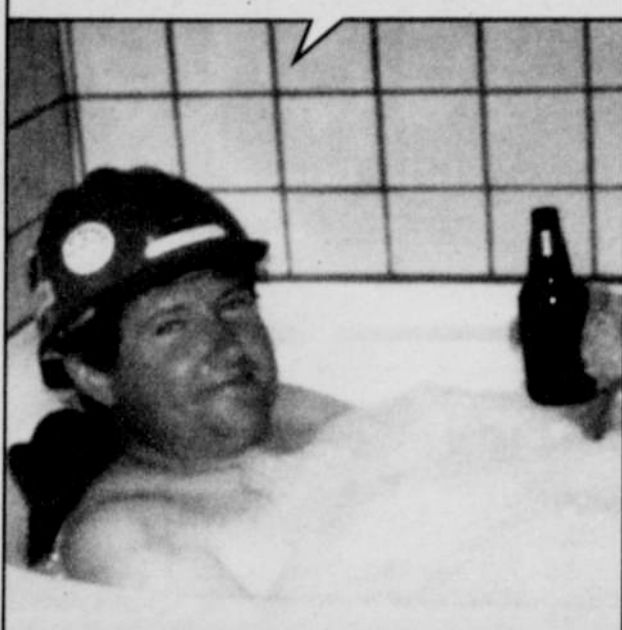


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NORTHWEST news

PASSING THE TORCH

Small-business owners should plan for the future

by Rebecca Ragain

The day-to-day life of a small-business owner leaves little time for long-term planning. No matter what kind of business it is—retail store, private practice or manufacturer—the owner has fires to put out, long hours to work and myriad details to manage.

But as hard as it is to look to the future when present matters demand constant attention, it's important for business owners to determine an exit strategy.

"Exit strategy should be in your business plan from Day One, because it's a reality," says Mark Green, director of Oregon State University's Austin Family Business Program.

There are a variety of ways to handle an owner's departure from a business, including selling the business, folding it or gifting it to a

"A transfer to employees is pretty common for both straight and gay folks," says Green.

When an internal candidate—whether an employee or a child—has potential, Clift recommends the owner bring the candidate in with a minority interest, perhaps 20 percent. The successor should be involved in the management decisions while they hold minority interest.

"Get them in ownership now. Help them start thinking like an owner, not an employee," he says.

As the successor proves him or herself in a management role, the owner allows the successor to gradually buy out the remainder of the stock. Clift suggests three years as a reasonable length of time for the transition.

A partnership arrangement of this type is the best bet for most of Portland's sexual minority business owners, says Clift, because in his experience they don't usually employ more than six or seven people; exit strategy may be different for owners of larger companies.

Kimbyl Edwards is a lesbian small-business owner who is passing on her company through just such a partnership, albeit with a slight twist: She found her successor online.

A couple of years ago Edwards was contemplating the options for her business, Zen Again Productions, which specializes in fountains and statuary. She had no internal candidate in mind, so she advertised on Craigslist.com for a potential successor to train.

Kina Williams was new to Portland and looking for a reliable job when she read Edwards' post. Williams had always wanted to run her own business, and she liked the wording of the ad—woman-owned was a key word for Williams, who is a lesbian.

Williams gave Edwards a call, and three days later she was hired.

Now Edwards is passing the torch to Williams, bit by bit. Even though Williams previously managed a business, she still has a lot to absorb about the particulars of Zen Again, from the product line to the importing process.

The two have no hard-and-fast timelines in place, but Williams imagines she'll be running the business within five years.

Since Williams doesn't have the resources to buy Edwards out, they will be coming up with creative ways to transfer ownership. Williams may receive a percentage of stock in the business as a Christmas bonus, for instance.

Williams hopes this succession process will serve as a model for other gay and lesbian business owners. She expects her own retirement to be smoother for the experience.

"I'm a dyke and have no interest in having children. What will I do with it [Zen Again] when I retire? It's hopeful for me to develop a model...to perpetuate this for generations," says Williams, who would like to find another lesbian to be her successor in due course.

SELLING TO OUTSIDE PARTIES

If there is no suitable successor, the business owner may decide to sell to an outsider. In this case, business owners should expect to spend between two and five years before they intend to sell "prettifying up the pig," or putting the

Zen Again's Kimbyl Edwards found her business partner on Craigslist.org.

charity. Each option has pros and cons in terms of income, taxes and other considerations; a financial adviser can help business owners navigate the murky waters.

CHOOSING A SUCCESSOR

Many small-business owners dream of passing the company on to their children. But that's not a concern for everyone in the sexual minorities community, or even an option.

Instead of planning for succession, Bill Dickey, co-owner of Witham & Dickey printing company, has simply included his stock in the company in his estate plan.

"My business partner is a straight man with a wife and kids. His goals are different than mine. I'm not too worried about my estate; I have to take care of me," he says.

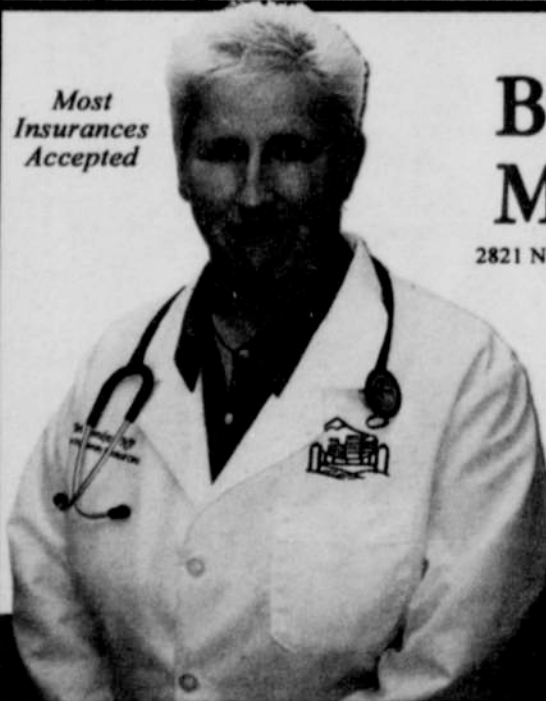
Even when children are part of the picture, family succession is a hit-and-miss proposition. About 70 percent of family businesses fail in the second generation. So as far as Green is concerned, there are no differences between straight people and members of the sexual minorities community in terms of business succession issues.

"Succession is a problem for any business. We're not going to be here forever.... Passing on their business takes a lot of work and effort, no matter what the circumstances," says Green.

Mark Clift, a certified public accountant with McDonald Jacobs (and Just Out's accountant), says an internal buyout is often the "first line of attack" in succession planning. In a multiple owner arrangement, the buyout can come from the other shareholders. In a single proprietorship, the departing owner can groom a successor, such as a key employee, to take control of the company.

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