



**BUSINESS PLAN – CASTLE VILLAGE FARM
PLAUDIT PARTNERSHIP
(August 2007)**



**Talking Blues
(Silver Music-Time to Chat)**

OBJECTIVES

- To form a thoroughbred racing partnership to train and race the gray or roan New York-bred thoroughbred colt Talking Blues, by Silver Music out of Time to Chat, by Gallant Hour, purchased by Castle Village Farm at the July, 2007 Saratoga Open Yearling Sale as Hip No. 689, and to be raced at Aqueduct, Belmont or Saratoga race tracks..
- To enable people who love racing but don't individually have a lot of capital to invest to own horses, have fun, and have a chance to make a profit.
- To make financial success more likely by minimizing management fees and other costs, while avoiding frequent cash calls.

IMMEDIATE PLANS

The partnership owns Talking Blues, a gray or roan yearling (born 2006) by Silver Music

out of Time to Chat, by Gallant Hour, purchased by Castle Village Farm at the July, 2007 Saratoga Open Yearling Sale for the upset price of \$1,000.

Talking Blues, although very inexpensive, meets our criteria for New York-bred horses. He is a full brother to Time to Rap, a winner of over \$168,000 on the New York circuit, and is from a Pinebourne Farm family that our trainer Bill Turner has had great success with. Bill checked out the horse for us at the Saratoga sale and likes him. No horse in the family has ever grown up outside northern New York State, and our theory is that a winter in Florida, with abundant sunlight, good, high-mineral-content water and lush grass, will help Talking Blues develop into a bigger, stronger horse than most of his siblings and cousins. If that's true, he could be a real bargain. Bill expects him to be able to go through and win the three New York-bred conditions (maiden special weight, non-winners of one "other than," and non-winners of two "other than"). Horses that go through these conditions generally will earn at least \$100,000 for their owners. In the past, Castle Village Farm has had considerable success with modestly priced New York-breds, including stakes winner Introspect, who has earned \$365,000 on the race track, as well as Raf & Ready and Seaside Salute, each of whom earned over \$140,000 on the track.

Talking Blues has already been sent to Jim Crupi's New Castle Farm, in Ocala, where he'll be taught the basics of having a rider on his back, then turned out for a few months to grow. Jim Crupi is one of the premier "pinhookers," buying yearlings and selling them at the two-year-old sales. He also trains yearlings for a number of major clients, including New York trainer Bruce Levine, and he developed Castle Village Farm's stakes-placed filly, Fighting Speedy, after we claimed her. Talking Blues is a late May foal, so we'll want to give him some time before we set him down for serious training in the spring of 2008.

In general, about 80% of yearlings that go through the sales eventually race, and half of those make at least one start as a two-year-old. Although there is no guarantee that any particular horse will make it to the races, we believe that Talking Blues's good conformation, and the quality of his female family, give him a strong chance for success.

Once Talking Blues reaches the race track, which should be sometime in the summer or fall of 2008, we will give it a fair chance to prove it's competitive in the NY-bred allowance ranks. If it's not, then we will race it where it can win, whether that's in NY-bred claiming, open claiming, or even at a lower-level track. We will not continue to race a horse over its head indefinitely; that does no good either for the horse, who gets discouraged, or for the partners, who have to keep paying the bills without seeing purse money coming in.

If we raise capital of at least \$60,000, the initial capital of the partnership will cover purchase of the horse(s), start-up expenses, expenses involved in choosing the horse(s) – travel to the sales, vet exams, etc. – and training expenses through December 31, 2008, through his two-year-old year. After that, partners will be responsible for their pro rata share of ongoing expenses, which, we hope, will be offset by purse earnings. At the end of each calendar quarter, any surplus above the amount needed for the next quarter's projected expenses will be distributed to the partners, and at the termination of the partnership (when we no longer own any horses or December 31, 2011, whichever is

later, or as otherwise determined by vote of the partners), the horses will be sold any all partnership funds will be distributed. If less than \$60,000 is raised, we will continue to train Talking Blues, but partners might face a cash call late in 2008 if the horse has not yet raced.

RISK FACTORS

Even though we had, and will continue to have, the best possible advice as we make our purchases, there is always a risk in buying thoroughbreds. Roughly one-third of all registered thoroughbreds do not race at all, and roughly one-half never win a race. The odds of success are improved by obtaining expert pedigree, conformation and veterinary advice, as we have done and will continue to do, but partners should understand that race horse ownership is a high-risk undertaking. If you are purchasing a partnership interest primarily because you expect to make a profit, don't. Most horses lose money, some more or less break even, and a few are very successful. We hope to have one of the successful ones, but there are no guarantees. If, on the other hand, you want to join a partnership because you love horses and racing, and want to be a part of the racing scene, sharing in the ups and downs of your horse's career, at a reasonable cost, then you should consider becoming a partner. We can guarantee thrills and disappointments; we can't guarantee profits.

TRAINING & MANAGEMENT

Partners in Castle Village Farm are involved in the important ownership decisions. The selection of horses to purchase will be made by the managing partner, but those partners who join prior to our purchase(s) will be informed of horses that we are thinking of buying. In the end, however, the choice of a horse to buy, and the price to pay for it, will be the managing partner's decision.

Our trainer will most likely be chosen from Castle Village Farm's current trainers, Leah Gyarmati and Bill Turner. Leah was our very first trainer, beginning in 1999, and she currently trains five Castle Village Farm horses, including Southern Missile, Unconcerned, and Act As If. She began her training career with our mare Flippy Diane, whom Leah claimed for \$20,000 and who won the \$100,000 Maryland Million Distaff for us in Flippy's second start off the claim. Overall, she has a very solid record, with 11% wins in her career. Equally important, she understands how Castle Village Farm operates, and she is not bothered by having large numbers of owners. Bill Turner, of course, trained Triple Crown winner Seattle Slew and many other stakes winners, including our own Introspect, winner of the 2007 Hollie Hughes Handicap at Aqueduct, as well as our \$140,000-plus allowance winners Raf and Ready and Seaside Salute.

MORE DETAILS

Who decides what horses we'll buy and where they'll race?

Steve Zorn is the founder of Castle Village Farm and manages all its partnerships. He is now known throughout the industry as an expert at buying young horses that will out-perform their purchase prices, and also at claiming horses that can then be raced at higher levels. He buys frugally, with an eye towards horses that will have long and successful careers. Several Castle Village Farm horses – including Flippy Diane, Introspect, Angel Dancer, Raf and Ready, Seaside Salute, Fighting Speedy and Diligent Gambler – have earned far more than they cost.

Together with Castle Village Farm's trainers, Steve is ultimately responsible for making the tough decisions about when and where to race our horses. He and Castle Village Farm Director of Client Development Richard Munk are often at the barns at Saratoga, Belmont and Aqueduct, and he consults with the trainers regularly.

Unlike most other managing partners, Steve encourages partners to communicate not only with him, but also with one another. He welcomes suggestions, thoughts, questions and input into his decision-making from all of the partners. As a partner in a Castle Village Farm partnership, you'll be a member of that partnership's internet group, where you and your fellow partners may engage in discussions about your horse with each other and with Steve. That's also the forum Steve uses to let you know how your horse is doing and when it's being entered in a race.

What are the special benefits of Castle Village Farm partnership?

As a Castle Village Farm partner, no matter the size of your share, you are welcome in the paddock and the winners' circle for your horse's races. You will stay on top of your horse's progress, and share your own opinions about racing with the other partners, through the Castle Village Farm internet group for your horse. You'll also participate in the Castle Village Farm Info internet group, where we post general news of interest to all partners. The internet groups are also used for sending out notifications of our horses' workouts, entries and results as soon as those become available.

Partners who own 3% or more of a horse can (and must, in New York) be licensed as thoroughbred owners. With that licensing comes a badge for backstretch (stable area and training track) access, where you'll be able to visit our trainer's barn and see your horse on the track during morning work outs. If you are a licensed owner, you'll also get free parking in the owners' lot and free clubhouse admission for yourself and your immediate family. If you own less than 3% and do not have an owner's license, you can still easily make arrangements with us to meet on the backstretch, visit the barns and see your horse work out.

All partners are also welcome at the annual Castle Village Farm party in Saratoga, which features great food, great company (your fellow partners), and music by Sam the Bugler of NYRA and his very talented musical friends.

When I join a Castle Village Farm partnership, what exactly am I paying for, and what financial obligations will I have?

The initial partnership capital will cover the actual price of the horse. Your initial capital investment will also cover (a) the expenses we incurred in buying your horse (vet exams,

travel expenses to attend the sale, etc.), (b) the costs to us of setting up the partnership and selling interests in it and other up-front expenses, (c) a reasonable percentage, for Steve's expertise in choosing your horse, and (d) a reserve for training expenses through December 31, 2008 (based on initial capital of \$60,000) as part of your initial investment. That way, you can be sure that, barring unforeseen risks, you won't be called upon for additional payments for at least that length of time.

After that training reserve has been used up, you will be responsible for your percentage share of ongoing expenses. Typically, these expenses run on the order of \$3,500 per month, in total, including routine vet bills and administrative expenses, for a horse in training at the race track, and less than that (on the order of \$2,000 a month) if the horse is at a training center. So, if you own 1 percent of a horse, you can expect your share to be on the order of \$35 per month, or \$105 in each quarterly billing period. Of course, we hope that the amount of money you actually will have to pay will be less than that. We hope that your horse will be contributing to its own upkeep as well, or even earning a profit. But, again, we have to warn you: while Castle Village Farm horses generally do very well on that score, racing is full of unexpected risks, so you should expect some cash calls.

How do I know what my money is going for?

We provide detailed quarterly financial statements, which show each and every charge for training and boarding the horses, veterinary work, shoeing, van transportation and all the other costs directly related to the care of the horse. In addition, there is a flat monthly charge, stated in each separate partnership agreement, for all of Castle Village Farm's out-of-pocket overhead and management expenses; this covers actual expenses only. Yet another important way in which Castle Village Farm differs from other partnerships is that the Managing Partner is not paid a regular monthly fee. Instead, to the extent he gets paid at all on an ongoing basis, it comes only from your horse's winnings or from profits on the sale of a horse, and, to a limited extent, from his share of the initial partnership capital.

We also contribute 1% of our horses' purse earnings to race track-related charities, including thoroughbred retirement funds, injured jockeys' funds, and backstretch benevolence programs. Partners are encouraged to suggest the charity that will be the beneficiary of their horse's earnings.

You will receive quarterly financial reports, and, in addition to detailing the partnership's expenses, they'll also have complete financial details on each start made by a horse: what the purse was, how much the trainer's and jockey's share was, and what other deductions the race track might have made from the purse. These reports will generally be distributed by email and posted on each partnership's internet site; partners without internet access can request hard-copy delivery.

In addition, you will get an IRS form K-1 for each partnership in which you have a share at the end of each year. These are usually ready no later than the end of February, so that you'll have plenty of time to include them in your personal tax return planning.

If my horse earns money, how soon do I get my share?

We distribute money, and bill for expenses, quarterly. At the end of each quarter, if your horse has made money, and there's enough left to pay the next quarter's estimated expenses for your horse, then anything above that will be distributed to the partners. If there isn't enough to pay the estimated expenses, you will be billed for your pro-rata share of what's needed.

Some other partnerships distribute purse money a bit faster, but generally that's because either (a) they automatically bill partners for expenses every month, charging their credit cards, regardless of how the horse is doing, or (b) their partnerships are set up from the beginning with enough money to support the horse for several years – which makes them a lot more expensive up front than ours.

How will I know what's going on?

The Partnership will operate an email mailing list so that all the partners will be able to communicate with each other. When we do communicate by email, we will be polite, civil, and respectful of each others' opinions.

Partners in Castle Village Farm are invited to share their opinions about the progress of and plans for our horses, and those opinions are taken into account by the managing partner and the trainer. But the day-to-day management decisions are not made by the whole partnership, nor should they be, given the very different levels of experience and expertise among the partners. The managing partner and trainer will make the entry decisions for our horses, subject to being overruled by a two-thirds vote of the partners, and our trainer will be responsible for the care and conditioning of the horses.

Administrative matters, including any necessary legal work and tax return preparation, will be handled by the managing partner, Steve Zorn. The managing partner will receive certain incentives, spelled out in the partnership agreement, but only if the partnership is financially successful.

TIMETABLE

We purchased Talking Blues at the August, 2007, Saratoga Open Yearling Sale. He'll be at Jim Crupi's in Ocala at least through May, 2008, and possibly longer, depending on his training progress. After that, he'll come to the race track for further training, with the aim of debuting in a race before the end of 2008.

MONEY MATTERS

The partnership will initially be established with a capital of \$40,000-\$60,000. After 2008, and depending on the horse's earnings, there will then be quarterly cash calls to pay the estimated expenses for each subsequent quarter, to the extent that the horse's earnings do not cover its expenses, as described in the partnership agreement. At the end of each calendar quarter during the partnership's life, any excess of cash on hand over the sum of the initial capital plus the estimated expenses for the succeeding quarter will be

distributed to the partners. The balance of each partner's share in the partnership will be distributed on termination of the partnership.

A reminder: most horses do not recover their initial cost and the expenses of keeping them in training. Castle Village Farm has been fortunate to have more than half a dozen horses that have earned over \$100,000 (in the case of Introspect, over \$300,000), which is generally a mark of success and which gives the partners a real chance to come out ahead. We're always hoping for a horse that has passed all our physical tests, as Talking Blues has, and looks like it will be competitive, and thus maximizing our chances of making money, but there are no guarantees in racing.

The partnership will terminate on December 31, 2011, or when it no longer owns any horses, unless the partners agree to extend its life.

FINANCIAL ESTIMATES AND PROJECTIONS

Although it is virtually impossible to predict results in the racing business, it is possible to estimate expenses. Generally, for a stable that races in New York, the cost of training and vet bills, farriers, and other regular expenses is \$3,000-\$3,500 per month

If we assume that the partnership would have \$60,000 in capital, its costs to December 31, 2008 might be as follows:

Partnership Capital	\$60,000
Start-Up Costs & Commissions & Initial Cost of Horse	\$12,000 \$ 1,000
Training & Vet Costs in Fla. 12 months @ \$2,400 per month	\$28,800
Training and Vet Costs in NY: 4 months @ \$3,600	\$14,400
Estimated Total Expenses	\$56,200

Thus, there might be \$3,800 left in the partnership account if the horse had not earned anything by the end of 2008r. If there were less than \$14,000 available as of that date, there would be a cash call for the difference to cover the first four months of 2009. If there were more than that, as a result of the horse's earnings, the excess would be distributed to the partners.

These numbers are, of course, highly speculative, and would have to be seriously adjusted if, for example, we spend more or less than the estimated amount for horses, or if our total capital is less \$60,000. But the numbers give a reasonable idea of the general picture.

Each \$1,000 partnership unit subscribed before we purchase a horse will represent between 1.67% and 2.5% of the total partnership interests, depending on the total capital invested in the partnership.

LEGAL STUFF

The partnership will be organized as a general partnership, so partners can get the benefit of tax losses, if any, if they otherwise qualify under the Internal Revenue Code. Any partner considering using such losses should make his or her own determination, together with a tax advisor, as to whether the partner satisfies the material participation requirements of the Internal Revenue Code. Although the partnership is not a limited liability corporation or limited partnership, it does maintain liability insurance to protect the partners against claims arising out of its operations.