



BUSINESS PLAN
CASTLE VILLAGE FARM
2010 SARATOGA CLAIMING PARTNERSHIP
(May 2010)

OBJECTIVES

- To form a thoroughbred racing partnership that will claim one or more horses for racing (primarily) at NYRA tracks.
- To make it possible for people with moderate incomes to experience the thrill of owning a race horse -- and even have a chance to make a profit.
- To conduct an honest, inexpensive, efficient and partner-centered organization, that keeps management fees and other costs at an absolute minimum.

IMMEDIATE PLANS

The partnership will claim one or more thoroughbreds at Saratoga, with the aim of racing those horses on the New York circuit. But, if the right horse turns up elsewhere, and we are eligible to claim it, we will not limit ourselves to the NYRA tracks. We will be looking primarily for horses in the \$15,000-\$40,000 price range, though we do not rule out claims that are either more or less expensive than that.

We will be looking for horses that are likely to be durable and to have the potential to earn their keep by consistently picking up checks when they race. More specifically, we will be looking for horses that show a possibility of being able to improve from their current claiming level, either because we think we can provide better training and management of the horse, or because they have potential at a surface and/or distance that they have not yet tried. We will also

be looking for horses that still have the ability to run in restricted races (e.g., NY-bred, Maryland Million-eligible, starter allowances, etc.) where they may be competitive. In the past, Castle Village Farm has had considerable success with this type of claim, including Maryland Million winner Flippy Diane, stakes-placed Southern Missile and Fighting Speedy, and five-time winner and Florida-bred claiming horse of the year Diligent Gambler.

We will enter our horses where they are most likely to be in the money. Under NYRA rules, a horse that is claimed must run back for a price 25% higher than the claim price, if it runs back within 30 days after the claim. Beyond the 30-day period, a horse may be entered for any price, either higher or lower than the



claim amount. Naturally, we would hope to be able to move our horses up, but the reality of racing is that some horses need to be dropped in claiming price to be competitive. If that is necessary, we will drop them to the appropriate level.

If our horses are claimed away, we can, at the discretion of the racing manager, retain the claim proceeds within the partnership and use them to claim additional horses, applying the same criteria listed above. At

the termination of the partnership (when we no longer own any horses, and are not in the process of replacing a claimed horse, or on December 31, 2012, whichever is later), all partnership funds will be distributed.

RISK FACTORS

Even though we have considerable experience, and always seek 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 always done, 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 only 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.

IT'S GREAT TO BE A CVF PARTNER

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'll get a picture whenever your horse wins a race. You'll attend races with a great group of people – other CVF partners – people who share your interests in handicapping and owning horses – people who'll yell just as loudly as you do when your horse crosses the finish line first.



You'll get to know your fellow partners both at the track and on-line. You'll be a member of the partnership's internet group, where you and your fellow partners can engage in discussions about your horse with each other and with racing manager Steve Zorn and Director of Sales Joe Wall. Unlike the management of most other racing partnerships, Steve and Joe encourage partners to communicate not only with them, but also with each other. They welcome suggestions, thoughts, questions and input from all of the partners. That's also the forum they use to keep you on top of your horse's progress; check your email frequently for that latest on how your horse is doing -- when it's had a workout, when it's being entered in a race, and the race results.

CHOOSING YOUR HORSE

Partners in Castle Village Farm are involved in the important ownership decisions. The selection of horses to claim will be made by the racing manager and trainer, working together, but partners will be informed of horses that we are thinking of claiming, and partners are invited to suggest claims to be made. In the end, however, because of the short time period between entries and the claim deadline for a race, it will not be feasible to take a partnership vote on each potential claim.

Similarly, the racing manager and trainer will make the entry decisions for our horses. Our trainer will be responsible for the care and conditioning of the horses.

YOUR TRAINER



Your trainer will be Bruce Brown. Bruce, who is 33 years old, went out on his own as a trainer in 2008, after serving an apprenticeship with Tim Hills and Bill Mott. He had a spectacular first year, winning almost 24% of his starts and finishing in the money more than 45% of the time. In 2009, he won 16% of his starts and finished in the money 40% of the time, well above average for NYRA trainers. So far, in 2010, he's maintaining that excellent pace.

Equally important, Bruce understands how Castle Village Farm operates, and enjoys having partners come visit his barn, during morning training hours. Not only can partners visit with their horses at the barn, but Bruce's horses are stabled in P G Johnson's old barn, right at the entrance to the Belmont training track, so partners also get an excellent view of morning workouts. This will be the third Castle Village Farm partnership with Bruce. He also trains Talking Blues, who won on New Year's Day, and Good Law, who won on May 5th, in his first start after we claimed him.

We must include a caution that either our trainer or the Castle Village Farm racing manager could decide to end their relationship at any time, and in the sole discretion of either. This is, however, highly unlikely to happen. We are looking forward to a long and successful relationship with Bruce.

YOUR RACING MANAGER

Steve Zorn is the founder of Castle Village Farm and is the racing manager for all its partnerships. He is now known throughout the industry as an expert at claiming horses. 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, Southern Missile, Fighting Speedy, Just Zip It 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 Sales Director Joe Wall are at the barns at Belmont a couple of times a week, and he consults with the trainers regularly.



YOUR DIRECTOR OF SALES

Joe Wall is Director of Sales for Castle Village Farm. But he's much more than that. Joe is always there for Castle Village Farm's partners. If you have a question or a need, just call or email him. Join him for a tour of the backstretch during training hours any Sunday morning. And, on the days your horse is racing, look for Joe in the paddock or the boxes, saving seats for you.

MANAGING THE PARTNERSHIP

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 Steve and our trainer. But the day-to-day management decisions are not made by the whole partnership, nor should they be. The racing manager and trainer will make the entry decisions for our horses, and our trainer will be responsible for the care and conditioning of the horses.

LICENSING REQUIREMENTS

Partners who own 3% or more of a horse must be licensed as New York thoroughbred owners. If there are fewer than 36 partners, then all of them must be licensed, no matter what percentage they own. 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.

WHERE YOUR MONEY GOES

First, let's talk about what we will NOT spend your money for. Castle Village Farm is not in the business of making a lot of profits for its management. No one in the management team even takes a salary, let alone expects huge commissions. Where the managers of some partnerships buy a horse, and then re-sell it to the partnership at double or triple that amount, and pocket the rest, we do not mark up your horse at all. You'll know exactly what we spent for it, and that's exactly what we'll charge you, not a penny more.

Your initial capital investment will go towards the actual price of the horse that we claim. It will also cover (a) the actual expenses we incurred in looking for and buying your horse, (b) the costs of setting up the partnership and selling

interests in it, including reasonable sales commissions, and (c) a small royalty fee to pay for Steve's expertise in choosing your horse. We promise that the sum of (b) and (c) together will never be more than 12.5% of total partnership capital.

We will also do our best to raise enough initial capital so that we'll begin operations with a reserve that will cover at least a month or two of training expenses. That way, barring unforeseen injury, there shouldn't need to be a cash call until our horse has had a chance to race for us.

After that reserve has been used up, you will be responsible for your percentage share of ongoing expenses. Typically, these expenses run on the order of \$4,000 per month, in total, including the trainer's day rate, routine vet bills and CVF



administrative expenses. So, if you own 1 percent of a horse, you can expect your share to be on the order of \$40 per month. Of course, we hope that the amount of money you actually will have to pay will be much less than that. We hope that your horse will be winning purses, which will contribute to its own upkeep, 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.

We bill partners a set monthly rate to cover Castle Village Farm's out-of-pocket overhead and office expenses – our office rent, phone bills, postage and copying and all of that. That overhead expense is based on an average of what it cost us over the prior year. In 2010, we've charged each partnership \$475 per month in overhead. (That comes to \$4.75 per share.) The cost may be slightly more, or a little less, in 2011, but is unlikely to vary much.

Yet another important way in which Castle Village Farm differs from other partnerships is that you do not have to pay the Managing Agent anything. (In most partnerships, the partners are charged a regular monthly fee – in some cases, quite a large one – which is added to their monthly bill. They have to pay it whether their horses are doing well – or not. In Castle Village Farm, your Management gets paid only from your horse's winnings or from profits on the sale of a horse. If the horse isn't in the money, the Managers get nothing. If it does finish in the money, their commission comes from the purse, not from your pocket.

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.

KEEPING TRACK OF YOUR MONEY

You have the right to know what your money is going for, and we have a responsibility to tell you. We'll provide you with detailed financial statements every month, which will show you 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. You'll know exactly what the costs were, and what you are paying for.

Your monthly financial report will also include complete financial details on each start made by a horse: what the purse was, how much the trainer's and jockey's share was, our commissions, and any 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 the partnership 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.

WHEN YOUR HORSE MAKES MONEY

When your horse finishes in the money, the purse goes first to pay upcoming expenses. So we'll put enough of it away to pay the horse's expenses for the next month or two. Anything above that, we'll distribute to you, in proportion to your partnership share.



TIMETABLE

We will begin looking for a horse as soon as we have a minimum of \$17,500, which would permit us to claim at the \$15,000 level. We may decide, however, to wait to make a claim until we have at least \$30,000, which would permit a claim at the \$25,000 level, where we can generally expect to find better claim prospects.

We will limit total the size of the partnership to a maximum of \$50,000 in capital. The partnership will be closed to any additional partners when our horse runs back for the first time in Castle Village Farm's ownership, or whenever we have reached the maximum capital of \$50,000, whichever comes first.

MORE RISK FACTORS

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'll be looking for a horse that has passes all our physical tests and looks like it will be competitive, and thus maximizing our chances of making money, but there are no guarantees in racing. But, we make no promises about profits.

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 and "hobby loss" requirements of the Internal Revenue Code.

This general partnership is not for sale in Pennsylvania or in any jurisdiction in which its sale would be forbidden by local law.