

Starting Partnerships: Teleconferences to discuss roadmap to winner's circle

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Owning a major league sports franchise is a dream many share but few have the wherewithal to realize. In recent weeks, it has been widely reported that the financially beleaguered owners of the New York Mets are in negotiations to sell a minority interest in the team. This non-controlling stake in the MLB club is being priced at \$200 million: a chunk of change even most lottery winners couldn't afford to pony up.

Fortunately, creation of your own big-time sports team is fully attainable, so long as your "players" are the four-legged variety. Lightly raced Animal Kingdom, last's month's surprise victor in the 137th renewal of the Kentucky Derby, is campaigned by fractional share ownership group Team Valor International.

The Team Valor-formed partnership that owns Animal Kingdom is a 20-member syndicate. The remarkable recent success of Team Valor doesn't even constitute the first time a fractional share ownership group has effectively competed at the highest levels of the Sport of Kings. In 2003 "The Gutsy Gelding", Funny Cide, took the Derby and Preakness Stakes for Sackett Stable; a group of high school chums from Sackets Harbor, New York with deep ties to Saratoga.

These fractional share ownership groups exist in both the Thoroughbred and Standardbred industries. You've seen the advertisements on T.V., on the web and in your race programs. In some cases, for as little as a few hundred dollars you can buy into and own a piece of a racehorse.

Sound Simple? Just get a bunch of people to put up money and buy a horse – Right? Whoa! Let's take a closer look: How are these groups formed? What does it take to manage such an operation? What skills does the manager need in order to successfully maintain a fractional share racing group? These questions and many more will be discussed in a free teleconference for USTA members delivered in two live call-in conferences on Tuesday, June 28 and Friday, July 8. Both conferences will start at 1 p.m.

If you've ever thought you might like to pull together a group to buy a horse, this is a good way to get an idea of just what such a task entails. To reserve a spot and obtain call-in information, contact Ellen Harvey at Ellen.Harvey@USTrotting.com or call (732) 780-3700.

Here are just a few things to consider:

Do you have what it takes? Forget about racehorses for a moment. Consider buying a franchise from a nationwide donut retailer. Do you like donuts? Great! Having an affinity for a product helps you to feel good about sharing the product with others. Do you love to make donuts? Terrible! If it's your dream to mix the batter and prepare thousands of

donuts a week, then you need to offer your baking services to an existing franchisee. Making donuts is an acquired skill that can be taught to just about anybody willing to learn. It's an important role, but one that needs to be delegated to employees. Hospital administrators don't perform surgery, even if they have the qualifications to do so.

So, too, the successful operation of a fractional share ownership group has nothing to do with the manager's proficiency in mucking a stall or jogging a trotter. What's needed is acumen in traditional business disciplines: sales, marketing, management, customer (client) relations, bookkeeping, etc. If you love racing and possess the basic skills essential to running a small business, you might be a candidate to start a fractional share ownership group.

Development of a Business Plan: The adage "He who fails to plan, plans to fail" is unfortunately all too true in the small business realm. One of the primary reasons a significant percentage of start-up businesses of all types don't make it much past their formation anniversary date is lack of a properly formulated business plan. Luckily, there is free and accessible help towards achieving this important step. The United States Small Business Administration dedicates a significant portion of its website to the identification and draftsmanship of the essential elements of a good business plan. Moreover, the SBA maintains a number of local Small Business Development Centers (SBDCs) throughout the country that can provide one-on-one assistance to contemplated and existing businesses (www.SBA.gov).

How is a group formed? Generally, a business entity is formed that ensures maximum legal protection from liability and tax advantages for both members and manager. The limited liability company, limited partnership and subchapter "S" corporation are all possibilities. Each has distinct characteristics, and all require some form of document that governs the operation of the entity, including language setting out the powers, duties and rights of members and managers, as well as the all-important compensation and expense reimbursement schedule for the manager. The engagement of a knowledgeable business attorney is critical from this point forward.

What happens next? Managers must ensure they are in full compliance with various federal and state securities laws. Most entities will be small enough to qualify for exemptions from some of the more onerous requirements mandated for most public offerings. Still, there are strict limits on advertising, and necessary consideration must be given to the rights of investors. Just like a stockbroker who hawks equity interests in Fortune 500 companies, the fractional share manager is selling pieces of equity in racehorses. Government rightfully exercises its power to police these transactions, and the manager who fails to abide by the rules will pay a penalty for dealing with investors and potential investors in a less than forthright manner.

Hiring the Professionals: In addition to engaging the attorney who has done the initial organizational work, the entity will need to identify the services of an accountant. There are periodic financial statements that investors must receive and informational tax filings that will be due on an annual basis. Moreover, the accountant can assist in projecting cash

flow requirements and determining if, when and in what amount “cash calls” required to cover anticipated expenses should be declared. Of course, the manager will need to identify a trainer and possibly a bloodstock agent to assist in evaluation and acquisition of racing stock, provide care and training and chart the horses’ career moves.

Acquiring Inventory: One of the most critical aspects of fractional share ownership involves determining the method of acquisition of racing stock. Most fractional share groups do not begin as breeding entities. Thus, the usual methods involve auction purchase, private purchase or claiming. Each involves different protocols for assessing proper candidates, but all require a determination as to whether initial members’ investments should be protected against loss through the procurement of full mortality or limited peril insurance.

Now, the hard work begins! Once the business groundwork is fully established, it’s time to attract investors. Websites, print announcements, commercials, seminars and the like are vehicles many entities use, but remember the prohibitions regarding advertising in general, and deceptive advertising in particular. Be prepared to deal with folks who have spent half their lives on the apron of a harness track, feel certain they know all there is to know about harness racing, but have never heard of a condition sheet.

Get ready to have your every decision second-guessed, answer endless questions, put up with much hemming and hawing about investing and finally, when the prospect is ready to join, be primed to help the new member obtain an owner’s license in every jurisdiction where the horse will compete. Then, do everything necessary to retain the member and increase his or her number and level of investment in the racehorses managed by the entity.

Are you still with us? In truth, while many problems exist and certainly multiply as the business expands, these realities are no less true for the owner of a convenience store, hamburger shop or cold cut delivery route. The rewards? Speculative at best, but the “home run” horse has and can be the asset of a fractional share ownership group. If you think you’re up to the challenge, and want to learn more, we look forward to your participation in these free, telephone-based seminars. If you realize this is more than you’re ready to take on at this time, that’s OK: You need to know you can swim before jumping head first into a pool!

To reserve your place on the calls, contact Ellen Harvey at Ellen.Harvey@USTrotting.com or call (732) 780-3700.

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