

Frequently Asked Questions

How does RCR differ from other partnership programs?

First, we are regionally biased towards the central corridor of the U. S. While we will take a horse where its talent indicates it can compete and where we stand to make the best possible financial return for its partners, our primary focus is the heartland of the U.S.

Second, we are principally a pay for performance racing entity. If our horses are winning or sell for large sums of money, RCR as the management company receives a 10% commission. Unlike many other racing partnerships, the margin we place on the acquisition is small, there are no management fees, and the expenses are passed through on a dollar-for-dollar basis. As owners in each horse we manage, we try to keep costs low.

Third, we don't buy the most expensive horses, nor the least expensive. We buy in a range that we believe provides the most opportunity for success as related to the capital invested.



How does RCR choose its horses?

First, our focus is on yearlings at auction. Second, we look for athleticism, conformation, a good mind and the right amount of pedigree to be a potential winner of stakes races.



We are of the belief that too low of a price will not gain these qualities and we also believe too high of a price introduces more risk than most of our owners wish to accept in something as unpredictable as a thoroughbred race horse. We believe the “sweet spot” of the market is in the \$35,000 to \$65,000 range for yearlings. There are multiple examples of horses purchased in the \$1,000,000+ range that went on to success and many examples to the contrary (remember 2006, the Green Monkey at \$16,000,000). There are very few examples of horses like Kentucky Derby Winner Mine That Bird that was sold at auction for \$9,500. In our sweet spot there tend to be a wide selection, some examples in 2008 and 2009 include horses such as: Curlin \$57,000 yearling, Zenyatta \$60,000 yearling, Careless Jewel \$40,000 yearling, Vale of York \$36,000, Dancing in Silks \$26,000, etc.

Why yearlings?

Many partnerships buy two-year-olds in training, however, we believe that many two-year-olds at those sales have been prepped in the months leading up to the auction solely

for performance at the auction. Their training, care, diet, etc. has all been geared towards recording a blindingly fast single furlong run and looking the part over the two to three day auction. For many of these two-year-olds, that day is their Kentucky Derby (the financial reward of their owners is hinged to that sale). All of this prep work and the demand of that breeze (often times too early in the horse's development) may actually set back the appropriate training of the horse. Additionally, the prices required at these sales to buy truly promising horses, are typically well above the RCR target budget.



Should I invest more in one horse or less in multiple horses?



Different fractional owners have different opinions. Some say, "If I own less than 10 to 25% I don't feel as attached to the horse and its racing career and am less likely to make a decision to travel to see the horse run." A counter opinion offered by many is that by spreading ownership at lower levels over multiple horses you have more action going at any one time and less risk of disappointment if one of your horses is not performing. Possibly not surprising, it is hard

to distinguish the 5% owner from the 50% owner when the shouting begins as the thoroughbred is making his stretch run for the wire.

Why might I choose to invest in a filly?

Fillies tend to be at marginally lower acquisition costs, but have lesser purse opportunities in female-restricted races. However, the residual value for fillies is greater on average. A filly with a modest, but respectable race record combined with a strong pedigree often has future value as a broodmare.



Why might I choose a colt or gelding?

Typically there are more stakes races with higher purses presented for colts and geldings. Obviously the Triple Crown Series and most well known races tend to be run by the boys (that is until Zenyatta and Rachel Alexandra came along). A colt or gelding must earn their living on the race course, as only the most outstanding colts each year have the opportunity to be a stallion and otherwise, have very little residual value. The only exception is the rare colt that is a shining star prior to the three-year-old Classic Series or is retired to stud, will usually return substantial financial rewards.

Is there a minimum share requirement?

A minimum one (1) share commitment (4.5%) is strongly encouraged. If multiple shares are being purchased ½ shares will be discussed on a case-by-case basis.

Why does one (1) share equal 4.5%?



Royal Colors Racing typically purchases a minimum 10% ownership position. Thus, the remaining 90% is represented by 20 shares. Also, most states require all owners with an ownership interest of 5% or greater to be licensed, so in some, but not all, cases the 4.5% ownership level prevents the added cost of getting licensed.

How much does it cost?

Costs vary depending on the progression of the horse and the racing campaign it pursues. A typical racehorse will cost \$65-\$75 per day when training at a remote site and \$100-\$110 per day when in training at a racing facility. Costs can escalate if unusual occurrences demand unique veterinarian care. Costs will also increase if a horse is being transported frequently or over great distances and if nomination fees are being paid for Stakes Races. On the other hand, if a horse is travelling and the partnership is paying fees it is usually because the horse is competing at higher levels and is hopefully winning substantial purses. One should estimate the total annual cost to be approximately \$35,000 to \$40,000.



What will be the return on my investment?



There are no financial guarantees. For every financial home run hit in horse racing, there are a lot more strike outs. We try to minimize the risk by purchasing quality horses that have every right to be competitive, but they are living animals that are often as fragile as they are strong, and you can't see their heart until they run. While we cannot promise a positive financial return on one's investment, we can promise it will be one of, if not the most fun investment you will ever make.

Does RCR charge a management fee?

No. Many racing partnerships charge a monthly fee whether the horse is racing or not. We don't.

Does RCR profit on the horse's maintenance cost?

No. We pass expenses through just as we receive them. Some companies get volume discounts or credits based on volume of business, yet still bill their members at retail rates. If we get a discount, then the members receive that discount.

Does RCR profit on the sale of each thoroughbred?

If a horse is sold, Royal Colors Racing reduces the sales proceeds by a 10% retained commission.



How does RCR make money?

When the partnership gets paid, we get paid. Most other partnerships make money from the minute they sell the horse to the members. Profit margins added to the price presented for the horse are often 25 - 100% of the actual acquisition cost. Our model is based on a much lower margin added to the purchase price of the horse and we are compensated if our management of the horse, with member input, results in the horse winning purses and potentially selling in the future or being syndicated to stud.



How are race purses paid?

Typically the purse is divided as based on finishing position. Below is an example of how a \$100,000 stakes purse might be distributed:

Finish	Percentage	Earnings
1 st Place	60%	\$60,000
2 nd Place	20%	\$20,000
3 rd Place	10%	\$10,000
4 th Place	5%	\$5,000
5 th Place	3%	\$3,000
Others	2%	\$2,000



How much will I receive from purse winnings?

As an owner you will receive funds based on your percentage of ownership in the horse. Here are estimated examples of a first and second place finish in a \$45,000 purse race:

	<u>First Place</u>	<u>Second Place</u>
Purse Awarded	\$27,000 (60%)	\$9,000 (20%)
Trainer Commission	\$2,700 (10%)	\$900 (10%)
Jockey Commission	\$2,700 (10%)	\$450 (5%)
Management Commission	\$2,700 (10%)	\$900 (10%)
Stable/Groom's Bonus	\$270 (1%)	-
Pony-to-Post Fee	\$20	\$20
Workman's Compensation	\$60	\$60
Winner's Circle Photo	\$18	-
Purse Return to Partners	\$18,802 (69%)	\$6,670 (74%)

How often will I have to pay expenses or receive disbursements?

RCR will bill for estimated training and other expenses in advance each quarter. If purse earning for the prior quarter are in excess of this amount, you will receive a check for the balance of the proceeds.

Will I receive financial and tax information?

Yes, a quarterly statement will be sent with your invoice or purse reimbursements. In addition, you will receive a Schedule K-1 Statement for your tax return no later than March 15th of each year.



Do you carry mortality insurance on the horses?

We purchase a one-year mortality policy on each yearling we purchase and maintain it for the first 12-months. It is our opinion, that the first year is the most risky time in a thoroughbred's development. They are being broken, introduced to riders for the first time, introduced to race tracks and unfamiliar environments and possibly seeing their first races. This insurance is very affordable, approximately 3% of the auction price. To continue to insure a horse after it begins racing is more expensive, often times four to six percent of the horse's value. We have chosen not to insure at that level. Any individual partner can insure their respective interest in the horse. If you are interested in doing so, we can put you in touch with multiple insurance firms we would recommend in the industry.

Can I exit my partnership?



No. Once you become a member of a partnership you will receive any financial returns coming to the partnership and also be liable for your representative interest in the partnership until it is terminated or dissolved. There is not an easily accessed secondary market for partnerships, so if you are interested in selling or transferring your membership, you will need to find your own buyer.

How are partnerships ended?

Partnerships can be ended in multiple ways. The most lucrative of these is through a successful racing campaign culminated by a colt being retired to stud or a filly sold at auction as a broodmare. Other successful horses may be sold privately if a majority of the ownership interest in the horse votes to accept an external offer. Typically a horse is raced as long as it is competitive and able to provide returns to the partnership. If a horse fails to compete at the level desired by the partnership the manager may recommend that the horse be entered in claiming races. If a horse is claimed, the partnership is ended. Finally, if a horse fails to thrive as a racehorse, develops an ailment that prevents future racing, or injures itself to the point of halting its racing career, then the partnership will entertain selling the horse or simply giving it away to a good home. If the horse is to be given away, a member of the partnership can ask to take or place the horse.



Will I be kept informed?



Royal Colors Racing exists because of its member partners. It is our obligation to keep you informed. The primary method of doing so is through email and the RCR website. Updates on each horse will be emailed weekly. In addition, a monthly newsletter is sent to all owners. The cumulative update and newsletter history is also updated to the website monthly. When a horse is scheduled or tentatively scheduled to race you will be notified and unscheduled updates will be provided if there is pertinent information to be shared.

How involved can I be? What access will I have to my horse and its races?

As an owner you may visit your horse and watch its workouts either at the pre-training facilities or when the horse is training at a race track. Letting the RCR managing member or the trainer know will ensure your visit is expected. You may visit your horse at its stables. On race days you will be present in the paddock area, able to meet with the trainers and jockeys, and will hopefully end the race in the winner's circle. Royal Colors Racing has access to suites or preferred seating at some tracks and can usually arrange private dining or seating for its owners attending their horse's race. In addition, we will occasionally host conference calls with the trainer to discuss current training and race plans with the horses in which you have ownership.



How will I know when my horses are racing?

Emails will be sent to each partner notifying them of a horse being entered in a race. If their horse is nominated for any stakes races, this will be shared as well. Stakes races are scheduled well in advance, other racing opportunities are published in a track's condition book typically two to four weeks in advance of published racing opportunities. The trainer will attempt to enter our horse into a race typically 48 to 96 hours in advance of the race. Once the track has reported its entries, we will share information regarding the race promptly



How many partners are usually in each partnership?

Typically from 8 to 12.

Will I get to know any of the other partners?

Absolutely. A big part of the fun is sharing the ownership experience. Typically we will try to coordinate suite, seating, or dining reservation in the same area for all of the Royal Colors Racing members in attendance.



Will I need to be a licensed thoroughbred owner in the states where my horse races?

Yes...or maybe no. One of the few frustrating aspects of racing horses is the various licensing nuances throughout each state. Every state with pari-mutual wagering has a State Racing Commission that has its own set of rules. Owners, even partial owners, in most cases must be licensed. Different states however, do not require a license below certain thresholds. Shown below is a sample of racing states and their requirements. It is not all bad news though, by being a licensed owner you typically receive the following benefits:

- Free admission to tracks
- Free upgraded or valet parking
- Access to the paddock and stable areas
- Priority reserved seating
- Often times an owner concierge that can help make your arrangement when you have a horse running.

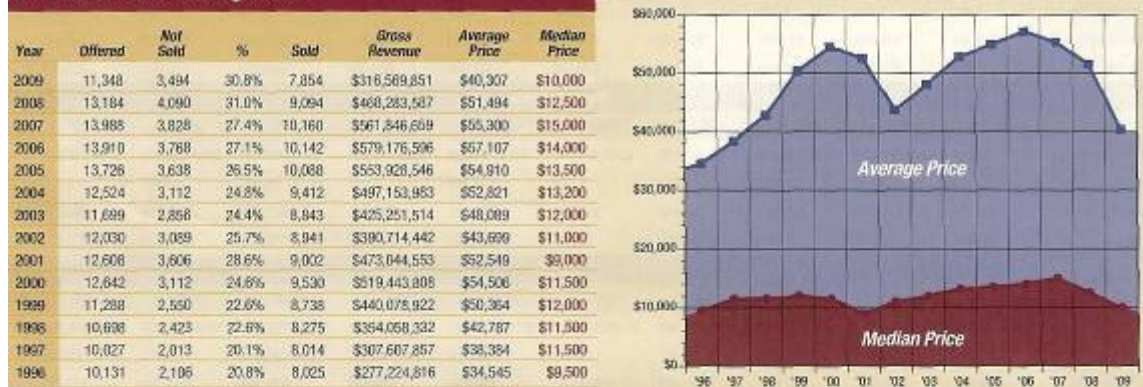


STATE	Fee (per year)	5% or more	10% or more	Any % owner
Arizona	\$36		X	
Arkansas	\$30	X		
California	\$50	X		
Delaware	\$50	X		
Florida	\$40	Name on Ownership Papers only – RCR		
Illinois	\$25	X		
Indiana	\$35	X		
Iowa	\$10	X		
Kentucky	\$150	Name on Ownership Papers only – RCR		
Louisiana	\$25	X		
Maryland	\$75 (\$100 yr1)	X		
Michigan	\$25			X
Minnesota	TBD	X		
Nebraska	TBD			X
New Jersey	\$50	Name on Ownership Papers only – RCR		
New York	\$50 (\$186 yr1)			X
Ohio	\$50	X		
Oklahoma	\$50	X		
Ontario	\$120	X		
Pennsylvania	\$90	X		
Texas	\$100	X		
Virginia	\$50	X		
West Virginia	\$15			X

Is now a good time to be buying a racehorse?

Each individual needs to answer that question on their own, but, in our opinion it is as good of a time as the industry has presented in the past decade. While handle and purses were both off about 10% in 2009, the average and median price at auction was off nearly 25%. The total foal crop has been reduced from a consistent 37,000 per year through 2006 to potentially the lowest crop in 33 years, 30,000 foals in 2010. So, while purses may be down 10%, the number of horses competing for those purses is less at this point and the value one is getting at auction is substantially better than in prior years. For those buying a 2009 yearling, your chance of winning the Kentucky Derby just improved from one in 37,000 to one in 34,000.

North American Yearling Sales



North American Annual Yearling Sales

Year	Total Yrlgs	Percent Sold	Yrlgs Sold	Sales Gross	Avg. Price	Median Price	Colts Sold	Colts Avg.	Filles Sold	Filles Avg.	Kee/Sar** Sold	Kee/Sar** Avg.	Others Sold	Others Avg.
2009	33,550*	23.4%	7,854	\$316,569,851	\$40,307	\$10,000	4,086	\$44,585	3,768	\$35,343	382	\$291,376	7,472	\$27,471
2008	34,350*	26.5%	9,094	\$468,283,587	\$51,484	\$12,500	4,653	\$57,364	4,441	\$45,343	422	\$354,116	8,672	\$36,767
2007	34,843	29.2%	10,160	\$561,846,659	\$55,300	\$15,000	5,316	\$61,374	4,844	\$48,634	479	\$389,267	9,681	\$38,776
2006	35,037	28.9%	10,142	\$579,176,596	\$57,107	\$14,000	5,350	\$68,802	4,792	\$46,282	425	\$442,718	9,717	\$40,241
2005	34,794	29.0%	10,088	\$553,928,546	\$54,910	\$13,500	5,256	\$65,831	4,830	\$43,047	103	\$324,417	9,865	\$52,430
2004	33,972	27.7%	9,412	\$497,153,983	\$52,821	\$13,200	4,794	\$63,371	4,618	\$41,889	150	\$304,700	9,262	\$48,742
2003	32,963	26.8%	8,843	\$425,251,514	\$48,089	\$12,000	4,827	\$56,448	4,216	\$40,013	154	\$313,357	8,889	\$43,388
2002	34,720	25.6%	8,941	\$390,714,442	\$43,699	\$11,000	4,662	\$49,132	4,279	\$37,700	227	\$341,969	8,714	\$35,929
2001	34,724	26.0%	9,002	\$473,044,553	\$52,549	\$9,000	4,846	\$62,590	4,356	\$41,839	251	\$500,494	8,751	\$39,701
2000	33,843	28.2%	9,530	\$519,443,808	\$54,906	\$11,500	4,960	\$62,532	4,570	\$45,795	267	\$459,300	9,263	\$42,838
1999	32,947	26.5%	8,738	\$440,078,922	\$50,364	\$12,000	4,618	\$56,527	4,120	\$43,456	281	\$412,000	8,457	\$38,253
1998	32,118	25.8%	8,275	\$354,058,332	\$42,787	\$11,500	4,374	\$48,930	3,901	\$35,888	311	\$341,408	7,964	\$31,125

*Estimated; **No Keeneland July sale in 2003-05; Saratoga figures only; 2006-07 Saratoga and Keeneland September select (first two sessions)

Yearling Price Ranges by Year

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Highest Price	\$6,400,000	\$3,100,000	\$3,800,000	\$8,000,000	\$9,700,000	\$11,700,000	\$3,700,000	\$3,100,000	\$2,800,000
\$1,000,000 and above	52—0.6%	27—0.3%	32—0.4%	31—0.3%	44—0.4%	38—0.4%	34—0.2%	21—0.2%	9—0.11%
\$750,000 to \$999,999	24—0.3%	17—0.2%	20—0.2%	37—0.4%	28—0.3%	21—0.2%	21—0.1%	18—0.2%	15—0.18%
\$500,000 to \$749,999	74—0.8%	51—0.6%	86—0.7%	62—0.7%	68—0.7%	74—0.7%	84—1.0%	70—0.8%	43—0.55%
\$300,000 to \$499,999	155—2%	121—1%	141—2%	165—2%	188—2%	206—2%	249—2.5%	213—2.3%	134—1.7%
\$200,000 to \$299,999	149—2%	198—2%	209—2%	236—2%	250—3%	310—3%	217—2.1%	201—2.2%	133—1.7%
\$100,000 to \$199,999	550—6%	528—6%	520—6%	719—8%	717—7%	778—8%	900—8.5%	786—8.6%	494—6.3%
\$50,001 to \$99,999	594—7%	743—8%	734—8%	870—8%	953—9%	956—9%	945—9.3%	839—9.2%	612—7.6%
\$30,001 to \$50,000	709—8%	832—9%	835—9%	919—10%	977—10%	960—9%	1,046—10.3%	864—9.5%	628—8.0%
\$20,001 to \$30,000	672—8%	728—8%	787—9%	778—8%	830—8%	770—8%	791—7.8%	651—7.2%	604—7.7%
\$10,001 to \$20,000	1,207—13%	1,301—15%	1,341—15%	1,336—14%	1,460—15%	1,449—14%	1,467—14.4%	1,160—12.8%	1,078—13.7%
\$10,000 and less	4,816—54%	4,406—49%	4,178—47%	4,259—45%	4,573—45%	4,580—45%	4,406—43.4%	4,271—47.0%	4,104—52.3%
Total Yearlings Sold	9,002—100%	8,941—100%	8,843—100%	9,412—100%	10,088—100%	10,142—100%	10,160—100%	9,094—100%	7,854—89.2%
Average Price	\$52,549	\$43,699	\$48,089	\$52,821	\$54,910	\$57,107	\$55,200	\$51,484	\$40,307
Median Price	\$9,000	\$11,000	\$12,000	\$13,200	\$13,500	\$14,000	\$15,000	\$12,500	\$10,000

Historically how do yearlings purchased at auction, such as Keeneland September Yearlings perform?

Each horse is different, thus history may not be a good indicator, but the table below shows the statistical results of ten years worth of yearlings sold at Keeneland's September sale. These numbers represent all sold horses, however, the typical Royal Colors Racing yearling is purchased at a price point in the top third among those sold.

Sale	No. horses sold	Total sales	Avg. price	Median price	Total earnings	Average earnings	Starters (%)	Starts/ starter	Starts/ horse	Winners (%)	Stakes winners (%)	Graded stakes winners (%)	Avg. win distance in fms.
Keeneland September *	29,309	2,757,825,400	93,839	35,000	1,586,366,414	53,978	24,856 (84.8%)	16.3	13.8	18,388 (52.5%)	1,748 (5.9%)	567 (1.9%)	7.03

*Statistics for Keeneland September yearling sale (1999-2008) are included as a comparison with juvenile sale statistics.

Statistically, how many thoroughbred foals experience a successful racing career?

The numbers shown in the chart below are typically much stronger for those born from sires ranking among the top 1% of all sires. The majority of Royal Colors Racing horses are offspring from Sires that rank or have ranked in that top 1%.

Averages for the Breed

Averages for the Breed statistics are designed to provide a baseline to evaluate the performances of contemporary racehorses, sires, and dams. Statistics shown in the column on the left below reflect the worldwide performances of all named foals born in North America between 1992-2001. Statistics in the column on the right reflect the same data for foals by the top 1% of all sires by total earnings for the same decade. All statistics are based on data in the Jockey Club Information System's worldwide database. The Jockey Club database includes complete records for racing in the United States, Argentina, Australia, Brazil, Canada, England, France, Germany, Hong Kong, Ireland, Italy, Japan, Puerto Rico, Saudi Arabia, and United Arab Emirates for some, but not all of the years covered by these statistics.

Statistics below are designed to give a snapshot of what an average "good" horse should accomplish.

	All foals, 1992-2001	Foals by top 1% of sires
Starters/foals	68.1%	75.4%
Winners/foals (starters)	46.2% (67.8%)	58.6% (77.6%)
Repeat winners/foals (starters)	37.3% (54.8%)	51.6% (68.4%)
Stakes-placed/foals (starters)	5.3% (7.9%)	9.4% (12.4%)
Stakes winners/foals (starters)	3.4% (5.0%)	7.0% (9.3%)
Graded SW/foals (starters)	0.6% (0.9%)	2.3% (3.0%)
Grade 1 SW/foals (starters)	0.1% (0.2%)	0.6% (0.8%)
Two-year-old starters/foals	32.2%	39.2%
Two-year-old winners/foals (2yo strtrs)	10.4% (32.3%)	14.6% (37.3%)
Two-year-old SW/foals (2yo strtrs)	1.0% (2.9%)	1.7% (4.4%)
Three-year-old starters/foals	57.9%	66.7%
Four-year-old starters/foals	45.8%	52.6%
Five-year-old and up starters/foals	29.9%	34.0%
Avg. career starts/foal	14	16
Avg. career starts/starter	20	21
Avg. winning distance in fur.	6.73	7.01
Avg. winning turf distance in fur.	7.92	8.06
Avg. earnings/starter	\$42,298	\$80,304
Avg. earnings/starter male (female)	\$48,666 (\$35,775)	\$95,984 (\$64,281)
Avg. earnings/start	\$2,078	\$3,810
Avg. earnings/start male (female)	\$2,073 (\$2,085)	\$3,652 (\$4,080)
Average Racing Index	1.09	1.95

How do I get started?

Simply contact us. Ask any questions you may have about ownership with RCR, the horses available, or our team. If you remain interested, we will send you a participation agreement and the operating agreement for signature and funding and at that point...you are off the races.