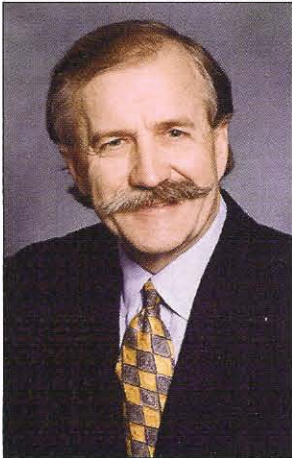


stallion syndicates



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IT IS NO LONGER UNUSUAL TO SEE A TOP QUALITY STALLION SELL FOR A MILLION or more dollars. Not many individuals have that kind of cash, or even that kind of credit, to buy a horse. One way to afford such a horse is to partner with other individuals to pool the resources of many. The concept of “syndication” allows that occur.

Stallion syndicates were popular in the thoroughbred industry in the 1980’s because of certain tax advantages. Although the tax advantages no longer exist, it can still make sense to form a syndicate for other reasons. Most jurisdictions now allow the formation of a Limited Liability Company (LLC) to syndicate a stallion. The main advantage to forming an LLC is that it limits personal liability.

Typically the stallion syndicate formed as an LLC permits the members to share ownership rights to the stallion, most significantly, the right to breed to the stallion without paying stud fees. The LLC operating agreement is the document that provides the enumeration of rights and responsibilities amongst the members. The operating agreement can include any provisions allowed by statute. Typically, it would include such matters as management of the LLC, capital contributions, breeding rights, profits/losses, sale of shares and dissolution.

In addition to the obvious benefit of reducing the amount of capital necessary to purchase a high quality stallion, forming a stallion syndicate using the LLC model has additional benefits. As mentioned already, it can limit personal liability, but it can also reduce business risk by spreading the risk among several investors. Also, for the investor with mares to breed, the syndicate guarantees availability to a particular stallion. As well as the direct financial benefits of a syndicate, the individual investor will benefit from the expertise of other investors. Other syndicate owners may very well be individuals with industry experience and connections to help the venture succeed. Moreover, one of the members may be an individual experienced stallion manager or equine reproduction expert who can serve as the managing member.

As in any business venture, make sure you do business with people that you know and trust. Before joining a stallion syndicate do your due diligence by checking the credit and references of your potential business partners. There are some individuals in the horse industry that are so highly leveraged that they may not have the financial wherewithal to meet the ongoing obligations of the syndicate. Do not be misled by monthly full page ads in various breed journals as an indication of business acumen. Instead, be guided by facts. Ask for a copy of the business plan, operating agreement and tax returns of an ongoing syndicate. If the syndicate is not yet formed, request similar documentation from the prospective members. Rely on accounting documents, not marketing schemes.

Finally, obtain competent tax counsel. Understand what tax filings need to be made and what effect it will have on your personal taxes and make certain that the operating agreement addresses these matters.

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