

June 28, 1970

Mr. Carroll Shelby
Shelby American, Inc.
8405 Pershing Drive
Playa Del Rey, California 90291

Dear Mr. Shelby:

Subject: Income Tax Deficiencies - Taxable Years Ended June 30, 1966
and June 30, 1967

As requested, we have reviewed the position of the Internal Revenue Service relative to certain tax matters involving Shelby American, Inc. Our review included an evaluation of tax returns for 1966 and 1967, reviews of prior correspondence and papers relating to the establishment of Shelby Automotive, Inc. and Shelby Parts, Inc., discussions with your people, as well as obtaining appropriate tax and legal advice.

It is the opinion of our tax counsel that tax deficiencies levied and paid, or to be paid by Shelby American, are not irretrievably lost. Recovery can be obtained through application of the net loss carryover against pre-tax profits; the recovery period extends through the tax year ending June 30, 1973. A copy of the opinion -- from Lybrand, Ross Bros. & Montgomery -- is attached.

Accordingly, Ford Motor Company proposes to return the corporate shells of the Shelby Automotive, Inc. and Shelby Parts, Inc. to you with the tax losses contained therein. On this basis, it is our belief that Ford Motor Company has no further obligation in this matter.

We will be happy to discuss this matter with you and your people at your earliest convenience.

Sincerely yours,

LS/
H. A. Foling

cc: W. P. Benton

Accounts Receivable, detailed in Exhibit VI, comprise:

	Accounts Receivable	Allowance for Doubtful Accounts
<ul style="list-style-type: none"> • Open Account - Other <ul style="list-style-type: none"> - <u>Fred Goodell</u> paid Ford Motor direct. All other items are over one year old and efforts to collect have failed. They are now considered uncollectible. 	\$ 5,935.59	\$ 5,935.59
<ul style="list-style-type: none"> • Open Account - Vehicles <ul style="list-style-type: none"> - <u>Albion</u> is the Dealer in Spain. The (\$2,109.82) CR represents the unused balance of a letter of credit issued prior to September 1967 covering an import license for vehicles. Because of import quota regulations the balance cannot be returned without serious embarrassment to the Dealer. I understand from Mr. Strickroot that the dealer is aware of the credit and has asked that "we retain it until he asks for it." - <u>Car Corporation</u> - \$4,238.37 DR represents liability for a car destroyed in 1969 at <u>Daytona</u> which Car Corp. dispute. Efforts to collect from Car Corp. or insurance have failed and the debt is now considered uncollectible. 	2,128.55	2,128.55
<ul style="list-style-type: none"> • Draft Account <ul style="list-style-type: none"> - It is believed this item has been offset against Dealer's warranty claims and is uncollectible. 	108.95	108.95
<ul style="list-style-type: none"> • Ford Motor Company <ul style="list-style-type: none"> - Should be offset against Shelby's Note Payable to Ford Motor Company. 	13,863.16	13,863.16
<ul style="list-style-type: none"> • Autolite Ford Parts Division <ul style="list-style-type: none"> - Represents a receivable created to cover back order of 99 wheels @ \$19 each to complete P.O. # S 323 205. Item is collectible. There is a related accrued liability of \$1,227.60 payable to Keystone Process & Engineering Company representing 99 wheels at \$12.40 each -- included in "Other Accrued Liabilities - A/C 51110. 	1,881.00	-
<ul style="list-style-type: none"> • Unbilled Receivables <ul style="list-style-type: none"> - None of these items are now considered billable or collectible. 	1,782.50	1,782.50
<ul style="list-style-type: none"> • Traffic Claims Receivable <ul style="list-style-type: none"> - Several months ago Traffic Department - Wixom (Mr. Carl Bethmann) accepted responsibility for filing and collecting these claims where possible. Many items are so old that claims are time barred. Nonetheless some success has been achieved and the revenue retained by Ford Motor Company. 	8,317.93	8,317.93
Total	\$34,017.68	\$32,136.68

Company Vehicle Inventory reflects one vehicle (Exhibit VII) currently in use by Conelec, Inc., Corning, N. Y. which has expressed some interest in purchasing the vehicle. Mr. H. L. Gregorich (SVO) is the contact with Conelec.

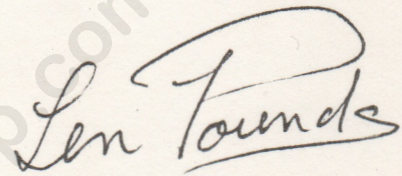
Other Assets reflects a deposit of \$860.00 lodged in respect of the Comprehensive Policy with E. C. Porter and Company -- Shelby's insurance brokers. Mr. Porter states that this deposit premium was taken into account in the final audit and retroactive premium assessments to the various Shelby Companies covered by the Policy. Mr. Porter will confirm in writing, but it appears that the item is not a valid receivable.

Other Accrued Liabilities (detailed in Exhibit VIII) comprise:

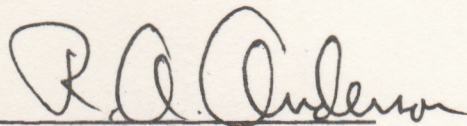
. Ford Motor Company	\$(1,438,326.67)	
- Less inadequate accrual for loss on sale of assets.	1,773.80	
- Plus sundry accruals no longer required.	<u>(4,700.00)</u>	\$(1,441,252.87)
. Keystone Processing - Back order of Wheels		<u>(1,227.60)</u>
		<u>\$(1,442,480.47)</u>

Dealer Holdback (\$484.23) reflects an undistributed balance of dealer holdback dating back to 1968. However, individual dealer records indicate that all holdback money has been paid to the dealers. Responsibility for settling any further holdback claims for dealers has already been transferred to Ford Division.

All outstanding correspondence addressed to Shelby has been passed to the appropriate Ford Motor Company Department for handling. For your convenience a list of the relevant contacts is attached (Exhibit IX). Any further correspondence received will be routed to those contacts.



Len Pounds

Concur: 
R. A. Anderson