

Aug 7, 1967

SHELBY DISCUSSION OUTLINE

I. Present Shelby Agreement

1. The present Ford-Shelby relationship is defined in a five year agreement which expires June 30, 1969. See Exhibit A.
2. Under the working capital provision of the agreement, Ford has extended operating funds of \$4.7 million and funds to repurchase Hertz units of \$1.5 million. These amounts are to be repaid in accordance with a mutually agreed to schedule.
3. Under the profit guarantee provisions of the agreement, Ford paid Shelby \$131 thousand in 1963 and \$100 thousand in 1966.
4. As indicated in Mr. Vass' letter of April 21, 1967 to Mr. ~~A. R.~~ Miller, we anticipate Shelby American will lose \$800 thousand from operations for the fiscal year ended June 30, 1967. Additional reserves against contingencies (i.e. loss on Hertz repurchases, parts obsolescence, warranty expense, etc.) are expected to total an additional \$700 thousand, making the total 1967 model year cost of the Shelby program approximately \$1.5 million.
5. The above profit guarantee payments are not made to Shelby American in cash, but are credited against the working capital loan and serve to reduce it accordingly.
6. Ford presently maintains control of the Shelby Board of Directors which is comprised of the following members: Mr. D. N. Frey, Mr. J. H. Passino, Mr. S. M. Vass, Mr. R. A. Geddes, Mr. Carroll Shelby, Mr. F. E. Martin and Mr. P. Remington.
7. As provided by agreement, Shelby receives a salary (\$40,000 annually) from Shelby American.

II. Shelby Corporate Reorganization

1. In order to streamline operations and reduce administrative complexities, it has been decided to form three companies as wholly owned subsidiaries of Shelby American: Shelby Automotive, Shelby Racing and Shelby Parts. (See Mr. Vass' letter to Mr. Frey dated May 9, 1967).
2. Ford Motor Company will engineer and produce all GT 350/500 vehicles beginning with the 1968 model. Shelby will build concept prototypes and "one-off" image cars in Los Angeles.
3. Shelby Automotive will operate as a marketing organization but will be financed, controlled and managed by Ford Division personnel. Ford Division will assume all past and future liabilities associated with the GT 350/500 program.

4. Carroll Shelby will act as product, advertising and public relations consultant and he and/or Shelby American will be compensated for such services on a fixed fee basis to be negotiated.
5. Shelby Racing and Shelby Parts will be controlled and operated by Shelby American.
6. It is envisaged that a new Ford-Shelby agreement will be negotiated to incorporate the above method of operation. Shelby has agreed to this and has made a proposal in his letter of May 11, 1967 to Mr. J. H. Passino.

### III. Shelby's May 12, 1967 Proposal

1. Cancel all existing agreements. Ford to pay profit guarantee as of June 30, 1967.
2. Ford to relinquish control of Shelby board.
3. Ford to pay Shelby five (5) year retainer of \$50,000 annually plus expenses.
4. Ford to transfer all rights in the Cobra name to Shelby.
5. Shelby to furnish Ford with a five (5) year sports car plan.
6. Ford to relieve Shelby American of the obligation to repay part or all of the working capital loan associated with the parts and racing activities.
7. Shelby to produce and sell the 1968 GT 350/500. Ford to bear all engineering expense and Shelby all tooling expense. Base Mustangs to be sold to Shelby at a price sufficient to permit Shelby to make a reasonable profit.

### IV. Further Developments

1. Point 7 of the May 12 proposal envisaged that Shelby would retain production and sales responsibility for the 1968 GT 350/500. He has since agreed that Ford should have this responsibility but will ask to be compensated on a royalty or fixed fee basis in lieu of profits from vehicle operation. He has mentioned figures of \$50 per unit for GT 350/500 units and a lesser amount for regular Ford products using Shelby ideas (i.e. California Mustang and European Cougar).

2. The profit guarantee date will be deferred from June 30 to August 30, 1967 to coincide with model close-out and the move to new facilities.
3. Shelby has indicated a desire to maintain and operate a small prototype shop to produce advance models of future limited production cars and image vehicles. Presumably, he will ask for budget to operate same.
4. Shelby envisages that Ford would place some or all of its sports car racing activities with Shelby Racing, i.e. Can-Am and Mustang Sedan. Additionally, he may request a subsidy to assist with racing a Cobra sports car this fall.
5. Shelby has indicated a desire to produce a new mid-ship engine Cobra sports car in volumes similar to the original Cobra program (500 annually). Presumably, he will ask Ford for support.

August 7, 1967  
GT and Sports Car Department

PRESENT SHELBY AGREEMENT

SHELBY AMERICAN, INC.

Five year Agreement, cancellable at will by either party upon six months' prior notice

CARROLL SHELBY, INDIVIDUALLY

Five year Agreement, but only terminable by either party in the event of default by the other

Shelby Agrees

Ford Agrees

Shelby Agrees

Ford Agrees

1. To build out balance of present Cobra commitment.
  2. If requested by Ford, to produce and sell Cobra II and/or homologated GT-40, and any future road version thereof.
  3. To assist Ford in competition engine and vehicle development programs.
  4. To participate in racing events as requested by Ford.
  5. To assist Ford to develop, produce and market high-performance equipment for all Ford products (Cobra).
1. To sell Shelby Ford engines, transmissions and other parts.
  2. To reimburse Shelby its actual cost of participation in racing events requested by Ford.
  3. To permit Shelby to use the Cobra trade-name.
  4. To provide Shelby sufficient working capital to finance the scope of operations contemplated.
1. To continue to hold all the stock of Shelby American, Inc.
  2. To give Ford the right of first refusal to buy any of the above shares.
  3. To grant Ford the right to elect the directors of Shelby American. x
  4. In the event the Shelby American Agreement is terminated before its expiration, to act as full time consultant to Ford at a fee of \$50,000 per year.
1. To guarantee Shelby American, Inc. a profit before tax of \$50,000 per year beginning with its first year which ended on June 30, 1963.
  2. To elect Carroll Shelby as one of the directors of Shelby American.
  3. To provide Carroll Shelby with a new model personal car each year at no expense.
1. To extend "A" Plan benefits to certain employees of Shelby.