

SECURITIES AND EXCHANGE COMMISSION

FORM S-8

Initial registration statement for securities to be offered to employees pursuant to employee benefit plans

Filing Date: **1997-12-18**
SEC Accession No. **0001047469-97-008244**

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FILER

PAULA FINANCIAL

CIK: **929031** | IRS No.: **954640368** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **S-8** | Act: **33** | File No.: **333-42627** | Film No.: **97740734**
SIC: **6331** Fire, marine & casualty insurance

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PASADENA CA 91101

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300 NORTH LAKE AVE
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-8
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

PAULA FINANCIAL
(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

95-4640368
(I.R.S. Employer
Identification No.)

300 North Lake Avenue, Suite 300
Pasadena, California 91101
(626) 304-0401

(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

1997 STOCK INCENTIVE PLAN
1994 STOCK INCENTIVE PLAN
STOCK OPTION AGREEMENTS
(Full title of the plan)

Bradley K. Serwin
Senior Vice President and General Counsel

PAULA FINANCIAL
300 North Lake Avenue, Suite 300
Pasadena, California 91101
(626) 304-0401

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

WITH A COPY TO:
RICHARD A. STRONG, ESQ.
Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, California 90071
(213) 229-7000

<TABLE>
<CAPTION>

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (2)
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<S>	<C>	<C>	<C>	<C>
Common Stock	1,046,200 shares	\$11.99	\$12,543,939	\$3,700

</TABLE>

1

- (1) The 1997 Stock Incentive Plan (the "1997 Plan") of PAULA Financial (the "Company") authorizes the issuance of 200,000 shares of the Company's Common Stock. Of the 200,000 shares being registered hereunder for issuance pursuant to the 1997 Plan, none are subject to presently outstanding options. The 1994 Stock Incentive Plan (the "1994 Plan") of the Company authorizes the issuance of 550,000 shares of the Company's Common Stock. Of the 470,200 shares being registered hereunder for issuance pursuant to the 1994 Plan, 404,650 are subject to presently outstanding options and 39,150 have been issued as restricted stock. The stock option agreement between the Company and Jeffrey A. Snider, dated as of October 26, 1996 (the "1996 Snider Stock Option Agreement"), authorizes the issuance of 250,000 shares of Common Stock. All of the 250,000 shares of Common Stock being registered hereunder for issuance pursuant to the 1996 Snider Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and John Clinton, dated as of October 26, 1996 (the "Clinton Stock Option Agreement"), authorizes the issuance of 4,000 shares of Common Stock. All of the 4,000 shares of Common Stock being registered hereunder for issuance pursuant to the Clinton Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and Saugatuck Associates II, Inc., dated as of October 26, 1996 (the "Saugatuck Stock Option Agreement"), authorizes the issuance of 4,000 shares of Common Stock. All of the 4,000 shares of Common Stock being registered hereunder for issuance pursuant to the Saugatuck Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and RFE Investment Partners IV, L.P., dated as of October 26, 1996 (the "RFE Stock Option Agreement"), authorizes the issuance of 4,000 shares of Common Stock. All of the 4,000 shares of Common Stock being registered hereunder for issuance pursuant to the RFE Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and Jerry M. Miller, dated as of October 26, 1996 (the "Miller Stock Option Agreement"), authorizes the issuance of 4,000 shares of Common Stock. All of the 4,000 shares of Common Stock being registered hereunder for issuance pursuant to the Miller Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and Gerard Vecchio, dated as of October 26, 1996 (the "Vecchio Stock Option Agreement"), authorizes the issuance of 4,000 shares of Common Stock. All of the 4,000 shares of Common Stock being registered hereunder for issuance pursuant to the Vecchio Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and Ronald W. Waisner, dated as of October 26, 1996 (the "Waisner Stock Option Agreement"), authorizes the issuance of 4,000 shares of Common Stock. All of the 4,000 shares of Common Stock being registered hereunder for issuance pursuant to the Waisner Stock Option Agreement are subject to presently outstanding options. The stock option agreement between the Company and Bradley K. Serwin, dated as of October 26, 1996 (the "Serwin Stock Option Agreement"), authorizes the issuance of 42,000 shares of Common Stock. All of the 42,000 shares of Common Stock being registered hereunder for issuance pursuant to the Serwin Stock Option

Agreement are subject to presently outstanding options. The stock option agreement between the Company and Jeffrey A. Snider, dated as of July 26, 1994 (the "1994 Snider Stock Option Agreement"), authorizes the issuance of 60,000 shares of Common Stock. All of the 60,000 shares of Common Stock being registered hereunder for issuance pursuant to the 1996 Snider Stock Option Agreement are subject to presently outstanding options. The 1996 Snider Stock Option Agreement, the Clinton Stock Option Agreement, the Saugatuck Stock Option Agreement, the RFE Stock Option Agreement, the Miller Stock Option Agreement, the Vecchio Stock Option Agreement, the Waisner Stock Option Agreement, the Serwin Stock Option Agreement and the 1994 Snider Stock Option Agreement collectively are referred to herein as the "Stock Option Agreements."

- (2) For purposes of computing the registration fee only. Pursuant to Rule 457(h), the Proposed Maximum Offering Price per Share is based upon: (1) the average exercise price per share (\$8.78) of outstanding options for 404,650 shares granted under the 1994 Plan; (2) the average price per share (\$8.39) of 39,150 shares of restricted stock issued under the 1994 Plan; (3) the average of the high and low prices (\$22.75) on December 15, 1997 for the Company's Common Stock listed on the Nasdaq National Market for 26,400 shares remaining to be awarded under the 1994 Plan and 200,000 shares remaining to be awarded under the 1997 Plan; and (4) the average exercise price per share (\$9.34) of outstanding options for 376,000 shares under the Stock Option Agreements.

2

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents heretofore filed by PAULA Financial (the "Company" or the "Registrant") with the Securities and Exchange Commission (the "Commission") are by this reference incorporated in and made a part of this Registration Statement:

- (a) The Registrant's Prospectus filed pursuant to Rule 424(b) on October 27, 1997;
- (b) The Registrant's quarterly report on Form 10-Q filed with the Commission on November 14, 1997; and
- (c) The description of the Registrant's Common Stock contained in the Registrant's Registration Statement on Form S-1 filed on August 8, 1997, as amended.

All reports and other documents subsequently filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such reports and documents.

ITEM 4. DESCRIPTION OF SECURITIES.

Not applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 102 of the Delaware General Corporation Law (the "DGCL") authorizes a Delaware corporation to include a provision in its certificate of incorporation limiting or eliminating the personal liability of its directors to the corporation and its stockholders for monetary damages for breach of the directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by such provision, directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Although Section 102 of the DGCL does not change a director's duty of care, it enables corporations to limit available relief to equitable remedies such as injunction or rescission. The Company's Certificate of Incorporation and Bylaws include provisions which limit or eliminate the personal liability of its directors to the fullest extent permitted by Section 102 of the DGCL. Consequently, a director or officer will not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for (i) any breach of the director's duty of loyalty to the Company or its stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions and (iv) any transaction from which the director derived an improper personal benefit.

3

The Company's Certificate of Incorporation and Bylaws also provide, in effect, that, to the fullest extent and under the circumstances permitted by Section 145 of the DGCL, the Company will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is a director or officer of the Company, or is or was serving at the request of the Company as a director or officer of another corporation or enterprise. The inclusion of these indemnification provisions in the Company's Certificate of Incorporation and Bylaws is intended to enable the Company to attract qualified persons to serve as directors and officers who might otherwise be reluctant to do so. The Company may, in its discretion, similarly indemnify its employees and agents.

Depending upon the character of the proceeding, the Company may indemnify its directors and officers against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding if the person indemnified acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no cause to believe his or her conduct was unlawful. To the extent that a director or officer of the Company has been successful in the defense of any action, suit or proceeding referred to above, under the DGCL, the Company would have the obligation to indemnify him or her against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

In addition, the limited liability provisions in the Certificate of Incorporation and the indemnification provisions in the Certificate of Incorporation and Bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty (including breaches

resulting from grossly negligent conduct) and may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise have benefited the Company and its stockholders. Furthermore, a stockholder's investment in the Company may be adversely affected to the extent the Company pays the costs of settlement and damage awards against directors and officers of the Company pursuant to the indemnification provisions in the Company's Bylaws. The limited liability provisions in the Certificate of Incorporation will not limit the liability of directors under federal securities laws.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not applicable.

ITEM 8. EXHIBITS.

- 4.1 PAULA Financial and Subsidiaries 1997 Stock Incentive Plan (Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.2 PAULA Financial and Subsidiaries 1994 Stock Incentive Plan (Exhibit 10.6 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.3 Form of Stock Option Agreement (Immediate Vesting) issued under the 1994 Plan (Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.4 Form of Stock Option Agreement (Executive) issued under the 1994 Plan (Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.5 Form of Stock Option Agreement (Stepped Vesting) issued under the 1994 Plan (Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.6 Stock Option Agreement between the Company and Jeffrey A. Snider.

4

- 4.7 Form of Stock Option Agreement (Immediate Vesting - Non-Plan) issued in connection with the grant of stock options other than under the 1994 Plan or the 1997 Plan (Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.8 Schedule of Details of Stock Option Agreements (Immediate Vesting - Non-Plan).
- 4.9 Form of Stock Option Agreement (Executive - Non-Plan) issued in connection with the grant of stock options other than under the 1994 Plan or the 1997 Plan (Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-33159)). (1)
- 4.10 Schedule of Details of Stock Option Agreements (Executive - Non-Plan).
- 5 Opinion of Gibson, Dunn & Crutcher LLP.
- 23.1 Consent of Gibson, Dunn & Crutcher LLP (included in Exhibit 5).
- 23.2 Consent of KPMG Peat Marwick LLP.

- (1) Previously filed with the Securities and Exchange Commission as an exhibit to the Company's Registration Statement on Form S-1 as filed on August 8, 1997 and incorporated herein by reference.

ITEM 9. UNDERTAKINGS.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

PROVIDED, HOWEVER, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

5

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial BONA FIDE offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and

Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pasadena, State of California, on the 17th day of December, 1997.

By: /s/ Jeffrey A. Snider

 Jeffrey A. Snider
 Chairman of the Board, President and Chief
 Executive Officer (Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James A. Nicholson and Bradley K. Serwin as his true and lawful attorneys-in-fact and agents, with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full powers and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might, or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated below.

<TABLE>
 <CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ Jeffrey A. Snider ----- Jeffrey A. Snider	<C> Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	<C> December 17, 1997

/s/ James A. Nicholson ----- James A. Nicholson	Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial Officer)	December 17, 1997
/s/ Andrew M. Slavitt ----- Andrew M. Slavitt	Director	December 17, 1997
/s/ Bradley K. Serwin ----- Bradley K. Serwin	Director	December 17, 1997
/s/ Jerry M. Miller ----- Jerry M. Miller	Director	December 17, 1997
/s/ Ronald W. Waisner ----- Ronald W. Waisner	Director	December 17, 1997
/s/ John B. Clinton ----- John B. Clinton	Director	December 17, 1997

7

/s/ Gerard Vecchio ----- Gerard Vecchio	Director	December 17, 1997
/s/ Owen S. Carihfield ----- Owen S. Carihfield	Director	December 17, 1997

</TABLE>

8

EXHIBIT INDEX

Exhibit Number -----	Description -----
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 - 5 Opinion of Gibson, Dunn & Crutcher LLP.
 - 23.1 Consent of Gibson, Dunn & Crutcher LLP (included in Exhibit 5).
 - 23.2 Consent of KPMG Peat Marwick LLP.
 - 24 Power of Attorney (included on Signature Page).
- (1) Previously filed with the Securities and Exchange Commission as an exhibit to the Company's Registration Statement on Form S-1 as filed on August 8, 1997 and incorporated herein by reference.

STOCK OPTION AGREEMENT
JEFFREY A. SNIDER (INVESTMENT INDUCEMENT)

This Stock Option Agreement ("Agreement") is made and entered into as of the Date of Grant indicated below by and between PAULA FINANCIAL, a California corporation (the "Company"), and the person named below as Employee.

WHEREAS, Employee is an employee of the Company, and

WHEREAS, the compensation committee of the Board of Directors of the Company (the "Committee") has approved the grant to Employee of an option to purchase shares of the common stock, no par value, of the Company (the "Common Stock"), conditioned on the purchase by Employee of an aggregate of 30,000 shares of Common Stock either from the Company or one or more of its shareholders (the "Condition") and on the other terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants set forth herein, the parties hereto hereby agree as follows:

1. GRANT OF OPTION; CERTAIN TERMS AND CONDITIONS. The Company hereby grants to Employee, and Employee hereby accepts, as of the Date of Grant, an option to purchase the number of shares of Common Stock indicated below (the "Option Shares") at the Exercise Price per share indicated below, which option shall expire at 5:00 o'clock p.m., Pacific Time, on the Expiration Date indicated below and shall be subject to all of the terms and conditions set forth in this Agreement (the "Option"). The Option shall become exercisable to purchase ("vest with respect to") that all of the Option Shares on the later of the Date of Grant or the date the Condition is satisfied.

Employee: Jeffrey A. Snider

Date of Grant: July 26, 1994

Number of share purchasable: 30,000

Exercise Price per share: 17.00

Expiration Date: July 26, 2004

The Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code (an "Incentive Stock Option").

2. TERMINATION OF OPTION.

(a) Termination of Employment.

(i) TERMINATION WITHIN ONE YEAR AFTER CHANGE OF CONTROL. In the event that Employee shall cease to be an employee of the Company or any of its subsidiaries (such event shall be referred to herein as the "Termination" of Employee's "Employment") for any reason, or for no reason, within one year after a Change of Control (as hereinafter defined), then the Option shall terminate upon the earlier of the Expiration Date or the first anniversary of the date of such Termination of Employment. "Change of Control" shall mean the first to occur of the following events:

(X) any date upon which the directors of the Company who were nominated by the Board of Directors (the "Board") for election as directors cease to constitute a majority of the directors of the Company;

(Y) the date of the first public announcement that any person or entity, together with all Affiliates and Associates (as such capitalized terms are defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of such person or entity, shall have become the Beneficial Owner (as defined in Rule 13d-3 promulgated under the Exchange Act) of voting securities of the Company representing 50% or more of the voting power of the Company (a "50% Stockholder"), provided, however, that the terms "person" and "entity," as used in this clause (Y), shall not include (1) the Company or any of its subsidiaries, (2) any employee benefit plan of the Company or any of its subsidiaries including the Company's Employee Stock Ownership Plan, (3) any entity holding voting securities of the Company for or pursuant to the terms of any such plan or (4) any person or entity if the transaction that resulted in such person or entity becoming a 50% Stockholder was approved in advance by the Board; or

(Z) a reorganization, merger or consolidation of the Company (other than an reorganization, merger or consolidation the sole purpose of which is to change the Company's domicile solely within the United States) the consummation of which results in the outstanding securities of any class then subject to the Option being exchanged for or converted into cash, property and/or a different kind of securities.

(ii) RETIREMENT. If Employee's Employment is Terminated by reason of Employee's retirement in accordance with the Company's then-current retirement policy ("Retirement"), and a Change of Control shall not have occurred within one year prior thereto, then Option shall terminate upon the earlier of the Expiration Date or the first anniversary of the date of such Retirement.

(iii) DEATH OR PERMANENT DISABILITY. If Employee's Employment is Terminated by reason of the death or Permanent Disability (as hereinafter defined) of Employee, and a Change of Control shall not have occurred within one year prior thereto, then the Option shall terminate upon the earlier of the Expiration Date or the first anniversary of the date of such Termination of Employment. "Permanent Disability" shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. Employee shall not be deemed to have a Permanent Disability until proof of the existence thereof shall have been furnished to the Board in such form and manner, and at such times, as the Board may require. Any determination by the Board that Employee does not have a Permanent Disability shall be final and binding upon the Company and Employee.

(iv) OTHER TERMINATION. If Employee's Employment is Terminated for no reason, or for any reason other than Retirement, death or Permanent Disability, and a Change of Control shall not have occurred within one year prior thereto, then the Option shall terminate 30 days after the date of such Termination of Employment.

(b) DEATH FOLLOWING TERMINATION OF EMPLOYMENT. Notwithstanding anything to the contrary in this Agreement, if Employee shall die at any time after the Termination of his or her Employment and prior to the Expiration Date, then the Option shall terminate on the earlier of the Expiration Date or the first anniversary of the date of such death.

(c) OTHER EVENTS CAUSING TERMINATION OF OPTION. Notwithstanding anything to the contrary in this Agreement, the Option shall terminate upon the consummation of any of the following events, or, if later, the thirtieth day following the first date upon which such event shall have been approved by both the Board and the shareholders of the Company:

(i) the dissolution of the Company; or

(ii) a sale of substantially all of the property and assets of the Company, unless the terms of such sale shall provide otherwise.

3. ADJUSTMENTS. In the event that the outstanding securities of the class then subject to the Option are increased, decreased or exchanged for or converted into cash, property and/or a different number or kind of securities, or cash, property and/or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, reclassification, dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split or the like, or in the event that substantially all of the property and assets of the Company are sold, then, unless such event shall cause the Option to terminate pursuant to Section 2(c) hereof, the Committee shall make appropriate and proportionate adjustments in the number and type of shares or other securities or cash or other property that may

thereafter be acquired upon the exercise of the Option; provided, however, that any such adjustments in the Option shall be made without changing the aggregate Exercise Price of the then unexercised portion of the Option.

4. EXERCISE. The Option shall be exercisable during Employee's lifetime only by Employee or by his or her guardian or legal representative, and after Employee's death only by the person or entity entitled to do so under Employee's last will and testament or applicable intestate law. The Option may only be exercised by the delivery to the Company of a written notice of such exercise, which notice shall specify the number of Option Shares to be purchased (the "Purchased Shares") and the aggregate Exercise Price for such shares (the "Exercise Notice"), together with payment in full of such aggregate Exercise Price in cash or by check payable to the Company; provided, however, that payment of such aggregate Exercise Price may instead be made, in whole or in part:

(a) by the delivery to the Company of a promissory note in a form and amount satisfactory to the Committee; or

(b) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock powers, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate fair market value (as determined by the Board of Directors in their good faith and reasonable judgment) thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock.

5. PAYMENT OF WITHHOLDING TAXES. If the Company becomes obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state, local or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax, then Employee shall, on the first day upon which the Company becomes obligated to pay such amount to the appropriate taxing authority, pay such amount to the Company in cash or by check payable to the Company.

6. NOTICES. All notices and other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed given if delivered personally or five days after mailing by certified or registered mail, postage prepaid, return receipt requested to the Company at 300 North Lake Avenue, Suite 300, Pasadena, California, 91101, Attention: Chief Financial Officer, or to Employee at the address set forth beneath his or her signature on the signature page hereto, or at such other addresses as they may designate by written notice in the manner aforesaid.

7. STOCK EXCHANGE REQUIREMENTS; APPLICABLE LAWS. Notwithstanding anything to the contrary in this Agreement, no shares of stock purchased upon exercise of the Option, and no certificate representing all or any part of such shares, shall be issued or

4

delivered if (a) such shares have not been admitted to listing upon official notice of issuance on each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of or to incur liability under any federal, state or other securities law, or any requirement of any stock exchange listing agreement to which the Company is a party, or any other requirement or law or of any administrative or regulatory body having jurisdiction over the Company.

8. NONTRANSFERABILITY. Neither the Option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution.

9. INTERPRETATION. The Option is not granted pursuant to the Company's 1994 Stock Incentive Plan. The interpretation and construction by the Committee of this Agreement and the Option such shall be final and binding upon Employee.

10. SHAREHOLDER RIGHTS. No person or entity shall be entitled to vote, receive dividends or be deemed for any purpose the holder of any Option Shares until the Option shall have been duly exercised to purchase such Option Shares in accordance with the provisions of this Agreement.

11. EMPLOYMENT RIGHTS. No provision of this Agreement or of the Option granted hereunder shall (a) confer upon Employee any right to continue in the employ of the Company or any of its subsidiaries, (b) affect the right of the Company and each of its subsidiaries to terminate the employment of Employee, with or without cause, or (c) confer upon Employee any right to participate in any employee welfare or benefit plan or other program of the Company or any of its subsidiaries other than the Plan. Employee hereby acknowledges and agrees that the Company and each of its subsidiaries may terminate the employment of Employee at any time and for any reason, or for no reason, unless Employee and the Company or such subsidiary are parties to a written employment agreement that expressly provides otherwise.

12. GOVERNING LAW. This Agreement and the Option granted hereunder shall be governed by and construed and enforced in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Company and Employee have duly executed this Agreement as of the Date of Grant.

PAULA FINANCIAL

By: /s/ ROGER G. TEIG

Title: President/CEO

EMPLOYEE

/s/ JEFFREY A. SNIDER

Signature

1475 Rutherford Drive

Street Address

Pasadena CA 91103

City, State and Zip Code

561 88 1078

Social Security Number

EXHIBIT 4.8

SCHEDULE OF DETAILS OF STOCK OPTION AGREEMENTS (IMMEDIATE VESTING - NON-PLAN)

<TABLE>
<CAPTION>

Employee	Date of Grant	Number of Shares	Exercise Price	Vesting Schedule	Expiration Date
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
John Clinton	10/26/96	4,000	\$9.50	Immediate	10/25/06
Saugatuck Associates II, Inc.	10/26/96	4,000	\$9.50	Immediate	10/25/06
RFE Investment Partners IV, Inc.	10/26/96	4,000	\$9.50	Immediate	10/25/06
Jerry M. Miller	10/26/96	4,000	\$9.50	Immediate	10/25/06
Gerard Vecchio	10/26/96	4,000	\$9.50	Immediate	10/25/06
Ronald W. Waisner	10/26/96	4,000	\$9.50	Immediate	10/25/06

</TABLE>

EXHIBIT 4.10

SCHEDULE OF DETAILS OF STOCK OPTION AGREEMENTS (EXECUTIVE - NON-PLAN)

<TABLE>

<CAPTION>

Employee	Date of Grant	Number of Shares	Exercise Price	Vesting Schedule	Expiration Date
Jeffrey A. Snider	10/26/96	250,000	\$9.50	20% on Date of Grant and 20% on each anniversary thereof	10/25/06
Bradley K. Serwin	10/26/96	42,000	\$9.50	20% on Date of Grant and 20% on each anniversary thereof	10/25/06

</TABLE>

[LETTERHEAD]

December 17, 1997

(213) 229-7000

C 70231-00001

PAULA Financial
300 North Lake Avenue, Suite 300
Pasadena, CA 91101

Re: PAULA FINANCIAL - FORM S-8 REGISTRATION STATEMENT

Gentlemen:

We have acted as counsel for PAULA Financial, a Delaware corporation (the "Company"), in connection with the preparation of a Registration Statement on Form S-8 to be filed with the Securities and Exchange Commission (the "Registration Statement") with respect to the registration under the Securities Act of 1933 of 1,046,200 shares of Common Stock, \$.01 par value (the "Shares"), of the Company which have been reserved for issuance from time-to-time pursuant to awards granted and to be granted pursuant to the Company's 1997 Stock Incentive Plan (the "1997 Plan"), the Company's 1994 Stock Incentive Plan (the "1994 Plan" and together with the 1997 Plan, the "Plans") and certain stock option agreements not covered by the Plans (the "Agreements").

We are familiar with the corporate actions taken and to be taken by the Company in connection with the authorization, issuance and sale of the Shares and have made such other legal and factual inquiries as we deem necessary for the purpose of rendering this opinion.

We have examined, among other things, the Company's Amended and Restated Certificate of Incorporation and Bylaws, the Plans and related agreements, the Agreements, and records of corporate proceedings and other actions taken and proposed to be taken by the Company in connection with the authorization, issuance and sale of the Shares pursuant to awards granted under the Plans and under the Agreements. Based on the foregoing and in reliance thereon, it is our opinion that the

PAULA Financial
December 17, 1997
Page 2

Shares, when issued pursuant to awards granted and exercised in accordance with the provisions of the Plans, related agreements and the Agreements, will be legally issued, fully paid and non-assessable.

The Company is incorporated under the laws of the State of Delaware. We are not admitted to practice in Delaware. However, we are generally familiar with the Delaware General Corporation Law and have made such review thereof as we consider necessary for the purpose of rendering this opinion. Subject to the foregoing, this opinion is limited to Delaware, California and federal law.

We hereby consent to the filing of this opinion as Exhibit 5 to the Registration Statement. In giving this consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Act or the General Rules and Regulations of the Commission.

Very truly yours,

/s/ GIBSON, DUNN & CRUTCHER LLP

GIBSON, DUNN & CRUTCHER LLP

RAS/RAN

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
PAULA Financial:

We consent to the use of our reports incorporated herein by reference and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG Peat Marwick LLP

Los Angeles, California
December 15, 1997