

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1995-07-28** | Period of Report: **1995-04-30**
SEC Accession No. **0000898430-95-001342**

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FILER

SCHEIB EARL INC

CIK: **87196** | IRS No.: **951759002** | State of Incorporation: **DE** | Fiscal Year End: **0430**
Type: **10-K** | Act: **34** | File No.: **001-04822** | Film No.: **95557261**
SIC: **7500** Automotive repair, services & parking

Mailing Address
*8737 WILSHIRE BLVD
BEVERLY HILLS CA
90211-2795*

Business Address
*8737 WILSHIRE BLVD
BEVERLY HILLS CA
90211-2795
3106524880*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 [FEE REQUIRED]

For the fiscal year ended April 30, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file number 1-4822

EARL SCHEIB, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

95-1759002

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

8737 WILSHIRE BOULEVARD
BEVERLY HILLS, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)

90211-2795
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 652-4880

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS
Capital Stock, \$1.00 Par Value

NAME OF EACH EXCHANGE ON WHICH
REGISTERED
American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12 (G) OF THE ACT: NONE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS
REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE
REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH
FILING REQUIREMENTS FOR AT LEAST THE PAST 90 DAYS. YES X NO

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM
405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO
THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION
STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K.

AS OF JULY 13, 1995 THE REGISTRANT HAD 4,568,228 SHARES OF ITS CAPITAL STOCK,

\$1.00 PAR VALUE, ISSUED AND OUTSTANDING, AND THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT WAS \$16,632,820 (APPROXIMATELY BASED UPON THE CLOSING PRICE OF THE CAPITAL STOCK ON THE AMERICAN STOCK EXCHANGE ON SUCH DATE).

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE REGISTRANT'S ANNUAL REPORT TO STOCKHOLDERS FOR THE FISCAL YEAR ENDED APRIL 30, 1995 ARE INCORPORATED INTO PART II BY REFERENCE.

PORTIONS OF THE REGISTRANT'S PROXY STATEMENT DATED JULY 17, 1994 FOR USE AT THE REGISTRANT'S ANNUAL MEETING OF STOCKHOLDERS ARE INCORPORATED INTO PART III BY REFERENCE.

PART I

ITEM 1. BUSINESS

GENERAL

Earl Scheib, Inc., a Delaware corporation, and its subsidiaries (the "Company"), is the successor to a business founded as a sole proprietorship by Mr. Earl A. Scheib in 1937. At April 30, 1995 the Company operated 164 automobile paint centers in approximately 142 cities throughout the United States.

In November 1994, management of the Company was reconstituted when Donald R. Scheib was appointed as Chairman of the Board and Mr. Daniel A. Seigel was employed as President and Chief Executive Officer and elected to the Company's Board of Directors. In addition, in March 1995, management was further reconstituted with the resignations of officers Albert Scheib (he is currently employed as the Company's Director of Research and Development), Richard Gariglio and Sam LaMonto. Those three officer positions were consolidated into one Executive Vice President position held by Christian Bement who had joined the Company in January 1995.

During the fiscal year ended April 30, 1995, the Company evaluated its operations with the intent to reduce operating costs and focus resources on profitable operations. The Company closed 84 unprofitable shops located primarily in the Midwestern and Eastern United States and eliminated the executive and management personnel associated with those operations. Thirty-Two of the closed shops were located on Company owned real properties. During the fiscal year ended April 30, 1995, the Company sold three of these real properties at a net gain of \$55,000. The Company recorded a pre-tax charge of \$4,287,000 at April 30, 1995 as a reserve against the costs of the comprehensive restructuring plan, which included but was not exclusively related to the closing of paint shops.

SERVICES

The Company paints vehicles on a production line basis. The vehicle is sanded to remove most chips, scratches, surface rust and oxidized paint, and is spot primed if necessary. The exposed chrome and glass areas are then masked and the vehicle is spray painted in a dust-free spray booth. In the Company's remodeled paint shops the car is then dried in a new Infrared Quartz Finish Drying System. This new drying process dries the paint from the inside to the outside by utilizing high intensity electromagnetic waves, dual infrared sensors and computer-aided temperature controls. Finally, the vehicle is detailed, which involves removing masking paper and tape, removing overspray and dressing the

tires. Painting of the wheels is generally included at no additional charge. The workmanship and materials on all paint jobs are guaranteed for a period of ninety days and the paint jobs are guaranteed against fading for at least one year. The Company prices its paint jobs depending upon the color of paint selected and the number of services included.

In connection with its painting operations, the Company also performs light body and fender repair work. Such body and fender work accounted for approximately 22% of the Company's sales during the three years ended April 30, 1995.

The Company manufactures the paints and certain other materials utilized in the Company's business, including primers and sealers. By manufacturing its own paint and other materials, the Company is better able to ensure the quality of its products and to control product availability and cost.

RAW MATERIALS

Most of the raw materials used by the Company in manufacturing its paint, including silicones, resins and pigments, are available from a number of sources. The Company has not encountered any major difficulty in obtaining adequate supplies of its major raw materials and does not expect to encounter any such difficulty in the foreseeable future.

In addition, if needed, automobile paint can be obtained from other wholesale manufacturers.

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SEASONALITY

The Company's sales are seasonal in nature. Because of weather conditions in certain areas where the Company conducts its business, sales for the months of November, December, January and February are usually lower than the sales in the remaining months of the year. As a result, a proportionately greater share of the Company's sales and earnings have historically occurred in the first half of its fiscal year.

COMPETITION

The automobile painting business in which the Company is engaged is highly competitive. The Company competes not only with other companies engaged in automobile painting utilizing techniques similar to its own, but also with thousands of individual automobile paint and body shops. Local paint and body shops generally price their services higher than those charged by the Company.

In the field of non-franchised production line automobile painting, the Company believes that it is substantially larger than any of its competitors and that its experience, and the price of its services, will enable it to continue to compete. The Company does not consider itself to be a significant factor in the automobile body repair industry since its activities in this field are incidental to its painting operations and it rarely performs major body repair work.

RESEARCH AND DEVELOPMENT

Although the Company is engaged in certain basic research and development to improve its existing paint products and is constantly reviewing new products developed by its suppliers and others for their applicability to the Company's operations, its research and development expenditures during the three years ended April 30, 1995 were not significant.

COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

The Company's automobile painting and paint manufacturing operations are subject to federal, state and local environmental regulations in many of the areas in which it operates. The Company believes its operations comply with existing regulations in those geographic areas in which it now operates.

The Company is currently a defendant in two lawsuits alleging discharge of toxic waste materials to landfill sites. See Item 3, "Legal Proceedings".

EMPLOYEES

At April 30, 1995, the Company employed approximately 1,090 employees, of which 309 were sales, administrative, management or executive personnel and 781 were production personnel. Production employees are represented by the International Brotherhood of Teamsters with whom the current collective bargaining agreement became effective as of September 16, 1993 and extends through September 15, 1997. None of the Company's executive, administrative, shop management or clerical personnel are represented by a union.

ITEM 2. PROPERTIES

As of April 30, 1995, the Company had an aggregate investment (at cost) in land and buildings of approximately \$17,255,000. The Company owned approximately one-half of its operating shops which were not subject to any encumbrance as of April 30, 1995. At such date, the Company also had property held for sale in the amount of \$3,642,000 (net book value). Statistics regarding the Company's principal operating facilities are listed below:

<TABLE>

<CAPTION>

LOCATIONS	USE	INTEREST	SQUARE FEET
-----	---	-----	-----
<C>	<S>	<C>	<C>
Beverly Hills, California	Executive Office	Owned	10,400
Springfield, Missouri	Manufacturing/Warehousing	Owned	30,600

</TABLE>

The Company secures locations for auto paint centers either by purchasing the real property through its Earl Scheib Realty Corp. subsidiary ("Realty") or by leasing the property. Many of the Company's auto paint facilities have been or are undergoing renovation and once completed should be in good operating condition and adequate for the Company's needs. Those properties not undergoing renovation are in good operating condition and adequate for the Company's needs.

The Company currently has listed for sale 29 real properties at an aggregate sales price of \$6,600,000. 9 of such real properties are currently subject to contracts for sale for an aggregate gross amount of \$3,169,000.

ITEM 3. LEGAL PROCEEDINGS

United States of America v. Acme Solvents Reclaiming, Inc., et al. ("U.S. v Acme") was filed in 1989 in the United States District Court, Northern District of Illinois, Eastern Division. The lawsuit alleges the liability of certain defendants under the United States Superfund statute for contributing to the alleged release or threatened release of toxic waste materials at a landfill site located in Winnebago County, Illinois referred to as the "Acme Solvents Site" and seeks to recover administrative costs already incurred by plaintiff (the U.S. government) in responding to the cleanup of the Acme Solvents Site

and a declaratory judgment that defendants be liable for future cleanup costs at the site. Defendants joined the Company as a third-party defendant in answer to the lawsuit. In January 1992, Plaintiff filed a lawsuit styled United States of America v. AKZO Coatings, et al., ("U.S. v. AKZO") in the United States District Court, Northern District of Illinois, Eastern Division, making essentially the same allegations as in U.S. v. Acme. In January 1992, a Consent Decree was entered in the United States District Court, Northern District of Illinois, Eastern Division in U.S. v. AKZO whereby a majority of the defendants agreed to reimburse the U.S. government for past administrative costs and to continue the cleanup of the Acme Solvents Site and U.S. v. Acme was dismissed. The Company's insurance carrier, which has defended the Company in these matters under a reservation of rights, has reserved \$711,000 under the terms of the Company's insurance policy to pay costs of cleanup at the site. The Company has accrued and funded this liability as at April 30, 1995.

City of Fresno v. NL Industries, Inc., et al., was filed in 1993 in United States District Court for the Eastern District of California. The City of Fresno ("City") owned and operated a 145 acre municipal landfill (the "Fresno Landfill") from approximately 1935 to 1987. Municipal landfills of this type serve as long-term storage facilities and as natural chemical reactors. Refuse which was deposited in the Fresno Landfill by thousands of individuals and entities over the fifty-plus years of operation decomposed into landfill gases (methane, carbon dioxide, nitrogen and trace gases) and other compounds, including leachate. On or about October 4, 1989, the Environmental Protection Agency ("EPA") identified the Fresno Landfill as a superfund site. According to the City, full remediation of the site, which is expected to take many years, is expected to cost \$44,000,000. The defendants contend that the remediation of the Fresno Landfill can be properly performed for less than this amount. The City filed an action against only about twenty (20) of the thousands of individuals and entities which disposed of the refuse into the Fresno Landfill, including the Company, to recover "response costs" under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The defendants in the case contend that the City is responsible for 100% of the remediation costs because the City negligently owned and operated the Fresno Landfill. The City contends that, although they are liable under CERCLA, the defendants are also liable for a portion of the "response costs." Although CERCLA provides for joint and several, strict liability, the defendants have filed a motion asserting that joint and several liability is inappropriate in this case. On June 21, 1995, the City and the Company agreed to settle this case for \$86,000, however, execution of a settlement agreement is pending. The Company's insurance carrier is defending the Company in this matter and has agreed to pay the settlement sum under a reservation of rights. The Company has accrued and funded this liability as at April 30, 1995.

The Company is involved in several other legal proceedings, claims and liabilities, including environmental matters, arising in the ordinary course of its business. It is managements' opinion that the final disposition of such matters should not have a material adverse effect on the Company's operations and/or financial position.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

The Company's Annual Report to Stockholders for the year ended April 30, 1995 ("1995 Annual Report") is filed as Exhibit 13 to this Report on Form 10-K. The responses to Items 5, 6, 7 and 8 are contained in the 1995 Annual Report on the pages noted and are specifically incorporated herein by reference in this

Report on Form 10-K. With the exception of these items, the 1995 Annual Report is not deemed filed as a part of this Report.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

"Market and Dividend Information" appearing on page 15 of the 1995 Annual Report is incorporated herein by reference and is filed as part of this Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

"Selected Financial Data" appearing on page 15 of the 1995 Annual Report is incorporated herein by reference and is filed as part of this Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on pages 13 and 14 of the 1995 Annual Report is incorporated herein by reference and is filed as part of this Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company together with the Report thereon of BDO Seidman, certified public accountants, appearing on pages 2 through 12 of the 1995 Annual Report are incorporated herein by reference and are filed as part of this Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEMS 10., 11., 12. AND 13.

The information required by these items is contained in the Company's definitive Proxy Statement dated July 17, 1995 which relates to election of the Company's directors and which was filed with the Commission within 120 days after the close of the Company's fiscal year pursuant to Regulation 14A of the Securities Exchange Act of 1934.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) 1. FINANCIAL STATEMENTS

The following consolidated financial statements of the Company and Report of Independent Auditors, appearing on pages 2 through 12 of the 1995 Annual Report, are filed as part of this Report on Form 10-K:

For the Fiscal Years Ended April 30, 1995, 1994 and 1993:

Consolidated Statements of Operations

2. FINANCIAL STATEMENT SCHEDULES

None.

3. EXHIBITS

The Exhibits required to be filed hereunder are indexed on pages 8 and 9.

(B) REPORTS ON FORM 8-K

The Company did not file any Current Reports on Form 8-K during the quarter ended April 30, 1995.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

EARL SCHEIB, INC.

Date: July 26, 1995

By /s/ Daniel A. Seigel

Daniel A. Seigel
President

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED:

<TABLE>
<CAPTION>

SIGNATURES -----	TITLE -----	DATE ----
<S> /s/ Daniel A. Seigel ----- Daniel A. Seigel	<C> President and Director [Chief Executive Officer]	<C> July 26, 1995
/s/ Donald R. Scheib ----- Donald R. Scheib	Chairman of the Board of Directors	July 26, 1995
/s/ Alexander L. Kyman ----- Alexander L. Kyman	Director	July 26, 1995
/s/ Robert L. Spencer ----- Robert L. Spencer	Director	July 26, 1995

/s/ Philip Wm. Colburn

Director

July 26, 1995

Philip Wm. Colburn

/s/ Robert Wilkinson

Director

July 26, 1995

Robert Wilkinson

/s/ John K. Minnihan

Vice President Finance and
Chief Financial Officer
[Principal Financial and
Accounting Officer]

July 26, 1995

John K. Minnihan

</TABLE>

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CONSENT OF INDEPENDENT AUDITORS

Earl Scheib, Inc.
Beverly Hills, California

We hereby consent to the use in the Registration Statement on Form S-8, Registration Number 2-79214 and the Registration Statement on Form S-3, Registration Number 2-78953 of our report dated June 26, 1995, relating to the audit of the consolidated financial statements of Earl Scheib, Inc. and subsidiaries which are contained in and incorporated by reference to the Annual Report on Form 10-K for the year ended April 30, 1995.

BDO SEIDMAN

Los Angeles, California
June 26, 1995

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EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT
NUMBER

DESCRIPTION

SEQUENTIAL
PAGE NO.

<C> <S>

<C>

- 3(a) (1) Certificate of Incorporation of Earl Scheib, Inc., dated December 22, 1961, as amended, filed as Exhibit 3(a) to Registrant's Registration Statement No. 2-21540, effective as of August 7, 1963, and hereby incorporated herein by reference.
- 3(a) (2) Amendment to Certificate of Incorporation dated October 28, 1969, filed as Exhibit 1 to Registrant's Form 8-K Current Report for the month of October, 1969 and hereby incorporated herein by reference.
- 3(a) (3) Amendment to Certificate of Incorporation dated August 16, 1971, filed as Exhibit 1 to Registrant's Form 8-K Current Report for the month of August, 1971 and hereby incorporated herein by reference.
- 3(a) (4) Amendment to Certificate of Incorporation dated November 4, 1983, filed as Exhibit 3(a) (1) to Registrant's Form 8-K Current Report for the month of August, 1983 and hereby incorporated herein by reference.
- 3(a) (5) Amendment to Certificate of Incorporation dated October 2, 1986, as set forth in the Proxy Statement dated July 22, 1986 and Registrant's 10-Q Quarterly Report for the quarter ended July 31, 1986 and hereby incorporated herein by reference.
- 3(b) (1) By-Laws of Earl Scheib, Inc., dated December 27, 1961, as amended on July

15, 1963, filed as Exhibits 3(b) and 3(c) to Registrant's Registration Statement No. 2-21540, effective as of August 7, 1963, and hereby incorporated herein by reference.

- 3(b) (2) Amendment to By-Laws of Registrant dated November 6, 1963, filed as Exhibit 3(c) to Registrant's Registration Statement No. 2-32868, effective as of October 21, 1969, and hereby incorporated herein by reference.
- 3(b) (3) Amendment to By-Laws of Registrant dated May 15, 1970, filed as Exhibit 1 to Registrant's Form 8-K Current Report for the month of August 1970 and hereby incorporated herein by reference.
- 3(b) (4) Amendment to By-laws of Registrant dated September 25, 1986, as set forth in the Proxy Statement dated July 22, 1986 and Registrant's Form 10-Q Quarterly Report for July 31, 1986 and hereby incorporated herein by reference.
- 10(d) Earl Scheib, Inc. 1982 Incentive Stock Option Plan, filed as Exhibit 10(d) to Registrant's Annual Report on Form 10-K for the fiscal year ended April 30, 1982 and hereby incorporated herein by reference.
- 10(e) Put, Call, and Registration Rights Agreement dated as of November 16, 1993, between Registrant and Union Bank filed as Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the fiscal year ended April 30, 1994 and hereby incorporated herein by reference.
- 10(f) Reimbursement Agreement dated as of November 16, 1993, between Registrant and Irwin R. Buchalter, as Executor of the Estate of Earl A. Scheib filed as Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the fiscal year ended April 30, 1994 and hereby incorporated herein by reference.
- 10(g) Employment Agreement dated as of November 18, 1994 between Registrant and Daniel A. Seigel.
- 10(h) Stock Option Agreement dated as of November 30, 1994 between Registrant and Daniel A. Seigel.
- 10(i) Stock Option Agreement dated as of January 10, 1995 between Registrant and Christian Bement.
- 10(j) Employment Agreement dated as of March 1, 1995 between Registrant and A. J. Scheib.

</TABLE>

EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIAL PAGE NO. -----
<C>	<S>	<C>
10(k)	Employment Agreement dated as of November 18, 1994 between Registrant and Donald R. Scheib.	
10(l)	Earl Scheib, Inc. 1994 Performance Employee Stock Option Plan, June 27, 1994.	
10(m)	Earl Scheib, Inc. 1994 Board of Directors Stock Option Plan, June 27, 1994.	
10(n)	Agreement for Issuance of Letters of Credit dated as of February 16, 1995 between Registrant and City National Bank, filed as Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and hereby incorporated herein by reference.	
10(o)	Put Agreement dated as of February 16, 1995 between Registrant and City National Bank, filed as Exhibit 10(b) on Form 10-Q for the quarter ended January 31, 1995, and hereby incorporated herein by reference.	
13	1995 Annual Report to Stockholders of Earl Scheib, Inc. (not deemed filed except to the extent that sections thereof are specifically incorporated into this report on Form 10-K by reference).	
21	Subsidiaries of the Registrant filed as Exhibit 22 to Registrant's Annual Report on Form 10-K for the fiscal year ended April 30, 1991 and hereby incorporated herein by reference.	
23	Consent of Independent Auditors, (see page 7).	

EARL SCHEIB INC. AND SUBSIDIARIES

AVAILABILITY OF EXHIBITS

The Company will furnish upon request copies of the exhibits indicated on pages 8 and 9 of the Form 10-K at a cost of 25c per page, which is the reasonable cost to the Company in fulfilling the request.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, effective as of this 18th day of November, 1994, is by and between EARL SCHEIB, INC., a Delaware corporation (the "Company") and DANIEL A. SEIGEL, an individual whose mailing address is 1801 Century Park East, Los Angeles, CA. 90067 ("Employee").

RECITALS

A. Employee has developed considerable familiarity with and expertise in retail and manufacturing operations.

B. Employee and the Company desire to provide for Employee's employment by the Company upon the terms and conditions set forth in this Employment Agreement.

AGREEMENT

1. Employment. The Company hereby agrees to employ Employee and Employee

hereby agrees to serve the Company as its President and Chief Executive Officer and shall report only to the Board of Directors of the Company.

2. Employment Term. Subject to the terms and conditions hereof, Employee

shall serve at the discretion of the Board of Directors (the "Employment Term").

3. Responsibilities. During the Employment Term, Employee shall render

such services to the Company and its affiliates as are reasonably required by the Board of Directors of the Company and as may be required by virtue of the office(s) and positions held by Employee. Such responsibilities shall include but not be limited to:

(a) devoting Employee's full time and best effort (subject to Employee's existing commitments to entities for which he is serving as a director) to the performance of all responsibilities to the Company and its subsidiaries to further the business and interests of the Company and its subsidiaries, and shall perform the services contemplated herein faithfully, diligently, to the best of his ability;

(b) reviewing all the Company's expense areas including operational areas to reduce expenses where appropriate;

(c) concentrating the Company's efforts in shops and markets that are

and can be profitable in order to increase the Company's operating and net profits;

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(d) implementing strategies to improve the Company's competitive position and increase its market share;

(e) establishing effective management systems with a view toward implementing the Company's financial objective of increasing profits;

(f) improving the Company's public image by implementing various proven marketing approaches and improving customer services;

(g) implementing strategies to maximize the value of the Company's assets; and

(h) implementing appropriate shareholder relations and financial public relations programs.

4. Permanent Disability and Death.

(a) If during the Employment Term, Employee is prevented from performing duties or fulfilling responsibilities by reason of any incapacity or disability, if any, for a continuous period of six months, then the Company, in its sole and absolute discretion, may consider such incapacity or disability to be permanent and may, upon 90 days written notice to Employee, terminate Employee's employment hereunder, but Employee shall continue to be eligible to receive any benefits to which he may be entitled under the terms of the Company's long term disability plan for its employees, if any. In the event of such disability, the Company shall pay Employee full compensation under Section 5 until such termination.

(b) The Employment Term, unless terminated earlier, shall automatically terminate on the last day of the month in which the death of Employee occurs.

5. Compensation. As full compensation for all services rendered pursuant

to this Employment Agreement, the Company agrees to pay Employee a gross salary equal to at least \$250,000 per year (the "Salary") subject to annual review. The Salary shall be payable in installments not less frequently than semi-monthly in accordance with the regular employee salary procedure from time to time adopted by the Company. There shall be deducted from all Compensation paid to Employee such sums, including, but without limitation, social security, income tax withholding, disability and unemployment insurance, as Company is obligated by law to withhold.

6. Bonus. Notwithstanding Section 5 above, Employee may receive a bonus

of up to \$60,000 on or about April 30, 1995 ("Fiscal '95"), at the discretion of the Board of Directors. Prior to the end of Fiscal '95 the Board of Directors will meet and

decide upon the adoption of a management bonus plan which plan will cover Employee and other members of the Company's senior management for future periods.

7. Options. Notwithstanding Section 6 above, the Company shall grant

Employee an option to purchase common stock of Company on the terms and conditions stated in that certain Stock Option Agreement of even date herewith.

8. Expenses. During the Employment Term, the Company shall allow

Employee reasonable travel, business entertainment, and other business expenses incurred in the performance of his duties hereunder, subject to the rules and regulations adopted by the Company for the handling of such business expenses.

9. Other Benefits. During the Employment Term, the Company shall provide

Employee with the same insurance and other benefits that the Company makes available to other similarly situated employees with the exception of those offered under the Company's Supplemental Employee Retirement Plan.

10. Non-Competition Covenant. Employee agrees that (i) if Employee is

employed by Company for less than five (5) years, for one (1) year, or (ii) if Employee is employed by Company for five (5) years or more, for two (2) years, from the termination of employment with the Company or any of its affiliates (the one (1) or two (2) year period, as applicable, shall be referred to as the "Non-Competition Term"), not, either individually or in a partnership, or in conjunction with any person or persons, firms, association, syndicate, corporation or other entity or venture, as principal, partner, shareholder, director, officer, consultant, employee, agent or in any manner whatsoever, either directly or indirectly,

(a) to provide or offer to provide, on behalf of a competitor of the Company, products or services that compete with the business of the Company to any customer or client, or prospective customer or client, of the Company;

(b) to provide or offer to provide, on behalf of a competitor of the Company or of any of its affiliates, products or services that compete with the business of the Company or of any of its affiliates to any customer or client, or prospective customer or client, of the Company or of any of its affiliates;

(c) to engage in or become interested in or advise any business,

person, firm, association, syndicate, corporation or other entity or venture engaged in any city where the Company or any of its affiliates operates its business and within a 50 mile radius of the boundaries of any such city, of any business substantially similar to the business carried on by the Company or any of its affiliates. Except as (i) required by law or judicial process or (ii) accordance with his fiduciary obligations to the Company.

11. Confidentiality Covenant. Except as (i) required by law or judicial

process or (ii) in accordance with his fiduciary obligations to the Company, Employee agrees while employed by the Company and thereafter for a period of two years not, directly or indirectly, to disclose or use to the detriment of the Company or any of its affiliates (the term "affiliates" as used in this Employment Agreement is understood to mean subsidiaries, and parent and brother/sister corporations of the Company) or for the benefit of any other person or firm any confidential information or trade secrets which are not readily available in the public domain (including, but not limited to, the identity and particular needs of any customer of the Company or any of its affiliates, the methods and techniques of any of the businesses of the Company or any of its affiliates, the marketing plans and objectives of the Company or any of its affiliates, the formula of any product of the Company or any of its affiliates) of the Company or any of its affiliates. Employee shall not, while employed by the Company or thereafter for a period of two years, directly or indirectly, induce, advise, recommend to, or participate in any effort to induce, any officer or employee of the Company or any of its affiliates to terminate employment with the Company. Furthermore, Employee shall deliver promptly to the Company upon termination of employment, or at any time the Company may so request, all memoranda, notes, records, reports, manuals, drawings, blueprints, formulas; and other documents (and all copies thereof) relating to the business of the Company or any of its affiliates and all property associated therewith, then possessed or under the control of the Employee.

12. Remedies for Breach. Employee acknowledges that the legal remedies

for breach of the covenants contained in Sections 10 or 11 are inadequate, and therefore agrees that, in addition to any or all other remedies available to the Company and its affiliates in the event of a breach or a threatened breach of any covenant contained in Sections 10 or 11, the Company or any of its affiliates may:

(a) Obtain preliminary and permanent injunctions against any and all such actions, and

(b) Seek to recover from Employee monetary damages to the Company or its affiliates arising from such breach or threatened breach and all costs and expenses (including attorneys' fees) incurred by the Company or any of its affiliates in enforcement of such covenants.

13. Grounds for Termination of Employment. Without limiting the power

granted to the Board of Directors pursuant to Section 2 hereof, the Company may terminate Employee if for Just Cause which is defined as (a) the commission of a criminal act against, or in derogation of the interests of the Company or any of its affiliates, (b) knowingly and in violation of his fiduciary duties to the Company, divulges confidential information about the Company or any of its affiliates to a competitor or to the public which results in a material adverse change in the business of the Company or any of its affiliates, their businesses or reputations; by giving

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written notice to Employee specifying the default and stating that if such default is not cured to the satisfaction of the Board of Directors of the Company within five business days, employment will be terminated. The Employment Term shall terminate automatically five business days after the date notice is given if the default has not been cured to the satisfaction of the Company provided that if Employee has taken deliberate steps to cure the default such term shall continue for an additional 30 days and if such default is not then cured, Employee's employment shall automatically terminate.

14. Effect of Termination of the Employment Term.

(a) Upon the termination of Employee's employment pursuant to Section 13 hereof, the parties' obligations hereunder, except as set forth in Sections 9, 10, and 11 hereof, shall terminate; provided, however, that rights and remedies accruing prior to such termination or arising out of the breach of this Employment Agreement shall survive. In the event of a material, unexcused breach by the Company of its obligations hereunder which breach has not been cured within a reasonable time period (which shall not be less than fifteen business days) after Employee has given written notice to the Board of Directors of the Company specifying such breach in detail and demanding cure, the parties' obligations hereunder, except as set forth in Sections 9, 10, and 11 hereof, shall terminate; provided, however, that rights and remedies accruing prior to such termination or arising out of the breach of this Employment Agreement shall survive.

(b) If Employee is terminated except as stated in Section 13, Company shall pay Employee six (6) months of his then Compensation as severance and continue the benefits provided for in Section 9 hereof for a period of six (6) months from the date of termination.

15. Notice. Any notice required to be given by the Company hereunder to

Employee shall be in proper form if signed by a director (excluding Employee) of the Company giving notice for a majority of the Board. Until one party shall advise the other in writing to the contrary, notices shall be deemed delivered:

(a) To the Company if delivered to a director or the highest ranking officer (excluding Employee) of the Company, or, if mailed, certified or registered mail, postage prepaid to:

Earl Scheib, Inc.
8737 Wilshire Boulevard
Beverly Hills, CA 90211
Attn: Corporate Secretary

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(b) To Employee if delivered to Employee in person or if mailed, by certified or registered mail, postage prepaid, to the address set forth at the head of this Employment Agreement.

16. Benefit. This Employment Agreement shall bind and inure to the

benefit of Employee, the Company, and their respective heirs, personal representatives, successors and assigns; provided that Employee may not assign any rights or obligations hereunder without the prior written consent of the Company.

17. Termination of Prior Agreements. When this Employment Agreement

becomes effective it shall supersede all prior arrangements or understandings concerning Employee's employment by the Company but shall in no way affect the Stock Option Agreement.

18. Governing Law. This Employment Agreement shall be governed by and

construed and enforced in accordance with the internal laws of the State of California.

19. Severability. The provisions of Sections 10 and 12 of this Employment

Agreement are severable and the invalidity of any one or more of such provisions does not affect or limit the enforceability of the remaining provisions or paragraphs of this Employment Agreement.

20. Headings. The headings in this Employment Agreement are solely for

convenience of reference and shall not affect its interpretation.

21. No Waiver. No failure on the part of any party hereto at any time to

require the performance by any other party of any term of the Employment Agreement shall be taken or held to be a waiver of such term or in any way affect such party's right to enforce such term, and no waiver on the part of either party of any term of this Employment Agreement shall be taken or held to

be a waiver of any other term hereof or the breach thereof.

22. Entire Agreement; Written Modifications. This instrument contains the

entire agreement between the parties with respect to the subject matter hereof; all representations, promises and prior or contemporaneous understandings relating to Employee's employment by the Company are merged into and expressed in this instrument. This Employment Agreement shall not be amended, modified or supplemented without the written agreement of the parties at the time of such amendment, modification or supplement.

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23. Counterparts. This Employment Agreement may be executed in separate

counterparts, each of which when so executed shall be an original but all of such counterparts shall together constitute but one and the same instrument.

EXECUTED AND EFFECTIVE as of the date first written above.

EARL SCHEIB, INC.,
a Delaware corporation

By: _____
Title: _____

DANIEL A. SEIGEL

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EARL SCHEIB, INC.

STOCK OPTION AGREEMENT

This Stock Option Agreement is made as of this 30th day of November, 1994, between Earl Scheib, Inc., a Delaware corporation (the "Company"), and DANIEL A. SEIGEL, President and Chief Executive Officer of the Company ("Employee").

R E C I T A L S

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1. The Employee has been hired to render valuable services to the Company and/or its Subsidiaries.

2. The Company desires to induce Employee to render such services by providing Employee an opportunity to purchase shares of the Company's Common Stock, \$1.00 par value, pursuant to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto have agreed, and do hereby agree, as follows:

1. DEFINITIONS. As used herein, the following terms shall have the following meanings:

1.1 Board shall mean the Board of Directors of the Company.

1.2 Code shall mean the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

1.3 Committee shall mean the Compensation Committee appointed by the Board.

1.4 Common Stock shall mean the shares of Common Stock, \$1.00 par value, of the Company.

1.5 Company shall mean Earl Scheib, Inc., a Delaware

corporation, and any successor to it.

1.6 Disability shall have the meaning set forth in Section

22(e)(3) of the Code, as that section may be amended from time to time.

1.7 Employment Agreement shall mean that certain Employment

Agreement dated November 18, 1994, entered into between Company and Employee.

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1.8 Fair Market Value of Common Stock shall mean, at any date,

the value determined by any one of the following means, as applicable, (i) if the shares of Common Stock are reported on the American Stock Exchange ("AMEX Market"), the last sale price reported on that day or, if there were no sales on that day, the mean of the closing bid and asked price for a share of Common Stock as of the date for which such value is determined; (ii) if shares of Common Stock are listed on one or more exchanges, the last sale on the exchange on which the shares of Common Stock are primarily listed and traded on that date or, if there were no sales on that date, the mean of the bid and asked prices for a share of Common Stock on that exchange at the close of business on that date; (iii) if shares of Common Stock are not reported on the AMEX Market or listed for trading on a national securities market but are traded in the domestic over-the-counter market, the mean of the closing bid and asked quotations for a share of Common Stock as of the date for which such value is being determined.

1.9 Just Cause shall have the same meaning as defined in

Section 13 of the Employment Agreement.

1.10 Option shall mean the Option granted hereunder.

1.11 Option Agreement shall mean this agreement evidencing the

right to purchase shares of Common Stock pursuant to the terms hereof.

1.12 Purchase Price shall mean the amount set forth as follows:

\$5.00 for the period 11/15/94 through 11/30/95
\$5.50 for the period 12/1/95 through 11/30/96
\$6.00 for the period 12/1/96 through 11/15/97
\$6.50 for the period 11/16/97 through 11/15/98
\$7.00 for the period 11/16/98 through 11/15/99

1.13 Subsidiary shall mean any corporation that at the time

qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Section 424(f) of the Code, as that section may be amended from time to time.

1.14 Vesting shall mean the absolute and fixed right to exercise

or purchase the shares of Common Stock subject to the Option.

2. GRANT OF OPTION. Subject to the terms of this Option Agreement,

and further subject to majority approval of this Company's Shareholders to be requested at the Company's Annual Meeting of Stockholders to be held following the close of its fiscal year ending April 30, 1995, the Company hereby irrevocably grants to Employee the right and option to purchase all or any part of an aggregate of four hundred thousand (400,000) shares of Common Stock (such number being subject to adjustment as provided in Section 8).

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3. TERMS OF OPTION.

(a) Subject to earlier termination as provided in Sections 6 and 7, the term of the Option shall be for a period of five (5) years from the date hereof.

(b) (i) The Option granted hereunder shall be exercisable in accordance with the following Vesting provisions:

50% at 7:00 p.m. (PST) on 11/15/95
12 1/2% at 7:00 p.m. (PDT) on 2/15/96
12 1/2% at 7:00 p.m. (PDT) on 5/15/96
12 1/2% at 7:00 p.m. (PDT) on 8/15/96
12 1/2% at 7:00 p.m. (PST) on 11/1/96

(b) (ii) The Option granted hereunder shall be immediately and fully vested (i) one (1) day prior to a Transaction as defined in Section 8 hereof; (ii) upon Employee's death; (iii) upon Employee's Disability; or (iv) if the Company terminates Employee without Just Cause.

(b) (iii) If the Option vests pursuant to the terms of Section 3(b) (ii) hereof prior to the Company obtaining shareholder approval of this Agreement then the Company shall pay to Employee the difference between the Fair Market Value on the trading day preceding the date of Vesting and the applicable Purchase Price.

(c) Except as provided in Sections 6 and 7, the Option may not be exercised any time unless Employee shall have been in the continuous employ of the Company or one or more of its Subsidiaries from the date

hereof to the date of its exercise.

(d) Employee shall have the right to exercise all or any portion of his Vested Option at any time within the five (5) year term.

4. METHOD OF EXERCISING OPTION. Subject to the terms and conditions

of this Option Agreement, the Option may be exercised by written notice (the "Notice") to the Company, 8737 Wilshire Boulevard, Beverly Hills, California 90211, attention: Chief Financial Officer. Such Notice shall state the election to exercise the Option and the number of shares with respect to which it is being exercised, and shall be signed by the person or persons so exercising the Option. Such Notice shall be accompanied by payment of the full Purchase Price of such shares, and the Company shall deliver a certificate or certificates representing such shares as soon as practicable after the Notice is received. Payment of such purchase price shall be made by certified or cashier's check payable to the order of the Company or by transfer to the Company of shares of Common Stock valued for this purpose at their Fair Market Value at the date of exercise, or any combination thereof. The certificate or certificates for the shares as to which the Option shall have been

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so exercised shall be registered in the name of the person or persons so exercising the Option (or, if the Option shall be exercised by the Employee and if the Employee shall so request in the Notice exercising the Option, shall be registered in the name of the Employee and another person jointly, with right of survivorship) and shall be delivered as provided above to, or upon written order of, the person or persons exercising the Option. In the event the Option shall be exercised by any person or persons other than the Employee, such Notice shall be accompanied by appropriate proof satisfactory to counsel to the Company of the right of such person to exercise the Option. All shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and non-assessable.

5. NON-TRANSFERABILITY. No Option shall be transferable otherwise

than by will or the laws of descent and distribution in accordance with the provisions of Section 8, and this Option may be exercised, during the lifetime of the Employee, only by him or her. More particularly (but without limiting the generality of the foregoing), this Option may not be assigned, transferred (except as provided above), pledged or hypothecated in any way, shall not be assignable by operation of law and shall not be subject to execution, attachment, or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of any Option contrary to the provisions hereof, and the levy of any execution, attachment, or similar process upon an Option shall be null and void and without effect.

6. TERMINATION OF EMPLOYMENT. In the event that Employee shall

cease to be employed by the Company for any reason other than Death or Disability, the Employee shall have the right to exercise his Option but only as to such number of shares of Common Stock as to which the Option was exercisable at the date of such cessation of employment. Notwithstanding the provisions of the preceding sentence: (i) if cessation of employment occurs by reason of the Death or Disability of the Employee, such period to exercise shall be one year; (ii) if Employee is terminated by the Company for Just Cause, the Employee's right to exercise the Option shall terminate within thirty (30) days of the time notice of termination of employment is given by the Company to such Employee; and (iii) if Employee's employment terminates for any other reason, Employee's right to exercise the option shall terminate at the termination of the option as provided in Section 3(a), without regard to the earlier termination provisions provided in Sections 6 and 7.

7. DEATH OR DISABILITY OF EMPLOYEE. If the Employee shall die while

employed by the Company, the Option may be exercised by the Employee's estate, personal representative or the person that acquires the Employee's Option by bequest or inheritance at any time before the date that such Option would otherwise terminate, but only as to the number of shares as to which such Option was exercisable on the date of death.

8. EFFECT OF CERTAIN CHANGES.

(a) In the event there is any change in the number of outstanding shares of Common Stock through the declaration of stock dividends or through a recapitalization which results in stock splits or reverse stock splits, the Board shall make corresponding adjustments to the number of shares of Common Stock available for Options under this Option Agreement, the number of such shares covered by this Option, and the price per share of this Option in order to approximately reflect any increase or decrease in the number of issued shares of Common Stock; provided, however, that any fractional shares of Common Stock resulting from such adjustment shall be eliminated. Any determination made by the Board relating to such adjustments shall be final, binding and conclusive.

(b) In the event of a change in the Common Stock of the Company which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock (within the meaning of this Option Agreement).

(c) Notwithstanding subsections (a) and (b) of this Section 8, upon the dissolution or liquidation of the Company, or upon the execution of a definitive agreement resulting in any reorganization, merger or consolidation of the Company with one or more corporations where the

Company is the surviving corporation and the stockholders of the Company immediately prior to such transaction do not own at least 51% of the Company's Common Stock immediately after such transaction, or upon the execution of a definitive agreement resulting in any reorganization, merger or consolidation of the Company with one or more corporations where the Company is not the surviving corporation, or upon a sale of substantially all of the assets or 51% or more of the then outstanding shares of Common Stock of the Company to another corporation or entity, any such reorganization, merger, consolidation, sale of assets, or sale of shares of Common Stock being hereinafter referred to as the "Transaction"), at the option of Employee this Option Agreement may terminate; provided however, that:

(i) the Option granted hereunder shall become immediately exercisable in full and shall remain exercisable until the effective date of such Transaction; and

(ii) the termination of this Option Agreement, and any exercise of the Option granted hereunder (to the extent that the holder's right to exercise such Option has been accelerated by the operation of Section 8(c)(i)), shall be subject to and conditioned upon the consummation of the Transaction to which such termination and acceleration relates, and if, for any reason, such Transaction is abandoned, exercise of this Option shall

be void and this Option shall thereafter be exercisable only as permitted by this Option Agreement, which shall remain in full force and effect.

(d) Except as hereinbefore expressly provided in this Section 8, the Employee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to this Option. The grant of this Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures or to merge or to consolidate or to dissolve, liquidate or sell or transfer all or part of its business or assets.

9. GENERAL RESTRICTION. The Company agrees that it will take any -----

and all actions reasonably necessary to cause a Registration Statement on Form

S-8 under the Act (as defined below) to be filed and become effective and remain effective with the Securities and Exchange Commission ("SEC") and, if appropriate, seek the listing, qualification, and consent or approval of any governmental regulatory body if necessary or desirable as a condition of, or in connection with, the granting of such Option or the issue of shares thereunder, provided, however, that the Option granted hereunder shall be subject to the requirement that such Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effective free of any condition not acceptable to the Committee. Until such time as the Common Stock to be issued hereunder has been registered under the Securities Act of 1933, as amended (the "Act"), each person exercising a right hereunder may be required by the Company to give a written representation that he or she is acquiring the shares to be issued hereunder for investment only and not with a view to, or for sale in conjunction with, the distribution of any part thereof and to acknowledge in writing that (a) shares of Common Stock issued hereunder will bear a legend restricting their transfer except in accordance with the provisions of the Act and (b) appropriate stock transfer instructions will be placed with the Company's transfer agent likewise restricting transfer except in accordance with the provisions of the Act.

10. RIGHTS AS A STOCKHOLDER. Neither Employee nor any other person

shall have rights as a stockholder of the Company with respect to any shares issuable hereunder until the date of issuance of a stock certificate to him or her for such shares.

11. NO CONTRACT OF EMPLOYMENT. The grant of the Options hereunder

shall not be deemed to obligate the Company or any Subsidiary to continue the employment

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of the Employee which such relationship shall be governed solely by the Employment Agreement.

12. RESERVED SHARES. The Company shall at all times during the term

of the Option, reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Option Agreement, shall pay all original issue and transfer taxes with respect to the issuance and transfer of all shares pursuant hereto and all other fees and expenses necessarily incurred by the Company in connection therewith, and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Company, shall be applicable thereto.

13. STATUS OF OPTION. The Option granted hereunder is not intended

to qualify and shall not be treated as an incentive stock option as provided by Section 422 of the Code.

14. NOTICE OF DISPOSITION. Employee shall notify the Company in

writing within five (5) business days of any intended disposition of any Common Stock that was issued upon the exercise of the Option granted herein. Employee shall notify the Company within three (3) business days after the completion of such disposition.

15. EFFECTIVENESS OF AGREEMENT. Subject to the approval of the

Company's Shareholders, this Option Agreement shall become effective upon the date executed.

IN WITNESS WHEREOF, the Company has caused this Option Agreement to be duly executed by its officers thereunto duly authorized, and Employee has hereunto set his hand, all on the day and year first above written.

COMPANY

EARL SCHEIB, INC., a Delaware corporation

By: _____
John K. Minnihan
Chief Financial Officer

EMPLOYEE

DANIEL A. SEIGEL

EARL SCHEIB, INC.

Stock Option Agreement

This Option Agreement is made as of this 10th day of January, 1995, between Earl Scheib, Inc., a Delaware corporation (the "Company"), and Christian Bement, Executive Vice President of the Company and/or its Subsidiaries ("Employee").

R E C I T A L S

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1. The Employee has been hired to render valuable services to the Company and/or its Subsidiaries.

2. The Company desires to induce Employee to render such services by providing Employee an opportunity to purchase shares of the Company's Common Stock, \$1.00 par value, pursuant to the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto have agreed, and do hereby agree, as follows:

1. DEFINITIONS. As used herein, the following terms shall have the following meanings:

1.1 Board shall mean the Board of Directors of the Company.

1.2 Code shall mean the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

1.3 Committee shall mean the Compensation Committee appointed by the Board.

1.4 Common Stock shall mean the shares of Common Stock, \$1.00 par value, of the Company.

1.5 Company shall mean Earl Scheib, Inc., a Delaware

corporation, and any successor to it.

1.6 Disability shall have the meaning set forth in Section

22(e)(3) of the Code, as that section may be amended from time to time.

1.7 Employee shall mean any individual employed by and receiving

compensation from the Company or any Subsidiary.

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1.8 Fair Market Value of Common Stock shall mean, at any date,

the value determined by the Board by any fair and reasonable means, including (i) if the shares of Common Stock are reported on the American Stock Exchange ("AMEX Market"), the last sale price reported on that day or, if there were no sales on that day, the mean of the closing bid and asked price for a share of Common Stock as of the date for which such value is determined; (ii) if shares of Common Stock are listed on one or more exchanges, the last sale on the exchange on which the shares of Common Stock are primarily listed and traded on that date or, if there were no sales on that date, the mean of the bid and asked prices for a share of Common Stock on that exchange at the close of business on that date; (iii) if shares of Common Stock are not reported on the AMEX Market or listed for trading on a national securities market but are traded in the domestic over-the-counter market, the mean of the closing bid and asked quotations for a share of Common Stock as of the date for which such value is being determined.

1.9 Option shall mean the Option granted hereunder.

1.10 Option Agreement shall mean this agreement evidencing the

right to purchase shares of Common Stock pursuant to the terms hereof.

1.11 Purchase Price shall mean the amount set forth as follows:

\$5.50 per share (last sales price on AMEX on January 10, 1995) with regard to the option to purchase the first 100,000 shares or any portion thereof, such shares to vest first.

\$9.00 per share with regard to purchase the second 100,000 shares or any portion thereof, such shares to vest second.

1.12 Subsidiary shall mean any corporation that at the time

qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Section 424(f) of the Code, as that section may be

amended from time to time.

1.13 Vesting shall mean the absolute and fixed right to exercise

or purchase the shares of Common Stock subject to the Option.

2. Grant of Option. Subject to the terms of this Option Agreement

and further subject to majority approval of this Company's Shareholders to be requested at the Company's Annual Meeting of Shareholders to be held following the close of

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its fiscal year ending April 30, 1995, the Company hereby irrevocably grants to Employee the right and option to purchase all or any part of an aggregate of Two Hundred Thousand (200,000) shares of Common Stock (such number being subject to adjustment as provided in Section 8).

3. TERMS OF OPTION.

(a) Subject to earlier termination as provided in Sections 6 and 7, the term of the Option shall be for a period of five (5) years from the date hereof.

(b) Subject to Section 3(c), the Option granted hereunder shall be exercisable in accordance with the following Vesting provision:

50% at 7:00 p.m. (PST) on January 10, 1996
12-1/2% at 7:00 p.m. (PST) on April 10, 1996
12-1/2% at 7:00 p.m. (PDT) on July 10, 1996
12-1/2% at 7:00 p.m. (PDT) on October 10, 1996
12-1/2% at 7:00 p.m. (PST) on January 10, 1997

(c) If the terms of Sections 6(c) or 7 are applicable, then the Option granted hereunder shall be exercisable in accordance with the following Alternate Vesting provision:

12-1/2% at 7:00 p.m. (PST) on April 10, 1995
12-1/2% at 7:00 p.m. (PDT) on July 10, 1995
12-1/2% at 7:00 p.m. (PDT) on October 10, 1995
12-1/2% at 7:00 p.m. (PST) on January 10, 1996
12-1/2% at 7:00 p.m. (PST) on April 10, 1996
12-1/2% at 7:00 p.m. (PDT) on July 10, 1996
12-1/2% at 7:00 p.m. (PDT) on October 10, 1996
12-1/2% at 7:00 p.m. (PST) on January 10, 1997

(d) Except as provided in Sections 6 and 7, the Option may not be exercised any time unless Employee shall have been in the continuous full-time employ of the Company or one or more of its Subsidiaries from the

date hereof to the date of its exercise. Company and Employee acknowledge that Employee now serves on the board of directors of or otherwise provides services to other entities and Employee agrees that Employee shall resign such positions if so requested by the Company if the Company believes in its sole and absolute discretion that such other services will result in Employee failing to comply with this Section 3(d).

4. METHOD OF EXERCISING OPTION. Subject to the terms and conditions

of this Option Agreement, the Option may be exercised by written notice (the "Notice") to the Company, 8737

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Wilshire Boulevard, Beverly Hills, California 90211, attention: Chief Financial Officer. Such Notice shall state the election to exercise the Option and the number of shares with respect to which it is being exercised, and shall be signed by the person or persons so exercising the Option. Such Notice shall be accompanied by payment of the full Purchase Price of such shares, and the Company shall deliver a certificate or certificates representing such shares as soon as practicable after the Notice is received. Payment of such purchase price shall be made by certified or cashier's check payable to the order of the Company or by transfer to the Company of shares of Common Stock valued for this purpose at their Fair Market Value at the date of exercise, or any combination thereof. The certificate or certificates for the shares as to which the Option shall have been so exercised shall be registered in the name of the person or persons so exercising the Option (or, if the Option shall be exercised by the Employee and if the Employee shall so request in the Notice exercising the Option, shall be registered in the name of the Employee and another person jointly, with right of survivorship) and shall be delivered as provided above to, or upon written order of, the person or persons exercising the Option. In the event the Option shall be exercised by any person or persons other than the Employee, such Notice shall be accompanied by appropriate proof satisfactory to counsel to the Company of the right of such person to exercise the Option. All shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and non-assessable.

5. NON-TRANSFERABILITY. No Option shall be transferable otherwise

than by will or the laws of descent and distribution in accordance with the provisions of Section 7, and this Option may be exercised, during the lifetime of the Employee, only by him or her. More particularly (but without limiting the generality of the foregoing), this Option may not be assigned, transferred (except as provided above), pledged or hypothecated in any way, shall not be assignable by operation of law and shall not be subject to execution, attachment, or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of any Option contrary to the provisions hereof, and the levy of any execution, attachment, or similar process upon an Option shall be null and void and without effect.

6. TERMINATION OF EMPLOYMENT. In the event that Employee shall

cease to be employed by the Company and its Subsidiaries for any reason other than death, the Employee shall have the right to exercise his Option at any time within three (3) months after such cessation of employment but only as to such number of shares of Common Stock as to which the Option was exercisable at the date of such cessation of employment. Notwithstanding the provisions of the preceding sentence:

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(a) if cessation of employment occurs by reason of the Disability of the Employee, such three-month period shall be extended to one year; (b) if employment is terminated at the request of the Company or any Subsidiary for Substantial Cause (as that term is defined below), the Employee's right to exercise the Option shall terminate at the time notice of termination of employment is given by the Company or any such Subsidiary to such Employee; and (c) if employment is terminated at the request of the Company or any Subsidiary for reasons other than Substantial Cause, then the Option granted hereunder shall vest according to the Alternate Vesting provision stated in Section 3(c). For purposes of this Section, the term "Substantial Cause" shall include: (i) the commission of a criminal act against, or in derogation of the interests of the Company or any of its Subsidiaries, (ii) knowingly divulging confidential information about the Company or any of its Subsidiaries to a competitor or to the public; (iii) interference with the relationship between the Company or any of its Subsidiaries and any major customer; or (iv) the performance of any action that the Committee, in its reasonable discretion, may deem to be sufficiently injurious to the interests of the Company or any of its Subsidiaries to constitute Substantial Cause for termination. A transfer of employment from the Company to a Subsidiary or vice versa shall not be deemed a termination of employment.

7. DEATH OR DISABILITY OF EMPLOYEE. If the Employee shall die while

employed by the Company or one or more of its Subsidiaries, or within three (3) months after the termination of employment (unless termination occurs due to Substantial Cause, as defined above), the Option may be exercised (to the extent that the Employee shall have been entitled to do so at the date of his death pursuant to the Alternate Vesting provision stated in Section 3(c)) by the Employee's estate, personal representative or the person that acquires the Employee's Option by bequest or inheritance at any time before the date that such Option would otherwise terminate, but only as to the number of shares as to which such Option was exercisable on the date of death.

8. EFFECT OF CERTAIN CHANGES.

(a) In the event there is any change in the number of outstanding shares of Common Stock through the declaration of stock dividends or through a recapitalization which results in stock splits or

reverse stock splits, the Board shall make corresponding adjustments to the number of shares of Common Stock available for Options under this Agreement, the number of such shares covered by this Option, and the price per share of this Option in order to approximately reflect any increase or decrease in the number of issued shares of Common Stock; provided,

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however, that any fractional shares of Common Stock resulting from such adjustment shall be eliminated. Any determination made by the Board relating to such adjustments shall be final, binding and conclusive.

(b) In the event of a change in the Common Stock of the Company, as constituted as of the date of this Agreement, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of this Agreement.

(c) Notwithstanding subsections (a) and (b) of this Section 8, upon the dissolution or liquidation of the Company, or upon any reorganization, merger or consolidation of the Company with one or more corporations where the Company is the surviving corporation and the stockholders of the Company immediately prior to such transaction do not own at least 51% of the Company's Common Stock immediately after such transaction, or upon any reorganization, merger or consolidation of the Company with one or more corporations where the Company is not the surviving corporation, or upon a sale of substantially all of the assets or 51% or more of the then outstanding shares of Common Stock of the Company to another corporation or entity (any such reorganization, merger, consolidation, sale of assets, or sale of shares of Common Stock being hereinafter referred to as the "Transaction"), at the option of Employee, this Option Agreement may terminate; provided however, that

(i) the Option granted hereunder shall become immediately exercisable in full and shall remain exercisable until the effective date of such Transaction; and

(ii) the termination of this Option Agreement, and any exercise of the Option granted hereunder (to the extent that the holder's right to exercise such Option has been accelerated by the operation of Section 8(c)(i)), shall be subject to and conditioned upon the consummation of the Transaction to which such termination and acceleration relates, and if, for any reason, such Transaction is abandoned, exercise of this Option shall be void and this Option shall thereafter be exercisable only as permitted by the this Option Agreement, which shall remain in full force and effect.

(d) Except as hereinbefore expressly provided in this Section 8, the Employee shall have no rights by reason

of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to this Option. The grant of this Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures or to merge or to consolidate or to dissolve, liquidate or sell or transfer all or part of its business or assets.

9. GENERAL RESTRICTION. The Company agrees that it will take any

and all actions reasonably necessary to cause a Registration Statement on Form S-8 under the Act (as defined below) to be filed and become effective and remain effective with the Securities and Exchange Commission ("SEC") and, if appropriate, seek the listing, qualification, and consent or approval of any governmental regulatory body if necessary or desirable as a condition of, or in connection with, the granting of such Option or the issue of shares thereunder, provided, however, that the Option granted hereunder shall be subject to the requirement that such Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effective free of any condition not acceptable to the Committee. Until such time as the Common Stock to be issued hereunder has been registered under the Securities Act of 1933, as amended (the "Act"), each person exercising a right hereunder may be required by the Company to give a written representation that he or she is acquiring the shares to be issued hereunder for investment only and not with a view to, or for sale in conjunction with, the distribution of any part thereof and to acknowledge in writing that (a) shares of Common Stock issued hereunder will bear a legend restricting their transfer except in accordance with the provisions of the Act and (b) appropriate stock transfer instructions will be placed with the Company's transfer agent likewise restricting transfer except in accordance with the provisions of the Act.

10. RIGHTS AS A STOCKHOLDER. Neither Employee nor any other person

shall have rights as a stockholder of the Company with respect to any shares issuable hereunder until the date of issuance of a stock certificate to him or her for such shares.

11. NO CONTRACT OF EMPLOYMENT. The grant of the Options hereunder

shall not be deemed to be an employment contract nor to obligate the Company or any Subsidiary to continue the employment of the Employee.

12. RESERVED SHARES. The Company shall at all times during the term

of the Option, reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Option Agreement, shall pay all original issue and transfer taxes with respect to the issuance and transfer of all shares pursuant hereto and all other fees and expenses necessarily incurred by the Company in connection therewith, and will from time to time use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Company, shall be applicable thereto.

13. STATUS OF OPTION. The Option granted hereunder is not intended

to qualify and shall not be treated as an incentive stock option as provided by Section 422 of the Code.

14. NOTICE OF DISPOSITION. Employee shall notify the Company in

writing within five (5) business days of any intended disposition of any Common Stock that was issued upon the exercise of the Option granted herein. Employee shall notify the Company within three (3) business days after the completion of such disposition.

15. EFFECTIVENESS OF AGREEMENT. This Option Agreement shall become

effective upon the date executed.

IN WITNESS WHEREOF, the Company has caused this Option Agreement to be duly executed by its officers thereunto duly authorized, and Employee has hereunto set his hand, all on the day and year first above written.

EARL SCHEIB, INC., a Delaware corporation

By: _____
Daniel A. Seigel
Chief Executive Officer

EMPLOYEE

By: _____
Christian Bement
Executive Vice President

EARL SCHEIB, INC.
8737 Wilshire Boulevard
Beverly Hills, California 90211

March 1, 1995

A. J. Scheib

Dear Al:

We are sending you this letter to confirm the arrangements we have agreed upon with regard to your continuing relationship with this Company:

1. You have resigned as an officer of Earl Scheib, Inc. and its subsidiary corporations. You will be working directly with me, however, on the exciting "New Earl Scheib" paint shop project as "Director of Research and Development". You will devote substantially all of your working time to this effort. This arrangement will continue through December 31, 1996 unless sooner terminated for "good cause" as hereinafter defined. On or after December 31, 1996, either of us can terminate this arrangement upon thirty (30) days written notice.

2. Your salary as our new Director of Research and Development shall be \$98,000 annually, payable bi-monthly, or in accordance with our normal non-officer payroll procedures. You will continue to participate in all of our employee health plans and Executive Care Plan.

3. You will no longer be provided with a "company car" and you will promptly return to us the 1993 Corvette previously provided to you. You will receive reimbursement for business use of your car based upon mileage and submitted with your normal travel and entertainment reimbursement request. In consideration of your returning your current compact car and foregoing a future company car and returning the Corvette to us, the Company will forgive the \$43,440.50 owed by you as of January 31, 1995 to the Company.

4. For the next two years, the Company will credit \$50,000 per year towards your Supplemental Executive Income Plan ("SEIP"). If you elect early retirement on January 1, 1997, you will receive from the SEIP the sum of \$3,750.00 each month beginning January 1, 1997 and continuing the first of

each month

A. J. Scheib
March 1, 1995
Page 2

for a total period of 180 months. Such payments shall constitute full payment under the Supplemental Executive Income Agreement dated as of May 1, 1987. Should you remain employed after January 1, 1997, such employment and later payment on your SEIP shall be on terms and conditions as we may mutually agree at that time, provided that, in any event, the credits of \$50,000 per year that were previously made will be considered contributions by you to your SEIP.

5. For purpose of this letter agreement, the phrase "good cause" shall mean any of the following:

- (a) Your criminal conviction as an Employee, whether or not appeal be taken, of any felony crime involving personal dishonesty, moral turpitude, or willfully violent misconduct;
- (b) Your criminal conviction, whether or not appeal be taken, involving embezzlement or wrongful diversion of Company's funds or assets;
- (c) Your criminal conviction as an Employee, whether or not appeal be taken, for any violation of the federal securities laws relating to "insider trading"; or
- (d) Your (i) providing, or offering to provide, services or engage in or become interested in any business, person, firm, corporation, or other entity or venture engaged in a business that competes with the Company, or (ii) willful violation of the Company's Statement of Policy and Principles of Business Conduct; or (iii) failure to fulfill the duties to which you are assigned in a willful manner.

A. J. Scheib
March 1, 1995
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If the foregoing correctly sets forth our agreement, please sign and return a copy of this letter agreement to us.

Very truly yours,

Daniel A. Seigel
President

Agreed and Accepted:

A. J. Scheib

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), entered into November 18, 1994, by and between EARL SCHEIB, INC., a Delaware corporation (hereinafter designated as "Employer"), and DONALD R. SCHEIB (sometimes hereinafter designated as "Employee").

W I T N E S S E T H:

WHEREAS, Employer is a corporation organized and existing under and by virtue of the laws of the State of Delaware with its principal place of business at 8737 Wilshire Boulevard, Beverly Hills, California;

WHEREAS, Employee has been employed by Employer for over thirty-five (35) years, most recently as President and Chief Executive Officer; and

WHEREAS, Employer and Employee have mutually determined that it is in the best interests of Employer and Employee to terminate Employee serving as President and Chief Executive Officer and Employer has determined to continue to employ Employee, upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. TERM OF AGREEMENT

1.1 Term and Position. Employer hereby employs Employee

commencing November 18, 1994 for 25-1/2 months to and until December 31, 1996 as its Chairman of the Board ("COB"). As COB, Employee shall chair all meetings of stockholders and all meetings of the board of directors of Employer as he shall attend. Employee, shall assist the new President and Chief Executive Officer of Employer as, when, and if so requested, including devoting such time, attention and energies to the business and affairs of the Employer as he is requested by the board of directors or the president to promote the interests and welfare of the Employer and its subsidiaries (jointly referred to hereinafter as the "Company").

1.2 Adherence to Rules. Employee hereby acknowledges that he has

received copies of and is familiar with Employer's Statement of Policy and Principles of Business Conduct. Employee at all times during the performance of this Agreement shall strictly adhere to and obey all the rules and regulations now in affect or as subsequently modified governing the conduct of employees of the Employer.

1.3 Other Employment. Nothing contained herein shall be deemed

to require Employee to perform the services required hereunder at Employer's premises nor to require Employer to furnish an office to Employee. Furthermore, nothing contained herein shall be deemed to

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restrict Employee's ability to accept employment or provide services elsewhere so long as (i) such activities do not, in any way, prevent or limit Employee's ability to perform pursuant to this Agreement, and (ii) Employee does not either directly or indirectly or in any manner whatsoever provide or offer to provide services or engage in or become interested in any business, person, firm, corporation or other entity or venture engaged in a business that provides products or services that compete with the business of the Company.

2. COMPENSATION

2.1 Basic Compensation. Employer shall compensate Employee for

(i) the services to be rendered by Employee hereunder during his employment, and (ii) as "severance" for all past employment, at the rate of \$22,916 for the balance of November and the month of December, 1994, and at an annual rate of \$210,000 for the next twenty-four (24) months thereafter, payable in accordance with the regular executive salary payment schedule from time to time adopted by Employer. There shall be deducted from all compensation paid to Employee such sums, including but without limitation, social security, income tax withholding, unemployment insurance, as Employer is by law obligated to do.

2.2 Additional Compensation. Employee shall be entitled during

his employment hereunder to remain eligible to participate in any retirement, insurance or other health and welfare benefit plans which presently are available to

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executive employees of Employer. Employee shall be entitled to use of Employer's automobile currently being used by Employee. Employee shall be reimbursed for his reasonable and actual out-of-pocket expenses incurred by him in performance of his duties and responsibilities hereunder, provided Employee shall first furnish proper vouchers and expense accounts for approval setting forth the information required by the United States Treasury Department for deductible

business expenses.

3. DEATH OR PERMANENT DISABILITY

3.1 Termination. If, on account of any illness, incapacity or

disability of a physical or mental nature, or Employee shall materially fail or be materially unable to perform his obligations under this Agreement for a continuous period of ninety (90) days or an aggregate period of one hundred twenty (120) days during any consecutive twelve (12) month period, or in the

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event Employee should die during the term hereof, then and in that event, the Company may, at its option, any time thereafter terminate this Agreement. In such event, this Agreement shall terminate and come to an end upon the lesser of: (i) six (6) months from the date of either such event or (ii) date set forth in this Agreement for the term hereof. In the event of a termination pursuant to this Section 3.1, Employee shall be entitled to the benefit pursuant to Section 3.3 hereof.

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3.2 Insurance. During the term of this Agreement, Employer

hereby agrees to maintain and pay its portion of the premium on any group life or group disability insurance coverage or group medical or individual life insurance coverage then available to all executives. In the event Employee is terminated pursuant to Section 3.1 hereof, the payment of benefits under the terms of any life or disability policy shall reduce or satisfy, to the extent of any such payment and upon payment to the Employee or his personal representatives, under any such policy, further compensation requirements hereunder.

3.3 Supplemental Executive Income Agreement. Pursuant to

Section 3.2 of the SEIA (as hereafter defined) Employer hereby agrees to pay Employee the sum of \$6,333.33 each month beginning January 1, 1997 and continuing the first of each month for a total period of 180 months, in consideration of Employee foregoing all of his right, title and interest in and to Employer's Supplemental Executive Income Agreement, dated as of May 1, 1987 by and between Employer and Employee ("SEIA").

4. TERMINATION

4.1 Termination For Cause. Employer may only terminate

Employee's employment for "cause" upon the occurrence of any of the following events:

(a) The criminal conviction of Employee, whether or not appeal be taken, of any felony crime

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involving personal dishonesty, moral turpitude, or willfully violent misconduct;

(b) The criminal conviction of the Employee, whether or not appeal be taken, involving embezzlement or wrongful diversion of Employer's funds or assets;

(c) The criminal conviction of the Employee, whether or not appeal be taken, for any violation of the federal securities laws relating to "insider trading"; or

(d) A violation of Section 1.3 of this Agreement.

Upon such termination, Employer shall have no further obligation to the Employee except to pay to the Employee all of the compensation earned and accrued under Sections 2, 3.1 and 3.2 of this Agreement to the date of such termination.

4.2 Termination Without Cause. Except as otherwise provided in

Section 3 of this Agreement, should Employer terminate Employee without cause (Section 4.1 of this Agreement setting forth the sole grounds for cause), Employee shall, as a severance payment, continue to receive all of the compensation and benefits provided for under Section 2 of this Agreement for the remaining term of this Agreement.

4.3 No Mitigation. Without limiting any other provision hereof,

any income and other benefits received by

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Employee from any and all sources other than the Employer before or after the termination of this Agreement shall in no way reduce or otherwise affect the Employer's obligation to make payments and afford benefits hereunder.

5. RESIGNATIONS.

Upon the Effective Date of this Agreement, Employee hereby resigns as President and Chief Executive Officer of the Company. Employer shall recommend to its Shareholders at its annual meeting(s) during the term of this Agreement, the election of Employee to serve as a Director of Employer. Employee shall not be entitled to additional compensation for his position as a Director

of Employer except for stock options which may be granted, from time to time, to Employee pursuant to any plan generally available to other Directors.

6. SUCCESSORS, ASSIGNS, BENEFIT

6.1 The provisions of this Agreement shall inure to the benefit of and be binding upon the Employer, its successors and assigns, including, without limitation, any corporation which may acquire all or substantially all of Employer's assets and business or with or into which the Employer may be consolidated, merged or reorganized. Upon any such acquisition, merger, consolidation or reorganization, the term "employer" as used herein shall be deemed to refer to such successor corporation.

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6.2 The parties hereto agree that Employee's services are personal and that this Agreement is executed with respect thereof. This Agreement shall not be assignable by Employee but shall be binding upon and inure to the benefit of the heirs, administrators, and executors of Employee. Neither the Employee nor his wife nor his heirs have any right to sell, transfer or assign the right to receive payments hereunder and any such attempted assignment or transfer shall, at the option of Employee, terminate this Agreement.

7. NOTICES

All notices, requests, demands and other communications provided for by this Agreement shall be in writing delivered personally by hand, by telecopies, telex, or if by mail in a registered or certified prepaid envelope return receipt requested. Such notice shall be deemed to have been given on the date of delivery if delivered personally or on the fifth day following the postmarked date if mailed. Notices hereunder shall be addressed as follows:

To the Employer EARL SCHEIB, INC.
 8737 Wilshire Blvd.
 Beverly Hills, California 90210
 Attn: President

To the Employee: DONALD R. SCHEIB
 11869 Barranca
 Camarillo, California 93012

The parties hereto may designate a different place at which notice shall be given provided, however, that any such notice of change of address shall be effective only upon receipt.

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8. ENTIRE UNDERSTANDING

This Agreement, sets forth the entire understanding of the parties hereto with respect to the employment of Employee hereof and no other representations, warranties or agreements whatsoever have been made to Employee not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement supersedes all other prior agreements, understanding, negotiations and discussions of the parties whether written or oral.

9. SEVERABILITY

In case one or more of the provisions contained in this Agreement (or any portion of any such provision) shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement (or any portion of any such provision), but this Agreement shall be construed as if such invalid, illegal or unenforceable provision (or portion thereof) had never contained herein. The failure by the Employer, at any time to require performance by Employee of any of the provisions hereof, shall not be deemed a waiver of any kind nor in any way affects its rights thereafter to enforce the same.

10. COSTS AND INDEMNITY

10.1 In the event any arbitration, litigation or court proceeding is commenced as a result of a dispute hereunder, the arbitrator (or judge) shall be entitled to apportion all costs and expenses of such arbitrator litigation or proceeding (including attorneys' fees and expenses) between the parties based on the arbitrator's (or judge's) determination of the merits of their respective positions.

10.2 Subject to Section 10.1 above, Employee agrees to indemnify Employer and hold Employer harmless from any and all damages, costs and expenses (including reasonable attorney's fees and costs) that Employer may incur as a result of Employee's breach of any term or condition of this Agreement.

11. GOVERNING LAW

This Agreement and all rights, obligations and liabilities arising hereunder shall be construed and enforced in accordance with the laws of the State of California.

12. ARBITRATION

Any controversy or claim arising out of or relating to this Agreement or any breach of this Agreement shall be settled by arbitration held in Los Angeles, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration

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panel shall consist of three (3) arbitrators to be selected pursuant to such Commercial Arbitration Rules.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

"EMPLOYEE "

DONALD R. SCHEIB

"EMPLOYER"

EARL SCHEIB, INC.,
a Delaware corporation

By: _____
John K. Minnihan
Chief Financial Officer

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THE EARL SCHEIB, INC.

1994 PERFORMANCE EMPLOYEE STOCK OPTION PLAN

JUNE 27, 1994

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THE EARL SCHEIB, INC.
1994 Performance Employee Stock Option Plan

ARTICLE I

Purpose

The purpose of the Plan is to provide an additional incentive to certain Employees who are making and can continue to make substantial contributions to the success of the Company and its Subsidiaries by providing such Employees with an opportunity to acquire a proprietary interest in the Company through the grant and exercise of options to purchase shares of the Common Stock of the Company. It is the judgment of the Board that the acquisition of a proprietary interest in the Company by certain Employees will increase their personal interest in the growth and progress of the Company, thereby promoting the interests of the Company and all its stockholders.

ARTICLE II

Definitions

The following words and terms as used herein shall have that meaning set forth therefor in this Article, unless a different meaning is clearly required by the context. Whenever appropriate, words used in the singular shall be deemed to include the plural and vice versa, and the masculine gender shall be deemed to include the feminine gender.

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2.1 Board shall mean the Board of Directors of the Company.

2.2 Code shall mean the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

2.3 Committee shall mean the Compensation Committee of the Board.

2.4 Common Stock shall mean the shares of common stock, \$1.00 par value, of the Company, and any other securities of the Company to the extent

provided in Article VIII.

2.5 Company shall mean Earl Scheib, Inc., a Delaware corporation, and

any successor to it.

2.6 Disability shall have the meaning set forth in Section 22(e) (3)

of the Code, as that section may be amended from time to time. The determination
under the Plan that a Grantee's employment terminated as the result of
Disability shall not be and shall not be construed as an admission by the
Company of the Disability of the Grantee for any other purpose.

2.7 Disinterested Person shall have the meaning set forth in Rule

16b-3 promulgated by the Securities and Exchange Commission under the Securities
Exchange Act of 1934, as such rule may be amended from time to time, or any
successor definition adopted by the Securities and Exchange Commission.

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2.8 Effective Date shall mean the day upon which the Plan is approved

by the Board and subject to the provisions of Article XV.

2.9 Employee shall mean any individual employed by and receiving

compensation from the Company or any Subsidiary.

2.10 ERISA shall mean the Employee Retirement Income Security Act of

1974, as amended from time to time and any successor statute.

2.11 Fair Market Value of Common Stock shall mean, at any date, the

value determined by the Board by any fair and reasonable means, including (i) if
the shares of Common Stock are reported on the American Stock Exchange ("AMEX"),
the last sale price reported on that day or, if there were no sales on that day,
the mean of the closing bid and asked price for a share of Common Stock as of
the date for which such value is determined; (ii) if shares of Common Stock are
listed on one or more exchanges, the last sale on the exchange on which the
shares of Common Stock are primarily listed and traded on that date or, if there
were no sales on that date, the mean of the bid and asked prices for a share of
Common Stock on that exchange at the close of business on that date; (iii) if
shares of Common Stock are not reported on the AMEX or listed for trading on a
national securities market but are traded in the domestic over-the-counter
market, the mean of the closing bid and asked quotations for

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a share of Common Stock as of the date for which such value is being determined.

2.12 Grantee shall mean an Employee who is granted an Option by the

Committee under this Plan.

2.13 Incentive Stock Option shall mean any Option designated as an

"incentive stock option" within the meaning of Code Section 422.

2.14 Non-Statutory Stock Option shall mean any Option that is not an

Incentive Stock Option, including any Option that provides at the time of grant
that it will not be treated as an Incentive Stock Option.

2.15 Option shall mean both an Incentive Stock Option and a Non-

Statutory Stock Option.

2.16 Option Agreement shall mean a written agreement evidencing the

right to purchase shares of Common Stock pursuant to the terms of this Plan
which agreement shall be in the form described in Article VII.

2.17 Plan shall mean The Earl Scheib, Inc. 1994 Performance Employee

Stock Option Plan, as set forth herein and as amended from time to time.

2.18 Subsidiary shall mean any corporation that at the time qualifies

as a subsidiary of the Company under the definition of "subsidiary corporation"
contained in Section 424(f) of the Code, as that section may be amended from
time to time.

ARTICLE III

Shares Subject to Plan

3.1 Number of Shares Available. The total number of shares of Common

Stock which are available for granting Options hereunder shall be two hundred
and fifty thousand (250,000) (subject to adjustment as provided below in Section
3.3 and in Article VIII hereof).

3.2 Source of Shares. The shares of Common Stock issued upon the

exercise of an Option shall be made available, in the discretion of the Board, either from the authorized but unissued shares of Common Stock or from any outstanding shares of Common Stock which have been reacquired by the Company.

3.3 Shares Subject to Expired Options. In the event that any Option

expires or otherwise terminates for any reason (whether such Option is vested or non-vested at the time of termination), without having been exercised in full, the unpurchased shares of Common Stock subject to that Option shall once again become available for the granting of Options.

ARTICLE IV

Administration

4.1 Committee to Administer Plan. The Board shall delegate the

exclusive control and management of the operations of the Plan to the Committee. The Board may, however, at any time or times either (i) terminate any such

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delegation of authority and assume the exclusive control and management of the Plan, or (ii) having terminated such a delegation of authority may again delegate the exclusive control and management of the Plan to the Committee; provided however, that in no event shall the Board assume the exclusive control and management of the Plan unless all members of the Board are Disinterested Persons. In the event that and for so long as this Plan is controlled and managed by the Board, the terms and provisions of this Plan, other than Sections 2.1, 2.3, 4.1, 4.2, shall be applied by substituting the term "Board" for "Committee" therein.

4.2 Rules Applicable to the Committee. The Committee is to comply

with each of the following: (i) the Committee shall be composed of two or more members of the Board; (ii) all members of the Committee shall be Disinterested Persons; (iii) all vacancies occurring on the Committee shall be filled by appointment of the Board; (iv) the members of the Committee shall serve at the pleasure of the Board; (v) the Committee shall maintain written minutes of its proceedings; and (vi) a majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by all the members, shall be the acts of the Committee.

4.3 Determinations to be Made by the Committee. Subject to the

provisions of this Plan, the Committee shall

determine: (i) the Grantees; (ii) the number of shares of Common Stock subject to an Option; (iii) the date or dates upon which an Option may be exercised or is granted; (iv) the manner in which an Option may be exercised; (v) such other terms to which an Option is subject (including the manner in which it vests); (vi) the form of any Option Agreements; and (vii) whether the Option is an Incentive Stock Option or a Non-Statutory Stock Option. In determining the amount and terms of options granted under the Plan, the Committee shall review performance measures which shall influence the number of Options granted and the vesting of such Options.

4.4 Interpretation of Plan. The Committee shall interpret the Plan

and from time to time may adopt such rules and regulations for carrying out the terms and purposes of the Plan and may take such other actions in the administration of the Plan as it deems advisable. The interpretation and construction by the Committee of any provisions of this Plan or any Option Agreement and the determination of any question arising under this Plan, any such rule or regulation, or any Option Agreement shall be final and binding on all persons interested in the Plan.

4.5 Limited Liability. Neither the Board nor any member of the

Committee shall be liable for any action or determination made in good faith with respect to the Plan.

ARTICLE V

Eligibility

Each Employee who is considered to be a key administrative, managerial or executive Employee, as determined in the sole discretion of the Committee, shall be eligible to be granted an Option under this Plan. Anything to the contrary notwithstanding, an Incentive Stock Option shall not be granted to any Employee who, at the time the Incentive Stock Option is granted owns, or is deemed to own pursuant to the provisions of Section 424(d) of the Code, shares of Common Stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless the purchase price per share is not less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the day such Option is granted, and such Option by its terms is not exercisable after the expiration of five (5) years from the date such Option is granted.

ARTICLE VI

Annual Limitation on Value of Incentive Stock Options

To the extent that the aggregate Fair Market Value of the shares of Common Stock (determined at the time the Incentive Stock Option is granted) with respect to which Incentive Stock Options are exercisable for the first time in any calendar year, together with options granted under all other incentive stock option plans of the Company and any

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parent corporation (as defined in Section 424(e) of the Code) or any Subsidiary exceeds one hundred thousand dollars (\$100,000) for any one Grantee, such Options shall be treated as Non-Statutory Stock Options.

ARTICLE VII

Terms and Conditions of Options

All Options granted under the Plan shall be evidenced by an Option Agreement which shall be in such form as the Committee may from time to time approve and shall be executed on behalf of the Company by one or more officers of the Company. Each such Option Agreement shall be subject to the terms and conditions of this Plan together with such other terms and conditions as the Committee may deem desirable and shall provide in substance as follows:

7.1 Number of Shares and Purchase Price. Each Option Agreement shall

specify the number of shares of Common Stock covered by such Option and the purchase price per share. The purchase price per share of Common Stock subject to an Incentive Stock Option shall not be less than the Fair Market Value of Common Stock on the date that Option is granted. The purchase price per share of Common Stock subject to a Non-Statutory Stock Option shall be established by the Committee but in no event less than the greater of (i) the par value, if any, of the shares of Common Stock subject to an Option or (ii) one hundred percent (100%) of the Fair Market Value of the shares of Common Stock subject

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to the Option. The number of shares and the exercise price per share for the Common Stock with respect to any outstanding Option shall be subject to adjustment as provided in Article VIII.

7.2 Non-Transferability of Options. Each Option Agreement shall

provide that the Option granted therein shall be non-transferable and non-

assignable by the Grantee other than upon death as provided in Section 7.4 below and that during the lifetime of the Grantee such Option may be exercised only by the Grantee or such Grantee's legal representative.

7.3 Maximum Term; Date of Exercise. Each Option Agreement shall set

forth the period during which it may be exercised. Except as otherwise provided, Incentive Stock Options granted pursuant to this Plan shall expire not more than ten (10) years from the date that the Incentive Stock Option is granted. Incentive Stock Options granted to any Employee who owns or is deemed to own pursuant to the provisions of Section 424(d) of the Code, shares of Common Stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Subsidiary shall expire not more than five (5) years from the date that the Incentive Stock Option is granted. Each Option Agreement shall also set forth the date or dates upon which an Option may be exercised.

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7.4 Termination of Option. In the event that a Grantee shall cease

to be employed by the Company and its Subsidiaries for any reason other than death, the Grantee shall have the right to exercise his or her Option at any time within three (3) months after such cessation of employment but only as to such number of shares of Common Stock as to which the Option was exercisable at the date of such cessation of employment. Notwithstanding the provisions of the preceding sentence: (i) if cessation of employment occurs by reason of the Disability of the Grantee, such three-month period shall be extended to one year; and (ii) if employment is terminated at the request of the Company or any Subsidiary for Substantial Cause (as that term is defined below), the Grantee's right to exercise the Option shall terminate at the time notice of termination of employment is given by the Company or any such Subsidiary to such Grantee. For purposes of this Section, the term "Substantial Cause" shall include: (i) the commission of a criminal act against, or in derogation of the interests of the Company or any of its Subsidiaries, (ii) knowingly divulging confidential information about the Company or any of its Subsidiaries to a competitor or to the public; (iii) interference with the relationship between the Company or any of its Subsidiaries and any major customer; or (iv) the performance of any similar action that the Committee, in its sole discretion, may deem to be sufficiently injurious to the interests of the

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Company or any of its Subsidiaries to constitute Substantial Cause for termination. A transfer of employment from the Company to a Subsidiary or vice versa shall not be deemed a termination of employment.

If a Grantee dies while in the employ of the Company or any of its Subsidiaries or within three (3) months after cessation of such employment (unless cessation occurs due to Substantial Cause, as defined above), his or her

estate, personal representative or the person that acquires his or her Option by bequest or inheritance or by reason of such death shall have the right to exercise such Option before the date that such Option would otherwise terminate, but only as to the number of shares as to which such Option was exercisable on the date of death. In any such event, unless so exercised within the period as aforesaid, the Option shall terminate at the expiration of said period.

7.5 Exercise of Options. Each Option Agreement shall provide that

Options shall be exercised by delivering a written notice of exercise to the Company. Each such notice shall state the number of shares of Common Stock with respect to which the Option is being exercised and shall be signed by the person (or persons) exercising the Option and, in the event the Option is being exercised by any person other than the Grantee, shall be accompanied by proof, satisfactory to counsel for the Company, of the right of such person to exercise the Option. The exercise price for each Option

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shall be paid in full for the number of shares of Common Stock specified in the notice by a certified or cashier's check or by transfer to the Company of shares of Common Stock valued for this purpose at their Fair Market Value, or a combination of both. In addition, in the event that the Option being exercised is a Non-Statutory Stock Option, a certified or cashier's check in full payment of the aggregate amount of any federal, state or local withholding taxes, if any, attributable to the transfer of stock pursuant to the exercise of the Option must accompany such notice.

The date of exercise of an Option shall be the date on which written notice of exercise shall have been delivered to the Company, but the exercise of an Option shall not be effective until the person (or persons) exercising the Option shall have complied with all the provisions of the Option Agreement governing the exercise of the Option. The Company shall deliver as soon as practicable after receipt of notice and payment, certificates for the shares of Common Stock subject to the Option. No one shall be or be deemed to be the holder of any shares of Common Stock subject to an Option, or have any other rights as a stockholder, unless and until certificates for the shares of such Common Stock are issued to that person.

7.6 Conditions on Right of Exercise. The Option Agreement may

provide for such conditions on the right of exercise as the Committee, in its sole discretion, deems

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appropriate, which conditions may, without limitation, include condition based upon either (i) the completion of a further period of continued employment or (ii) the performance of the Company, of any Subsidiary or of any division thereof, or of the Grantee. Without limiting the foregoing, an Option Agreement

may provide that the Committee may, in its sole discretion, terminate in whole or in part any portion of the Option which has not yet become exercisable if it determines that the Grantee is not satisfactorily performing the duties to which he or she was assigned on the date the Option was granted or duties of at least equal responsibility. The Committee shall have the right at any time or times to waive any condition on the exercise of any Option whenever it deems such a waiver to be appropriate.

7.7 Character of Option Granted. Each Option Agreement shall

specifically provide whether the Option granted thereby is an Incentive Stock Option or a Non-Statutory Stock Option.

7.8 Other Provisions. The Option Agreement may include such other

terms and conditions, not inconsistent with this Plan, as the Committee in its sole discretion shall determine.

ARTICLE VIII

Effect of Certain Changes

8.1 Anti-Dilution. If there is any change in the number of shares of

Common Stock through the declaration of stock dividends or through a recapitalization which results in stock splits or reverse stock splits, the Board shall make corresponding adjustments to the number of shares of Common Stock available for Options, the number of such shares covered by outstanding Options, and the price per share of such Options in order to appropriately reflect any increase or decrease in the number of issued shares of Common Stock; provided, however, that any fractional shares of Common Stock resulting from such adjustment shall be eliminated. Any determination made by the Board relating to such adjustments shall be final, binding and conclusive.

8.2 Change in Par Value. In the event of a change in the Common

Stock of the Company, as constituted as of the date of this Plan, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

8.3 Mergers and Consolidations. Notwithstanding the other Sections

of this Article VIII, upon the dissolution or liquidation of the Company, or upon any reorganization, merger or consolidation of the Company with one or more

corporations where the Company is the surviving corporation and the stockholders of the Company immediately prior to such transaction do not own at least eighty percent (80%) of the Company's Common Stock immediately after such transaction, or upon any reorganization, merger or consolidation of the Company with one or more corporations where the Company is not the surviving corporation, or upon a sale of substantially all of the assets or eighty percent (80%) or more of the then outstanding shares of Common Stock of the Company to another corporation or entity, (any such reorganization, merger, consolidation, sale of assets, or sale of shares of Common Stock being hereinafter referred to as the "Transaction"), the Plan shall terminate; provided however, that

(1) any Options theretofore granted and outstanding under the Plan shall become immediately exercisable in full and shall remain exercisable until the effective date of such Transaction;

(2) the termination of the Plan, and any exercise of any Option (to the extent that the holder's right to exercise such Option has been accelerated by the operation of Section 8.3(i)), shall be subject to and conditioned upon the consummation of the Transaction to which such termination and acceleration relates, and if, for any reason, such Transaction is abandoned, exercise of the Option shall be void and such Option shall thereafter be exercisable only as permitted by the Plan and the Option Agreement, which shall remain in full force and effect.

For purposes of applying Section 8.3: (A) the Fair Market Value of shares of Common Stock underlying the Incentive Stock Options shall be determined as of the time

the Option with respect to such shares is granted; (B) the Incentive Stock Options shall be transformed, to the extent required, into a Non-Statutory Stock Options in reverse chronological order, such that the last-granted Incentive Stock Option shall be the first Option transformed into a Non-Statutory Stock Option and the first granted Incentive Stock Option shall be the last Option so transformed; and (C) the terms and conditions of each Non-Statutory Stock Option so created shall be identical, to the extent possible, in all respects to those of the Incentive Stock Option that it replaces including but not limited to the fact that it shall be immediately exercisable in full and shall remain exercisable until the time at which the Transaction becomes effective. In the event that Incentive Stock Options are transformed into Non-Statutory Stock Options by operation of this Section 8.3, the Board may in its discretion issue replacement Option Agreements that reflect the adjusted number of Incentive Stock Options and Non-Statutory Stock Options. The Company shall use its best efforts to give each Grantee written notice of any proposed Transaction at least

thirty (30) days prior to the effective date of any such Transaction. Any Option not exercised by the time the Transaction legally becomes effective shall thereupon terminate.

8.4 Rights of Participants. Except as hereinbefore expressly

provided in this Article VIII, the

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Grantee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option. The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures or to merge or to consolidate or to dissolve, liquidate or sell or transfer all or part of its business or assets.

ARTICLE IX

Amendment and Termination

The Board shall have the right to amend, suspend or terminate this Plan at any time, provided that unless first approved by the stockholders of the Company, no amendment shall be made to the Plan (except to conform the Plan and the Option Agreements thereunder to changes in the Code or governing law) which: (i) materially modifies the eligibility requirements of Article V, (ii) increases the total number of shares of Common Stock which may be issued

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under the Plan, (iii) changes the purchase price for Incentive Stock Options specified in Article VII, (iv) lengthens the term of the Plan as set forth in Article IV during which Incentive Stock Options may be granted, or (v) otherwise materially increases the benefits accruing to Grantees under the Plan. No amendment to the Plan shall be made by the Board that materially changes the terms of the Plan so as to impair or adversely alter the rights of a Grantee or other Option holder without such person's consent.

ARTICLE X

Issuance of Shares and Compliance

The obligation of the Company to sell and deliver the shares of Common Stock pursuant to Options granted under this Plan shall be subject to all applicable laws, regulations, rules and approvals, including, but not by way of limitation, the effectiveness of a registration statement under the Securities Act of 1933, as amended, if deemed necessary or appropriate by the Board, to register the shares of Common Stock reserved for issuance upon exercise of Options under such Act.

ARTICLE XI

Application of Funds

Any proceeds received by the Company as a result of the exercise of Options granted under the Plan may be used for any valid corporate purpose.

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ARTICLE XII

Notice

Any notice to the Company required under this Plan shall be in writing and shall either be delivered in person or sent by registered or certified mail, return receipt requested, postage prepaid, to the Company at its offices at 8737 Wilshire Boulevard, Beverly Hills, California 90211, Attention: Chief Financial Officer.

ARTICLE XIII

Term of Plan

The Plan shall terminate ten (10) years from the date upon which it is approved by the stockholders of the Company or on such earlier date as may be determined by the Board. In any event, termination shall be deemed to be effective as of the close of business on the day of termination. No Options may be granted after such termination. Termination of the Plan, however, shall not affect the rights of Grantees under Options previously granted to them, and all unexpired Options shall continue in force and operation after termination of the Plan until they lapse or terminate by their own terms and conditions.

ARTICLE XIV

No Contract of Employment

Neither the adoption of this Plan nor the grant of any option shall be deemed to obligate the Company or any Subsidiary to continue the employment of any Employee.

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ARTICLE XV

Effectiveness of the Plan

The Plan shall become effective upon adoption by the Board; provided, however, that the Plan shall be submitted for approval by the holders of a majority of the voting stock of the Company at the Company's Annual Meeting of Stockholders to be held in 1994. In the event the stockholders shall fail to approve the Plan, it and all Options granted thereunder shall be and become null and void. Notwithstanding any other provision of the Plan to the contrary, no Options granted under the Plan may be exercised until after such stockholder approval.

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THE EARL SCHEIB, INC.

1994 BOARD OF DIRECTORS STOCK OPTION PLAN

JUNE 27, 1994

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THE EARL SCHEIB, INC.
1994 Board of Directors Stock Option Plan

ARTICLE I

Purpose

The purpose of the Plan is to provide an additional incentive to certain Independent Directors who are making and can continue to make substantial contributions to the success of the Company and its Subsidiaries by providing such Independent Directors with an opportunity to acquire a proprietary interest in the Company through the grant and exercise of options to purchase shares of the Common Stock of the Company. It is the judgment of the Board that the acquisition of a proprietary interest in the Company by certain Independent Directors will increase their personal interest in the growth and progress of the Company, thereby promoting the interests of the Company and all its stockholders.

ARTICLE II

Definitions

The following words and terms as used herein shall have that meaning set forth therefor in this Article, unless a different meaning is clearly required by the context. Whenever appropriate, words used in the singular shall be deemed to include the plural and vice versa, and the masculine gender shall be deemed to include the feminine gender.

2.1 Board shall mean the Board of Directors of the Company.

2.2 Code shall mean the Internal Revenue Code of 1986, as now in

effect or as hereafter amended.

2.3 Committee shall mean the Compensation Committee of the Board.

2.4 Common Stock shall mean the shares of common stock, \$1.00 par

value, of the Company, and any other securities of the Company to the extent
provided in Article VIII.

2.5 Company shall mean Earl Scheib, Inc., a Delaware corporation, and

any successor to it.

2.6 Disability shall have the meaning set forth in Section 22(e) (3)

of the Code, as that section may be amended from time to time. The determination
under the Plan that a Grantee's employment terminated as the result of
Disability shall not be and shall not be construed as an admission by the
Company of the Disability of the Grantee for any other purpose.

2.7 Disinterested Person shall have the meaning set forth in Rule

16b-3 promulgated by the Securities and Exchange Commission under the Securities
Exchange Act of 1934, as such rule may be amended from time to time, or any
successor definition adopted by the Securities and Exchange Commission.

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2.8 Effective Date shall mean the day upon which the Plan is approved

by the Board and subject to the provisions of Article XV.

2.9 ERISA shall mean the Employee Retirement Income Security Act of

1974, as amended from time to time and any successor statute.

2.10 Fair Market Value of Common Stock shall mean, at any date, the

value determined by the Board by any fair and reasonable means, including (i) if
the shares of Common Stock are reported on the American Stock Exchange ("AMEX"),
the last sale price reported on that day or, if there were no sales on that day,
the mean of the closing bid and asked price for a share of Common Stock as of
the date for which such value is determined; (ii) if shares of Common Stock are
listed on one or more exchanges, the last sale on the exchange on which the
shares of Common Stock are primarily listed and traded on that date or, if there
were no sales on that date, the mean of the bid and asked prices for a share of
Common Stock on that exchange at the close of business on that date; (iii) if
shares of Common Stock are not reported on the AMEX or listed for trading on a
national securities market but are traded in the domestic over-the-counter
market, the mean of the closing bid and asked quotations for a share of Common
Stock as of the date for which such value is being determined.

2.11 Grantee shall mean an Independent Director who is granted an

Option by the Committee under this Plan.

2.12 Independent Director shall mean a member of the Board who is not

an Employee.

2.13 Option shall mean a Non-Statutory Stock Option.

2.14 Option Agreement shall mean a written agreement evidencing the

right to purchase shares of Common Stock pursuant to the terms of this Plan
which agreement shall be in the form described in Article VI.

2.15 Plan shall mean The Earl Scheib, Inc. 1994 Board of Directors

Stock Option Plan, as set forth herein and as amended from time to time.

2.16 Subsidiary shall mean any corporation that at the time qualifies

as a subsidiary of the Company under the definition of "subsidiary corporation"
contained in Section 424(f) of the Code, as that section may be amended from
time to time.

ARTICLE III

Shares Subject to Plan

3.1 Number of Shares Available. The total number of shares of Common

Stock which are available for granting Options hereunder shall be one hundred
thousand (100,000) (subject to adjustment as provided below in Section 3.3 and
in Article VII hereof).

3.2 Source of Shares. The shares of Common Stock issued upon the

exercise of an Option shall be made available, in the discretion of the Board,
either from the authorized but

unissued shares of Common Stock or from any outstanding shares of Common Stock
which have been reacquired by the Company.

3.3 Shares Subject to Expired Options. In the event that any Option

expires or otherwise terminates for any reason (whether such Option is vested or non-vested at the time of termination), without having been exercised in full, the unpurchased shares of Common Stock subject to that Option shall once again become available for the granting of Options.

ARTICLE IV

Administration

4.1 Committee to Administer Plan. The Board shall delegate the

exclusive control and management of the operations of the Plan to the Committee. The Board may, however, at any time or times either (i) terminate any such delegation of authority and assume the exclusive control and management of the Plan, or (ii) having terminated such a delegation of authority may again delegate the exclusive control and management of the Plan to the Committee; provided however, that in no event shall the Board assume the exclusive control and management of the Plan unless all members of the Board are Disinterested Persons. In the event that and for so long as this Plan is controlled and managed by the Board, the terms and provisions of this Plan, other than Sections 2.1, 2.3, 4.1, 4.2, shall be applied by substituting the term "Board" for "Committee" therein.

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4.2 Rules Applicable to the Committee. The Committee is to comply

with each of the following: (i) the Committee shall be composed of two or more members of the Board; (ii) all members of the Committee shall be Disinterested Persons; (iii) all vacancies occurring on the Committee shall be filled by appointment of the Board; (iv) the members of the Committee shall serve at the pleasure of the Board; (v) the Committee shall maintain written minutes of its proceedings; and (vi) a majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by all the members, shall be the acts of the Committee.

4.3 Interpretation of Plan. The Committee shall interpret the Plan

and from time to time may adopt such rules and regulations for carrying out the terms and purposes of the Plan and may take such other actions in the administration of the Plan as it deems advisable. The interpretation and construction by the Committee of any provisions of this Plan or any Option Agreement and the determination of any question arising under this Plan, any such rule or regulation, or any Option Agreement shall be final and binding on all persons interested in the Plan.

4.4 Limited Liability. Neither the Board nor any member of the

Committee shall be liable for any action or determination made in good faith with respect to the Plan.

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ARTICLE V

Eligibility

Each Independent Director shall be eligible to be granted an Option under this Plan.

ARTICLE VI

Terms and Conditions of Options

All Options granted under the Plan shall be evidenced by an Option Agreement which shall be in such form as the Committee may from time to time approve and shall be executed on behalf of the Company by one or more officers of the Company. Each such Option Agreement shall be subject to the terms and conditions of this Plan together with such other terms and conditions as the Committee may deem desirable and shall provide in substance as follows:

6.1 Number of Shares and Purchase Price; Formula. Each Independent

Director shall receive Options to purchase ten thousand (10,000) shares of Common Stock on the date this Plan is approved by a majority of the board of directors. In addition each person who becomes a director of the Company after such date and who is an Independent Director shall be eligible to participate in the Plan and shall automatically receive, by the date such person is elected to the Board an Option to purchase 10,000 shares. The price per share at which shares may be purchased pursuant to any Option stated under the Plan shall be the Fair Market Value on the date the Option is granted.

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6.2 Non-Transferability of Options. Each Option Agreement shall

provide that the Option granted therein shall be non-transferable and non-assignable by the Grantee other than upon death as provided in Section 6.4 below and that during the lifetime of the Grantee such Option may be exercised only by the Grantee or such Grantee's legal representative.

6.3 Maximum Term; Date of Exercise. Each Option Agreement shall be

for a period of ten years. The Options shall vest as follows:

- 50% two years after the date of grant
- 75% three years after the date of grant
- 100% three years after the date of grant.

6.4 Termination of Option. In the event that a Grantee shall cease

to be an Independent Director for any reason other than death, the Grantee shall have the right to exercise his or her Option at any time within three (3) months after such cessation as an Independent Director but only as to such number of shares of Common Stock as to which the Option was exercisable at the date of such cessation. Notwithstanding the provisions of the preceding sentence: (i) if cessation occurs by reason of the Disability of the Grantee, such three-month period shall be extended to one year; and (ii) if such cessation is at the request of the Board or by vote of the Company's stockholders for Substantial Cause (as that term is defined below), the Grantee's right to

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exercise the Option shall terminate at the time notice of termination is given by the Board to such Grantee. For purposes of this Section, the term "Substantial Cause" shall include: (i) the commission of a criminal act against, or in derogation of the interests of the Company or any of its Subsidiaries, (ii) knowingly divulging confidential information about the Company or any of its Subsidiaries to a competitor or to the public; (iii) interference with the relationship between the Company or any of its Subsidiaries and any major customer; or (iv) the performance of any similar action that the Committee, in its sole discretion, may deem to be sufficiently injurious to the interests of the Company or any of its Subsidiaries to constitute Substantial Cause for termination.

If a Grantee dies while serving as an Independent Director or within three (3) months after cessation as an Independent Director (unless cessation occurs due to Substantial Cause, as defined above), his or her estate, personal representative or the person that acquires his or her Option by bequest or inheritance or by reason of such death shall have the right to exercise such Option before the date that such Option would otherwise terminate, but only as to the number of shares as to which such Option was exercisable on the date of death. In any such event, unless so exercised within the period as aforesaid, the Option shall terminate at the expiration of said period.

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6.5 Exercise of Options. Each Option Agreement shall provide that

Options shall be exercised by delivering a written notice of exercise to the Company. Each such notice shall state the number of shares of Common Stock with

respect to which the Option is being exercised and shall be signed by the person (or persons) exercising the Option and, in the event the Option is being exercised by any person other than the Grantee, shall be accompanied by proof, satisfactory to counsel for the Company, of the right of such person to exercise the Option. The exercise price for each Option shall be paid in full for the number of shares of Common Stock specified in the notice by a certified or cashier's check or by transfer to the Company of shares of Common Stock valued for this purpose at their Fair Market Value, or a combination of both. In addition, a certified or cashier's check in full payment of the aggregate amount of any federal, state or local withholding taxes, if any, attributable to the transfer of stock pursuant to the exercise of the Option must accompany such notice.

The date of exercise of an Option shall be the date on which written notice of exercise shall have been delivered to the Company, but the exercise of an Option shall not be effective until the person (or persons) exercising the Option shall have complied with all the provisions of the Option Agreement governing the exercise of the Option. The Company shall deliver as soon as practicable after receipt of notice

and payment, certificates for the shares of Common Stock subject to the Option. No one shall be or be deemed to be the holder of any shares of Common Stock subject to an Option, or have any other rights as a stockholder, unless and until certificates for the shares of such Common Stock are issued to that person.

6.6 Conditions on Right of Exercise. The Option Agreement may

provide for such conditions on the right of exercise as the Committee, in its sole discretion, deems appropriate, which conditions may, without limitation, include condition based upon either (i) the completion of a further period of continued service as an Independent Director or (ii) the performance of the Company, of any Subsidiary or of any division thereof, or of the Grantee. Without limiting the foregoing, an Option Agreement may provide that the Committee may, in its sole discretion, terminate in whole or in part any portion of the Option which has not yet become exercisable if it determines that the Grantee is not satisfactorily performing the duties to which he or she was assigned on the date the Option was granted or duties of at least equal responsibility. The Committee shall have the right at any time or times to waive any condition on the exercise of any Option whenever it deems such a waiver to be appropriate.

ARTICLE VII

Effect of Certain Changes

7.1 Anti-Dilution. If there is any change in the number of shares of

Common Stock through the declaration of stock dividends or through a recapitalization which results in stock splits or reverse stock splits, the Board shall make corresponding adjustments to the number of shares of Common Stock available for Options, the number of such shares covered by outstanding Options, and the price per share of such Options in order to appropriately reflect any increase or decrease in the number of issued shares of Common Stock; provided, however, that any fractional shares of Common Stock resulting from such adjustment shall be eliminated. Any determination made by the Board relating to such adjustments shall be final, binding and conclusive.

7.2 Change in Par Value. In the event of a change in the Common

Stock of the Company, as constituted as of the date of this Plan, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

7.3 Mergers and Consolidations. Notwithstanding the other Sections

of this Article VII, upon the dissolution or liquidation of the Company, or upon any reorganization, merger or consolidation of the Company with one or more

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corporations where the Company is the surviving corporation and the stockholders of the Company immediately prior to such transaction do not own at least eighty percent (80%) of the Company's Common Stock immediately after such transaction, or upon any reorganization, merger or consolidation of the Company with one or more corporations where the Company is not the surviving corporation, or upon a sale of substantially all of the assets or eighty percent (80%) or more of the then outstanding shares of Common Stock of the Company to another corporation or entity, (any such reorganization, merger, consolidation, sale of assets, or sale of shares of Common Stock being hereinafter referred to as the "Transaction"), the Plan shall terminate; provided however, that

(i) any Options theretofore granted and outstanding under the Plan shall become immediately exercisable in full and shall remain exercisable until the effective date of such Transaction;

(ii) the termination of the Plan, and any exercise of any Option (to the extent that the holder's right to exercise such Option has been accelerated by the operation of Section 7.3(i)), shall be subject to and conditioned upon the consummation of the Transaction to which such termination and acceleration relates, and if, for any reason, such Transaction is abandoned, exercise of the Option shall be void and such Option shall thereafter be exercisable only as permitted by

the Plan and the Option Agreement, which shall remain in full force and effect.

7.4 Rights of Participants. Except as hereinbefore expressly

provided in this Article VII, the Grantee shall have no rights by reason of any subdivision or consolidation of

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shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option. The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures or to merge or to consolidate or to dissolve, liquidate or sell or transfer all or part of its business or assets.

ARTICLE VIII

Amendment and Termination

The Board shall have the right to suspend or terminate this Plan at any time. However, the provisions of this Plan shall not be amended more than once every six (6) months, other than to comport with changes in the Code, ERISA, or the rules thereunder, and further provided that, unless first approved by the stockholders of the Company, no amendment shall be made to the Plan (except to conform the Plan and the Option Agreements thereunder to changes in the Code or governing law) which: (i) materially modifies the

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eligibility requirements of Article V, (ii) increases the total number of shares of Common Stock which may be issued under the Plan, or (iii) otherwise materially increases the benefits accruing to Grantees under the Plan. No amendment to the Plan shall be made by the Board that materially changes the terms of the Plan so as to impair or adversely alter the rights of a Grantee or other Option holder without such person's consent.

ARTICLE IX

Issuance of Shares and Compliance
with Securities Regulations

The obligation of the Company to sell and deliver the shares of Common Stock pursuant to Options granted under this Plan shall be subject to all applicable laws, regulations, rules and approvals, including, but not by way of limitation, the effectiveness of a registration statement under the Securities Act of 1933, as amended, if deemed necessary or appropriate by the Board, to register the shares of Common Stock reserved for issuance upon exercise of Options under such Act.

ARTICLE X

Application of Funds

Any proceeds received by the Company as a result of the exercise of Options granted under the Plan may be used for any valid corporate purpose.

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ARTICLE XI

Notice

Any notice to the Company required under this Plan shall be in writing and shall either be delivered in person or sent by registered or certified mail, return receipt requested, postage prepaid, to the Company at its offices at 8737 Wilshire Boulevard, Beverly Hills, California 90211, Attention: Chief Financial Officer.

ARTICLE XII

Term of Plan

The Plan shall terminate ten (10) years from the date upon which it is approved by the stockholders of the Company or on such earlier date as may be determined by the Board. In any event, termination shall be deemed to be effective as of the close of business on the day of termination. No Options may be granted after such termination. Termination of the Plan, however, shall not affect the rights of Grantees under Options previously granted to them, and all unexpired Options shall continue in force and operation after termination of the Plan until they lapse or terminate by their own terms and conditions.

ARTICLE XIII

No Contract of Employment

Neither the adoption of this Plan nor the grant of any option shall be deemed to obligate the Company or any

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Subsidiary to continue the employment of any Independent Director.

ARTICLE XIV

Effectiveness of the Plan

The Plan shall become effective upon adoption by the Board; provided, however, that the Plan shall be submitted for approval by the holders of a majority of the voting stock of the Company at the Company's Annual Meeting of Stockholders to be held in 1994. In the event the stockholders shall fail to approve the Plan, it and all Options granted thereunder shall be and become null and void. Notwithstanding any other provision of the Plan to the contrary, no Options granted under the Plan may be exercised until after such stockholder approval.

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Earl Scheib, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
<TABLE>
<CAPTION>

	Year ended April 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
NET SALES	\$47,288,000	\$ 48,492,000	\$53,648,000
Cost of Sales	37,705,000	38,351,000	40,748,000
GROSS PROFIT	9,583,000	10,141,000	12,900,000
Selling and administrative expense	12,722,000	13,284,000	13,799,000
Restructuring charge (Note 2)	4,287,000	-	-
OPERATING INCOME (LOSS)	(7,426,000)	(3,143,000)	(899,000)
Other Income:			
Gain on postretirement medical plan (Note 9)	82,000	178,000	-
Gain on sale of marketable securities	-	-	178,000
Gain on sales of real properties	84,000	-	188,000
Interest income	282,000	258,000	494,000
LOSS BEFORE INCOME TAX BENEFIT	(6,978,000)	(2,707,000)	(39,000)
Income tax benefit (Note 3)	(1,425,000)	(880,000)	(10,000)
LOSS BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(5,553,000)	(1,827,000)	(29,000)
CUMULATIVE EFFECT ON PRIOR YEARS OF CHANGE IN ACCOUNTING FOR INCOME TAXES (NOTES 1 AND 3)	-	-	244,000
CUMULATIVE EFFECT ON PRIOR YEARS OF CHANGE IN ACCOUNTING FOR POSTRETIREMENT MEDICAL BENEFITS, LESS INCOME TAX BENEFIT OF \$167,000 (NOTES 1, 3 AND 9)	-	-	(325,000)
NET LOSS	\$ (5,553,000)	\$ (1,827,000)	\$ (110,000)
NET LOSS PER SHARE: (NOTE 4)			
Loss before cumulative effect of changes in accounting principles	\$ (1.22)	\$ (.40)	\$ -
Cumulative effect on prior years of changes in accounting principles	-	-	(.02)
NET LOSS PER SHARE	\$ (1.22)	\$ (.40)	\$ (.02)

</TABLE>

See accompanying notes to consolidated financial statements.

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Earl Scheib, Inc.
CONSOLIDATED BALANCE SHEETS
<TABLE>
<CAPTION>

	April 30,	
	1995	1994
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,417,000	\$ 4,288,000
Marketable securities	-	1,648,000
Refundable income taxes	990,000	1,169,000
Accounts receivable	186,000	760,000
Inventories (Note 5)	1,412,000	1,623,000
Prepaid expenses	1,358,000	1,816,000
Deferred income taxes (Note 3)	1,788,000	1,067,000
Property held for sale (Note 2)	3,642,000	-
Total Current Assets	12,793,000	12,371,000
PROPERTY AND EQUIPMENT, less accumulated depreciation and amortization (Note 6)	14,868,000	19,409,000
OTHER, primarily cash surrender value of life insurance (Notes 3 and 9)	1,841,000	2,346,000
	\$29,502,000	\$34,126,000
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,011,000	\$ 1,079,000
Accrued expenses:		
Insurance	2,673,000	3,537,000
Compensation	800,000	1,168,000
Restructuring (Note 2)	2,171,000	-
Other	2,086,000	2,167,000
Total Current Liabilities	8,741,000	7,951,000
DEFERRED MANAGEMENT COMPENSATION (NOTE 9)	3,340,000	3,046,000
DEFERRED POSTRETIREMENT MEDICAL BENEFITS (NOTES 1 AND 9)	260,000	438,000
COMMITMENTS AND CONTINGENCIES (NOTES 7, 9, 10 AND 11)		
STOCKHOLDERS' EQUITY		
CAPITAL STOCK \$1 par - shares authorized 12,000,000; issued and outstanding 4,568,000 and 4,563,000; reserved for stock options 1,023,000 (Note 8)	4,568,000	4,563,000
ADDITIONAL PAID-IN CAPITAL	5,522,000	5,504,000
RETAINED EARNINGS	7,071,000	12,624,000
Total Stockholders' Equity	17,161,000	22,691,000
	\$29,502,000	\$34,126,000

</TABLE>

See accompanying notes to consolidated financial statements.

Earl Scheib, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

	Capital Stock, \$1 Par		Additional Paid-in Capital	Retained Earnings	Total
	Shares Outstanding	Amount			
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE MAY 1, 1992	4,563,000	\$4,563,000	\$5,504,000	\$15,793,000	\$25,860,000
Net loss for the year				(110,000)	(110,000)
Cash dividend - \$.18 per share				(821,000)	(821,000)
BALANCE APRIL 30, 1993	4,563,000	4,563,000	5,504,000	14,862,000	24,929,000
Net loss for the year				(1,827,000)	(1,827,000)
Cash dividend - \$.09 per share				(411,000)	(411,000)
BALANCE APRIL 30, 1994	4,563,000	4,563,000	5,504,000	12,624,000	22,691,000
Net loss for the year				(5,553,000)	(5,553,000)
Stock issued under stock option plan	5,000	5,000	18,000		23,000
BALANCE APRIL 30, 1995	4,568,000	\$4,568,000	\$5,522,000	\$ 7,071,000	\$17,161,000

</TABLE>

See accompanying notes to consolidated financial statements.

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Earl Scheib, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

Increase (decrease) in cash and cash equivalents	Year ended April 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (5,553,000)	\$ (1,827,000)	\$ (110,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Gain on postretirement medical plan	(226,000)	(178,000)	-
Gain on sale of marketable securities	-	-	(178,000)
Write-down of assets--closed shops	581,000	-	-
Gain on sale of real properties	(139,000)	-	(188,000)
Depreciation	1,043,000	1,168,000	1,187,000
Deferred income taxes	(814,000)	(31,000)	(560,000)
Deferred management compensation	294,000	429,000	557,000
Postretirement medical benefits	48,000	55,000	69,000
Cumulative effect of accounting changes	-	-	248,000
Increase (decrease) from changes in:			
Refundable income taxes	179,000	(469,000)	(700,000)
Accounts receivable	574,000	(174,000)	54,000
Inventories	211,000	(243,000)	(168,000)
Prepaid expenses	458,000	149,000	(118,000)
Accounts payable and accrued expenses	790,000	1,316,000	(215,000)
Net cash provided by (used in) operating activities	(2,554,000)	195,000	(122,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			

Capital Expenditures	(929,000)	(1,155,000)	(1,382,000)
Proceeds from sales of property and equipment	343,000	240,000	277,000
Reduction (investment) in marketable securities	1,648,000	(8,000)	4,051,000
(Increase) decrease in cash surrender value of life insurance	533,000	47,000	(497,000)
Other	65,000	22,000	(2,000)

Net cash provided by (used in) operating activities	1,660,000	(854,000)	2,447,000

CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	-	(411,000)	(821,000)
Stock options exercised	23,000	-	-

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(871,000)	(1,070,000)	1,504,000
Cash and Cash Equivalents, at beginning of year	4,288,000	5,358,000	3,854,000

CASH AND CASH EQUIVALENTS, AT END OF YEAR	\$ 3,417,000	\$ 4,288,000	\$ 5,358,000
=====			

</TABLE>

SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING AND INVESTING ACTIVITIES:

The Company sold two properties during fiscal 1993 in exchange for notes receivable totaling \$269,000.

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See accompanying notes to consolidated financial statements.

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Earl Scheib, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of Earl Scheib, Inc. (the "Company") include those of the Company and its wholly-owned subsidiaries. All intercompany accounts, transactions and profits are eliminated.

Business

The Company operates a chain of Company-operated auto paint centers throughout the United States which offer auto painting and light body and fender repair services.

Change in Accounting Principles

Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" requires adjustment of previously deferred income taxes for changes in tax rates under the liability method. The Company chose to reflect the cumulative effect of adopting the pronouncement as a change in accounting principle at the beginning of the year ended April 30, 1993 with a credit to earnings of \$244,000 or \$.05 per share. This credit represents the adjustment of net deferred tax assets and liabilities from tax rates in effect when they arose to current statutory tax rates.

Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" requires that the expected cost of retiree health benefits be charged to expense during the years that the employees render service. In adopting the Statement, the Company recorded a one-time, non-cash charge against earnings of \$325,000 after taxes, or \$.07 per share, in the fiscal year ended April 30, 1993. This adjustment represents the discounted present value of expected future retiree health benefits attributed to employees' service rendered prior to May 1, 1992. Postretirement medical

benefits expense for the fiscal years ended April 30, 1995, 1994 and 1993 amounted to \$48,000, \$55,000 and \$69,000.

Cash and Cash Equivalents

Cash equivalents are stated at cost, which approximates market value. The Company considers all highly liquid securities purchased with an original maturity of three months or less to be cash equivalents while those having maturities in excess of three months are classified as marketable securities.

Inventories

Inventories, which are composed of auto paint center supplies and materials, are stated at last-in, first-out (LIFO) cost method, not in excess of market.

Property and Equipment

Property and equipment are stated at cost. The Company uses the straight-line method in computing depreciation and amortization for financial reporting purposes and accelerated methods, with respect to certain assets, for income tax purposes.

Property and equipment includes equipment held by the service and supply subsidiary for sale to the auto paint center subsidiaries. It is the policy of the Company not to depreciate this equipment until it is transferred to an auto paint center for use.

Start-up Costs

Expenses associated with the opening of new auto paint centers has been expensed as incurred. Expenses now being incurred to renovate the centers will be capitalized and depreciated over the life of the assets.

Income Taxes

Deferred income taxes are provided on the difference in earnings determined for tax and financial reporting purposes. When a Company records a deferred tax asset whose realization depends on generating future taxable income, Statement of Accounting Standards No. 109 requires that it be more likely than not that the Company's future taxable income will be sufficient for realization of the tax asset. Although the Company has experienced net losses in recent years, generating a net operating loss carryforward, management believes that the Company can generate future taxable income sufficient to realize the deferred tax asset due to the Company's long history of taxable earnings. At this time it is not considered feasible by management to estimate the results of operations over the next five years and beyond. At April 30, 1995, the net deferred tax asset amounted to approximately \$1.8 million (net of a \$1.0 million valuation allowance). The valuation allowance was provided since management could not determine that it was more likely than not that the net deferred tax asset would be realized in full. Management expects net decreases in net deferred tax assets during fiscal 1996 and 1997 of \$0.5 million and \$0.2 million. These decreases result primarily from restructuring charges that were not previously deductible for tax purposes. Such deductions will be offset by anticipated gains on the sales of real properties held for sale. The remaining portion of the deferred tax assets will not begin to be realized for approximately ten years. In addition to the properties held for sale, the Company owns a substantial number of unencumbered properties (approximately one-half of its operating centers, its Company headquarters and its factory and warehouse) many of which were purchased years

Earl Scheib, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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ago, which management believes would likely result in a gain if the properties were to be sold. Should the Company's taxable income not be sufficient in any

one year to realize any reduction in deferred tax assets, one or more properties could be sold at a gain to realize the tax asset.

Environmental Costs

The Company accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred and the Company's proportionate share of the amount can be reasonably estimated. Ongoing environmental compliance costs are expensed as incurred.

Insurance

The Company is insured for workers compensation claims expense through a risk retention program. The Company accrues for the estimated risk expense and remits payment to the Company's insurer as claims are paid by the insurer. Unfunded accruals are secured by stand-by letters of credit issued by the Company's bank.

2. RESTRUCTURING CHARGES

In November 1994 management of the Company was restructured with the resignation of Donald Scheib as President and Chief Executive Officer and his appointment as Chairman of the Board. Mr. Daniel Seigel was hired as President and Chief Executive Officer and elected to the Company's Board of Directors. In March 1995, management was further restructured with the resignation of the three vice presidents of operations. These three officer positions were combined into one Executive Vice President and Chief Operating Officer position held by Christian Bement, who had joined the Company in January 1995.

During the fiscal year ended April 30, 1995 ("1995") the Company evaluated its operations with the intent to reduce operating costs, restructure management and focus resources on profitable operations. The Company closed 84 unprofitable auto paint centers, located primarily in the Midwestern and Eastern United States, and eliminated certain executive and management personnel.

32 of the closed auto paint centers were company-owned real properties. During 1995 the Company sold 6 real properties, 3 of which were closed prior to the restructuring at a net capital gain of \$84,000, and 3 which were sold subsequent to the restructuring at a net capital gain of \$55,000. The net book value of the remaining 29 properties is listed in the accompanying balance sheet under the caption "Property held for sale".

The Company recorded a pre-tax charge of \$4,287,000 at April 30, 1995 to provide for the costs associated with the restructuring plan. The type and amount of restructuring costs and the liabilities remaining at April 30, 1995 as reported in the consolidated statements of operations and balance sheets are as follows:

<TABLE>

<CAPTION>

Cost of Operations Closed	Restructuring Costs	Restructuring Liabilities
<S>	<C>	<C>
Lease termination costs	\$1,556,000	\$ 813,000
Write down of property and equipment to net realizable value	591,000	-
Salaries and benefits for terminated employees	355,000	374,000
Repairs and maintenance	338,000	263,000
Property taxes	333,000	353,000
Warranty repairs	327,000	285,000
Utilities	265,000	35,000
All other costs	522,000	48,000
	\$4,287,000	\$2,171,000

</TABLE>

The revenue and net operating loss from the activities that will not be continued from shops that have been closed are as follows:

<TABLE>

<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Sales	\$ 8,588,000	\$12,911,000	\$14,318,000
Operating loss	(1,539,000)	(2,690,000)	(1,513,000)

</TABLE>

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Earl Scheib, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. TAXES ON INCOME

The Company and its subsidiaries file a consolidated federal income tax return. The difference between the statutory federal income tax rate and the effective tax rate reported in the financial statements results primarily from a valuation allowance of \$973,000 and state income taxes of \$66,000 in 1995, and results primarily from state income taxes in 1994 and 1993. Income taxes paid during the fiscal years ended April 30, 1995, 1994 and 1993 were \$549,000, \$245,000 and \$1,511,000.

The components of income taxes are as follows:

<TABLE>

<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Current:			
Federal	\$ (500,000)	\$ (978,000)	\$ 263,000
State	66,000	129,000	120,000
Deferred	(434,000)	(849,000)	383,000
Total income tax benefits	\$(1,425,000)	\$(880,000)	\$(177,000)

</TABLE>

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. The sources of these differences and the related tax effect of each are as follows:

<TABLE>

<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Depreciation	\$ (51,000)	\$ (67,000)	\$ (64,000)
Accrued insurance	(82,000)	180,000	(196,000)
Deferred compensation	(103,000)	(145,000)	(189,000)

Postretirement medical benefits	60,000	42,000	(191,000)
Tax free property exchanges	-	(42,000)	42,000
Restructuring reserves	(738,000)	-	-
Net operating loss	(1,050,000)	-	-
Other	-	1,000	38,000
Valuation allowance	973,000	-	-
	-----	-----	-----
Deferred income taxes	\$ (991,000)	\$ (31,000)	\$ (560,000)

</TABLE>

At April 30, 1995, net current deferred income tax assets and net long term deferred income tax assets (which are included in Other Assets in 1995 on the Balance Sheet) are comprised of the following:

<TABLE>

<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
DEFERRED INCOME TAX ASSETS - CURRENT		
Accrued insurance	\$ 1,050,000	\$1,067,000
Restructuring charges	738,000	-
	-----	-----
	\$ 1,788,000	\$1,067,000
	=====	=====
DEFERRED INCOME TAX ASSETS (LIABILITIES) - LONG TERM		
Depreciation	\$ (675,000)	\$ (726,000)
Postretirement medical benefits	88,000	149,000
Deferred compensation	1,074,000	1,033,000
Sale or exchange of property	(264,000)	(264,000)
Net operating loss	1,050,000	-
Valuation allowance	(973,000)	-
	-----	-----
Net long term deferred tax asset	\$ 300,000	\$ 192,000

</TABLE>

4. EARNINGS PER SHARE

Earnings per share are based on 4,564,000 shares of capital stock outstanding in 1995 and 4,563,000 shares in both 1994 and 1993.

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Earl Scheib, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. INVENTORIES

Inventories consist of the following:

<TABLE>

<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
Finished goods	\$1,040,000	\$1,407,000
Raw materials	372,000	216,000
	-----	-----
Total	\$1,412,000	\$1,623,000

</TABLE>

If the first-in, first-out (FIFO) cost method had been used, inventories would have been \$568,000 and \$623,000 higher than reported at April 30, 1995 and 1994.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<TABLE>

<CAPTION>

	1995	1994	Estimated Useful Lives
<S>	<C>	<C>	<C>
Land	\$ 6,433,000	\$ 8,886,000	
Buildings and building improvements	10,822,000	13,960,000	8-33 years
Machinery and equipment	3,777,000	5,073,000	3-10 years
Automotive equipment	244,000	410,000	2-4 years
Office furniture and equipment	1,126,000	1,123,000	3-10 years
Leasehold improvements	2,419,000	2,694,000	Life of Lease
	-----	-----	
	24,821,000	32,146,000	
Less accumulated depreciation and amortization	9,953,000	12,737,000	
	-----	-----	
Net property and equipment	\$14,868,000	\$19,409,000	

</TABLE>

See Note 2 regarding Property held for sale

7. LEASES

The Company leases approximately one-half of its auto paint centers. Management expects that in the normal course of business such leases will be renewed or replaced by other leases. Certain lease agreements contain renewal and/or purchase options. Rent expense during the fiscal years ended April 30, 1995, 1994 and 1993 was \$4,656,000, \$4,265,000 and \$4,389,000. Following is a schedule, by years, of the future minimum lease commitments as of April 30, 1995.

<TABLE>

<S>

Year ending April 30:

1996	\$2,795,000
1997	2,260,000
1998	1,451,000
1999	771,000
2000	472,000
Thereafter	883,000

Total minimum lease payments	\$8,632,000

</TABLE>

8. STOCK OPTIONS

In 1982, the Company adopted an Incentive Stock Option Plan for the granting of options to purchase up to an aggregate of 400,000 shares of the Company's capital stock to full-time employees at the fair market value of the stock on the date of the grant. The options may be exercised six months after the date of grant and expire ten years from the date of grant. This plan expired in March 1992 and, accordingly, no further options may be granted under the plan.

In August 1994 the Company's Stockholders approved two non-qualified stock option plans: one plan allows for the granting of options to purchase up to an aggregate of 100,000 shares of the Company's capital stock to non-employee directors of the Company and a second plan allows for the granting of options to purchase up to an aggregate of 300,000 shares of the Company's capital stock to certain full-time employees of the Company. Both plans require that the price of the shares underlying the option granted be no less than the fair market value of the shares on the date of the grant. Options granted vest 50% two years after the date of grant, 75% three years after the date of grant and 100% four years after the date of grant.

Earl Scheib, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In November 1994, the Company granted a stock option to purchase 400,000 shares of the Company's capital stock to Daniel A. Seigel. The options become vested and exercisable in a 50% installment on the first anniversary following the date of grant and in 12.5% installments on each quarter following the first anniversary of the date of grant. The exercise prices are as follows: \$5.00 for the period 11/15/94 - 11/30/95; \$5.50 for the period 12/01/95 - 11/30/96; \$6.00 for the period 12/01/96 - 11/15/97; \$6.50 for the period 11/16/97 - 11/15/98; \$7.00 for period 11/16/98 - 11/15/99.

In January 1995, the Company granted a stock option to purchase 200,000 shares of the Company's capital stock to Christian Bement. The options were granted at fair market value on the date of grant or higher and are exercisable 50% on January 10, 1996 and in additional installments of 12 1/2% on each of April 10, 1996; July 10, 1996; October 10, 1996 and January 10, 1997. The exercise price ranges from \$5.50 to \$9.00 per share depending upon the time period during which the options are exercised.

The following table summarizes stock option transactions:

<TABLE>

<CAPTION>

	Number of Shares	Option price per share
<S>	<C>	<C>
Outstanding May 1, 1993	46,000	\$11.23-\$12.35
Granted	-	
Exercised	-	
Outstanding April 30, 1994	46,000	\$11.23-\$12.35
Granted	932,000	\$ 4.50-\$ 9.00
Exercised	(5,000)	\$ 4.50
Canceled	(58,000)	\$ 4.50-\$11.35
Outstanding April 30, 1995	915,000	\$ 4.50-\$12.35

</TABLE>

<TABLE>

<CAPTION>

	APRIL 30 1995	April 30 1994
	-----	-----
<S>	<C>	<C>
Shares exercisable	28,000	46,000
Shares available for grant at end of year	108,000	-0-
	=====	=====

</TABLE>

9. DEFERRED MANAGEMENT COMPENSATION

In March 1987, the Company adopted a non-qualified supplemental compensation plan for certain key management employees which will provide benefits to employees at retirement. To fund benefits payable under the plan, the Company purchased insurance contracts on the lives of covered employees. During the fiscal year ended April 30, 1995, the Company surrendered policies on 4 employees who terminated prior to retirement. As a result, the Company collected \$1,053,000, representing the then cash surrender value of those policies. The cash surrender value of the remaining policies at April 30, 1995 amounted to \$1,341,000, which represents the funded portion of deferred management compensation as of April 30, 1995. The plan requires employees to share in the cost of the plan and permits employees to defer a portion of their compensation for that purpose. Deferred compensation expense for the fiscal years ended April 30, 1995, 1994 and 1993 amounted to \$156,000, \$220,000 and \$372,000.

The non-qualified supplemental compensation plan provides postretirement health benefits to plan participants, as specified by the plan. The following table sets forth the health benefit plan's combined funded status reconciled with the amount shown in the Company's Balance Sheet at April 30, 1995.

<TABLE>

<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
ACCRUED POSTRETIREMENT BENEFIT OBLIGATION, BEGINNING OF THE YEAR	\$ 438,000	\$ 561,000
Service cost - benefits attributed to employee service during the year	\$ 18,000	20,000
Interest cost on the accumulated postretirement benefit obligation	30,000	35,000
Recognition of actuarial gain resulting from a decrease in the number of plan participants (\$144,000 and \$53,000) lower health care cost trend rates (\$47,000 and \$125,000) and changes in the assumed discount rates (\$35,000 and 0).	(226,000)	(178,000)
	-----	-----
NET PERIODIC POSTRETIREMENT BENEFIT REDUCTION	\$ (178,000)	\$ (123,000)
	-----	-----
ACCRUED POSTRETIREMENT BENEFIT OBLIGATION, END OF YEAR	\$ 260,000	\$ 438,000
	=====	=====

</TABLE>

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For measurement purposes, a 13% annual rate of increase in the per capita cost of covered health care benefits was assumed for the fiscal year ended April 30, 1995 for pre-age 65 benefits while an 11% annual rate of increase was assumed for post-age 65 benefits; the rates were assumed to decrease gradually to 5% by the year 2008 and remain at that level thereafter. The health care cost trend rate has a significant effect on the amounts reported. To illustrate, increasing the health care cost trend rates by 1 percentage point in each year would increase the accumulated postretirement benefit obligation as of April 30, 1995 by a total of \$34,000 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by a total of \$7,000. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8% as of May 1, 1995 and 7% at April 30, 1994. In Fiscal 1995 the \$226,000 actuarial gain was included in the Statement of Operations as follows: \$144,000 in restructuring charges and \$82,000 as gain on postretirement medical plan.

10. LITIGATION

The Company is one of numerous parties which entered into a consent decree with the United States Environmental Protection Agency ("US E.P.A") to clean-up a landfill site under the United States Superfund statute. The Company's insurance carrier is representing the Company in this matter under a reservation of rights. The Company's proportionate share of the estimated clean-up cost is \$711,000 which the Company has recorded and funded.

The Company is one of several defendants in a lawsuit filed by a municipality seeking contribution from the defendant for clean-up of a municipal Superfund landfill site operated by the municipality. The Company's insurance carrier is defending the Company in this matter under a reservation of rights. The parties reached a tentative settlement agreement of \$86,000 in June 1995 which the Company has accrued as of April 30, 1995.

The Company has been designated as a potentially responsible party by the US E.P.A. under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, and by certain states under applicable state laws, with respect to the cleanup of hazardous substances at several landfill sites. The Company's involvement relates to its use of private or municipal rubbish services for alleged disposal of the Company's auto paint center trash at the landfills in the normal conduct of its business. The Company cannot predict with certainty the total costs relating to cleanup at these sites nor the Company's share of the cost. However, based upon, among other things, its previous experience with respect to its proportionate share of cleanup costs at other hazardous landfill sites, the Company has accrued \$150,000 at April 30, 1995 which represents its current estimate of the Company's probable liability.

The Company is involved in several other legal proceedings, claims and liabilities including federal and state occupational safety and health administration matters and environmental matters which arise in the ordinary course of its business. Management believes that the amount of ultimate liability with respect to these matters should not materially affect the Company's financial position.

11. COMMITMENTS

The Company changed banks in February 1995 and entered into a loan agreement with its new bank to refinance a letter of credit facility under which the bank issued approximately \$4,737,000 in standby letters of credit to replace those issued by the Company's prior bank. The letters of credit are issued in favor of the Company's workers compensation insurance carrier to secure the unfunded portion of estimated deferred workers' compensation insurance premiums. The

loan agreement requires the Company to maintain certain financial covenants including minimum working capital, cash and cash equivalent balances, net worth and debt to equity ratios. The Company was not in compliance with one of the financial covenants at April 30, 1995, but received a waiver from the bank.

The Estate of Earl A. Scheib ("Estate"), which, as of April 30, 1995, was the owner of 1,299,684 shares of the capital stock of the Company ("Shares") obtained a loan in November 1993 ("Original Loan") in the principal amount of \$3,500,000 from a bank ("Original Bank") pursuant to a credit agreement ("Credit Agreement") to fund state and federal tax payments. The Estate executed a Stock Pledge Agreement ("Original Stock Pledge Agreement") with the Original Bank whereby the Estate pledged the Shares to the Original Bank to secure the Original Loan. As part of the transaction, the Company executed agreements with the Original Bank and with the Estate whereby the Original Bank had the right to "put" the Original Loan to the Company pursuant to a Put, Call and Registration Rights Agreement ("Original Put Agreement") upon a default in the Credit Agreement which included, among other things, a failure by the Company to maintain certain financial covenants including working capital, and cash and cash equivalent balances at fiscal quarter measurement dates, or should the value of the collateral pledged to the bank drop to \$3.50 per share or less. Since the Credit Agreement is secured by a pledge of the Shares, if the Company acquired the Original Loan it also acquired the Shares as security. The Company received a fee of \$18,750 from the Estate each quarter the Original Loan was outstanding. In addition, as further security, the Estate granted the Company a lien on a parcel of real property ("Real Property") owned by the Estate which is under a contract for sale at the purchase price of \$3,650,000.

On February 16, 1995, the Estate obtained a new loan ("New Loan") from a new bank ("New Bank") for \$3,000,000, having previously paid \$500,000 to the Original Bank. The Estate also executed a new Stock Pledge Agreement ("New Stock Pledge Agreement") in favor of the New Bank upon terms substantially identical to the Original Stock Pledge Agreement. The proceeds from the New Loan were used to pay off the amount then due under the Original Loan. Concurrent therewith, the Company executed

Earl Scheib, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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a new Put Agreement ("New Put Agreement") in favor of the New Bank whose terms are substantially identical to the Original Put Agreement. The Estate exercised its registration rights under the Original Put Agreement and the Estate's Shares have been registered under the Securities Act of 1993, as amended. The terms of the New Loan require the Estate to make a principal reduction payment in the amount of \$1,000,000 on or before December 31, 1995 and to pay the remainder due under the New Loan on or before December 31, 1996. The Company continues to receive \$18,750 from the Estate each quarter the New Loan is outstanding and maintains its lien on the Real Property.

In the event of a default under the New Loan and a foreclosure under the New Stock Pledge Agreement, a change in control of the Company could result. The events that would trigger a default and the New Bank's right to "put" the New Loan to the Company include: (a) a failure by the Company (i) to maintain cash and cash equivalent balances at least equal to \$500,000 below the amount outstanding under the New Loan, (ii) to maintain a current ratio of 1:1, a liabilities to net worth ratio of 0.70:1 and a minimum net worth of \$17,000,000 and such failure not being properly cured; (b) the amount outstanding under the New Loan exceeding 63% of the market value (as quoted on the American Stock Exchange) of the Shares; or (c) a monetary default by the Estate.

At April 30, 1995, the Company was not in compliance with the liabilities to net worth ratio, but received a waiver of the covenant from the New Bank. No other events have occurred which would trigger the New Bank's right to put the New Loan to the Company. Further, the Estate has prepaid \$250,000 to the New

Bank thereby reducing the payment due on December 31, 1995 to \$750,000.

The Company has employment agreements with certain of its directors, executive officers and management personnel. These agreements generally continue until terminated by the employee or the Company and provide for salary continuation for a specified number of months under certain circumstances.

REPORT OF INDEPENDENT AUDITORS

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[LOGO OF BDO]	BDO SEIDMAN Accountants and Consultants	1900 Avenue of the Stars, 11th Floor Los Angeles, California 90067 Telephone: (310) 557-0300 Fax: (310) 557-1777
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To the Stockholders and Board of Directors
Earl Scheib, Inc.

We have audited the accompanying consolidated balance sheets of Earl Scheib, Inc. and subsidiaries as of April 30, 1995 and 1994 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Earl Scheib, Inc. and subsidiaries as of April 30, 1995 and 1994, and the consolidated results of their operations and cash flows for each of the three years in the period ended April 30, 1995 in conformity with generally accepted accounting principles.

/s/ BDO SEIDMAN

Los Angeles, California
June 26, 1995

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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LIQUIDITY AND CAPITAL RESOURCES

The Company assesses liquidity based upon its ability to provide adequate sources of funds to meet foreseeable cash requirements. Due to the seasonal nature of its business, excess cash is generated during the first and second quarters which is expected to sustain operations during the winter season. The Company owns a substantial number of its properties, including its administrative office and its manufacturing and warehousing facility. These properties are free of encumbrances and could be used as a source of additional funds if needed at a future date.

As a continuation of the Company's restructuring plan, as described in Note

2 to the consolidated financial statements and in the results of operations for 1995 compared to 1994, the Company intends to renovate its auto paint centers, including painting, graphics, signage, drying ovens, and in certain instances, major repairs to building roofs and parking lots. The Company estimates the cost of renovation to approximate \$3.5 to \$4.5 million. The Company expects to use the proceeds from the sale of real properties closed as part of the restructuring to fund this project. The Company plans to proceed quickly with this phase of its restructuring and may secure interim financing due to timing differences between the sale of real properties and the expenditures for renovation. At April 30, 1995, the Company had approximately \$3.6 million (book value) of property held for sale the majority of which is expected to be sold within one year at a net gain. This potential gain will be recognized for accounting purposes when the property is sold since potential gain was not offset against restructuring costs.

The Company used \$2,554,000 in cash flow from operating activities during the fiscal year ended April 30, 1995 compared with generating \$195,000 in cash flow in the 1994 period. The reduction in cash flow from operating activities was caused by a \$3,726,000 increase in net loss which included the costs of restructuring the Company's operations, a \$722,000 increase in accrued expenses consisting primarily of an increase in restructuring liabilities (\$2,171,000) a decrease in accrued insurance (\$864,000) and a decrease in accrued compensation (\$368,000) and decreases in receivables (\$748,000), inventories (\$454,000), and prepaids (\$309,000) resulting from the restructuring and closure of 84 auto paint centers.

The Company generated \$195,000 in cash flow from operating activities during the fiscal year ended April 30, 1994 compared with using \$122,000 in the 1993 period. The \$317,000 change in cash flow from operating activities resulted primarily from a decrease in net income of \$1,717,000 and an increase of \$1,531,000 in accounts payable and accrued expenses (primarily accounts payable \$455,000, accrued compensation \$460,000, accrued income taxes \$415,000).

Investing activities in 1995 included a reduction in marketable securities (\$1,648,000), a decrease in the cash surrender value of life insurance (\$533,000) and sales of property and equipment (\$343,000) less capital expenditures (\$929,000) which accounted for a significant portion of the \$1,660,000 cash provided by investing activities in 1995.

Investing activities in 1994 included \$1,155,000 in capital expenditures less \$240,000 in sales or retirement of property and equipment and accounted for a significant portion of the \$854,000 net cash used in 1994.

There were no significant financing activities in 1995. Financing activities included cash dividends paid to stockholders of \$411,000 in 1994 and \$821,000 in 1993. The decrease in dividends paid resulted from the Company's suspension of cash dividends in December 1993.

The Company has a current deferred income tax asset of \$1,788,000 resulting primarily from income taxes paid on costs and expenses that will not be deductible for income tax purposes until future years even though they have been deducted for financial statement purposes. These relate primarily to workers compensation insurance expense, deferred compensation expense and postretirement medical benefit expense. See Note 3 to the consolidated financial statements for the elements comprising the differences between pre-tax financial accounting income and taxable income.

Statement of Accounting Standards No. 109 requires that it be more likely than not that the Company's future taxable income will be sufficient for realization when a Company records a deferred tax asset whose realization depends on generating future taxable income. Although the Company has experienced net losses in recent years, management has concluded that the Company can generate future taxable income sufficient to realize the deferred tax asset due to the Company's long history of taxable earnings. At this time it is not considered feasible by management to estimate the results of operations over the next five years and beyond. At April 30, 1995, the net deferred tax asset amounted to approximately \$1.8 million (net of a \$1.0 million valuation allowance). The valuation allowance was provided since management could not determine that it was more likely than not that the net deferred tax asset would

be realized in full. Management expects net decreases in net deferred tax assets during fiscal 1996 and 1997 of \$0.5 million and \$0.2 million. These decreases result primarily from restructuring charges that were not previously deductible for tax purposes. Such deductions will be offset by anticipated gains on the sales of real properties held for sale. The remaining portion of the deferred tax asset will not begin to be realized for approximately ten years. The Company owns a substantial number of unencumbered properties, including its administrative offices and its manufacturing and warehouse facility, many of which were purchased years ago resulting in the probability of gain if the properties were to be sold. Should the Company's taxable income not be sufficient in any one year to realize any reduction in deferred tax assets, one or more properties could be sold at a gain to realize the tax asset.

As discussed in Note 11 to the consolidated financial statements, the Company entered into agreement with the Estate of Earl Scheib ("Estate") and with a bank to which the Estate is indebted for \$2,750,000. Should the Estate or the Company default in their agreements with the bank, the bank has the right to "put" the loan to the Company. In that event, the Company would have to purchase the loan from the bank or renegotiate loan terms. It is possible that the Company would have to obtain financing to purchase part or all of the loan from the bank. At April 30, 1995, the Company was not in compliance with one of the bank's financial covenants, but received a waiver from the bank.

RESULTS OF OPERATIONS
1995 COMPARED TO 1994

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The Company's sales are seasonal in nature because of weather conditions in many areas, and a proportionally greater share of the Company's sales and earnings have historically occurred in the first half of its fiscal year. Prolonged or extremely adverse weather conditions could have a negative impact on the Company's sales and earnings.

During the fiscal year ended April 30, 1995 ("Fiscal 1995") the Company analyzed its operations and commenced a restructuring plan which included the closure of 84 unprofitable auto paint centers located primarily in the Midwestern and Eastern United States. The Company expects to complete its restructuring plan during the next fiscal year ("Fiscal 1996"). In Fiscal 1995, the Company recorded \$4,287,000 for estimated costs of the restructuring plan.

As a result of the closure of 84 centers, net sales decreased by \$1,204,000 or 2 percent compared with sales in the fiscal year ended April 30, 1994 ("Fiscal 1994"). The decrease in net sales resulted from a 5 percent decrease in the number of cars painted partially offset by a 2 percent increase in the average sales ticket. Same or continuing center sales in Fiscal 1995 increased by \$4,302,000 or 13 percent compared to Fiscal 1994.

Gross profit margins during Fiscal 1995 decreased slightly to 20 percent of sales compared with 21 percent of sales in Fiscal 1994 due to the following: overhead expenses decreased by \$2,109,000 or 3 percent of sales due to the closure of 84 centers during the year and consisted of reduced paint center manager pay (\$834,000), a reduction in rent expense (\$799,000), a reduction in utilities expense (\$457,000) and reduced travel expense (\$114,000); material costs increased by \$750,000 or 2 percent of sales due to increases in raw material prices, higher cost of new paint formulations required to meet air quality standards in certain areas of the country and the absorption of fixed overhead costs over the reduced production level resulting from fewer paint centers, and direct labor costs increased by \$713,000 or 2 percent of sales due to additional labor required on increased sales of the Company's more labor intensive premium paint services, additional labor required by reformulated paints in certain areas, and less efficiency in meeting higher expectation production and quality standards. The Company has commenced an employee training program which is expected to meet production and quality expectations.

As discussed above and in Note 2 to the consolidated financial statements, the Company recorded a charge of \$4,287,000 for costs associated with restructuring of the Company's auto paint center operations. Selling and administrative expenses during Fiscal 1995 decreased by \$562,000 as compared to Fiscal 1994 due primarily to a reduction in advertising and other costs associated with the 84 paint center closures. The \$84,000 gain on sales of properties in Fiscal 1995 results from the sale of 3 properties sold prior to restructuring.

The income tax benefit results from the carryback of a portion of the Fiscal 1995 loss to recover previously paid federal income taxes (\$490,000) and a deferred tax benefit (\$935,000) expected to be realized in the future.

RESULTS OF OPERATIONS
1994 COMPARED TO 1993

Sales during the fiscal year ended April 30, 1994 ("Fiscal 1994") decreased by 10 percent or \$5,156,000 compared to the 1993 period. Car volume declined by 14 percent while average unit sales prices increased by 5 percent.

Gross profit margins during Fiscal 1994 decreased by 3 percent of sales compared with the 1993 period. Material costs increased by \$90,000 or 1 percent of sales due to the higher cost of paint formulated to meet more stringent air quality control standards. Direct labor cost decreased by \$331,000, but as a percent of sales increased by 1 percent, due to lower manpower efficiency resulting from the 14% decline in car volume. Although overhead expenses decreased by \$2,156,000, primarily workers compensation and group medical insurance expense (\$1,444,000), indirect labor (\$515,000) and rent expense (\$179,000), overhead expenses, as a percent of sales, increased by 1 percent due to lower sales volume.

Selling and administrative expense during Fiscal 1994 decreased by \$515,000 compared to the 1993 period, but as a percent of sales increased by 2 percent as a result of the 10% decrease in sales. Advertising expense decreased by \$432,000 and insurance expense (primarily group medical) decreased by \$796,000 while professional fees (primarily legal and marketing consultants) increased by \$246,000, settlement of litigation (uninsured portion) increased by \$286,000 and other expenses increased a net of \$180,000.

During Fiscal 1994 the Company realized a gain of \$178,000 on the postretirement medical benefits plan. This resulted from a decrease in the number of employees covered by the plan and a reduction in the health care cost trend rates due to the Company's recent favorable medical claims experience.

Interest income during Fiscal 1994 decreased by \$236,000 or 48 percent compared to the 1993 period due to lower rates of interest and less funds available to invest.

The income tax benefit results from the Company's ability to carryback the Fiscal 1994 loss, for federal income tax purposes, to years in which the Company incurred taxable income.

14

SELECTED FINANCIAL DATA

<TABLE>

<CAPTION>

(Thousands of dollars except per capital share data)

	Year Ended April 30,				
	1995	1994	1993	1992	1991
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	\$	\$	\$	\$	\$
RESULTS OF OPERATIONS					
Net sales	47,288	48,492	53,648	58,211	57,429

Net income (loss)	(5,553)	(1,827)	(110)	1,497	(146)
Per share:					
Net income (loss)	(1.22)	(.40)	(.02)	.33	(.03)
Cash dividends declared	-	.09	.18	.18	.36
FINANCIAL POSITION					
Property and equipment, net	14,868	19,409	19,662	19,825	20,385
Total assets	29,502	34,126	34,762	35,460	34,196
Long-term liabilities	3,600	3,484	3,198	2,750	2,567
Stockholders' equity	17,161	22,691	24,929	25,860	25,185

</TABLE>

MARKET AND DIVIDEND INFORMATION

Earl Scheib, Inc. is listed for trading on the American Stock Exchange under the ticker symbol "ESH". As of June 20, 1995 there were approximately 325 record holders of the Company's stock according to records maintained by the Company's transfer agent. The high and low sales prices of the stock and the cash dividends declared per share for each of the fiscal quarters of 1995 and 1994 are as follows:

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	1995				1994			
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	QTR.							
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High	\$8 1/4	\$8 3/8	\$5 3/4	\$5 1/8	\$5 1/2	\$6 3/8	\$6 3/8	\$7 1/2
Low	\$6 1/2	\$4	\$4	\$3 7/8	\$3 1/2	\$4 1/4	\$4 7/8	\$5
Dividends Declared	-	-	-	-	-	-	\$.045	\$.045

</TABLE>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF EARL SCHEIB, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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