

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

CROWN VANTAGE INC

CIK: **948073** | IRS No.: **541752384** | State of Incorpor.: **VA** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **001-13868** | Film No.: **99574361**
SIC: **2621** Paper mills

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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

For the fiscal year ended December 27, 1998

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 1-13868

CROWN VANTAGE INC.
(Exact name of registrant as specified in its charter)

Virginia 54-1752384
(State of incorporation) (I.R.S. Employer Identification No.)

300 Lakeside Drive, Oakland, California 94612-3592
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (510) 874-3400

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value

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 the past 90 days. Yes 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 or any amendment to this Form 10-K. Not Applicable

The aggregate market value of voting stock held by non-affiliates of the registrant as of March 17, 1999 was approximately \$24,500,000.

As of March 17, 1999, 10,356,758 shares of Common Stock of the registrant were outstanding.

Portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 27, 1998 are incorporated by reference in Parts I, II and IV. Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders scheduled for April 28, 1999 are incorporated by reference in Part III.

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PART I

Item 1. Business

General

Crown Vantage Inc. and subsidiaries (the "Company" or "Crown Vantage") is a major producer of value-added paper products for many different end-uses. The Company operates in two segments: printing and publishing papers and specialty papers. Special interest magazines, books, custom business forms and corporate communications such as annual reports, stationery and promotions use Crown Vantage printing and publishing papers. Specialty papers production supplies both coated and uncoated papers principally for food and retail packaging

applications and conversion into such items as coffee filters, cups, plates, disposable medical gowns and file folders.

During 1998, the Company operated 10 facilities using 30 diverse paper machines with specialized capabilities. On March 25, 1999 the Company announced the intended sale of its pulp and paper mills in New Hampshire. See "Recent Development" in this Item 1.

The Company believes that its broad manufacturing capabilities enable it to offer a wider range of products and basis weights than most of its North American competitors. The Company focuses its operations on the higher value-added market niches of the sectors in which it competes. Papers produced for such niches generally command higher prices and tend to be less cyclical than commodity grades because they are used for more specialized applications and because there are fewer substitutes for these products.

The Company has implemented a business strategy that builds on Crown Vantage's unique strengths and technical expertise and that further differentiates it from other paper producers. The Company's objectives are to enhance its position as a leading supplier of value-added paper products to target markets and to continue to pursue cost reductions and manufacturing efficiencies to maximize profitability. The Company's business strategy to accomplish such objectives is to: i) accelerate the introduction of additional value-added papers into the Company's mix; ii) obtain market share with innovative new products; iii) add value through high levels of customer service and product quality; and iv) reduce costs and improve productivity.

The Company became an independent company when it was spun off from James River Corporation of Virginia ("James River"), now known as Fort James Corporation ("Fort James"), on August 25, 1995. James River distributed all of the outstanding stock of the Company in a tax-free dividend to its shareholders. The dividend provided one share of the Company's stock for every 10 shares of James River stock held. The spin-off included certain assets, liabilities and operations that comprised a substantial part of James River's Communication Papers Business and the paper-based part of its Food and Consumer Packaging Business.

Crown Paper Co. (a wholly owned subsidiary of Crown Vantage ("Crown Paper")), received \$250 million in cash through a public offering of Senior Subordinated Notes and \$253 million from initial borrowings under credit facilities with certain banks (collectively, the "Financing"). Substantially all of the net proceeds from the Financing (\$485 million) were paid to James River together with \$100 million Senior Pay-in-Kind Notes issued by the Company ("PIK Notes") as a return of James River's capital investment. The distribution of the Company's stock, transfer of assets and liabilities, Financing, and return of capital are collectively referred to as the "Spin-Off."

On September 28, 1998 Crown Vantage and Crown Paper settled with Fort James for the delivery of \$25.1 million in PIK Notes to Crown Vantage and \$8.1 million in PIK Notes to Crown Paper in exchange for the mutual release from a variety of claims that had arisen between Fort James, Crown Paper and Crown Vantage. This resulted in an extraordinary gain of \$19 million that is net of \$2.4

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million in expenses and \$11.8 million in taxes. The settlement amended the terms of the remaining PIK Notes and allows Crown Vantage the right to call the remaining PIK Notes and accrued interest at fair value at any time prior to their maturity. The \$8.1 million in PIK Notes held by Crown Paper are eliminated upon consolidation. See "Liquidity and Capital Resources" on page 12 and Note 6 to the Consolidated Financial Statements on page 27 of the Company's 1998 Annual Report to Shareholders for more information concerning the PIK Notes.

RECENT DEVELOPMENT

On March 25, 1999 the Company announced that it had reached an agreement to sell its pulp and paper mills located in Berlin and Gorham, New Hampshire for approximately \$45 million. The net proceeds, after transaction costs and funding of certain other liabilities, will be used to pay down debt. The operations being sold include the pulp mill in Berlin, which produces approximately 300,000 tons of hardwood and softwood pulp annually, and the five paper machines in Gorham. Four of the paper machines manufacture approximately 142,000 tons of printing and publishing papers, while the fifth machine produces approximately 40,000 tons of commercial toweling annually.

As part of the sales agreement, Crown Vantage and the buyer have entered into a strategic marketing and outsourcing alliance to certain value-added printing and publishing paper grades. Crown Vantage will retain control of the use of branded printing and publishing papers made at Berlin-Gorham facility, which are integral to the Company's strategic printing and publishing papers offering throughout the Crown Vantage system. In addition, Crown Vantage will market, on behalf of the buyer, all other paper grades manufactured at Berlin-

Gorham (except toweling) for a period of three years.

Successful completion of the transactions discussed above is subject to a number of risks and uncertainties including, but not limited to, the ability of the buyer to successfully arrange financing, consent by Crown Vantage lenders, transaction delays, failure to close the contemplated agreements, failure by either party to successfully execute under the strategic marketing and outsourcing alliance, and other factors, including business conditions and the general economy, maintaining good customer and labor relations, and competitive factors.

Historical information below concerning the Berlin and Gorham mills should be considered in light of, and is qualified by reference to, the intended sale of these mills.

Business Segments and End Use-Markets

Printing and Publishing Papers

Crown Vantage manufactures and markets both coated groundwood and uncoated freesheet papers for printing and publishing applications. The Company's coated groundwood papers are produced on two modern machines at its facility in St. Francisville, Louisiana, which uses both kraft and groundwood pulp mills to supply all pulp requirements. Groundwood papers are made from a blend of kraft pulp and pulp produced by mechanically grinding wood to extract wood fibers. Wood chips are used in the kraft pulp process (chemical pulp produced by an alkaline cooking process) and are either chipped by the Company or purchased directly. These papers are produced and sold for end-use products such as specialty magazines, catalogs, direct mail, and advertising supplements. The paper is sold to publishers, commercial printers, including the four largest in North America, and to merchant distributors. The strength of the coated groundwood market is largely driven by the health of the retail market and is correlated with retailer advertising expenditures. Printing and publishing papers had one significant customer totaling 10.8% of the segment's net sales in 1998.

Uncoated printing and publishing papers are manufactured at the Company's fully pulp-integrated facilities in Berlin and Gorham, New Hampshire, and at its non-integrated facilities in Adams, Massachusetts; Ypsilanti, Michigan; and Dalmore and Guardbridge, Scotland. Customer end uses include stationary, custom business forms, books and manuals, annual reports and other corporate communications. Demand for uncoated printing and publishing papers is correlated with economic cycles, since these papers are predominantly used in business-related activities and commercial printing.

This segment includes the Company's market pulp and toweling operations in Berlin-Gorham, New Hampshire as well as the Company's cast-coating operations in Richmond, Virginia. The Richmond facility provides cast-coating capabilities for a premium grade of coated paperboard for packaging and printing applications. The Berlin-Gorham, New Hampshire facility reserves the majority of the pulp it produces for internal consumption but sold approximately 86,000 tons of pulp in 1998.

See "Recent Development" discussed above for information concerning the announced sale of the Company's pulp and paper mills in New Hampshire.

Specialty Papers

Crown Vantage manufactures and sells bleached specialty papers for use in food and retail packaging. The Company's coated and uncoated specialty papers supply niche markets and these products are used by customers to produce items such as multi-wall bags for pet foods, food service papers, labels and cereal liners. The Company's specialty packaging business is principally driven by consumer spending trends and generally exhibits less cyclicalality to general economic trends compared to producers of papers for other end-use products. The Company's specialty packaging papers operations purchase all of their pulp and therefore operating results are more susceptible to pulp price fluctuations. Operating results benefit during periods of decreasing pulp prices from lower raw material costs and suffer during periods of increasing pulp prices. The benefit to operating results from the decline in pulp prices during 1998 has been offset by declines in the average price per ton for the Company's specialty packaging products. The decline in average price per ton during 1998 is primarily due to the continuing economic crisis in Asia and its indirect affect on the Company's specialty packaging papers

as European producers are redirecting their output to North American markets and as large integrated mills in North America are entering otherwise non-traditional markets, thereby disrupting supply/demand balance and pricing for the Company's specialty packaging papers. The Company's specialty papers are produced at non-integrated facilities in Port Huron and Parchment, Michigan, and

Milford, New Jersey.

Crown Vantage also manufactures specialty converting papers at its fully integrated facility in St. Francisville, Louisiana. The Company imparts customer-specific technical requirements to these value-added papers for conversion by its customers into end-uses such as paper cups and plates, coffee filters, file folders and bacon board.

Financial information of the Company's segments is incorporated herein by reference from Note 15 to the Consolidated Financial Statements included in the Company's 1998 Annual Report to Shareholders.

Supply Requirements

Fiber. Wood fiber represents the largest single raw material cost for the Company's two pulp-integrated facilities. In 1998, the Company's pulp mills required approximately 2,387,000 green tons of wood, of which 1,219,000 green tons were required at St. Francisville and 1,168,000 green tons were required at Berlin-Gorham.

Approximately 20% of St. Francisville's wood requirements are met through purchases of roundwood to supply the groundwood pulp mill. The remaining wood supply requirements are met through purchases of a combination of wood chips and roundwood that supply St. Francisville's kraft pulp mill. Approximately 40% of St. Francisville's total fiber supply comes from a long-term supply arrangement that expires in 2016. The remaining fiber supply is met through a combination of purchases from private landowners, forest product companies and other suppliers.

Berlin-Gorham purchases substantially all of its fiber supply from area lumber mills under long-term supply agreements. Nearly all hardwood is chipped on site while softwood is either chipped on site or chips are purchased from area suppliers.

Pulp. For the Company's non-integrated facilities pulp represents the largest single material cost. In 1998, the Company purchased approximately 285,000 tons of several types of pulp. Purchased pulp is used to supply non-integrated mills, to obtain species not produced by the Company, and to minimize transportation costs.

Competition

The markets in which the Company sells its papers are highly competitive. The Company competes with certain large major companies as well as small, specialized companies. Competition is primarily based on price, although product quality, distinctive technical characteristics and customer service are often factors that determine a customer's choice of preferred supplier. Breadth of product line, product innovation, distribution and sales support are also important competitive factors, as many customers choose to maintain long-term relationships with suppliers who provide these benefits.

In the paper industry, companies tend to compete with other companies having paper machines of like capacity and capability. Capacity of paper machines in the industry varies widely and can range from 10 tons per day to more than 1,000 tons per day. The capacity of the Company's machines ranges from 10 tons per day to approximately 400 tons per day. The Company generally focuses its machines and

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work force on shorter run production of high margin and value-added grades of paper. As a result, the Company believes it is optimizing its varied manufacturing capabilities in order to enhance its competitiveness.

The "Pulp & Paper 1999 North American Fact Book" indicates that the top ten producers of coated groundwood papers accounted for approximately 89% of North American capacity. Crown Vantage ranked 7th, with coated groundwood capacity market share of approximately 6%. The top 15 producers of uncoated printing and publishing papers accounted for 93.5% of North American capacity. The Company ranked 14th, with uncoated printing and publishing papers capacity market share of approximately 2.1%. The Company was the second largest manufacturer of bleached packaging and specialty papers.

Customers

No individual customer exceeded 10% of the Company's consolidated 1998 net sales. Sales to the Company's five largest customers in 1998 were approximately 24.1% of consolidated net sales. The Company's loss of any single customer would not have a material adverse effect on the financial condition of the Company.

Employees

At the end of 1998, the Company had approximately 3,550 employees of whom approximately one-quarter were salaried and three-quarters were hourly employees. All U.S. hourly employees are represented under various union collective bargaining contracts. In the U.S., most hourly workers are members of the United Paperworkers International Union. Collective bargaining agreements covering the Parchment, Mich., Adams, Mass., and Richmond, Va. mills, which cover approximately 17.7% of the Company's hourly employees, expire before January 1, 2000. In the United Kingdom, most hourly personnel are covered by an ongoing national agreement that addresses worker conditions and safety, with wage increases negotiated annually. The Company believes that it has a generally positive relationship with its employees. In the last 10 years, the Company has not experienced any strikes or labor-related work stoppages.

Research and Development

The Company has not expended and does not plan to expend significant efforts on broad-based research and development activities. The Company instead emphasizes development of new and improved products primarily by using existing technology and product development personnel located at its mills.

Environmental Protection Efforts

Information concerning environmental expenditures, hazardous substance cleanup, environmental legal proceedings and other environmental matters affecting the Company is incorporated by reference from text under the caption "Other Matters" on page 14 of the Company's 1998 Annual Report to Shareholders and Note 9 to the Consolidated Financial Statements also found in the Company's 1998 Annual Report to Shareholders.

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Capital Expenditures

Information concerning the Company's capital expenditures is incorporated by reference from text under the caption "Investing Activities" on page 13 of the Company's 1998 Annual Report to Shareholders.

Trademarks and Patents

The Company owns or has the right to use certain marks, which are registered trademarks of the Company or are otherwise subject to protection under applicable intellectual property laws. Some of its marks have been registered in such foreign jurisdictions as the U.K., Germany and the Benelux countries. Such registrations may be kept in force in perpetuity through continued use of the marks and timely renewal. The Company considers these marks and the accompanying goodwill and customer recognition valuable and material to its business. The Company has a number of patents that collectively it believes are beneficial to the Company; however, the Company believes that expiration of any patent would not have a material adverse effect on the Company.

International Sales

In 1998, net sales by the Company's foreign subsidiaries totaled \$65.5 million, or 7.7% of total net sales. The Company's domestic sales to foreign customers were \$48.7 million in 1998, approximately 5.7% of total net sales. The majority of the Company's international sales were to customers in Europe, Canada, Mexico, Australia and South Africa.

Marketing and Distribution

The Company's products are sold either on a direct basis or through merchant distributors to publishers, printers, converters or other end-users. The Company's sales and marketing staff work with merchants and converters, or directly with end-users, to identify paper customization and service opportunities that can help the Company differentiate itself from competitors and make the Company a preferred source of supply. A strong integration between manufacturing, product development and sales helps the Company respond favorably and quickly to customer inquiries and orders. As a result of this teamwork, the Company's sales staff has the ability and authority to respond to many non-standard customer requests immediately.

The Company's finished products are generally marketed on a delivered price basis and shipped by common carrier. Crown Vantage believes that timely and economical delivery of finished products is a critical element of a customer's selection of preferred suppliers and is a significant factor in the Company's ability to compete. The Company typically ships by rail, truck or intermodal service, using the most economical mode that meets service specifications. In many cases, Crown Vantage has contracted with key carriers for guaranteed space, which benefits the Company's cost structure and its customers through more dependable delivery. The mills seek to control warehouse costs by limiting

finished goods inventory to generally between 2 and 14 days. The Company also uses a few strategically located third party warehouses in different regions throughout the U.S. to maintain certain grades of paper to meet customer expectations of timely delivery. These warehouses typically ship products by guaranteed pool trucks to stocking merchants, printers and other customers throughout the U.S.

Cyclical Nature of the Paper Industry

Paper product markets, including those in which the Company competes, are highly cyclical. This is characterized by periods of supply and demand imbalance and sensitivity to changes in industry

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capacity. Demand for paper products is influenced to a significant degree by the overall level of domestic and international economic activity that is beyond the Company's control. A number of structural factors also accentuate the cyclical nature of the paper industry, including the substantial capital investment and high fixed costs required to manufacture paper products; the significant exit costs associated with capacity reductions; and, at times, intensified competition resulting from overseas market conditions. Because of the high fixed costs associated with paper production, paper manufacturers need to maintain high levels of capacity utilization (operating rates) to cover fixed costs. Therefore, relatively small changes in operating rates due to changes in domestic demand, capacity, and levels of imports may significantly affect prices. The American Forest and Paper Association stated in its December 1998 annual capacity survey that no new printing and writing paper machines are anticipated in the U.S. over the next three years. Pulp markets experience much the same cyclical nature as do paper markets. Operating results at the Company's non-integrated facilities are influenced by pulp price fluctuations -- benefiting during periods of decreasing pulp prices and suffering during periods of pulp price increases.

Leverage Resulting from the Spin-Off

The Spin-Off left the Company with significant debt service requirements. The degree to which the Company is leveraged could impact its ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes.

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Item 2. Properties

The Company owns and operates three pulp mills, seven paper mills and one cast-coating facility in the United States and two paper mills in Scotland. The following table summarizes the location, 1998 volumes and pertinent production characteristics of each facility. The Company's bank credit facility is collateralized by substantially all of the Company's assets, including the facilities listed below.

<TABLE>
<CAPTION>

	Printing and Publishing Papers			Specialty Papers
	Coated Groundwood <C>	Uncoated Freesheet <C>	Other <C>	<C>
<S> Facilities:	St. Francisville, LA	Gorham, NH Guardbridge, Scotland Dalmore, Scotland Adams, MA Ypsilanti, MI	Richmond, VA Berlin, NH Gorham, NH	St. Francisville, LA Port Huron, MI Parchment, MI Milford, NJ
1998 Sales Volumes:	289,000 tons	241,000 tons	117,000 tons	322,000 tons
Primary Production:	No. 4, No. 5 medium to heavy weight grades for magazines and catalogs	Text, cover and writing grades, security papers, custom forms papers and specialty applications	Cast-coated, pulp, and toweling	Coffee filters, cup and plate stock, grease resistant paper, labels, multi-wall bags, coated and uncoated other packaging and specialty applications
Special	Coating, calendering	Calendering,	cast-coating,	Calendering, creped

Production Capabilities:		watermarks, sheeting, embossing	sheeting	products, coating, waxing and chemical treatment
Paper Machines and Related Equipment:	2 paper machines with on-machine coating, 4 off-machine super-calenders	12 paper machines, assorted sheeters, rewinders and embossers	1 paper machine, 4 cast-coating machines, 4 sheeters	15 paper machines, 3 with on-machine coating and hot/soft calendering, 3 with on-machine waxers, 3 off-machine coaters, 6 off-machine waxers

</TABLE>

Item 3. Legal Proceedings

In 1994, the Company filed a suit against the City of Berlin, New Hampshire relating to an approximately \$107 million increase from 1992 to 1994 of the City's assessed value of the Berlin portion of the Berlin-Gorham facility. The increased assessed value resulted in an annual increase in property taxes of approximately \$2.5 million. The Company sought abatement of the tax increase on the grounds that the City's valuations were excessive, and that New Hampshire law exempted certain income producing equipment, such as the chemical recovery unit, from property taxation. In April 1996, the trial court affirmed most of the City's positions, and the Company appealed that decision to the New Hampshire Supreme Court. On December 31, 1997, the Supreme Court released an opinion which, in part, resulted in a remand of various issues back to the trial court. On February 1, 1999, the Company finalized an agreement with the City, which permanently settles the issues of taxability of factory machinery and for the next three years significantly reduces the assessed value from recent valuations of the Company's Berlin pulp mill. Over the three years the City of Berlin's property taxes are expected to average \$3 million annually at the current assessed rate, which is some \$2 million per year less than has been billed over the past five years. The Company expects to reverse a property tax accrual of approximately \$9 million in the first quarter of 1999.

The Company has been identified as a potentially responsible party ("PRP"), along with others, under the Comprehensive Environmental Response, Compensation and Liability Act or similar federal and state laws regarding the past disposal of wastes at 19 sites in the United States. The Company has previously settled its remediation obligations at 12 of those sites. At 6 other sites, the Company is one of many potentially responsible parties and its alleged contribution to the site and remediation obligation is not considered significant. At one other site, remedial investigation is underway and a loss estimate for the potential remediation effort is not yet possible. However, the Company's accrual for the remediation investigation effort was \$4 million at December 27, 1998 and \$.6 million at December 28, 1997. The liabilities can change substantially due to such factors as the solvency of other potentially responsible parties, the Company's share of responsibility, additional information on the nature or extent of contamination, methods and associated costs of remediation required, and other actions by governmental agencies or private parties. While it is not feasible to predict the outcome of all environmental liabilities, based on its most recent review, management estimates the Company's share of the costs of investigation and remediation of the known sites will not have a material adverse effect upon the consolidated financial condition of the Company. Due to uncertainties associated with remediation activities, regulations, technologies, and the allocation of costs among various other parties, actual costs to be incurred at identified sites may vary from estimates. Therefore, management is unable to determine if the ultimate disposition of all known environmental liabilities will have a material adverse effect on the Company's consolidated results of operations in a given year. As with most manufacturing and many other entities, there can be no assurance that the Company will not be named as a PRP or incur liabilities through other means at additional sites in the future or that the costs associated with such additional sites would not be material.

In addition to the matters described above, the Company is a party to various legal proceedings generally incidental to its business and is subject to a variety of environmental protection statutes and regulations. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings involving environmental matters. Although the ultimate disposition of legal proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any claim that is pending or threatened, either individually or on a combined basis, will not have a materially adverse effect on the consolidated financial position of the Company but could materially affect consolidated results of operations in a given period.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Executive Officers of Crown Vantage Inc.:

<TABLE>
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
Robert A. Olah	49	Chief Executive Officer, President, Director
R. Neil Stuart	44	Executive Vice President, Chief Financial Officer
Katie Cutler	54	Senior Vice President, Corporate Communications
Edward A. Fusakio	57	Senior Vice President, Specialty Papers
Antoinette S. Gabriel	54	Senior Vice President, Chief Administrative Officer
C. Neil Henderson	60	Senior Vice President, Printing and Publishing Papers
Michael J. Hunter	38	Senior Vice President, Chief Accounting Officer
Christopher M. McLain	55	Senior Vice President and General Counsel, Secretary

</TABLE>

Robert A. Olah has been Chief Executive Officer, President and Director since September 1998. Previously he served as President and Chief Operating Officer since December 9, 1997. Previous thereto served as Senior Vice President, Specialty Papers since 1996 and as Senior Vice President, Packaging Papers Group since creation of the Company in 1995. Previously served as Vice President, General Manager, James River Corporation Packaging Papers Division.

R. Neil Stuart has been Executive Vice President, Chief Financial Officer since September 1998. Previously thereto served as Senior Vice President, Chief Financial Officer since May 1996 and Managing Director at the Toronto-Dominion Bank, New York.

Katie Cutler has been Senior Vice President, Corporate Communications since creation of the Company in 1995. Previously served as Vice President, External Affairs, James River Corporation Communication Papers Business.

Edward A. Fusakio has been Senior Vice President, Specialty Papers since joining the Company in September 1998. Previously served as Manager of Aseptic Packaging and Technology and Manager of Technology and Product Liquid Packaging Division, International Paper Corporation.

Antoinette S. Gabriel has been Senior Vice President, Chief Administrative Officer since creation of the Company in 1995. Previously served as Vice President, Planning and Administration, James River Corporation Communication Papers Business.

C. Neil Henderson has been Senior Vice President, Printing and Publishing Papers since September 1998 and previous thereto served as Uncoated Printing and Publishing Papers since 1996 and Senior Vice President, Curtis Fine Papers Group since creation of the Company in 1995. Previously served as Chief Executive of James River Fine Papers Group and Chief Executive of James River Fine Papers, Ltd.

Michael J. Hunter has been Senior Vice President, Chief Accounting Officer since February 1999. Previously served as Vice President, Chief Accounting Officer since January 1997 and Director of Financial Reporting for the Company since December 1995. Prior thereto was Senior Manager at Ernst & Young LLP, San Francisco.

Christopher M. McLain has been Senior Vice President and General Counsel, Secretary since October 1995. Previously an attorney with Sonnenschein Nath & Rosenthal, San Francisco, and prior thereto was Senior Vice President, General Counsel and Secretary, Transamerica Corporation, San Francisco.

The directors of Crown Vantage will hold office until the next annual meeting of stockholders of Crown Vantage and until their successors are duly elected and qualified. The executive officers named above will be elected to serve in such capacities until the next annual meeting of the Board of Directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office. There is no family relationship between any of the officers.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company had approximately 8,100 shareholders of record of its Common Stock as of March 17, 1999. The Company's Common Stock is traded on the NASDAQ National Market System under the symbol CVAN (see Management Discussion and

Analysis "Continued Nasdaq Listing" of the Company's 1998 Annual Report to Shareholders).

Information concerning dividend restrictions and the high and low sales prices of the Company's Common Stock is incorporated herein by reference from Note 6 and Note 16, respectively, on pages 27 and 38, respectively, of the Company's 1998 Annual Report to Shareholders.

Item 6. Selected Financial Data

Selected financial data is incorporated herein by reference from page 7 of the Company's 1998 Annual Report to Shareholders.

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 is incorporated herein by reference from pages 8 through 17 of the Company's 1998 Annual Report to Shareholders.

Item 7a. Qualitative and Quantitative Disclosures About Market Risk

Qualitative and Quantitative Disclosures About Market Risk is incorporated herein by reference on page 14 of the Company's 1998 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data

The Report of Independent Auditors as of and for the years ended December 27, 1998, December 28, 1997 and December 29, 1996, and the consolidated financial statements of Crown Vantage Inc. are incorporated herein by reference from pages 18 through 38 of the Company's 1998 Annual Report to Shareholders. See Item 14 of this report for information concerning financial statements and schedule filed with this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning the Company's Board of Directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference from the text under the captions "Election of Directors," "Certain Information Concerning the Board of Directors and its Committees" and "Section 16(a) Beneficial Ownership Reporting Compliance" included in the Company's Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

Information concerning the Company's Executive Officers appears under the caption "Executive Officers of Crown Vantage Inc." included in Part I of this Form 10-K.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the following tables and related text, which are included in the Company's Proxy Statement for the April 28, 1999 Annual Meeting of

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Shareholders: Summary Compensation Table, Options/SAR Grants in 1998, Aggregated Option/SAR Exercises in 1998 and Fiscal Year End Option/SAR Values, and Approximate Annual Pension Benefit at Age 65.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning ownership of equity stock of the Company by certain beneficial owners and management is incorporated herein by reference from the text under the caption "Principal Shareholders" and "Common Stock Ownership of Directors and Executive Officers" included in the Company's Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions with officers and directors is incorporated herein by reference from the text under the caption "Certain Relationships and Related Transactions" included in the Company's Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements. The report of independent auditors as of December 27, 1998, December 28, 1997 and December 29, 1996 and for the years then ended and the following consolidated financial statements of the Company are incorporated herein by reference from the Company's 1998 Annual Report to Shareholders.

<TABLE>	
<CAPTION>	
<S>	1998 Annual Report Page
Report of Independent Auditors.....	<C> 18
Consolidated Statements of Operations- Years Ended December 27, 1998, December 28, 1997 and December 29, 1996.....	19
Consolidated Balance Sheets - December 27, 1998 and December 28, 1997.....	20
Consolidated Statements of Cash Flows - Years Ended December 27, 1998, December 28, 1997 and December 29, 1996.....	21
Consolidated Statement of Changes in Equity (Deficit) - Years Ended December 27, 1998, December 28, 1997 and December 29, 1996.....	22
Notes to Consolidated Financial Statements.....	23
</TABLE>	

<TABLE>
<CAPTION>

(a) (2) Financial Statement Schedule.	Page or Exhibit Number In Form 10-K -----
<S>	<C>
Report of Independent Auditors on Financial Statement Schedule as of and for the years ended December 27, 1998, December 28, 1997 and December 29, 1996.....	Page 19
Schedule I - Condensed Financial Information of Registrant.....	Page 20
</TABLE>	

All schedules other than that indicated above are omitted because of the absence of the conditions under which they are required or because the required information is set forth in the consolidated financial statements and notes thereto.

(a) (3) Exhibits

All exhibits, including those incorporated by reference:

Exhibit No.	Description
-----	-----
2.1(1)	Form of Contribution Agreement among Crown Paper Co. ("Crown Paper"), Crown Vantage, Inc. ("Crown Vantage"), James River Corporation of Virginia ("JRC") and James River Paper Company, Inc. ("James River Paper")
3.1(1)	Articles of Incorporation of Crown Vantage
3.2(5)	Articles of Amendment to the Articles of Incorporation dated May 13, 1996 and July 31, 1996
3.3*	Restated Bylaws of Crown Vantage
3.4(1)	Articles of Designation for Preferred Shares, Series A
4.1(1)	Form of Rights Agreement between Crown Vantage and Norwest Bank Minnesota, N.A., as Rights Agent
10.1(1)	Form of Tax Sharing Agreement among JRC, James River Paper, Crown Vantage and Crown Paper
10.2(1)	Form of Pulp Purchase Agreement between James River Paper and Crown Paper
10.3(1)	Form of Environmental Services Agreement between James River Paper and Crown Paper
10.4(1)	Form of Pulp Technology Services Agreement between James River Paper and Crown Paper
10.5(1)	Form of Cottonwood Pedigreed Plant Material Agreement between James River Paper and Crown Paper
10.6(1)	Form of St. Francisville Product Supply Agreement (Consumer Products Business) between James River Paper and Crown Paper
10.7(1)	Form of St. Francisville Product Supply Agreement (Packaging Business) between James River Paper and Crown Paper
10.8(1)	Form of Landfill Agreement between James River Paper and Crown Paper
10.9(1)	Form of Allocation Agreement among JRC, James River Paper and Crown Paper
10.10(1)	Form of Packaging Papers Product Supply Agreement between James River Paper and Crown Paper

- 10.11(1) Form of St. Francisville Wood Chip Supply Agreement between James River Paper and Crown Paper
- 10.12(1) Form of St. Francisville Roundwood Supply and Cutting Rights Agreement between James River Paper and Crown Paper
- 10.13(1) Form of Northeast Roundwood Supply Agreement between James River Paper and Crown Paper
- 10.14(1) Form of Pension Funding Agreement among Crown Paper, Crown Vantage and James River
- 10.15(1) Form of Guaranty Support Agreement among Crown Paper, Crown Vantage and James River
- 10.16(1) Form of Eureka Trademark Agreement
- 10.17(1) Form of Crown Vantage Stock Option Plan for Outside Directors **
- 10.18(7) Crown Vantage Inc. Stock Award Plan for Outside Directors (as amended) **
- 10.19(7) Second Amendment to the Crown Vantage Inc. Stock Award Plan for Outside Directors **
- 10.20(6) Crown Vantage Inc. 1995 Incentive Stock Plan **
- 10.21(1) Form of Crown Vantage Inc. Stock Plus Employee Stock Ownership Plan **
- 10.22(4) Form of Employment Agreement for Ernest S. Leopold dated December 5, 1995 **
- 10.23(2) Form of Nonstatutory Stock Option with Reload Feature Agreement under the Registrant's 1995 Omnibus Incentive Stock Plan **
- 10.24(2) Form of Restricted Stock Award Agreement under the Registrant's 1995 Omnibus Incentive Stock Plan **
- 10.25(2) Form of Nonstatutory Stock Option Agreement under the Registrant's 1995 Stock Option Plan for Outside Directors **
- 10.26(2) Form of Restricted Stock Award Agreement under the Registrant's 1995 Stock Award Plan for Outside Directors **
- 10.27(4) Form of Agreement (Severance) dated December 5, 1995 **
- 10.28(4) Form of Amendment No. 1 to the Crown Vantage Inc. Stock Plus Employee Stock Ownership Plan
- 10.29(3) Indenture between the Bank of New York, as trustee, and the Company, relating to the Notes
- 10.30(7) First Supplemental Indenture between the Bank of New York, as trustee, and the Company, relating to the Notes
- 10.31(3) Bank Credit Agreement among Morgan Guaranty Trust Company of New York, as Agent, the Banks named therein, Crown Paper and Crown Vantage
- 10.32(7) Amendment No. 1 to Credit Agreement
- 10.33(7) Amendment No. 2 to Credit Agreement
- 10.34(3) Note Purchase Agreement Between JRC and Crown Vantage, relating to the PIK Notes
- 10.35(7) Receivables Purchase Agreement
- 10.36(7) Purchase and Sale Agreement (relating to Receivables Purchase Agreement)
- 10.37(7) Loan Agreement between Business Finance Authority of the State of New Hampshire and Crown Paper Co.

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- 10.38(7) Refunding Loan Agreement between Business Finance Authority of the State of New Hampshire and Crown Paper Co.
- 10.39(9) Amendment No. 3 to Credit Agreement
- 10.40(9) Amendment No. 4 to Credit Agreement
- 10.41(8) Option and Settlement Agreement Between Fort James Corporation and Crown Vantage, relating to the PIK Notes
- 10.42(10) Amendment No. 1 to Form of Agreement (Severance) (a management contract) **
- 10.43(11) Form of Agreement - Deferred Stock Awards for Selected Salaried Employees **
- 10.44(11) Form of Agreement - Deferred Stock Awards for Senior Officers **
- 10.45(11) Description of Temporary Enhanced Severance **
- 10.46(12) Form of Employment Agreement (amendment No. 2) for Ernest S. Leopold dated September 11, 1998 **
- 10.47(12) Amendment No. 5 to Credit Agreement
- 10.48* Amendment No. 6 to Credit Agreement
- 10.49* Second Supplemental Indenture between the Bank of New York, as trustee, and the Company, relating to the Notes
- 13.1* Portions of the 1998 Annual Report to Shareholders, which are specifically incorporated by reference herein
- 21.1(7) Subsidiaries
- 23.1* Consent of Ernst & Young LLP to the incorporation by reference of their report dated January 29, 1999 into the Registration Statements on Form S-8, File Nos. 33-96788, 33-96854, 33-96856, 333-09361, 333-4420 and 333-52355
- 27* Financial Data Schedule

-
- (1) Previously filed as Exhibits to Crown Vantage Inc. Registration Statement No. 33-95736 on Form S-1 filed with the Securities and Exchange Commission ("SEC") on August 14, 1995 and all amendments thereto, concerning the distribution of Common Stock of Crown Vantage Inc.
 - (2) Previously filed as Exhibits to Crown Vantage Inc. Form 10-Q for the

- quarterly period ended September 24, 1995.
- (3) Previously filed as exhibits to the Crown Paper Co. Registration Statement No. 33-93494 on Form S-1 filed with the SEC June 15, 1995 and all amendments thereto, concerning the offering of the \$250,000,000 aggregate principal amount of Senior Subordinated Notes due 2005 to be issued by Crown Paper Co.
 - (4) Previously filed as Exhibits to Crown Vantage Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995.
 - (5) Previously filed as Exhibits to Crown Vantage Inc. Registration Statement No. 333-09361 on Form S-8 and to Crown Vantage Inc.'s report on Form 10-Q for the quarter ended June 30, 1996, respectively.
 - (6) Previously filed as Exhibits to Crown Vantage Inc.'s report on Form 10-Q for the quarter ended September 29, 1996.
 - (7) Previously filed as Exhibits to Crown Vantage Inc.'s Annual Report on Form 10-K for the year ended December 29, 1996
 - (8) Previously filed in Form 8-K dated March 25, 1998.
 - (9) Previously filed as Exhibits to Crown Vantage Inc.'s Annual Report on Form 10-K for the year ended December 28, 1997
 - (10) Previously filed as Exhibits to Crown Vantage Inc.'s report on Form 10-Q for the quarter ended March 29, 1998.
 - (11) Previously filed as Exhibits to Crown Vantage Inc.'s report on Form 10-Q for the quarter ended June 28, 1998.
 - (12) Previously filed as Exhibits to Crown Vantage Inc.'s report on Form 10-Q for the quarter ended September 28, 1998.
- * Included as an exhibit herein.
- ** Indicates management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K. Current Report, previously filed on Form 8-K dated October 5, 1998, item 5, relating to the Company's settlement agreement with Fort James on \$33 million in PIK Notes.

Current Report, previously filed on Form 8-K dated January 27, 1999, item 5, relating to the Company's anticipated weak fourth quarter 1998 pulp and paper pricing, fourth quarter 1998 charges and Nasdaq hearing.

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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.

March 16, 1999

Crown Vantage Inc.
(Registrant)

/s/ R. Neil Stuart

/s/ Michael J. Hunter

R. Neil Stuart,
Executive Vice President,
Chief Financial Officer

Michael J. Hunter
Senior Vice President,
Chief Accounting Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Christopher M. McLain, R. Neil Stuart, and Michael J. Hunter, and each of them, his or her true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments to this report on Form 10-K together with all schedules and exhibits thereto, (ii) act on, sign and file such certificates, instruments, agreements and other documents as may be necessary or appropriate in connection therewith, and (iii) take any and all actions which may be necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, hereby approving, ratifying and confirming all that such agent, proxy and attorney-in-fact or any of his or her substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 16, 1999.

<TABLE>

<CAPTION>

Signature

Title

<S>

<C>

/s/ George B. James

Chairman and Director

George B. James

/s/ Robert A. Olah

Chief Executive Officer, President and Director

Robert A. Olah

/s/ Ernest S. Leopold Director

Ernest S. Leopold

/s/ Joseph T. Piemont Director

Joseph T. Piemont

/s/ E. Lee Showalter Director

E. Lee Showalter

/s/ William D. Walsh Director

William D. Walsh
</TABLE>

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<TABLE>
<CAPTION>
<S> <C>
/s/ James S. Watkinson Director

James S. Watkinson

/s/ Donna L. Weaver Director

Donna L. Weaver
</TABLE>

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 16, 1999.

<TABLE>
<CAPTION>
Signature Title

<S> <C>

/s/ R. Neil Stuart Chief Financial Officer

R. Neil Stuart

/s/ Michael J. Hunter Chief Accounting Officer

Michael J. Hunter
</TABLE>

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CROWN VANTAGE INC.

FINANCIAL STATEMENT SCHEDULE I

CONDENSED FINANCIAL STATEMENTS OF REGISTRANT

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Report of Independent Auditors

We have audited the consolidated financial statements of Crown Vantage Inc. and subsidiaries as of December 27, 1998 and December 28, 1997 and for the three years then ended, and have issued our report thereon dated January 29, 1999. Our report on the consolidated financial statements of Crown Vantage Inc. has been incorporated by reference in this Form 10-K from page 18 of the 1998 Annual

Report to Shareholders of Crown Vantage Inc. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in Item 14(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LLP

San Francisco, California
January 29, 1999

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CROWN VANTAGE INC.
CONDENSED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

(amounts in thousands)	Year Ended December 27, 1998	Year Ended December 28, 1997	Year Ended December 29, 1996
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Interest expense	\$ (15,800)	\$ (14,907)	\$ (13,381)
	-----	-----	-----
Loss before income taxes, equity in undistributed loss of subsidiaries and extraordinary gain	(15,800)	(14,907)	(13,381)
Income tax benefit	2,378	5,218	5,113
Equity in undistributed loss of subsidiaries before extraordinary item	(146,073)	(22,531)	(16,536)
	-----	-----	-----
Net loss before extraordinary item	(159,495)	(32,220)	(24,804)
Extraordinary item, net	18,988		
	-----	-----	-----
Net loss	\$ (140,507)	\$ (32,220)	\$ (24,804)
	=====	=====	=====

</TABLE>

See notes to condensed financial statements.

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CROWN VANTAGE INC.
CONDENSED BALANCE SHEETS

<TABLE>
<CAPTION>

(dollar amounts in thousands)	December 27, 1998	December 28, 1997
-----	-----	-----
<S>	<C>	<C>
ASSETS		
Deferred income taxes		\$ 6,327
Investment in subsidiaries		110,607
	-----	-----
Total Assets	\$ -0-	\$116,934
	=====	=====
LIABILITIES AND EQUITY		
Current Liabilities:		
Accrued liabilities	\$ 4,284	\$ 4,718
	-----	-----
Total current liabilities	4,284	4,718
Investment in subsidiaries	27,126	
Due to Crown Paper Co.	10,698	
Long-term debt	95,992	113,185

Total Liabilities	138,100	117,903
Shareholders' Equity:		
Preferred Stock, no par value;		
Authorized - 500,000 shares;		
Issued and outstanding - None		
Common Stock, no par value;		
Authorized - 50,000,000 shares;		
Issued and outstanding - 9,876,842 and 9,668,313 shares		
at December 27, 1998 and December 28, 1997, respectively	47,887	45,831
Unearned ESOP shares and other	(974)	(3,971)
Minimum pension liability	(2,231)	(330)
Cumulative foreign currency translation adjustment	1,562	1,338
Retained deficit	(184,344)	(43,837)
	-----	-----
	(138,100)	(969)
	-----	-----
Total Liabilities and Equity	\$ -0-	\$116,934
	=====	=====

</TABLE>

See notes to condensed financial statements.

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Notes to Condensed Financial Statements

Note 1 -- Basis of Presentation

Crown Vantage Inc. ("Crown Vantage" or the "Parent Company") was incorporated in Virginia in March 1995. Crown Vantage's only significant asset is all of the outstanding shares of Crown Paper Co. and subsidiaries ("Crown Paper"). The Parent Company's investment in subsidiaries is stated at cost plus (minus) equity in undistributed income (loss) of its subsidiaries since the Spin-Off. Net income (loss) of the Parent Company reflects its income and expense as well as the earnings (losses) of Crown Paper.

Note 2 -- Long-Term Debt

The amount of 11.45% Senior Pay-in-Kind Notes ("PIK Notes") outstanding to Fort James on December 27, 1998 was \$106.8 million and \$125.3 million on December 28, 1997. The PIK Notes due to Fort James are recorded at a discount of \$10.8 million on December 27, 1998 and \$12.1 million on December 28, 1997 in order to reflect a market rate of interest of 13% at the Spin-Off. Interest on the PIK Notes is due semi-annually in March and September, and may be paid in cash or in additional PIK Notes until September 2003. Thereafter interest must be paid in cash. As of December 27, 1998, interest due has been paid through the issuance of additional PIK Notes. On September 28, 1998 Crown Vantage and Crown Paper settled with Fort James a variety of claims that had arisen between the companies. The settlement resulted in the return of \$25.1 million of PIK Notes to Crown Vantage and the delivery of \$8.1 million of PIK Notes to Crown Paper. The settlement resulted in an extraordinary gain to the Parent Company of \$19.0 million that is net of \$2.4 million in expenses and \$11.8 million in taxes. The settlement amended the terms of the remaining PIK Notes and allows Crown Vantage the right to call the remaining PIK Notes and accrued interest at fair value at any time prior to their maturity. In the event of a Change of Control (as defined in the underlying agreement) the holders of the PIK Notes have the right to require the Company to purchase the PIK Notes in cash at 101%.

Note 3 -- Cash Flow Information

On May 2, 1997, 500,000 shares of Common Stock were sold to the ESOP for \$3 million. Prior to the sale, Crown Paper borrowed the \$3 million under its Bank Credit Facility and lent that sum to the ESOP. Upon receipt of the funds from the ESOP, the Parent contributed the \$3 million to Crown Paper, which used the funds to reduce borrowings on its Bank Credit Facility. The purchase price was at the average of the high and low prices for the previous 10 days trading period. The loan was completely repaid in 1998 and bore interest of 11%.

As part of the PIK Note settlement discussed above, Crown Paper Co. paid \$2.4 million for Crown Vantage's share of the expenses. This payment is included in the due to Crown Paper balance for the year presented on the Balance Sheet. Other than the cash flows described above, there were no other cash flows of the Parent.

Note 4 -- Dividends

During 1998, 1997, and 1996, Crown Paper Co. neither paid nor declared dividends to the Parent.

Note 5 -- Due to Crown Paper Co.

Included in "Due to Crown Paper" is the \$8.1 million in 11.45% PIK Notes transferred to Crown Paper as part of the settlement with Fort James. Also included are \$2.4 million of expenses paid by Crown Paper in behalf of Crown Vantage, primarily for consent and investment banking fees associated with the settlement with Fort James and accrued interest of \$.2 million on the PIK Notes due to Crown Paper.

RESTATED BYLAWS OF

CROWN VANTAGE INC.

(as amended February 2, 1999)

ARTICLE I - MEETINGS OF STOCKHOLDERS

Section I.1 Closing of Transfer Books and Fixing of Record Date. For the

purpose of determining stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors or the Executive Committee shall fix in advance a date as the record date for any such determination of stockholders, such date to be not more than 70 days before the meeting or action. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this article, such determination shall apply to any adjournment thereof, except as is otherwise provided by law.

Section I.2 Place and Time of Meetings. Meetings of stockholders shall be

held at such place, either within or without the Commonwealth of Virginia, and at such time, as may be provided in the notice of the meeting.

Section I.3 Organization and Order of Business. The Chairman, (the

"Chairman") or, in his absence, the Chief Executive Officer, shall serve as chairman at all meetings of the stockholders. In the event of their absence or if both individuals decline to serve, a majority of the shares entitled to vote at such meeting may appoint any person to act as chairman. The Secretary of the Corporation or, in his absence, an Assistant Secretary, shall act as secretary at all meetings of the stockholders. In the event that neither the Secretary nor any Assistant Secretary is present, the chairman of the meeting may appoint any person to act as secretary of the meeting.

The Chairman shall have the authority to make such rules and regulations, to establish such procedures and to take such steps as he or she may deem necessary or desirable for the proper conduct of each meeting of the stockholders, including, without limitation, the authority to make the agenda and to establish procedures for (i) the dismissal of business not properly presented, (ii) the maintenance of order and safety, (iii) placing limitations on the time allotted to questions or comments on the affairs of the Corporation, (iv) placing restrictions on attendance at a meeting by persons or classes of

persons who are not stockholders or their proxies, (v) restricting entry to a meeting after the time prescribed for the commencement thereof and (vi) the commencement, conduct and close of voting on any matter.

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Section I.4 Annual Meeting. The annual meeting of stockholders shall be

held on the third or second Thursday in April of each year as set by the Board of Directors or on such other dates as shall be approved by the Board of Directors.

At each annual meeting of stockholders, only such business shall be conducted as is proper to consider and has been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by a stockholder of the Corporation who is a stockholder of record of a class of shares entitled to vote on such business at the time of the giving of the notice hereinafter described in this Section 1.4 and who complies with the notice procedures set forth in this Section 1.4. In order to bring business before an annual meeting of stockholders, a stockholder, in addition to complying with any other applicable requirements, must have given timely written notice of his intention to bring such business before the meeting to the Secretary of the Corporation. To be timely, a stockholder's notice must be given, either by personal delivery or by United States certified mail, postage prepaid, addressed to the Secretary of the Corporation at the principal office of the Corporation and received (i) on or after January 1st of the year in which the meeting will be held and before February 1st of the year in which the meeting will be held or (ii) not less than 60 days before the date of the annual meeting if the date of such meeting, as prescribed in these Bylaws, has been changed by more than 30 days.

Each such stockholder's notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) the name and address, as they appear on the Corporation's stock transfer books, of the stockholder proposing such business, (ii) the class and number of shares of stock of the Corporation beneficially owned by such stockholder, (iii) a representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to bring before the meeting the business specified in the notice, (iv) a brief description of the business desired to be brought before the meeting, including the complete text of any resolutions to be presented at the meeting and the reasons for wanting to conduct such business, and (v) any material interest which the stockholder has in such business.

The Secretary of the Corporation shall deliver each such stockholder's notice that has been timely received to the Chairman or a committee designated by the Board of Directors for review.

Notwithstanding the foregoing provisions of this Section 1.4, a stockholder seeking to have a proposal included in the Corporation's proxy statement for an annual meeting of stockholders shall comply with the requirements of Regulation

14A under the Securities Exchange Act of 1934, as amended from time to time, or with any successor regulation.

Section I.5 Special Meetings. Special meetings of the stockholders may be

called by the Chief Executive Officer or the Board of Directors. Only business within the purpose or purposes described in the notice for a special meeting of stockholders may be conducted at the meeting.

Section I.6 Notice of Meetings. Written notice stating the place, day and

hour of each meeting of stockholders and, in the case of a special meeting, the purpose or purposes for which

the meeting is called, shall be given by mail not less than ten nor more than 60 days before the date of the meeting (except when a different time is required in these Bylaws or by law) to each stockholder of record entitled to vote at such meeting and to such nonvoting stockholders as may be required by law. Such notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation.

Notice of a stockholders' meeting to act on (i) an amendment of the Articles of Incorporation; (ii) a plan of merger or share exchange; (iii) the sale, lease, exchange or other disposition of all or substantially all the property of the Corporation otherwise than in the usual and regular course of business, or (iv) the dissolution of the Corporation, shall be given, in the manner provided above, not less than 25 nor more than 60 days before the date of the meeting. Any notice given pursuant to this paragraph shall state that the purpose, or one of the purposes, of the meeting is to consider such action and shall be accompanied by (x) a copy of the proposed amendment, (y) a copy of the proposed plan of merger or share exchange, or (z) a summary of the agreement pursuant to which the proposed transaction will be effected. If only a summary of the agreement is sent to the stockholders, the Corporation shall also send a copy of the agreement to any stockholder who requests it.

If a meeting is adjourned to a different date, time or place, notice need not be given if the new date, time or place is announced at the meeting before adjournment. However, if a new record date for an adjourned meeting is fixed (which shall be done if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting), notice of such date shall be given to those persons entitled to notice who are stockholders as of the new record date, unless a court provides otherwise.

Section I.7 Quorum and Voting Requirements. Each outstanding share of

common stock shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. Shares of other classes and series shall be entitled

to such vote as may be provided in the Articles of Incorporation.

Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Unless otherwise required by law, a majority of the votes entitled to be cast on a matter by a voting group constitutes a quorum of that voting group for action on that matter. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or shall be set for that adjourned meeting. If a quorum exists, action on a matter, other than the election of directors, by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater number of affirmative votes is required by law or by the Articles of Incorporation. Directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present unless a different vote is required by the Articles of Incorporation. Less than a quorum may adjourn a meeting.

Section I.8 Proxies. A stockholder may vote his shares in person or by

proxy. A stockholder may appoint a proxy to vote or otherwise act for him or her by signing an appointment form, either personally or by his attorney-in-fact. An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes and is valid for 11 months unless a longer period is expressly provided in the appointment form. An appointment of a proxy is revocable by the stockholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest.

The death or incapacity of the stockholder appointing a proxy does not affect the right of the Corporation to accept the proxy's authority unless notice of the death or incapacity is received by the Secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. An irrevocable appointment is revoked when the interest with which it is coupled is extinguished. A transferee for value of shares subject to an irrevocable appointment may revoke the appointment if he or she did not know of its existence when he or she acquired the shares and the existence of the irrevocable appointment was not noted conspicuously on the certificate representing the shares. Subject to any legal limitations on the right of the Corporation to accept the vote or other action of a proxy and to any express limitation on the proxy's authority appearing on the face of the appointment form, the Corporation is entitled to accept the proxy's vote or other action as that of the stockholder making the appointment. Any fiduciary entitled to vote any shares may vote such shares by proxy.

Section I.9 Waiver of Notice; Attendance at Meeting. A stockholder may

waive any notice required by law, the Articles of Incorporation or these Bylaws

before or after the date and time of the meeting that is the subject of such notice. The waiver shall be in writing, be signed by the stockholder entitled to the notice, and be delivered to the Secretary of the Corporation for inclusion in the minutes or filing with the corporate records.

A stockholder's attendance at a meeting (i) waives objection to lack of notice or defective notice of the meeting, unless the stockholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the stockholder objects to considering the matter when it is presented.

Section I.10 Action Without Meeting. Action required or permitted to be

taken at a stockholders' meeting may be taken without a meeting and without action by the Board of Directors if the action is taken by all the stockholders entitled to vote on the action. The action shall be evidenced by one or more written consents describing the action taken, signed by all the stockholders entitled to vote on the action, and delivered to the Secretary of the Corporation for inclusion in the minutes or filing with the corporate records. Action taken under this section shall be effective according to its terms when all consents are in the possession of the Corporation. A stockholder may withdraw a consent only by delivering a written notice of withdrawal to the Corporation prior to the time that all consents are in the possession of the Corporation.

If not otherwise fixed pursuant to the provisions of Section 1.1, the record date for determining stockholders entitled to take action without a meeting is the date the first stockholder signs the consent described in the preceding paragraph.

If notice of proposed action is required to be given to nonvoting stockholders and the action is to be taken by unanimous consent of the voting stockholders, the Corporation shall give its nonvoting stockholders written notice of the proposed action at least ten days before the action is taken. The notice shall contain or be accompanied by the same material that would have been required by law to be sent to nonvoting stockholders in a notice of a meeting at which the proposed action would have been submitted to the stockholders for action.

Section I.11 Voting List. The officer or agent having charge of the stock

transfer books of the Corporation shall make, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting or any adjournment thereof, with the address of and the number of shares held by each. The list shall be arranged by voting group and within each voting group by class or series of shares. Such list shall be kept on file at

the registered office of the Corporation, or at its principal office or at the office of its transfer agent or registrar, for a period of ten days prior to such meeting and shall be subject to the inspection of any stockholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder during the whole time of the meeting for the purposes thereof. The original stock transfer books shall be prima facia evidence as to who are the stockholders entitled to examine such list or transfer books or to vote at any meeting of the stockholders. The right of a stockholder to inspect such list at any other time shall be subject to the limitations established by law.

If the requirements of this section have not been substantially complied with, the meeting shall, on the demand of any stockholder in person or by proxy, be adjourned until such requirements are met. Refusal or failure to prepare or make available the stockholders' list does not affect the validity of action taken at the meeting prior to the making of any such demand, but any action taken by the stockholders after the making of any such demand shall be invalid and of no effect.

ARTICLE II - DIRECTORS

Section II.1 General Powers. The Corporation shall have a Board of

Directors. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation managed under the direction of, its Board of Directors, subject to any limitation set forth in the Articles of Incorporation.

Section II.2 Number and Term. The number of directors of the Corporation

shall be eight. This number may be changed from time to time by amendment to these Bylaws to increase or decrease by 30 percent or less the number of directors last elected by the stockholders, but only the stockholders may increase or decrease the number by more than 30

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percent. No decrease in number shall have the effect of shortening the term of any incumbent director. Each director shall hold office until his death, resignation or removal or until his successor is elected.

Section II.3 Nomination of Candidates. No person shall be eligible for

election as a director unless nominated (i) by the Board of Directors upon recommendation of the Nominating Committee or otherwise or (ii) by a stockholder entitled to vote on the election of directors pursuant to the procedures set forth in this Section 2.3.

Nominations, other than those made by the Board of Directors, may be made only by a stockholder who is a stockholder of record of a class of shares entitled to vote for the election directors at the time of the giving of the notice hereinafter described in this Section 2.3 and only if written notice of the stockholder's intent to nominate one or more persons for election as directors at a meeting of stockholders has been given, either by personal delivery or by United States certified mail, postage prepaid, addressed to the Secretary of the Corporation at the principal office of the Corporation and received (i) on or after January 1st of the year in which the meeting will be held and before February 1st of the year in which the meeting will be held, if the meeting is to be an annual meeting and clause (ii) is not applicable, or (ii) not less than 60 days before an annual meeting, if the date of the applicable annual meeting, as prescribed in these Bylaws, has been changed by more than 30 days, or (iii) not later than the close of business on the tenth day following the day on which notice of a special meeting of stockholders called for the purpose of electing directors is first given to stockholders.

Each such stockholder's notice shall set forth the following: (i) as to the stockholder giving the notice (a) the name and address of such stockholder as they appear on the Corporation's stock transfer books, (b) the class and number of shares of stock of the Corporation beneficially owned by such stockholder, (c) a representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to nominate the person or persons specified in the notice, and (d) a description of all arrangements or understandings, if any, between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made; and (ii) as to each person whom the stockholder wishes to nominate for election as a director (a) the name, age, business address and, if known, residence address of such person, (b) the principal occupation or employment of such person, (c) the class and number of shares of the Corporation which are beneficially owned by such person, and (d) all other information that is required to be disclosed about nominees for election as directors in solicitations of proxies for the election of directors under the Securities Exchange Act of 1934, as amended, or otherwise by the rules and regulations of the Securities and Exchange Commission. In addition, each such notice shall be accompanied by the written consent of each proposed nominee to serve as a director if elected. Each such consent shall also contain a statement from the proposed nominee to the effect that the information about him or her contained in the notice is correct.

Section II.4 Election. Except as provided in Section 2.5 of this Article

and in the Articles of Incorporation, the directors shall be elected by the common stockholders and preferred stockholders entitled to vote with the common stockholders at the annual meeting of

stockholders, and those nominees who receive the greatest number of votes shall be deemed elected even though they do not receive a majority of the votes cast.

No individual shall be named or elected as a director without his prior consent.

Section II.5 Removal; Vacancies. The stockholders may remove one or more

directors for cause. If a director is elected by a voting group, only the stockholders of that voting group may vote to remove him or her. Unless the Articles of Incorporation require a greater vote, a director may be removed if the number of votes cast to remove him or her constitutes a majority of the votes entitled to be cast at an election of directors of the voting group or voting groups by which such director was elected. A director may be removed by the stockholders only at a meeting called for the purpose of removing him or her and the notice of the meeting must state that the purpose, or one of the purposes of the meeting, is removal of the director.

A vacancy on the Board of Directors, including a vacancy resulting from the removal of a director or an increase in the number of directors, may be filled by (i) the stockholders, (ii) the Board of Directors or (iii) the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors, and may, in the case of a resignation that will become effective at a specified later date, be filled before the vacancy occurs but the new director may not take office until the vacancy occurs.

Section II.6 Compensation. The Board of Directors may fix the

compensation of directors for their services and may provide for the payment of all expenses incurred by directors in attending regular and special meetings of the Board of Directors.

ARTICLE III - DIRECTORS' MEETINGS

Section III.1 Annual and Regular Meetings. An annual meeting of the Board

of Directors, which shall be considered a regular meeting, shall be held immediately following each annual meeting of stockholders, for the purpose of electing officers and carrying on such other business as may properly come before the meeting. The Board of Directors may also adopt a schedule of additional meetings which shall be considered regular meetings. Regular meetings shall be held at such times and at such places, within or without the Commonwealth of Virginia, as the Chief Executive Officer shall designate. If no place is designated, regular meetings shall be held at the principal office of the Corporation.

Section III.2 Special Meetings. Special meetings of the Board of

Directors shall be held on the call of the Chief Executive Officer or any three members of the Board of Directors at the principal office of the Corporation or at such other place as the Chief Executive Officer shall designate.

Section III.3 Telephone Meetings. The Board of Directors may permit any

or all directors to participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear

each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

Section III.4 Notice of Meetings. No notice need be given of regular

meetings of the Board of Directors.

Notice of special meetings of the Board of Directors shall be given to each director in person or delivered to his residence or business address, or such other place as he or she may have directed in writing, not less than 24 hours before the meeting by mail, messenger, telecopy, telegraph, or other means of written communication or by telephoning such notice to him or her. Any such notice shall set forth the time and place of the meeting and state the purpose for which it is called.

Section III.5 Quorum; Voting. A majority of the number of directors fixed

in these Bylaws shall constitute a quorum for the transaction of business at a meeting of the Board of Directors. If a quorum is present when a vote is taken, the affirmative vote of a majority of the directors present is the act of the Board of Directors unless the act of a greater number is required by law, the Articles of Incorporation or these Bylaws. A director who is present at a meeting of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless (i) he or she objects at the beginning of the meeting, or promptly upon his arrival, to holding it or transacting specified business at the meeting; or (ii) he or she votes against, or abstains from, the action taken.

Section III.6 Waiver of Notice; Attendance at Meeting. A director may

waive any notice required by law, the Articles of Incorporation, or these Bylaws before or after the date and time stated in the notice, and such waiver shall be equivalent to the giving of such notice. Except as provided in the next paragraph of this section, the waiver shall be in writing, signed by the director entitled to the notice and filed with the minutes or corporate records.

A director's attendance at or participation in a meeting waives any required notice to him or her of the meeting unless the director at the beginning of the meeting or promptly upon his arrival objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section III.7 Action Without Meeting. Action required or permitted to be

taken at a Board of Directors' meeting may be taken without a meeting if the action is taken by all members of the Board. The action shall be evidenced by one or more written consents describing the action taken, signed by each director either before or after the action taken, and included in the minutes or filed with the corporate records reflecting the action taken. Action taken under this section shall be effective when the last director signs the consent unless the consent specifies a different effective date in which event the action taken is effective as of the date specified therein, provided the consent states the date of execution by each director.

ARTICLE IV - COMMITTEE OF DIRECTORS

Section IV.1 Committees. The Board of Directors may create one or more

committees and appoint members of the Board of Directors to serve on them. Unless otherwise provided herein, each committee shall have two or more members who serve at the pleasure of the Board of Directors. The creation of a committee and appointment of members to it shall be approved by the number of directors required to take action under Section 3.5 of these Bylaws.

Section IV.2 Authority of Committees. To the extent specified by the

Board of Directors, each committee may exercise the authority of the Board of Directors, except that a committee may not (i) approve or recommend to stockholders action that is required by law to be approved by stockholders; (ii) fill vacancies on the Board of Directors or any of its committees; (iii) amend the Articles of Incorporation without stockholder approval; (iv) adopt, amend, or repeal these Bylaws; (v) approve a plan of merger not requiring stockholder approval; (vi) authorize or approve a distribution, except according to a general formula or method prescribed by the Board of Directors; or (vii) authorize or approve the issuance, or sale or contract for sale, of stock or determine the designation and relative rights, preferences, and limitations of a class or series of stock, except that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits specifically prescribed by the Board of Directors.

Section IV.3 Executive Committee. The Board of Directors shall appoint an

Executive Committee consisting of two or more directors, which committee shall have all of the authority of the Board of Directors except to the extent such authority is limited by the provisions of Section 4.2.

Section IV.4 Audit Committee. The Board of Directors shall appoint an

Audit Committee consisting of not less than three directors, none of whom shall be officers, which committee shall regularly review the adequacy of the Corporation's internal financial controls, review with the Corporation's independent public accountants the annual audit and other financial statements,

and recommend the selection of the Corporation's independent public accountants.

Section IV.5 Nominating Committee. The Board of Directors shall appoint a

Nominating Committee consisting of not less than three directors, a majority of whom shall not be officers or employees, which committee shall recommend to the Board of Directors the names of persons to be nominated for election as directors of the Corporation.

Section IV.6 Compensation Committee. The Board of Directors shall appoint

a Compensation Committee consisting of not less than three directors, none of whom shall be officers, which committee shall recommend to the Board of Directors the compensation of directors and executive officers of the Corporation, make awards under the Corporation's discretionary employee benefit plans, and make recommendations from time to time to the Board of Directors regarding the Corporation's compensation program.

Section IV.7 Committee Meetings; Miscellaneous. The provisions of these

Bylaws which govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors shall also apply to committees of directors and their members.

ARTICLE V - OFFICERS

Section V.1 Officers. The officers of the Corporation shall be a

Chairman; a Chief Executive Officer; a President; a Secretary; a Chief Financial Officer; and such additional officers, including Vice Presidents and other officers, as the Board of Directors may deem necessary or advisable to conduct the business of the Corporation. Each of the Chairman and the Chief Executive Officer shall be a member of the Board of Directors. The Board of Directors shall also designate those officers who are deemed to be "Executive Officers." Any two offices may be combined except the offices of Chief Executive Officer and Secretary. The Board may designate that the Chairman be "non-executive" and not an officer of the Corporation if the Chairman is not an employee of the Corporation.

Section V.2 Election, Term. Officers shall be elected at each annual

meeting of the Board of Directors and shall hold office, unless removed, until the next annual meeting of the Board of Directors or until their successors are elected. Any officer may resign at any time upon written notice to the Board of Directors.

Section V.3 Removal of Officers. Officers may be removed, with or

without cause, at any time by the Board of Directors.

Section V.4.1 Duties of the Chairman. The Chairman shall perform such

duties, from time to time, as may be assigned to him or her by the Board of Directors. Unless he or she declines to serve, the Chairman shall preside at all meetings of the stockholders and the Board of Directors.

Section V.4.2 Duties of the Chief Executive Officer. The Chief Executive

Officer shall have general charge of, and be charged with, the duty of supervision of the business of the Corporation. In addition, he or she shall perform such duties, from time to time, as may be assigned to him or her by the Board of Directors.

Section V.4.3 Duties of the President. The President shall perform such

duties, from time to time, as may be assigned to him or her by the Board of Directors. To the extent that such duties are not so assigned, such officer shall have such authority and perform the duties which generally pertain to such office, subject to the control of the Chief Executive Officer.

Section V.5 Duties of the Secretary. The Secretary shall have the duty

to see that a record of the proceedings of each meeting of the stockholders and the Board of Directors, and any committee of the Board of Directors, is properly recorded and that notices of all such meetings are duly given in accordance with the provisions of these Bylaws or as required by law;

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he or she may affix the corporate seal to any document the execution of which is duly authorized, and when so affixed may attest the same; and, in general, he or she shall perform all duties incident to the office of secretary of a corporation, and such other duties as, from time to time, may be assigned to him or her by the Chief Executive Officer or the Board of Directors, or as may be required by law.

Section V.6 Duties of the Chief Financial Officer. The Chief Financial

Officer shall have charge of and be responsible for all securities, funds, receipts and disbursements of the Corporation, and shall deposit or cause to be deposited, in the name of the Corporation, all monies or valuable effects in such banks, trust companies or other depositories as shall, from time to time, be selected by or under authority granted by the Board of Directors; he or she shall be custodian of the financial records of the Corporation; he or she shall keep or cause to be kept full and accurate records of all receipts and disbursements of the Corporation and shall render to the Chief Executive Officer and the Board of Directors, whenever requested, an account of the financial

condition of the Corporation; and shall perform such duties as may be assigned to him or her by the Chief Executive Officer or the Board of Directors.

Section V.7 Duties of Other Officers. The other officers of the

Corporation shall have such authority and perform such duties as shall be prescribed by the Board of Directors or by officers authorized to appoint them to their respective offices. To the extent that such duties are not so stated, such officers shall have such authority and perform the duties which generally pertain to their respective offices, subject to the control of the Chief Executive Officer or the Board of Directors.

Section V.8 Voting Securities of Other Corporations. Any one of the

Chief Executive Officer or the Chief Financial Officer shall have power to act for and vote on behalf of the Corporation at all meetings of the stockholders of any corporation in which this Corporation holds stock, or in connection with any consent of stockholders in lieu of any such meeting.

Section V.9 Bonds. The Board of Directors may require that any or all

officers, employees and agents of the Corporation give bond to the Corporation, with sufficient sureties, conditioned upon the faithful performance of the duties of their respective offices or positions.

ARTICLE VI - CERTIFICATES OF STOCK

Section VI.1 Form. Stock of the Corporation shall, when fully paid, be

evidenced by certificates containing such information as is required by law and approved by the Board of Directors. Certificates shall be signed by the Chief Executive Officer, the Chief Financial Officer, or any Vice President and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and may (but need not) be sealed with the seal of the Corporation. The seal of the Corporation and any or all of the signatures on such certificates may be a facsimile, engraved or printed. In case any such officer or any transfer agent or registrar who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to hold office before such certificate is issued, the certificate shall, nevertheless, be valid.

Section VI.2 Lost, Stolen or Destroyed Stock Certificates. The

Corporation may issue a new stock certificate in the place of any certificate theretofore issued which is alleged to have been lost, stolen or destroyed and may require the owner of such certificate, or his legal representative, to give the Corporation a bond, sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate.

Section VI.3 Transfer. The Board of Directors may make such rules and

regulations concerning the issue, registration and transfer of certificates representing the stock of the Corporation as it deems necessary or proper and may appoint transfer agents and registrars. Unless otherwise provided, transfers of stock and of the certificates representing such stock shall be made upon the books of the Corporation by surrender of the certificates for the stock transferred, accompanied by written assignments given by the owners or their attorneys-in-fact.

ARTICLE VII - MISCELLANEOUS PROVISIONS

Section VII.1 Corporate Seal. The corporate seal of the Corporation shall

be circular and shall have inscribed thereon, within and around the circumference, "CROWN VANTAGE INC." In the center shall be the word "SEAL".

Section VII.2 Fiscal Year. The fiscal year of the Corporation shall be

determined in the discretion of the Board of Directors, but in the absence of any such determination it shall be a fiscal year of either 52 or 53 weeks ending on the last Sunday in December.

Section VII.3 Amendments. These Bylaws may be amended or repealed, and

new Bylaws may be made, at any regular or special meeting of the Board of Directors by a majority of the Board. Bylaws made by the Board of Directors may be repealed or changed and new Bylaws may be made by the stockholders, and the stockholders may prescribe that any Bylaw made by them shall not be altered, amended or repealed by the Board of Directors.

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ARTICLE VIII - VIRGINIA CONTROL SHARE ACQUISITION STATUTE

The provisions of Article 14.1 of the Virginia Stock Corporation Act ((S)13.1-728.1 et seq.) in effect on the 14th day of August, 1995, shall not apply to the acquisition of shares of this Corporation.

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AMENDMENT NO. 6 TO CREDIT AGREEMENT

AMENDMENT dated as of December 11, 1998 among CROWN PAPER CO. (the "Borrower"), CROWN VANTAGE INC. ("Holdings"), the BANKS listed on the signature pages hereof (the "Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Administrative Agent (the "Administrative Agent").

W I T N E S S E T H :

WHEREAS, the parties hereto have heretofore entered into a Credit Agreement dated as of August 15, 1995 (as heretofore amended, the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement as more fully set forth below;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Defined Terms. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement shall have the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

Section 2. Amendment to the Definition of Consolidated EBITDA. The definition of "Consolidated EBITDA" set forth in Section 1.1 of the Agreement is amended to read in its entirety as follows:

" Consolidated EBITDA" means, for any fiscal period, Consolidated EBIT for such period plus, to the extent deducted in determining Consolidated Net Income for such period, (i) the aggregate amount of depreciation, amortization, non-cash incentive compensation expense and other similar non-cash charges, (ii) solely for any period ended on or prior to December 31, 1997 and solely to the extent not included in clause (i), the lesser of (x) the aggregate amount of write-downs, write-offs or reserves with respect to the rebuild of the Number One Paper Machine at St. Francisville and (y) \$2,500,000 and (iii) solely for any period ended on or prior to December 31, 1998 and solely to the extent not included in clause (i), (x) the aggregate amount of write-offs with respect to the stream of

lease payments on a co-generation facility at St. Francisville, up to \$17,000,000 in the aggregate and (y) the aggregate amount of December non-recurring charges with respect to environmental compliance and workers

compensation costs, up to \$5,000,000 in the aggregate, in each case as described by the Borrower to the Banks prior to the date of effectiveness of Amendment No.6 to this Agreement dated as of December 11, 1998 among the Borrower, Holdings, the Banks and the Administrative Agent.

Section 3. Cash Flow Ratio. Section 5.12 of the Agreement is amended to read in its entirety as follows:

SECTION 5.12. Cash Flow Ratio. As of the last day of each fiscal

quarter of the Borrower set forth below, the Cash Flow Ratio at such day will not be less than the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter -----	Ratio -----
Fourth quarter of 1998 fiscal year	0.145:1
Thereafter	0.200:1

Section 4. Interest Coverage Ratio. Section 5.13 of the Agreement is amended to read in its entirety as follows:

SECTION 5.13. Interest Coverage Ratio. As of the last day of each

fiscal quarter of the Borrower set forth below, the Interest Coverage Ratio at such day will not be less than the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter -----	Ratio -----
Fourth quarter of 1998 fiscal year	1.50:1
Thereafter	2.50:1

Section 5. Net Worth. Section 5.14 of the Agreement is amended to read in its entirety as follows:

SECTION 5.14. Minimum Consolidated Tangible Net Worth. Consolidated

Tangible Net Worth will at no time during any fiscal period set forth below be less than the amount set forth in the table below opposite such period; provided that calculations of Consolidated Tangible Net Worth shall exclude the effect of (i) the aggregate amount of the pretax write-offs with respect to the stream of lease payments on a co-generation facility at St. Francisville, up to \$17,000,000 in the aggregate, (ii) the aggregate amount of the pretax December non-recurring charges with respect to environmental compliance and workers

compensation costs, up to \$5,000,000 in the aggregate and (iii) the aggregate amount of the potential pre-tax non-cash asset write-downs, up to \$195,000,000 in the aggregate, in each case as described by the Borrower to the Banks prior to the date of effectiveness of Amendment No. 6 to this Agreement dated as of December 11, 1998 among the Borrower, Holdings, the Banks and the Administrative Agent:

Period	Amount
6/30/98-12/30/98	\$ 50,000,000
12/31/98-3/30/99	\$ 50,000,000
3/31/99-12/30/99	\$ 75,000,000
Thereafter	\$100,000,000

Section 6. Delivery of 1999 Strategic Plan. A new Section 5.26 is added to the Agreement immediately after Section 5.25 thereof, to read in its entirety as follows:

SECTION 5.26. 1999 Bankers Meeting. On or prior to February 15, 1999,

the Borrower shall host a bankers meeting where the Borrower shall discuss with the Banks the strategic plan for the 1999 fiscal year, which plan shall include the Borrower's operating and capital expenditure budgets and cash flow forecast on a quarterly basis for such fiscal year (which shall include a projected consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the last day of each fiscal quarter and the related projected statements of consolidated income and cash flows for such fiscal quarter and for the portion of such fiscal year to end at the end of such fiscal quarter).

Section 7. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 8. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective as of the date hereof when the Administrative Agent shall have received (x) duly executed counterparts hereof signed by the Borrower and the Required Banks (or, in the case of any party as to which an executed counterpart shall not have been received, the Administrative Agent shall have received telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party) and (y) for the account of each Bank that has delivered an executed counterpart hereof (or telegraphic, telex or other written confirmation of execution of a counterpart hereof) to the Administrative Agent on or prior to December 21,

1998, an amendment fee in such amount as shall have been previously agreed upon between the Borrower and the Banks.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

CROWN PAPER CO.

By /s/ R. Neil Stuart

Title: EVP & CFO

CROWN VANTAGE INC.

By /s/ R. Neil Stuart

Title: EVP & CFO

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MORGAN GUARANTY TRUST COMPANY OF
NEW YORK

By /s/ Stephen J. Hannan

Title: Vice President

THE BANK OF NEW YORK

By /s/ Robert J. Louk

Title: Vice President

CERES FINANCE LTD.

By /s/ David Egglshaw

Title: Director

THE CHASE MANHATTAN BANK

By /s/ Lenard Weiner

Title: Managing Director

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BANK AUSTRIA CREDITANSTALT
CORPORATE FINANCE, INC.

By /s/ Jack R. Bertges

Title: Senior Vice President

By /s/ James F. McCann

Title: Vice President

CHRISTIANIA BANK og KREDITKASSE

By /s/ Carl Petter Svendsen

Title: Senior Vice President

By /s/ Peter M. Dodge

Title: Senior Vice President

DRESDNER BANK AG, NEW YORK AND GRAND
CAYMAN BRANCHES

By /s/ John W. Sweeney

Title: Assistant Vice President

By /s/ Brigitte Sacin

Title: Assistant Treasurer

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FIRST SOURCE FINANCIAL LLP, by FIRST SOURCE
FINANCIAL, INC., its Agent/Manager

By /s/ John P. Thacker

Title: Senior Vice President

KZH III LLC

By /s/ Virginia Conway

Title: Authorized Agent

KZH HIGHLAND-2 LLC

By /s/ Virginia Conway

Title: Authorized Agent

THE LONG-TERM CREDIT BANK OF
JAPAN, LTD., LOS ANGELES AGENCY

By /s/ Noboru Akahane

Title: Deputy General Manager

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MARINE MIDLAND BANK

By /s/ Susan L. LeFevre

Title: Authorized Signatory

MERRILL LYNCH PRIME RATE PORTFOLIO

By: Merrill Lynch Asset Management, LP,
as Investment Advisor

By /s/ Andrew C. Liggio

Title: Authorized Signatory

MERRILL LYNCH SENIOR FLOATING RATE FUND, INC.

By /s/ Andrew C. Liggio

Title: Authorized Signatory

NATEXIS BANQUE BFCE

By /s/ Jordan Sadler

Title: Associate

By /s/ William C. Maier

Title: Senior Vice President

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NATIONSBANK, N.A.

By /s/ Christopher R. Gernhard

Title: Vice President

THE NORTHWESTERN MUTUAL LIFE INSURANCE
COMPANY

By /s/ Richard A. Strait

Title: Its Authorized Representative

PNC BANK, NATIONAL ASSOCIATION

By /s/ Philip K. Liebscher

Title: Vice President

MORGAN STANLEY DEAN WITTER PRIME INCOME
TRUST

By /s/ Peter Gewirtz

Title: Authorized Signatory

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PAMCO CAYMAN LTD.

By: Highland Capital Management LP, as
Collateral Manager

By /s/ James Dondero,

Title: CFA, CPA
President
Highland Capital
Management L.P.

KEYPORT LIFE INSURANCE COMPANY

By: Stein Roe & Farnham Incorporated, as
Agent for Keyport Life Insurance Company

By /s/ Brian W. Good

Title: Vice President & Portfolio
Manager

SOUTHERN PACIFIC BANK

By /s/ Charles D. Martorano

Title: Senior Vice President

STRATA FUNDING LTD.

By /s/ David Egglshaw

Title: Director

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VAN KAMPEN SENIOR INCOME TRUST

By /s/ Jeffrey W. Maillet

Title: Senior Vice President &
Director

VAN KAMPEN PRIME RATE INCOME TRUST

By /s/ Jeffrey W. Maillet

Title: Senior Vice President & Director

ML CBO IV (CAYMAN) LTD.

By: Highland Capital Management LP, as
Collateral Manager

By /s/ James Dondero

Title: CFA, CPA
President
Highland Capital
Management L.P.

MORGAN GUARANTY TRUST COMPANY, as
Administrative Agent and Collateral Agent

By /s/ Stephen J. Hannan

Title: Vice President

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CROWN PAPER CO., as Issuer

and

THE BANK OF NEW YORK, as Trustee

SECOND SUPPLEMENTAL INDENTURE

Dated as of September 28, 1998

to

Indenture

Dated as of August 23, 1995

11% Senior

Subordinated Notes

due 2005

SECOND SUPPLEMENTAL INDENTURE (hereafter, the "Second Supplemental Indenture") dated as of September 28, 1998 between CROWN PAPER CO. (hereinafter, the "Company"), a corporation duly organized and existing under the laws of the Commonwealth of Virginia, and THE BANK OF NEW YORK (hereinafter, the "Trustee"), a banking corporation organized and existing under the laws of the State of New York.

W I T N E S S E T H :

WHEREAS, the Company has heretofore executed and delivered to the Trustee an Indenture dated as of August 23, 1995 (as amended by the First Supplemental Indenture dated October 18, 1996, hereinafter, the "Indenture")

providing for the issuance of the Company's 11% Senior Subordinated Notes due 2005 (hereinafter, the "Securities"); and

WHEREAS, pursuant to Section 902 of the Indenture, the Company has obtained the consent of the Holders of not less than a majority in principal amount of the outstanding Securities to the amendments made hereby;

WHEREAS, the Board of Directors of the Company has authorized the execution of this Supplemental Indenture and its delivery to the Trustee;

WHEREAS, the Company has delivered an Officers' Certificate and Opinion of Counsel to the Trustee pursuant to Section 903 of the Indenture; and

WHEREAS, all other actions necessary to make this Supplemental Indenture a legal, valid and binding obligation of the parties hereto in accordance with its terms and the terms of the Indenture have been performed;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company covenants and agrees with the Trustee, for the equal and proportionate benefit of all present and future holders of Securities, as follows:

Section 1. The definition of "Permitted Investment" in Section 101 of the Indenture shall read in its entirety as follows:

"Permitted Investment" means (i) Investments in any Wholly Owned Subsidiary or any Person which, as a result of such Investment, (a) becomes a Wholly Owned Subsidiary or (b) is merged or consolidated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Company or any Wholly Owned Subsidiary; (ii) Indebtedness of the Company or a Subsidiary described under clauses (iv), (v) and (vi) of the definition of "Permitted Indebtedness"; (iii) Temporary Cash Investments; (iv) Investments acquired by the Company or any Subsidiary in connection with an Asset Sale permitted under Section 1012 to the extent such

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Investments are non-cash proceeds as permitted under such covenant; (v) Investments acquired by the Company or any Subsidiary in connection with any sale, conveyance, transfer, lease or other disposition (collectively, a "transfer") of any properties or assets to another Person, which transfer does not constitute an Asset Sale; (vi) a loan of up to \$10.1 million to the ESOP by the Company as contemplated by the Contribution Agreement; (vii) Investments in existence on the date of this Indenture; and (viii) the receipt of \$8,045,796 in aggregate principal amount of Holdings PIK Notes from the Fort James Entities in the Spin-Off Settlement pursuant to the terms of the Spin-Off Settlement Agreement.

Section 2. The definition of "Asset Sale" in Section 101 of the

Indenture shall read in its entirety as follows:

"Asset Sale" means any sale, issuance, conveyance, transfer, lease or other disposition (including, without limitation, by way of merger, consolidation or Sale and Leaseback Transaction) (collectively, a "transfer"), directly or indirectly, in one or a series of related transactions, of: (i) any Capital Stock of any Subsidiary; (ii) all or substantially all of the properties and assets of any division or line of business of the Company or its Subsidiaries; or (iii) any other properties or assets of the Company or any Subsidiary other than in the ordinary course of business. For the purposes of this definition, the term "Asset Sale" shall not include any transfer of properties and assets (A) that is governed by Article Eight, (B) that is by the Company to any Guarantor, or by any Subsidiary to the Company or any Wholly Owned Subsidiary in accordance with the terms of this Indenture, (C) that is of obsolete equipment in the ordinary course of business, (D) the sale by the Company of its mill and related operations located in Milford, New Jersey, (E) the sale by the Company of timber properties (other than in a Timber Asset Swap) in an aggregate principal amount of up to \$10 million during the term of the Indenture, (F) in addition to the items described in clauses (A) through (E), assets, the Fair Market Value of which in the aggregate during the term of this Indenture, for all transfers, does not exceed \$40 million, or (G) in the Spin-Off Settlement pursuant to the terms of the Spin-Off Settlement Agreement.

Section 3. Section 101 of the Indenture is hereby further amended by adding the following defined terms in the proper alphabetical order:

"Fort James Entities" means Fort James Corporation (successor by merger to James River Corporation), Fort James Operating Company, Fort James Fiber Company and Fort James International Holdings, Ltd.

"Holdings PIK Notes" means the 11.45% Senior Pay-in-Kind Notes due 2007 issued by Holdings.

"Spin-Off Settlement" means the transactions contemplated by Sections 2.2 through 2.9, inclusive, of the Spin-Off Settlement Agreement.

"Spin-Off Settlement Agreement" means the Option and Settlement Agreement dated as of March 18, 1998 among the Fort James Entities, Holdings and the Company.

Section 4. For all purposes of this Second Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the terms and expressions used herein shall have the same meanings as corresponding terms and expressions used in the Indenture; and (ii) the words "herein", "hereof" and "hereby" and other words of similar import used in this Second Supplemental Indenture refer to this Second Supplemental

Indenture as a whole and not to any particular Section hereof.

Section 5. The Trustee accepts this Second Supplemental Indenture and the amendment of the Indenture effected thereby and agrees to execute the trust created by the Indenture as hereby amended, but only upon the terms and conditions set forth in the Indenture, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities in the performance of the trust created by the Indenture as hereby amended.

Section 6. Except as hereby expressly amended, the Indenture and the Securities issued thereunder are in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect.

Section 7. This Second Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby.

Section 8. This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

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Section 9. This Second Supplemental Indenture shall be construed in accordance with and governed by the laws of the State of New York (without giving effect to the conflict of laws principles thereof).

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, all as of the day and year first above written.

CROWN PAPER CO.

By: /s/ Christopher M. McLain

Name: Christopher M. McLain
Title: Senior Vice President

THE BANK OF NEW YORK, as Trustee

By: /s/ Thomas C. Knight

Name: Thomas C. Knight
Title: Assistant Vice President

Crown Vantage Inc.

<TABLE>
<CAPTION>

Selected Financial Data

(dollar amounts in millions)	Year Ended December				
	1998	1997	1996	1995 (a)	1994 (a)
<S>	<C>	<C>	<C>	<C>	<C>
Results of Operations					
Net sales	\$ 851	\$ 897	\$ 925	\$ 1,077	\$ 875
Gross margin	54	60	75	156	43
Selling and administrative expenses	62	56	52	56	57
Operating income (loss) (b)	(172)	14	23	100	(14)
Interest expense	65	65	63	26	2
Net Income (loss) before extraordinary item	(159)	(32)	(25)	45	(10)
Basic loss per share before extraordinary item (c)	(16.79)	(3.61)	(2.89)		
Balance Sheet Data					
Cash and cash equivalents	\$ 10	\$ 11	\$ 1	\$ 5	\$ 12
Working capital	55	43	36	87	98
Property, plant and equipment, net	434	621	678	668	699
Total assets	689	881	946	985	987
Total long-term debt	556	545	553	567	26
Other Financial Data					
EBITDA (d)	\$ 79	\$ 100	\$ 104	\$ 180	\$ 63
Capital expenditures	42	59	81	47	53
Operating income (loss) before fixed asset write-downs and other charges and gains (e)	(8)	4	23	100	(14)
Selected Operating Data					
Employees	3,552	3,850	3,995	4,162	4,324
Tons sold (thousands of tons)	969	982	948	985	990
Pulp purchases (thousands of tons)	285	252	261	289	309
Pulp sold (thousands of tons)	86	57	43	44	57

</TABLE>

- (a) Includes the actual consolidated results of operations and other financial and operating data of the Company for the four months ended December 31, 1995 as well as the historical combined results of certain operations of James River Corporation of Virginia (now known as "Fort James Corporation") that comprised a substantial part of its Communication Papers Business and the paper-based part of its Food and Consumer Packaging Business for the eight months ended August 27, 1995 and the year ended December 25, 1994.
- (b) 1998 operating loss includes a \$146.9 million fixed asset write-down (mainly at the Berlin-Gorham, N.H. pulp and paper mills) and a \$16.9 million charge for the discounted net future lease payments for a co-generation facility at the St. Francisville, La., mill that no longer provides substantive use or benefit to the mill. 1997 operating income includes a \$13.5 million gain from the sale of timberlands and a \$3.3 million charge due to the closure of the Newark, Del., facility.
- (c) Basic loss per share is restated to conform with Statement of Financial Accounting Standards No. 128 "Earnings Per Share." Basic earnings per share prior to 1996 are not presented since the Company was not a separate entity with its own capital structure prior to the Spin-Off on August 25, 1995. The 1998 extraordinary gain is from the return of \$33.2 million in Pay-in-Kind Notes from Fort James, which is \$19.0 million net of tax.
- (d) EBITDA represents income (loss) before income taxes, interest expense and depreciation and amortization. 1998 EBITDA excludes the \$146.9 million fixed asset write-down and the \$16.9 million charge discussed in footnote (b) above, and it includes a \$3.0 million work force reduction charge. 1997 EBITDA includes a \$13.5 million gain on sale of timberlands and a \$3.3 million charge due to the closure of the Newark, Del., facility. 1994 EBITDA includes \$6.0 million in severance and other items. EBITDA is not presented herein as an alternative measure of operating income or cash flow from operations (both as determined in accordance with generally accepted accounting principles) but rather to provide additional information related to the Company's ability to service debt.
- (e) Excludes items discussed in (b) above.

Crown Vantage Inc.

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Corporate Overview

Business Segments

Crown Vantage Inc. and subsidiaries (the "Company" or "Crown Vantage") is a major producer of value-added paper products for a diverse array of end-uses. The Company operates in two segments: printing and publishing papers and specialty papers. Printing and publishing papers are primarily for applications such as special interest magazines, books, custom business forms, corporate communications and promotions (e.g., annual reports and stationery) and other graphics applications. Specialty papers are principally for food and retail packaging applications and conversion into such items as coffee filters, labels, cups and plates, and disposable medical gowns.

The Company's two largest facilities are integrated operations located in St. Francisville, La., and Berlin and Gorham, N.H. St. Francisville produces coated groundwood papers for magazines and catalogs and uncoated specialty converting papers. Berlin-Gorham primarily produces uncoated printing and publishing papers as well as market pulp. The Company also produces uncoated printing and publishing papers at its non-integrated facilities in Adams, Mass.; Ypsilanti, Mich., and Dalmore and Guardbridge, Scotland. The Company's food and retail packaging papers are produced primarily at non-integrated facilities in Port Huron and Parchment, Mich., and Milford, N.J. In addition to its primary paper-making operations, the Company operates a cast-coating facility in Richmond, Va., that produces coated paper and board for graphics and packaging uses.

The Company believes that its broad manufacturing capabilities allow it to offer a wider range of products and basis weights serving more specialized markets than most of its North American competitors. The Company focuses its operations on the higher value-added market niches of the segments in which it competes. Papers produced for such niches generally command higher prices and tend to be less cyclical than commodity grades because they are used for more specialized applications and there are fewer substitutes for these products.

Consolidated Results of Operations -- 1998 Compared to 1997

Net Sales: The Company's net sales decreased by 5.2% to \$851.0 million for the 52-week year ended December 27, 1998 compared to \$897.5 million for the 52-week year ended December 28, 1997. The decrease in sales is largely due to a 3.9% decrease in average net sales price per ton and a 1.3% decrease in tons sold during 1998 compared to 1997.

Operating Income (Loss)

The Company had an operating loss of \$172.1 million in 1998 compared to operating income of \$14.3 million in 1997. The decrease in operating results is attributable to fixed asset write-downs of \$146.9 million (primarily at the Berlin-Gorham, N.H., pulp and paper mill) and a charge of \$16.9 million that represents the discounted net future lease payments for a co-generation facility at the St. Francisville, La., mill that no longer provides substantive use or benefit to the mill (see Note 2 and Note 13 to the Consolidated Financial Statements). 1997 operating income included a gain of \$13.5 million for the sale of timberlands and a charge of \$3.3 million for closure of the Newark, Del., facility. Excluding the fixed asset write-down and co-generation charge discussed above, the operating loss in 1998 was \$8.3 million compared to operating profit of \$4.2 million in 1997, excluding the mill closure charge and timberland sale gain discussed above. Contributing to the decline in operating results are the decreases in average net sales price per ton and tons sold discussed above that are partially offset by reduced costs primarily from lower raw material costs and the Company's cost reduction program. Gross margin as a percent of sales was 6.4% for 1998 compared to 6.7% for 1997. The gross margin decrease was due to the decline in net sales price per ton discussed above, which was partially offset by a 3.6% decrease in average cost per ton sold in 1998 compared to 1997.

Selling and administrative expenses increased \$6.5 million to \$62.4 million in 1998 compared to \$55.9 million in 1997. The increase is primarily due to Year 2000 compliance costs, one-time expenditures associated with certain of the Company's strategic initiatives, higher sales and marketing costs associated with stocking programs to provide faster delivery times to customers and one time contractual compensation costs.

Interest Expense

Interest expense decreased from \$65.2 million in 1997 to \$64.7 million in 1998. The decrease in interest expense is primarily due to debt reduction that occurred in the fourth quarter of 1997.

Crown Vantage Inc.

Tax Provision

The income tax benefit in 1998 totaled \$75.9 million compared to \$17.4 million in 1997. The income tax rates were 32.2% in 1998 and 35.0% in 1997. Income tax benefits for 1998 have been reduced by a deferred tax asset valuation allowance of \$14.2 million. The Company anticipates that, in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes," tax benefits resulting from operating losses in the foreseeable future would at least be partially offset by deferred tax asset valuation allowances.

Basic Loss Per Share

Basic loss per share was \$14.79 for 1998, \$3.61 for 1997 and \$2.89 for 1996. Diluted losses per share are not presented as these amounts are the same as basic losses per share.

Results of Operations by Business Segment

Net Sales and Tonnage by Segment

For the Year Ended	1998		1997		1996	
(sales in millions, tons in thousands)	Tons	Sales	Tons	Sales	Tons	Sales
Printing and Publishing Papers:						
Coated groundwood	289	\$232	280	\$198	258	\$214
Uncoated	241	221	239	233	240	239
Other (a)	118	60	109	82	96	83
Specialty Papers	321	338	354	384	354	389
Total Company	969	\$851	982	\$897	948	\$925

(a) Represents market sales of pulp to third parties, toweling, and cast-coated papers. Pulp sales excludes approximately 32,000 tons in 1998, 42,000 tons in 1997, and 44,000 tons in 1996 that were transferred to other Company facilities.

Operating Income (Loss) by Segment (in millions)

For the Year Ended	1998	1997	1996
Printing and Publishing Papers	\$ (166)	\$ 1	\$ 12
Specialty Papers	(6)	13	11
Total operating income (loss)	\$ (172)	\$ 14	\$ 23

Printing and Publishing Papers

Within this business segment, the Company produces coated groundwood and uncoated freesheet papers. This segment also includes the Company's toweling and pulp operations in Berlin-Gorham, N.H., and cast-coating operations in Richmond, Va.

The Company's coated groundwood papers are produced and sold for end-use products such as specialty magazines, catalogs, direct mail, and advertising supplements. The strength of the coated groundwood market is largely driven by the strength of the retail market and is correlated with retailer advertising expenditures. Net sales of coated groundwood papers increased 17.3% in 1998 compared to 1997. The increase is primarily due to a 13.5% increase in average net sales price per ton and a 3.4% increase in tons sold. While demand for coated groundwood papers was strong for most of 1998, coated paper imports increased significantly during the year resulting in industry-wide mill inventory builds and price discounting during the latter part of 1998. The current supply/demand imbalance poses a threat of continued price discounting that may negatively impact prices of the Company's coated groundwood papers in future periods.

Customer end-use products within uncoated printing and publishing papers include stationery, custom business forms, books and manuals, annual reports and other forms of corporate communications. Demand for the Company's uncoated printing and publishing products is correlated with economic cycles, since these papers are predominantly used in business-related activities and commercial printing. The Company's specialty niches within the uncoated

printing and publishing papers category make Crown Vantage less susceptible, though not immune, to economic cycles. Net sales for uncoated printing and publishing papers decreased 5.0% during 1998 compared to 1997. The decrease in net sales is primarily due to a 5.7% decrease in average sales price per ton. Despite strong domestic demand, the current economic crisis in Asia coupled with a strong U.S. Dollar have resulted in lower exports by U.S. paper producers and increased imports into the U.S. from Asia, Europe, and South America. This abundance of uncoated freesheet paper has negatively impacted demand and pricing for some of the Company's uncoated printing and publishing papers, resulting in depressed prices for the Company's lower value products. The 1998 supply levels of these papers in the marketplace also resulted in the Company's partial shift in mix to lower value-added grades in order to maintain volume during this period of supply/demand imbalance, which also negatively impacted the Company's average net selling price.

Other products reported within printing and publishing papers include the Company's toweling, pulp and cast-coating operations. Cast-coating provides a high gloss finish for a premium grade of coated paperboard used for graphics and packaging applications. Net sales decreased by \$22.9 million during 1998 compared to 1997 primarily due to a change in product mix as tons sold of higher priced cast-coated papers and toweling, declined by 38.8% and tons of pulp sold increased by 50.1%. The decline in cast-coated papers and toweling is primarily due to the decision by certain customers during the last half of 1997 to use their own internal resources. The Company continues to aggressively pursue replacing the lost tonnage with new product development and trials of engineered papers in progress. Tons of pulp sold is a function of market demand as well as managing, to the Company's best advantage, internal pulp integration. The increase in pulp tons sold is principally due to the availability of pulp for sale that in the prior year was used internally and to improved operating efficiencies.

Operating Income (Loss)

The operating loss of \$166.1 million in 1998 declined \$167.1 million from an operating profit of \$1 million in 1997. The fixed asset write-downs and charges associated with the co-generation facility affected both segments. The allocation of these charges to this segment and the primary reasons for the decline in operating results during 1998 are the fixed asset write-downs of \$145.2 million and a \$12.1 million charge for the co-generation facility. The 1997 operating profit includes the \$13.5 million gain from the sale of certain timberlands and a \$3.3 million charge for the closure of the Newark, Del., facility. Operating results before the nonrecurring items discussed above are operating losses of \$8.8 million for 1998 and \$9.2 million for 1997.

Specialty Papers

Within this segment, the Company produces specialty papers for use in food and retail packaging and converting end uses.

The Company's products, which are concentrated in niche markets for coated and uncoated papers within the specialty packaging industry, are used by its customers to produce items such as labels, multi-wall bags for pet foods, food service papers, flexible packaging, and technical and industrial specialty products such as disposable medical gowns. The Company's specialty packaging papers business is principally driven by consumer spending patterns and has historically exhibited less cyclicity due to general economic trends compared to producers of papers for other end-use products. The Company's specialty packaging papers operations in Milford, N.J., and Parchment and Port Huron, Mich., purchase all of their pulp and are therefore susceptible to pulp price fluctuations. Operating results benefit during periods of decreasing pulp prices and suffer during periods of increasing pulp prices. The Company manufactures specialty converting papers on two paper machines at its fully integrated facility in St. Francisville, La. To meet customer-specific requirements, the Company imparts technical qualities to these value-added papers for conversion by its customers into end-uses such as paper cups and plates, coffee filters, and bacon board.

Specialty papers had net sales of \$338.2 million for 1998 compared to net sales in 1997 of \$384.5 million. The 12.0% decrease in net sales is primarily due to a 3.1% decrease in average selling price per ton and a 9.2% decrease in tons sold in 1998 compared to 1997. The continuing economic crisis in Asia is indirectly affecting the Company's specialty packaging papers as European producers are redirecting their output to North American markets and as large integrated mills in North America are entering otherwise non-traditional markets, thereby disrupting supply/demand balance and pricing for the Company's specialty packaging papers.

Operating Income (Loss)

The operating loss of \$6.1 million in 1998 declined \$19.5 million from an operating profit of \$13.4 million in 1997. The decrease in operating income in 1998 from 1997 is primarily due to the decline in tons sold and average price per ton discussed above. Contributing to the decline are the fixed asset write-downs of \$1.7 million and a \$4.8 million charge for the co-generation facility lease allocated to this segment. These were partially offset by lower raw material costs and improved operating efficiencies. Before the nonrecurring items discussed above, this segment had an operating profit of \$.4 million in 1998.

Results of Operations -- 1997 Compared to 1996

Net Sales

The Company's net sales decreased by 3.0% to \$897.5 million for the 52-week year ended December 28, 1997 compared to \$925.4 million for the 52-week year ended December 29, 1996. The decrease in sales is largely due to an unfavorable price variance of \$61.5 million that was partially offset by a favorable volume variance of \$33.6 million for 1997 compared to 1996. The decrease in sales prices began in early 1996 and prices remained depressed through most of 1997.

Operating Income

Operating income of \$14.3 million in 1997 decreased \$8.4 million from \$22.7 million in 1996. The decrease in operating income is primarily attributable to the decreased pricing discussed above and is partially offset by the Company's cost reduction program, gain on sale of timberlands (see "Liquidity and Capital Resources"), and increased volumes in 1997. Gross margin decreased from 8.1% of net sales in 1996 to 6.7% of net sales in 1997. The gross margin decrease was due to the decline in net sales price per ton discussed above and was partially offset by a 5% decrease in average cost per ton sold in 1997 as compared to 1996.

Selling and administrative expenses increased \$3.7 million to \$55.9 million in 1997 compared to \$52.2 million in 1996. The increase is due to higher commissions, higher depreciation on certain computer systems placed in service during 1997, and expenses associated with the Company's accounts receivable securitization, which were classified as interest expense in the first six months of 1996.

Interest Expense

Interest expense increased from \$63.3 million in 1996 to \$65.2 million in 1997. The increase in interest expense is primarily due to the higher interest accretion on the Pay-in-Kind Notes during 1997 compared to 1996.

Tax Provision

The income tax benefit in 1997 totaled \$17.4 million compared to \$15.2 million in 1996. The effective income tax rates were 35.0% and 38.0% in 1997 and 1996, respectively.

Printing and Publishing Papers

Softening demand led to decreasing prices in early to mid-1996 as customers drew down their excess inventories. A temporary oversupply of inventories at the producer level during the latter part of 1996 continued to depress pricing throughout the remainder of 1996 and 1997. Net sales of coated groundwood printing and publishing papers totaled \$198.1 million in 1997 compared to \$213.6 million in 1996, a 7.3% decrease. The decrease in net sales is due to a 14.4% average decrease in coated groundwood prices in 1997 compared to 1996. This was partially offset by an increase of 21,600 tons sold in 1997 compared to 1996. During the fourth quarter of 1997 a mechanical failure on the No. 2 paper machine at the St. Francisville, La., facility caused a loss in production of approximately 3,000 tons.

Net sales of uncoated printing and publishing papers in 1997 were \$233.0 million compared to \$239.1 million in 1996, a 2.6% decrease. The decrease in net sales is primarily a result of a 2.2% decrease in the average selling price per ton in 1997 compared to 1996. Tons sold in 1997 were approximately the same as 1996.

Net sales for the Company's toweling, pulp and cast-coating operations declined \$1.7 million in 1997 compared to 1996. The decline in net sales is primarily due to a 9.0% decrease in average net sales price per ton and a 2.3% decrease in tons sold for the Company's toweling and cast-coated products. The decrease in average selling price per ton is the result of fewer tons sold from the Company's cast-coating operations whose papers generally command premium pricing. This was partially offset by a 14,700 ton increase in tons sold of pulp.

Operating income from the sale of printing and publishing papers was \$1.0 million in 1997, a \$10.6 million decrease from operating income of \$11.6 million in 1996. The decline in operating income is attributable to the decrease in pricing in both the coated and uncoated printing and publishing papers sectors and fewer tons sold from the cast-coating operations. The decrease in operating income was partially offset by the \$13.5 million gain from the timberlands sale and increased volume of coated groundwood sold in 1997 compared to 1996. During the fourth quarter of 1997, the Company closed its Newark, Del., facility and shifted most of the 2,200 tons of the mill's production to its other mills. The Company recorded a charge related to the closure of the mill in the fourth quarter of 1997 of \$3.3 million primarily for closure activities, fixed asset write-downs and severance costs.

Specialty Papers

During 1997, Crown Vantage's specialty papers business generated net sales of \$384.4 million compared to net sales in 1996 of \$388.9 million. The 1.2% decrease in net sales is primarily due to a 1.2% decrease in average selling price per ton in 1997 compared to 1996. During 1997, certain lower priced papers were added to the production mix in order to improve operating results. This is the primary reason for the decline in average sales price.

During 1997, the Company's specialty papers generated operating profits of \$13.4 million compared to \$11.1 million in 1996. The improvement in operating results is primarily attributed to lower average costs and improved mill efficiency due to the change in product mix discussed above and other cost-saving initiatives during 1997 compared to 1996. Industry pulp prices remained approximately the same in 1997 compared to 1996. Improvements in operating results were partially offset by the price decreases discussed above.

Liquidity and Capital Resources

General

The Company became an independent company upon the spin-off by James River Corporation of Virginia ("James River"), now known as Fort James Corporation ("Fort James"), of certain assets and related liabilities from its Communication Papers Business and the paper-based part of its Food and Consumer Packaging Business. On August 25, 1995, James River distributed to its shareholders all the outstanding stock of Crown Vantage (the "Spin-Off").

In connection with the Spin-Off, Crown Paper Co. (a wholly-owned subsidiary of the Company) entered into a credit facility with a group of banks (the "Bank Credit Facility"), which provided \$200 million in term loan financing and a \$150 million revolving line of credit. Term Loans A and B totaled \$100 million each at issuance with final principal payments due in 2002 and 2003, respectively. The revolving credit is due in 2002 and is available in the aggregate amount of \$150 million with a \$75 million sublimit for letters of credit (of which \$38.2 million has been issued at December 27, 1998). The revolving credit can be used for general corporate purposes, working capital needs, and permitted investments. At December 27, 1998, \$75.0 million of the revolving credit was outstanding and \$36.8 million of the aggregate line was available if needed. The outstanding balance on Term Loan A was paid in full in October 1997 and had an average interest rate of 8.42% for that year. Term Loan B had an average interest rate of 9.19% during 1998 and 9.14% during 1997. The revolving line of credit had an average interest rate of 8.57% during 1998 and 1997. The Bank Credit Facility is collateralized by substantially all the assets of Crown Paper Co. Also in connection with the Spin-Off, Crown Paper Co. issued \$250 million of 11% Senior Subordinated Notes (the "Notes") through a public debt offering, which are unsecured and due in 2005.

As a return of its capital investment in Crown Vantage, James River was paid the net proceeds from Term Loans A and B, the initial borrowing on the revolving line of credit, and the Notes. Also as a return of part of James River's capital investment in Crown Vantage, the Company issued to James River immediately prior to the Spin-Off \$100 million of Senior Pay-in-Kind Notes (the "PIK Notes") which are due in 2007. Interest on the PIK Notes, which accrues at 11.45%, is due semi-annually. The interest may be paid in cash or in additional PIK Notes until September 2003; thereafter interest must be paid in cash. Since the PIK Notes were issued, interest payments have been made through the issuance of additional PIK Notes. The PIK Notes were initially recorded at a \$15 million discount to reflect an

approximate market rate interest of 13% at the Spin-Off date. On September 28, 1998 Crown Vantage and Crown Paper Co. settled with Fort James a variety of claims that had arisen between the companies. The settlement resulted in the return of \$25.1 million of PIK Notes to Crown Vantage and the delivery of \$8.1 million of PIK Notes to Crown Paper Co. The \$8.1 million in PIK Notes assets held by Crown Paper are reclassified in consolidation against the PIK Notes

indebtedness. The settlement resulted in an extraordinary gain of \$19.0 million that is net of \$2.4 million in expenses and \$11.8 million in taxes. The settlement amended the terms of the remaining PIK Notes and allows Crown Vantage the right to call the remaining PIK Notes and accrued interest at fair value at any time prior to their maturity.

Operating Activities

Net cash provided by operating activities was \$14.1 million in 1998, \$53.8 million in 1997 and \$104.9 million in 1996.

The decline in operating cash flows in 1998 compared to 1997 is primarily due to the operating loss before the charges for the fixed asset write-down and co-generation facility (totaling \$163.8 million) of \$8.3 million in 1998 compared to a \$4.2 million operating profit in 1997 (excluding the gain on timberland sale and the facility closure charge) and changes in working capital accounts. The decline in operating cash flows in 1997 compared to 1996, excluding the effect of the \$43 million sales of receivables in 1996, primarily results from the \$32.2 million net loss incurred in 1997 versus a net loss of \$24.8 million in 1996. Cash provided by operating activities in 1996 includes the \$43 million in proceeds received from the Company's sales of certain accounts receivable discussed above.

Investing Activities

Net cash used in investing activities totaled \$43.9 million in 1998, \$20.8 million in 1997 and \$81.1 million in 1996. In 1997 the Company realized \$36 million in proceeds from the sale of the timberlands, which were used to partially prepay Term Loan A. The Company's business is capital intensive. Pulp and paper mills consist of an extensive network of buildings, machinery, and equipment, which require continual upgrades, replacement, modernization and improvement. Capital expenditures in 1998 totaled \$42.1 million primarily for capital maintenance projects and environmental spending. Capital expenditures in 1997 totaled \$59.3 million relating primarily to capital maintenance projects and \$7.9 million in payments for amounts accrued in 1996, primarily for the 1996 rebuild of the Number 1 paper machine at the Company's St. Francisville mill. Capital expenditures in 1996 were \$80.9 million, which related primarily to capital maintenance projects, and \$32.9 million for the rebuild of the Number 1 paper machine at the St. Francisville mill. Planned capital expenditures for 1999 are approximately \$40 million.

Financing Activities

Net cash provided by financing activities was \$28.2 million in 1998. Repayments on Term Loan B totaled \$1.8 million in 1998.

Net cash used in financing activities was \$22.8 million in 1997. Proceeds from the sale of the Company's timberlands discussed above were used to prepay Term Loan A. Also during 1997, the Company made scheduled repayments on Term Loan A of \$5.0 million and prepayments of \$4.7 million bringing the outstanding balance to \$0. Scheduled repayments on Term Loan B totaled \$1.0 million in 1997. In August 1997, the Company refinanced \$2.5 million of certain industrial revenue bonds that are due in 2012 and carry a 6.25% interest rate. Also in August 1997, the Company sold \$4.9 million of industrial revenue bonds that are due in 2021 and carry a 6.5% interest rate.

Net cash used in financing activities was \$28.0 million in 1996. During 1996, the Company prepaid \$43 million on Term Loan A using proceeds from the sale of certain accounts receivable. The Company made additional prepayments totaling \$3.4 million on Term Loan A as well as scheduled payments on Term Loans A and B of \$5.4 million and \$750,000, respectively. Also in 1996, the Company finalized an agreement with the Business Finance Authority of the State of New Hampshire whereby bonds were sold, resulting in net proceeds of \$12.1 million, to finance certain sewage and solid waste disposal facilities to be used by the Company at its Berlin-Gorham facility.

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Crown Vantage Inc.

Other Matters

Market Risk

The Company incurred fixed and variable rate debt in connection with the Spin-Off. In addition, the Company uses variable rate debt to finance operations, for capital spending programs and for general corporate purposes. Futures contracts used to hedge exposures to foreign currency risks are immaterial.

Our market risk exposure for changes in interest rates relates primarily to debt obligations.

The following table presents principal amounts and related weighted average

interest rates by year of expected maturity for the Company's debt obligations. For obligations with variable interest rates, the table sets forth interest rates that are based on current rates and principle amounts due and does not attempt to project future interest rates. This information should be read in conjunction with Note 6 to the Consolidated Financial Statements.

Debt

(In millions)	1999	2000	2001	2002	2003 & beyond	Fair value @ 12/27/98
Fixed rate					\$356.8	\$275.8
Average interest rates					11.12%	
Variable rate	\$ 1.0	\$ 1.3	\$.8	\$122.0	\$ 46.1	\$171.2
Average interest rates	9.19%	9.19%	9.19%	8.81%	9.19%	
Industrial Revenue bonds					\$ 39.3	\$ 39.0
Average interest rates					7.55%	

The Company's other market risk is primarily due to its ownership of mills in Scotland. The translation of their financial statements from their functional currency to U.S. dollars is accounted for in equity under foreign currency translation adjustments. These operations comprise less than 10% of the Company's sales and assets. Although we monitor foreign currency fluctuations and trends, through December 27, 1998 we have decided not to hedge our net investment in our foreign operations.

Debt Covenants

In connection with the bank credit facility as amended, Crown Paper Co. is required to comply with certain financial covenants that include maintaining minimum quarterly cash flow to debt and interest coverage ratios as well as minimum tangible net worth. Crown Paper Co. amended certain financial covenants, which had been established at the Spin-Off in 1995, in the fourth quarter of 1998, and remained in compliance for 1998. During the first quarter of 1999 the Company again amended these financial covenants for the fiscal year ended December 26, 1999 and remains in compliance with the Bank Credit Facility. The Company has had to amend the debt covenants for each of the last three years including 1999 as the extended weakness in the paper markets prevented the Company from achieving the original financial covenants that were established at the peak of the paper market cycle when the Company was spun off. Without significant improvements in paper markets in 1999 and 2000, the Company anticipates that it will need to revise its 2000 financial covenants when they revert to the 1995 levels.

Work Force Reduction

During 1998 the Company accrued \$3.0 million relating to an announced 5% work force reduction. The accrual is for anticipated expenses resulting from the work force reduction, primarily for severance and benefit payments to the approximately 230 affected employees. Both hourly and salaried employees from manufacturing, maintenance, and office staff were affected. As of December 27, 1998 approximately \$1.6 million had been paid, and the remainder will be paid during the first half of 1999.

Environmental Expenditures

Pulp and paper manufacturing companies are subject to regulations by various federal, state, local, and foreign agencies concerning the discharge of materials into the environment. These laws and regulations require pulp and paper companies to operate within the standards established by these agencies, which generally requires

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Crown Vantage Inc.

substantial capital investments. Like its competitors, the Company has incurred and will continue to incur significant capital expenditures and operating costs to comply with stringent environmental standards. To control and monitor the discharge of pollutants into air, water, and land, the Company spent approximately \$21.5 million during 1998 and \$18.6 million during 1997. In 1998, approximately \$6.4 million of these expenditures were capitalized and \$15.1 million were expensed. In 1997, approximately \$2.6 million of these expenditures were capitalized and \$16.0 million were expensed. The Company has accrued \$12.2 million at December 27, 1998 and \$12.0 million at December 28, 1997 primarily for estimated landfill site restoration, post-closure and monitoring costs.

The Environmental Protection Agency signed final rules affecting pulp and paper industry discharges of wastewater and gaseous emissions ("Cluster Rules"), which became effective April 15, 1998. These Cluster Rules require changes in the pulping, bleaching and wastewater treatment processes presently used in some U.S. pulp and paper mills, including some of the Company's mills. Based on management's understanding of the rules, the Company estimates that

approximately \$40 million of capital expenditures may be required to comply with the rules with compliance dates beginning in 1999 and extending over the next two to five years. The Company's 1998 environmental capital spending includes \$3.6 million for compliance with the Cluster Rules. There are risks and uncertainties associated with the Company's estimate that could cause total capital expenditures and timing of such expenditures to be materially different from current estimates, including changes in technology, interpretation of rules by government agencies that is substantially different from the Company's interpretation, or other items.

Environmental Legal Proceedings

The Company has been identified as a potentially responsible party ("PRP"), along with others, under the Comprehensive Environmental Response, Compensation and Liability Act or similar federal and state laws regarding the past disposal of wastes at 19 sites in the United States. The Company has previously settled its remediation obligations at 12 of those sites. At 6 other sites, the Company is one of many potentially responsible parties, and its alleged contribution to the site and remediation obligation is not considered significant. At one other site, remedial investigation is under way and an estimate for the potential remediation effort costs is not yet possible. However, the Company's accrual for the remediation investigation effort was \$.4 million at December 27, 1998 and \$.6 million at December 28, 1997. The liabilities can change substantially due to such factors as the solvency of other potentially responsible parties, the Company's share of responsibility, additional information on the nature or extent of contamination, methods and associated costs of remediation required, and other actions by governmental agencies or private parties. While it is not feasible to predict the outcome of all environmental liabilities, based on its most recent review, management estimates the Company's share of investigation and remediation costs of the known sites will not have a material adverse effect upon the consolidated financial condition of the Company.

Due to uncertainties associated with remediation activities, regulations, technologies, and the allocation of costs among various other parties, actual costs to be incurred at identified sites may vary from estimates. Therefore, management is unable to determine if the ultimate disposition of all known environmental liabilities will have a material adverse effect on the Company's consolidated results of operations in a given year. As with most manufacturing and many other entities, there can be no assurance that the Company will not be named as a PRP or incur liabilities through other means at additional sites in the future or that the costs associated with such additional sites would not be material.

Year 2000

The Year 2000 issue concerns the potential inability of computer applications, information technology systems, and certain software-based "embedded" control systems to properly recognize and process date-sensitive information as the Year 2000 approaches and beyond. The Company could suffer material adverse impacts on its operations and financial results if the applications and systems used by the Company, or by third parties with whom the Company does business, do not accurately or adequately process or manage dates or other information as a result of the Year 2000 issue.

The Company has completed a review of its financial accounting system for purposes of evaluating the Year 2000 issue. The Company's software provider has indicated that it will certify this financial accounting system as Year 2000-compliant upon completion of the next scheduled upgrade. This upgrade, including independent testing performed by the Company, is scheduled for completion during the first quarter of 1999. There can be no assurance that all Year 2000 issues in this software will be adequately resolved by this or other future software releases.

The Company also uses a variety of other software

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Crown Vantage Inc.

applications, business information systems, accounting subsystems, process control systems and related software, communication devices, and networking and other operating systems. The Company has completed its inventory of all such systems and is currently in the process of testing, upgrading, replacing, or otherwise modifying these systems to adequately address the Year 2000 issue. The Company believes it will be able to timely modify or replace its affected systems to prevent any material detrimental effects on operations and financial results. The Company anticipates this effort will continue, with appropriate testing, remediation and/or replacement taking place during the first half of 1999. The Company has completed approximately 85% of this effort through 1998. Possible risks of this process include but are not limited to the ability of the Company's personnel and outside vendors to adequately and timely identify and resolve all critical Year 2000 issues, and the Company's ability to secure additional Year 2000 expertise during this time of high demand if an unanticipated material problem requires skills the Company or its third party vendors currently do not possess. The Company can give no assurance that all critical Year 2000 issues will be resolved in a timely manner or that

potentially unresolved issues would not have a material adverse impact on the results of operations.

The Company has certain key relationships with customers, vendors and outside service providers. Failure by the Company's key customers, vendors and outside service providers to adequately address the Year 2000 issue could have a material adverse impact on the Company's operations and financial results. The Company is currently assessing the Year 2000 readiness of these key customers, vendors and outside service providers and, at this time, cannot determine what the impact of their readiness will be on the Company. This assessment includes but is not limited to soliciting responses from each of these parties concerning their Year 2000 readiness and review of public documents filed by many of these parties. Management expects to complete the assessment of these key customers, vendors and outside service providers during the first half of 1999. The Company is primarily relying upon the voluntary disclosures from third parties for this review of their Year 2000 readiness.

The Company anticipates that its affected systems will be remediated or replaced to address the Year 2000 issue in a timely manner and is currently focusing its resources in those areas. The Company is also developing contingency plans regarding the Year 2000 issue for its internal systems. Many of the identified risks from key customers, vendors and outside service providers are both general and speculative in nature, such as possible power or telecommunication failures, breakdowns in transportation systems, inability to process financial transactions, and similar events affecting general business services. As the Company completes its assessment of Year 2000 readiness of key customers, vendors and outside service providers, management intends to develop contingency plans to mitigate material known detrimental effects that may be caused by their Year 2000 noncompliance. However, it is unlikely that any contingency plan would mitigate the adverse impact to the financial condition or operations of the Company of any catastrophic event due to the Year 2000 issue that leads to a prolonged disruption of essential services.

Management believes that total Year 2000 costs will range between \$2.5 million and \$3.5 million. The costs associated with this effort are in addition to the Company's regular information technology budget. As of December 27, 1998 the Company has incurred costs related to the Year 2000 issue of approximately \$1.6 million. In addition to the costs mentioned above, the Company's capital spending for planned upgrading of certain information systems to enhance the capabilities of those systems was accelerated in part due to the Year 2000 issue. The total estimated increase in accelerated capital spending for these systems is anticipated to be under \$3 million. The Company's current estimates of the amount of time and costs necessary to remediate and test its computer systems are based on the facts and circumstances existing at this time. The estimates were made using assumptions of future events including the continued availability of certain resources, Year 2000 readiness plans, implementation success by key third party vendors, and other factors. New developments may occur that could increase the Company's estimates of the amount of time and costs necessary to modify and test its various information and non-information systems. These potential developments include but are not limited to the availability and increased cost of personnel trained in this area of expertise, the ability to locate and correct all relevant computer codes and equipment, and any unanticipated Year 2000 problems from key customers, vendors, and outside service providers.

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Crown Vantage Inc.

Continued Nasdaq National Market Listing

The Company's common stock price has fallen below the \$5 minimum maintenance standard for continued listing on the Nasdaq National Market. The Company shared its management initiatives with Nasdaq on February 5, 1999. Subsequently, the Company received an extension stipulating that the stock will continue to trade on the Nasdaq National Market so long as a closing bid price of at least \$5 per share is achieved by June 18, 1999 and thereafter the stock maintains a closing bid price of at least \$5 per share for a minimum of 10 consecutive trading days. If the shares are de-listed, the Company anticipates that the shares may be traded on the Nasdaq Over-the-Counter Bulletin Board. The stock price, stock trading liquidity, analyst coverage, and the Company's ability to raise capital might be adversely affected if the stock is de-listed from the Nasdaq National Market or fails to trade actively or at all on the Bulletin Board, both of which are not within the control of the Company.

Settlement of Berlin Property Tax Case

On February 1, 1999, the Company finalized an agreement with the City of Berlin, N.H., concerning assessed values and taxability of factory machinery. Over the next three years the agreement significantly reduces the assessed value from recent valuations of the Company's Berlin pulp mill. The Company expects to reverse a property tax accrual of approximately \$9 million in the first quarter of 1999, which relates to amounts over-accrued for previous tax years.

Forward Looking Statements

Certain statements within Management's Discussion and Analysis and elsewhere are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to various risks and uncertainties that could cause the actual results to be materially different from the Company's current expectations. These forward-looking statements can be identified by use of language such as plans, expects, estimates, anticipates, believes, possible and other similar words or phrases. In addition to the factors discussed above, there are other factors that could cause the actual results to differ materially. These other factors include but are not limited to business conditions and the general economy, both global and domestic; prices for the Company's products; the duration and depth of the Asian economic crisis; the effects of the Asian economic crisis on other regions around the world; competitive factors; maintaining good labor relations; the Company's ability to successfully implement its Year 2000 plans; possible de-listing of Crown Vantage stock from the Nasdaq National Market; the Company's ability to comply with debt covenants, and maintaining good customer relations.

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Crown Vantage Inc.

Report Of Independent Auditors

To the Board of Directors and Shareholders of Crown Vantage Inc.:

We have audited the accompanying consolidated balance sheets of Crown Vantage Inc. and subsidiaries as of December 27, 1998 and December 28, 1997, and the related consolidated statements of operations, cash flows, and changes in equity (deficit) for each of the three years in the period ended December 27, 1998. 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 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crown Vantage Inc. and subsidiaries at December 27, 1998 and December 28, 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 1998 in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Francisco, California

January 29, 1999, except for Note 6, paragraph 4, as to which the date is February 26, 1999

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Crown Vantage Inc.

Consolidated Statements of Operations

<TABLE>
<CAPTION>

	52 Weeks Ended December 27, 1998	52 Weeks Ended December 28, 1997	52 Weeks Ended December 29, 1996
(amounts in thousands, except per share amounts)			
<S>	<C>	<C>	<C>
Net sales	\$ 850,994	\$ 897,492	\$ 925,376
Cost of goods sold	796,935	837,452	850,419
Gross margin	54,059	60,040	74,957
Asset impairment and other charges	(163,834)	(3,325)	
Gain on timberlands sale		13,518	
Selling and administrative expenses	(62,360)	(55,889)	(52,215)
Operating income (loss)	(172,135)	14,344	22,742

Interest expense	(64,672)	(65,228)	(63,301)
Other income, net	1,400	1,314	555

Loss before income taxes and extraordinary item	(235,407)	(49,570)	(40,004)
Income tax benefit	(75,912)	(17,350)	(15,200)

Net loss before extraordinary item	(159,495)	(32,220)	(24,804)
Extraordinary item, net of tax	18,988		

Net Loss	\$ (140,507)	\$ (32,220)	\$ (24,804)
=====			
Loss per share before extraordinary item	\$ (16.79)	\$ (3.61)	\$ (2.89)
Earnings per share extraordinary item	2.00		
Basic loss per share	\$ (14.79)	\$ (3.61)	\$ (2.89)
=====			

</TABLE>

See notes to consolidated financial statements.

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Crown Vantage Inc.

Consolidated Balance Sheets

<TABLE>

<CAPTION>

(dollar amounts in thousands)	December 27, 1998	December 28, 1997
<S>	<C>	<C>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 9,806	\$ 11,415
Accounts receivable	41,022	40,787
Inventories	102,397	104,117
Prepaid expenses and other current assets	3,481	7,393
Deferred income taxes	15,067	14,480

Total current assets	171,773	178,192

Property, plant and equipment, net	434,075	621,276
Other assets	43,839	38,090
Unamortized debt issue costs	11,808	14,039
Intangibles, net	27,852	28,977

Total Assets	\$ 689,347	\$ 880,574

Liabilities and Deficit		
Current Liabilities:		
Accounts payable	\$ 40,916	\$ 54,181
Accrued liabilities	75,268	80,358
Current portion of long-term debt	1,000	1,000

Total current liabilities	117,184	135,539

Long-term debt	555,241	544,063
Accrued postretirement benefits other than pensions	100,736	102,397
Other long-term liabilities	37,880	17,444
Deferred income taxes	16,406	82,100

Total Liabilities	827,447	881,543

Shareholders' Equity (Deficit):		
Preferred Stock, no par value:		
Authorized - 500,000 shares;		
Issued and outstanding - None		
Common Stock, no par value:		
Authorized - 50,000,000 shares;		
Issued and outstanding - 9,876,842 shares and		
9,668,313 shares at December 27, 1998, and		
December 28, 1997, respectively		
	47,887	45,831
Unearned ESOP shares and other	(974)	(3,971)
Other Cumulative Comprehensive Income (Loss):		
Minimum pension liability	(2,231)	(330)
Cumulative foreign currency translation adjustment	1,562	1,338
Retained deficit	(184,344)	(43,837)

Total Deficit	(138,100)	(969)

Total Liabilities and Deficit	\$ 689,347	\$ 880,574
=====		

</TABLE>

See notes to consolidated financial statements

Crown Vantage Inc.

Consolidated Statements of Cash Flows

<TABLE>

<CAPTION>

(amounts in thousands)	52 Weeks Ended December 27, 1998	52 Weeks Ended December 28, 1997	53 Weeks Ended December 29, 1996
<S>	<C>	<C>	<C>
Cash provided by (used for) operating activities:			
Net Loss	\$(140,507)	\$ (32,220)	\$ (24,804)
Items not affecting cash:			
Depreciation and cost of timber harvested	84,851	83,373	79,252
Amortization of goodwill and other intangibles	1,125	1,124	1,125
Deferred income tax benefit	(78,068)	(19,929)	(10,174)
Interest on Pay-in-Kind Notes and other noncash interest	17,823	17,515	16,319
Gain on sale of timberlands		(13,518)	
Asset impairment and other charges	163,834	3,325	
Other, net	7,060	3,496	3,062
Extraordinary gain, pre-tax	(30,775)		
Change in current assets and liabilities:			
Accounts receivable (includes \$43,000 sold in 1996)	(235)	15,217	49,676
Inventories	220	(6,142)	3,344
Other current assets	3,325	7,532	(9,948)
Accounts payable	(12,286)	1,493	(4,958)
Other current liabilities	(5,090)	(3,887)	523
Other, net	2,827	(3,554)	1,520
Cash provided by operating activities	14,104	53,825	104,937
Cash provided by (used for) investing activities:			
Expenditures for property, plant and equipment	(42,056)	(59,309)	(80,914)
Proceeds from sale of property, plant, and equipment	489	36,740	71
Other, net	(2,321)	1,735	(232)
Cash used for investing activities	(43,888)	(20,834)	(81,075)
Cash provided by (used for) financing activities:			
Repayments of Term Loans	(1,825)	(46,712)	(52,538)
Proceeds from draw down of Revolving Credit	126,000	122,000	191,000
Repayments of Revolving Credit	(96,000)	(102,000)	(176,000)
Proceeds from issuance of Industrial Revenue Bonds, less underwriting costs		4,701	12,100
Payments of other long-term debt		(740)	(2,584)
Cash provided by (used for) financing activities	28,175	(22,751)	(28,022)
Increase (decrease) in cash and cash equivalents	(1,609)	10,240	(4,160)
Cash and cash equivalents, beginning of year	11,415	1,175	5,335
Cash and cash equivalents, end of year	\$ 9,806	\$ 11,415	\$ 1,175

</TABLE>

See notes to consolidated financial statements.

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Crown Vantage Inc.

Consolidated Statement of Changes in Equity (Deficit)

<TABLE>

<CAPTION>

(amounts in thousands)	Common Stock -----		Comprehensive Loss	Unearned ESOP Shares and Other	Foreign Currency Translation Adjustment	Retained Earnings (Deficit)
	Shares	Amounts				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1995	8,918	\$ 44,539		\$ (15,452)	\$ (1,348)	\$ 13,187
Net Loss			\$ (24,804)			(24,804)
Foreign currency translation adjustment			4,713		4,713	
Minimum pension liability adjustment			4,719	4,719		

Comprehensive loss			(15,372)			
ESOP and restricted stock activity, net	190	39			3,480	
Balance December 29, 1996	9,108	44,578		(7,253)	3,365	(11,617)
Net Loss			(32,220)			(32,220)
Foreign currency translation adjustment			(2,027)		(2,027)	
Minimum pension liability adjustment			562	562		
Comprehensive loss			(33,685)			
ESOP and restricted stock activity, net	560	1,253			2,390	
Balance December 28, 1997	9,668	45,831		(4,301)	1,338	(43,837)
Net Loss			(140,507)			(140,507)
Foreign currency translation adjustment			224		224	
Minimum pension liability adjustment			(1,901)	(1,901)		
Comprehensive loss			\$(142,184)			
ESOP and restricted stock activity, net	209	2,056			2,997	
Balance December 27, 1998	9,877	\$ 47,887		\$ (3,205)	\$ 1,562	\$(184,344)

</TABLE>

See notes to consolidated financial statements.

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Crown Vantage Inc.

Notes to Consolidated Financial Statements

Note 1

Organization and Operations

Crown Vantage Inc. and subsidiaries (the "Company" or "Crown Vantage") is a major producer of value-added paper products for a diverse array of end-uses. The Company's two segments and corresponding principal product categories are (i) printing and publishing papers, for applications such as special interest magazines, books, custom business forms and corporate communications and promotions (e.g. annual reports and stationery); and (ii) specialty papers, principally for food and retail packaging applications and conversion into such items as coffee filters, cups and plates. The Company operates 10 facilities using 30 diverse paper machines with sales primarily in North America. The Company became an independent company when it was spun off from James River Corporation of Virginia, now known as Fort James Corporation. The spin-off and initial capitalization are referred to as the "Spin-Off."

On December 27, 1998, the Company employed approximately 3,550 individuals of which approximately 1/4 were salaried and 3/4 were hourly. All of the Company's domestic hourly employees are represented under various collectively bargained union contracts. Hourly personnel at the Company's two mills in Scotland are covered by an ongoing national agreement that addresses working conditions, safety, and annual wage increases. Collective bargaining agreements at the Company's Parchment, Mich.; Adams, Mass., and Richmond, Va., facilities, which cover approximately 17.7% of the Company's hourly employees, expire before January 2000. The Company plans to renegotiate the above contracts before they expire.

The Company believes that its broad manufacturing capabilities allow it to offer a wider range of products and basis weights than most of its North American competitors. The Company focuses its operations on the higher value-added market niches of the sectors in which it competes. Papers produced for such niches generally command higher prices and tend to be less cyclical than commodity grades because they are used for more specialized applications and because there are fewer substitutes for these products. Like its competitors, the Company is subject to a number of risks, including the cyclical nature of the industry and the high degree of competition in the industry. In addition, the Company is highly leveraged as a result of its initial capitalization.

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Crown Vantage Inc.

Note 2

Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of the Company include the accounts of Crown Vantage Inc. (the "Parent"), Crown Paper Co. (a wholly owned subsidiary), and Crown Paper Co.'s consolidated subsidiaries. Significant intercompany balances and transactions have been eliminated.

The accompanying financial statements include the consolidated results of operations, assets and liabilities of the Company for the 52 weeks ended December 27, 1998, and December 28, 1997. The accompanying financial statements also include the consolidated results of operations of the Company for the 52 weeks ended December 29, 1996. The Company's fiscal year includes the 52 or 53 weeks ending on the last Sunday in December.

Cash and Cash Equivalents

The Company invests excess cash in marketable securities with original maturities of three months or less. These investments are classified as cash equivalents in the accompanying consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market and include the cost of materials, labor and manufacturing overhead. The last-in, first-out cost flow assumption is used for valuing substantially all domestic inventories other than stores and supplies. Other inventories, including all inventories held by foreign operations, are valued using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation, including related delivery and installation costs and interest incurred on significant capital projects during their construction periods. Expenditures for improvements that increase asset values or extend useful lives are capitalized. Maintenance and repair costs are expensed as incurred. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 20 to 45 years for buildings and 5 to 20 years for machinery and equipment. For income tax purposes, depreciation is calculated using accelerated methods.

The Company assesses the recoverability of its investments in long-lived assets to be held and used in operations whenever events or circumstances indicate that their carrying amounts may be impaired. Such assessment requires that the future cash flows expected to result from use of the assets are estimated and an impairment loss recognized when future cash flows are less than the carrying value of such assets. Estimating future cash flows requires the Company to estimate useful lives of its long-lived assets, future production volumes and costs, future sales volumes, demand for the Company's product mix and prices that reflect the use of its long-lived assets and market conditions. Based on this assessment, the Company recorded a \$146.9 million charge during the fourth quarter of 1998 to write down impaired assets. These assets were primarily at the Berlin-Gorham, N.H., pulp and paper mills and were written down to the present value of their estimated future cash-flows as a measure of fair value (see "Note 13"). Although the Company believes it has a reasonable basis for its estimates, it is reasonably possible that the Company's estimate of future cash flows could change from current estimates which could result in recognizing, in future periods, additional material impairment losses on its long-lived assets at Berlin-Gorham or other facilities.

Unamortized Debt Issue Costs

Debt issue costs, incurred primarily at the Spin-Off, are deferred and charged to interest expense over the life of the underlying indebtedness.

Goodwill

The excess of the purchase price over the fair value of identifiable net assets of acquired companies is allocated to goodwill and amortized over 40 years. Goodwill (included in intangibles), which relates to the St. Francisville, La., mill, totaled \$40.1 million at December 27, 1998, and December 28, 1997, and is presented net of accumulated amortization of \$13.2 million at December 27, 1998, and \$12.2 million at December 28, 1997. The recoverability of goodwill has been evaluated to determine whether current events or circumstances warrant adjustments to the carrying value. As of December 27, 1998, and December 28, 1997, management believes that no significant impairment of goodwill was indicated.

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Crown Vantage Inc.

Note 2 (continued)

Landfill Closure and Post-Closure Costs

The Company accrues for landfill closure and post-closure costs over the periods that benefit from the use of the landfills. Management regularly reviews the adequacy of cost estimates and adjusts the accrued amounts as necessary.

Income Taxes

No provision is made for U.S. federal income taxes on \$10.5 million of undistributed earnings of the Company's foreign subsidiaries as such earnings are considered indefinitely reinvested.

Foreign Currency Translation

The accounts of foreign subsidiaries of the Company are measured using local currency as the functional currency. Assets and liabilities are translated into U.S. dollars at period-end exchange rates, and revenue and expense accounts are translated at average monthly exchange rates. Net exchange gains or losses resulting from such translation are excluded from net earnings and accumulated as a separate component of Shareholders' Equity. Gains and losses from foreign currency transactions are included in cost of sales and were less than \$.1 million for each of the years presented.

Selected Sales Information

During 1998, 1997, and 1996 export sales to foreign markets from the Company's domestic operations represented less than 10% of the Company's net sales for that year. Net sales from the Company's two Scottish facilities were 7.7% for 1998, 7.6% for 1997 and 7.4% for 1996. No single customer accounted for more than 10% of net sales during 1998, 1997, or 1996.

Basic Earnings (Loss) Per Common Share

The computation of basic loss per share for the years ended December 27, 1998, December 28, 1997, and December 29, 1996, is based on the weighted average number of shares of common stock outstanding for the period. The weighted average shares outstanding are 9,502,000 for 1998; 8,931,000 for 1997; and 8,596,000 for 1996. Diluted loss per share is the same as basic loss per share for the years presented. The number of shares considered outstanding does not include 327,000 and 174,000 unearned shares held by the Employee Stock Ownership Plan Trust for 1997 and 1996, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain 1997 and 1996 amounts have been reclassified to conform to the 1998 presentation.

Note 3

Sale of Accounts Receivable

The Company entered into a five-year agreement expiring in 2000 with certain banks, which provides for the sale of undivided interests (up to \$60 million) in a revolving pool of trade accounts receivable. During 1996, the Company sold a total of \$43 million of undivided interests. Proceeds from the sales, which are reported as operating cash flows in the consolidated statement of cash flows, were used to prepay \$43 million of long-term debt. As collections reduce accounts receivable included in the pool, the Company sells undivided interests in new receivables in order to bring the amount sold up to the amount permitted. The amount sold as of December 27, 1998 is \$39.7 million and \$43 million as of December 28, 1997 and December 29, 1996.

The proceeds from sales are less than the face amount of the undivided interests in accounts receivable sold and this discount (\$2.7 million in 1998, \$2.8 million in 1997 and \$1.6 million in 1996) is included in selling and administrative expenses in the consolidated statement of operations.

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Crown Vantage Inc.

Note 4

Concentration of Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if customers failed completely to perform as contracted. Concentrations of credit risk that arise from financial instruments exist for groups of customers when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have any significant concentration of credit risk.

Accounts receivable at the Company's facilities in Scotland totaled \$18.5 million on December 27, 1998 and \$18.3 million on December 28, 1997. There were no other significant concentrations of foreign credit risk on December 27, 1998, or December 28, 1997.

Supplemental Balance Sheet Information

Inventories

(amounts in thousands)	1998	1997
Raw materials	\$ 24,716	\$ 27,911
Work-in-process	6,757	7,038
Finished goods	46,469	45,936
Stores and supplies	34,142	35,569
	112,084	116,454
Last-in, first-out reserve	(9,687)	(12,337)
Total inventories	\$ 102,397	\$ 104,117
Valued at lower of cost or market:		
Last-in, first-out	\$ 57,072	\$ 56,402
First-in, first-out	45,325	47,715
Total inventories	\$ 102,397	\$ 104,117

Property, Plant and Equipment

(amounts in thousands)	1998	1997
Land and improvements	\$ 33,968	\$ 39,955
Buildings	135,344	143,399
Machinery and equipment	999,448	1,043,162
Construction in progress	14,892	16,100
	1,183,652	1,242,616
Accumulated depreciation	(756,019)	(627,891)
	427,633	614,725
Timber, net	6,442	6,551
Net property, plant and equipment	\$ 434,075	\$ 621,276

Accrued Liabilities

(amounts in thousands)	1998	1997
Compensated absences	\$ 11,238	\$ 11,835
Employee insurance benefits	13,251	15,267
Accrued post retirement benefits other than pensions, current portion	2,947	3,004
Accrued interest	11,410	12,203
Taxes payable, other than income taxes	11,268	10,083
Other accrued liabilities	25,154	27,966
Total accrued liabilities	\$ 75,268	\$ 80,358

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Crown Vantage Inc.

Note 6

Long-Term Debt

Consolidated long-term debt consists of the following:

(amounts in thousands)	1998	1997
Crown Paper Co. Bank Credit Facility:		
Revolving credit, average interest rate 8.57% in 1998 and 1997, due 2002	\$ 75,000	\$ 45,000
Term Loan B, average interest rate 9.19% in 1998 and 9.14% in 1997, due 2003	96,175	98,000
	171,175	143,000
11% Senior Subordinated Notes, due 2005	250,000	250,000
Industrial Revenue Bonds, average interest rate		

7.55% in 1998 and 7.91% in 1997, payable to 2026 39,074 38,878

Crown Vantage Inc.		
11.45% Senior Pay-in-Kind Notes, due 2007		
less unamortized discount	95,992	113,185
	-----	-----
	556,241	545,063
Less current portion	1,000	1,000
	-----	-----
	\$555,241	\$544,063
	-----	-----

Maturities of long-term debt, excluding the revolver, for the next five years are: 1999 - \$1.0 million; 2000 - \$1.3 million; 2001 - \$.8 million; 2002 - \$47.0 million, and 2003 - \$46.1 million. Cash paid for interest in 1998, 1997, and 1996 totaled \$ 45.6 million, \$46.0 million, and \$45.8 million, respectively.

Under the Bank Credit Facility (the "Facility") the revolving credit available is in the aggregate amount of \$150 million with a \$75 million sublimit for letters of credit (of which \$38.2 million has been issued at December 27, 1998). This revolving credit can be used for general corporate purposes, working capital needs, and permitted investments. At December 27, 1998, \$75.0 million of the revolving credit was outstanding and \$36.8 million of the aggregate line was available if needed. Borrowings under the Facility are subject to varying rates of interest that are indexed (at the Company's option) to a base rate (the higher of the Prime Rate or Federal Funds Rate) or the London Interbank Offered Rate.

Principal and interest amounts on the Term Loan are due in quarterly installments. In addition to those scheduled repayments, Crown Paper Co. is obligated to make prepayments equal to 75% of Excess Cash Flow (as defined in the underlying agreement). The Company did not generate Excess Cash Flow in 1998 or 1997. The Company is also required to make prepayments (in varying percentages of net proceeds) upon the occurrence of certain events that include, but are not limited to, proceeds received from any new debt or equity issuances, asset sales, and sales of accounts receivable. During 1997, the Company sold approximately 108,000 acres of timber-producing properties for approximately \$36 million. Proceeds from the sale of the Company's timber properties were used to prepay Term Loan A. Also during 1997, the Company repaid the remaining \$3.2 million balance of Term Loan A. During 1996, the Company prepaid \$43 million on Term Loan A using proceeds obtained through the sale of certain accounts receivable.

In connection with the Facility, Crown Paper Co. is required to comply with certain financial covenants. During the fourth quarter of 1998 Crown Paper Co. amended its financial covenants and remained in compliance with the Facility. The Facility, as amended on February 26, 1999, requires Crown Paper Co. to maintain the following covenants for the fiscal year ended December 26, 1999:

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Crown Vantage Inc.

Note 6 (continued)

	1st Quarter 1999	2nd Quarter 1999	3rd Quarter 1999	4th Quarter 1999
Minimum Cash Flow Ratio	.13:1	.12:1	.10:1	.11:1
Interest Coverage Ratio	1.42:1	1.30:1	1.09:1	1.17:1
Adjusted Minimum Tangible Net Worth (in millions)	\$ 75.0	\$ 60.0	\$ 55.0	\$ 47.5

In addition, both the Company and Crown Paper Co. are subject to certain limitations on indebtedness, liens, mergers and acquisitions, asset sales, investments, joint ventures, capital expenditures and prepayments or acquisitions of certain indebtedness. The Facility also restricts Crown Paper Co. from paying cash dividends to the Company. Generally, dividends are limited to (a) amounts necessary to pay certain personnel and administrative expenses (not to exceed \$800,000 per year), (b) current taxes payable attributable to Crown Paper Co., and (c) Crown Paper Co.'s share of Equity Proceeds (as defined in the underlying agreement). The Facility contains customary events of default, including certain changes of control. The obligations under the Facility are collateralized by substantially all of the assets of Crown Paper Co.

The Senior Subordinated Notes (the "Notes") are unsecured and interest is payable semi-annually in March and September. The Notes are redeemable at the option of Crown Paper Co. on or after September 1, 2000 at a redemption price of 105.5%, which declines to par after September 1, 2003, and thereafter. In the event of a Change of Control (as defined in the underlying agreement) the holders of the Notes have the right to require Crown Paper Co. to purchase the

Notes in cash at 101%. The Notes contain covenants, limitations and restrictions that in general are not more restrictive than those contained in the Facility.

The face amount of 11.45% Senior Pay-in-Kind Notes ("PIK Notes") outstanding on December 27, 1998 was \$106.8 million and \$125.3 million on December 28, 1997. The PIK Notes are recorded net of a discount of \$10.8 million on December 27, 1998 and \$12.1 million on December 28, 1997 in order to reflect a market rate of interest of 13% at the Spin-Off. Interest on the \$100 million 11.45% PIK Notes is due semi-annually in March and September, and may be paid in cash or in additional PIK Notes until September 2003. Thereafter interest must be paid in cash. As of December 27, 1998, interest due has been paid through the issuance of additional PIK Notes. On September 28, 1998 Crown Vantage and Crown Paper Co. settled with Fort James a variety of claims that had arisen between Fort James, Crown Paper and Crown Vantage. The settlement resulted in the return of \$25.1 million of PIK Notes to Crown Vantage and the delivery of \$8.1 million of PIK Notes to Crown Paper Co. The \$8.1 million in PIK Notes assets held by Crown Paper Co. are reclassified in consolidation against the PIK Notes' indebtedness. The settlement resulted in an extraordinary gain of \$19.0 million that is net of \$2.4 million in expenses and \$11.8 million in taxes. The settlement amended the terms of the remaining PIK Notes and allows Crown Vantage the right to call the remaining PIK Notes and accrued interest at fair value at any time prior to their maturity. In the event of a Change of Control (as defined in the underlying agreement) the holders of the PIK Notes have the right to require the Company to purchase the PIK Notes in cash at 101%. The PIK Notes contain covenants, limitations and restrictions that in general are not more restrictive than those contained in the Facility or the Notes.

Proceeds from the sale of industrial revenue bonds are used to finance eligible project costs, of which \$1.3 million and \$3.4 million are included in cash and cash equivalents at December 27, 1998, and December 28, 1997, respectively.

At December 27, 1998 and December 28, 1997, estimated fair values of the Company's long-term debt instruments were \$486.0 million and \$556.0 million, respectively. The fair values of the Company's long-term debt instruments are based on quoted market prices, estimated based on quoted market prices for similar issues or estimated by discounting expected cash flows at the rates currently available to the Company for debt having similar characteristics.

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Crown Vantage Inc.

Note 7

Income Taxes

The components of loss before income taxes and extraordinary item were as follows:

<TABLE>
<CAPTION>

(amounts in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Domestic	\$ (241,429)	\$ (55,348)	\$ (45,838)
Foreign	6,022	5,778	5,834
Loss before income taxes	\$ (235,407)	\$ (49,570)	\$ (40,004)

Income tax expense (benefit) consisted of the following:

(amounts in thousands)	1998	1997	1996
Current:			
Federal		\$ (693)	\$ (6,542)
State	\$ 730	1,775	(478)
Foreign	1,426	1,497	1,994
Total current income tax expense (benefit)	2,156	2,579	(5,026)
Deferred:			
Federal	(83,519)	(18,063)	(9,444)
State	(9,397)	(2,193)	(1,052)
Valuation allowance	14,178		
Foreign	670	327	322
Total deferred income tax benefit	(78,068)	(19,929)	(10,174)
Income tax benefit	\$ (75,912)	\$ (17,350)	\$ (15,200)

</TABLE>

Principal reasons for the differences between the federal statutory income tax rate on the loss before income taxes and extraordinary item, and the Company's effective tax rate were as follows:

	Percent of Pretax Loss		
	1998	1997	1996
Federal statutory income tax rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal income tax effect	(3.8)	(3.8)	(3.8)
Valuation allowance	6.0		
Amortization of goodwill	.2	.7	.9
Other items, net	.4	3.1	(.1)
Effective income tax rates	(32.2)%	(35.0)%	(38.0)%

The income tax effects of temporary differences that gave rise to the net deferred tax assets and liabilities as of December 27, 1998 and December 28, 1997, were as follows:

(amounts in thousands)	1998	1997
Excess of book over tax basis of property, plant and equipment	\$ 66,039	\$ 129,073
Pension benefits, net	15,407	13,943
Discount on Pay-in-Kind Notes	4,190	4,675
Other items	5,475	4,881
Total deferred tax liabilities	91,111	152,572
Postretirement benefits other than pensions	(40,229)	(40,874)
Accrued liabilities	(27,079)	(17,399)
Net operating loss carryforward	(36,354)	(25,789)
Other items	(1,153)	(890)
Total deferred tax assets	(104,815)	(84,952)
Valuation allowance	15,043	
Net deferred tax liability	\$ 1,339	\$ 67,620

Crown Vantage Inc.

Note 7 (continued)

The Company recorded deferred tax benefits for the net operating losses of \$10.6 million in 1998, \$17.7 million in 1997, and \$8.1 million in 1996. The Company has federal and state net operating loss carryforwards of approximately \$27.2 million for 1998 that expire in 2018, \$45.6 million for 1997 that expire in 2012 and \$19.9 million for 1996 that expire in 2011. The Company made estimated tax payments of \$.8 million in 1998, \$.7 million in 1997 and \$1.6 million in 1996, of which \$1.2 million was recovered in 1997. The Company recorded a \$15.0 million valuation allowance against the deferred tax assets as of December 27, 1998. This included a reduction of the deferred tax benefit of \$14.2 million and the elimination of the tax assets associated with the minimum pension liability of \$.8 million.

Note 8

Pension and Other Benefit Plans

In connection with the Spin-Off, the Company and James River entered into an agreement with the Pension Benefit Guaranty Corporation (the "PBGC") whereby U.S. pension plans transferred to the Company and corresponding accumulated participant benefits were frozen (the "Frozen Plans"). New pension plans (the "New Plans") were then established by the Company that have terms substantially similar to the Frozen Plans. James River entered into an agreement with the PBGC providing that, if the PBGC institutes proceedings to terminate a Frozen Plan, James River may either assume sponsorship of the plan or will be responsible for all liabilities arising from the termination of the plan. James River's contingent obligation with respect to the Frozen Plans will generally end when

there are no unfunded benefit obligations for the Frozen Plans. James River and the Company have entered into an agreement (the "Pension Funding Agreement") that establishes minimum funding requirements by the Company for the Frozen Plans that are at least equal to minimum funding requirements pursuant to Section 412 of the Internal Revenue Code.

Post-retirement benefit plans ("Other Benefits") are provided for certain salaried and substantially all hourly employees. Salaried employees hired before January 1, 1993, generally become eligible for retiree medical benefits after reaching age 55 with 15 years of service or after reaching age 65. Under the salaried plan, post-age 65 eligible retirees are reimbursed for a portion of the cost of premiums of Medicare supplement insurance policies, based upon vested years of service. Post-age 65 salaried retirees are also reimbursed for certain prescription drug costs, less deductibles. Pre-age 65 eligible retirees are paid a stated percentage of covered medical expenses, less deductibles. Salaried employees hired after January 1, 1993 are not eligible for retiree medical benefits. Benefits, eligibility and cost-sharing provisions for hourly employees vary by location and collective bargaining unit. All of the Company's retiree medical plans are unfunded.

The consolidated financial statements include the present value of benefit obligations, related components of pension and other benefit costs, unrecognized net gains and plan assets that were derived from actuarial calculations.

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Crown Vantage Inc.

Note 8 (continued)

Summary information on the Company's pension and other benefit plans is as follows:

<TABLE>
<CAPTION>

(amounts in thousands)	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 281,048	\$ 244,531	\$ 70,523	\$ 79,323
Service cost	7,314	5,310	1,174	1,090
Interest cost	20,109	19,306	5,126	5,033
Amendment	268	1,570		
Plan participants' contributions	1,437	1,350	903	842
Actuarial (gain) loss	13,750	25,006	415	(11,295)
Benefits paid	(16,615)	(16,025)	(5,240)	(4,470)
Benefit obligation at end of year	\$ 307,311	\$ 281,048	\$ 72,901	\$ 70,523
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 337,134	\$ 281,753		
Actual return on plan assets	22,124	66,399		
Company contributions	6,771	3,647		
Plan participants' contributions	1,437	1,350		
Benefits paid	(16,615)	(16,025)		
Fair value of plan assets at end of year	\$ 350,851	\$ 337,124		

</TABLE>

Plan assets are invested primarily in domestic equity and fixed income mutual funds. The following table sets forth the funded status of the Company's pension plans and other benefit plans at December 27, 1998, and December 28, 1997:

<TABLE>
<CAPTION>

(amounts in thousands)	Pension Plans		Other Benefits Plans	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Funded status (over/(under)funded)	\$ 43,540	\$ 56,076	\$ (72,901)	\$ (70,523)
Unrecognized net gain	(8,365)	(24,851)	(20,631)	(22,777)
Unrecognized prior service cost (gain)	10,011	11,275	(10,151)	(12,101)
Unrecognized net transition (asset) liability	55	(3,348)		
Minimum pension liability	(4,115)	(2,184)		
Net asset (liability)	\$ 41,126	\$ 36,968	\$ (103,683)	\$ (105,401)

</TABLE>

Amounts applicable to certain of the Company's pension plans with accumulated

benefit obligations and projected benefit obligations in excess of plan assets are as follows:

<TABLE>
<CAPTION>

	1998	1997
Projected benefit obligation	\$ 21,981	\$ 18,025
Accumulated benefit obligation	21,653	17,796
Fair value of plan assets	18,474	16,455

</TABLE>

Crown Vantage Inc.

Note 8 (continued)

The components of the Company's net pension and other benefit costs, which include the Company's pension plan in Scotland, were as follows:

<TABLE>
<CAPTION>

(amounts in thousands)	Pension Plans			Other Benefits Plans		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 7,314	\$ 5,310	\$ 5,344	\$ 1,174	\$ 1,090	\$ 1,582
Interest cost	20,109	19,305	19,055	5,126	5,033	5,919
Net investment income on plan assets	(27,511)	(69,794)	(27,088)			
Net amortization	730	45,827	6,196	(3,352)	(3,886)	(1,965)
Contributions to multiemployer pension plans	19	53	52			
Net benefit cost	\$ 661	\$ 701	\$ 3,559	\$ 2,948	\$ 2,237	\$ 5,536

</TABLE>

Net amortization of pension and other benefit costs includes amortization of the net transition assets, net experience gains and losses, and prior service costs over 15 to 20 years. The actuarial assumptions used in determining net pension and other benefit costs and related pension and other benefit obligations were as follows:

<TABLE>
<CAPTION>

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Discount Rate	7.0%	7.5%	7.0%	7.5%
Assumed rate of increase in compensation levels	4.0%	4.0%		
Expected long-term rate of return on plan assets	10.0%	10.0%		

</TABLE>

Changes in actuarial assumptions for 1998 resulted in an increase to the net periodic pension and other benefit costs of \$.6 million and the related accumulated benefit obligation of \$5.6 million. The assumed health care cost trend rate used in measuring the accumulated benefit obligation for other benefits was 6.5% in 1998, declining by 0.5% per year through 2002 to an ultimate rate of 4.5%. The effect of a 1% change in the health care cost trend rate assumptions is as follows:

<TABLE>
<CAPTION>

	1% increase	1% decrease
Service and interest cost	\$.8	\$.7
Accumulated postretirement benefit obligation	\$ 8.1	\$ 7.0

</TABLE>

Other assets include net noncurrent pension assets of \$43.8 million on December 27, 1998 and \$38.0 million on December 28, 1997, exclusive of the additional minimum pension liabilities. The additional minimum pension liabilities of \$4.1 million on December 27, 1998 and \$2.2 million on December 28, 1997 were offset by intangible assets of \$1.9 million and \$1.7 million, respectively. The additional minimum pension liabilities were offset by charges to shareholders' equity on December 27, 1998 of \$2.2 million, net of no deferred taxes due to the valuation allowance (see Note 7), and \$.3 million, net of deferred taxes of \$.2 million on December 28, 1997.

Crown Vantage Inc.

Note 9

Commitments and Contingent Liabilities

Leases

As of December 27, 1998, future minimum rental payments under noncancelable operating leases were as follows:

(amounts in thousands)	Minimum Rentals
1999	\$ 5,750
2000	5,653
2001	5,292
2002	5,103
2003	4,353
Later years	10,716
Total future minimum rentals	\$ 36,867

Rent expense totaled \$6.5 million in 1998, \$6.6 million in 1997 and \$6.7 million in 1996.

Litigation and Environmental Matters

The Company is a party to various legal proceedings generally incidental to its business and is subject to a variety of environmental protection statutes and regulations. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings involving environmental matters. Although the ultimate disposition of legal proceedings cannot be predicted with certainty, it is the present opinion of the Company's management that the outcome of any claim which is pending or threatened, either individually or on a combined basis, will not have a materially adverse effect on the consolidated financial position of the Company but could materially affect consolidated results of operations in a given year.

The Company has accrued \$12.2 million at December 27, 1998 and \$12.0 million at December 28, 1997 primarily for estimated landfill site restoration, post-closure and monitoring costs. In addition, the Company has been identified as a potentially responsible party ("PRP"), along with others, under the Comprehensive Environmental Response, Compensation and Liability Act or similar federal and state laws regarding the past disposal of wastes at 19 sites in the United States. The Company has previously settled its remediation obligations at 12 of those sites. At 6 other sites, the Company is one of many potentially responsible parties and its alleged contribution to the site and remediation obligation is not considered significant. At one other site, remedial investigation is underway and a loss estimate for the potential remediation effort costs is not yet possible. However, the Company's accrual for the remediation investigation effort was \$4 million at December 27, 1998 and \$6 million at December 28, 1997. The liabilities can change substantially due to such factors as the solvency of other potentially responsible parties, the Company's share of responsibility, additional information on the nature or extent of contamination, methods and associated costs of remediation required, and other actions by governmental agencies or private parties. While it is not feasible to predict the outcome of all environmental liabilities, based on its most recent review, management estimates the Company's share of the costs of investigation and remediation of the known sites will not have a material adverse effect upon the consolidated financial condition of the Company.

Due to uncertainties associated with remediation activities, regulations, technologies, and the allocation of costs among various other parties, actual costs to be incurred at identified sites may vary from estimates. Therefore, management is unable to determine if the ultimate disposition of all known environmental liabilities will have a material adverse effect on the Company's consolidated results of operations in a given year. As with most manufacturing and many other entities, there can be no assurance that the Company will not be named as a PRP or incur liabilities through other means at additional sites in the future or that the costs associated with such additional sites would not be material.

The Environmental Protection Agency signed final rules affecting pulp and paper industry discharges of wastewater and gaseous emissions ("Cluster Rules") which became effective on April 15, 1998. These Cluster Rules require changes in the pulping, bleaching and/or wastewater treatment processes presently used in some U.S. pulp and paper mills, including some of the Company's mills. Based on management's understanding of the rules, the Company estimates that approximately \$40 million of capital expenditures may be required to comply with the rules with compliance dates beginning in 1999 and extending over the next

two to five years. The Company's 1998 environmental capital spending includes \$3.6 million for compliance with the Cluster Rules. There are risks and uncertainties associated with the Company's estimate that could cause total capital expenditures and timing of such expenditures to be materially different from current estimates, including changes in technology, interpretation of the rules by government agencies that is substantially different from the Company's interpretation, or other items.

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Crown Vantage Inc.

Note 10

Shareholders' Equity

Preferred Stock

The Company, without further action by the shareholders, is authorized to designate and issue up to approximately 500,000 shares (in series) of Preferred Stock and to fix as to any series the dividend rate, redemption prices, preferences on dissolution, terms of any sinking fund, conversion rights, voting rights, and any other preferences or special rights and qualifications.

Shareholder Rights Plan

The Company has a rights plan designed to assure that the Company's shareholders receive fair and equal treatment in the event of a proposed takeover of the Company. Each share of Crown Vantage Common Stock has an associated preferred share purchase right (a "Right") entitling the Right holders to purchase 1/1,000 of a share of Series A Cumulative Participating Preferred Stock (the "Preferred Share") at an initial price of \$85 (the "Purchase Price"). Each Preferred Share will have a minimum preferential quarterly dividend of \$1.00 per share, but will be entitled to an aggregate dividend of 1,000 times each dividend on a share of Crown Vantage Common Stock.

The Rights will be exercisable only if a person or group acquires, or obtains the right to acquire, beneficial ownership of 15% or more of the Company's outstanding Common Stock or announces a tender or exchange offer for 15% or more of the Company's outstanding Common Stock. Upon the occurrence of certain other events, each Right entitles the holder to receive (in lieu of Preferred Shares) shares of Common Stock of the Company (or, in certain circumstances, cash, property, or other securities of Crown Vantage or, in certain other circumstances, common stock of the acquiring entity) having a value of two times the Purchase Price.

The Company will be entitled to redeem the Rights at \$.01 per Right at any time not later than 10 days after a person or group has acquired 15% or more of the outstanding Common Stock of the Company. Until such time as they may be subject to exercise, these Rights will not be issued in separate form and may not be traded other than with the shares to which they are attached. If unexercised or unredeemed, the Rights will expire September 1, 2005.

Incentive Stock Plan

The Company has adopted the 1995 Incentive Stock Plan. The Incentive Stock Plan is a long-term incentive plan designed to align the efforts and rewards of officers and key employees with the maximization of Company performance and increases in shareholder value. Under the Incentive Stock Plan, a maximum of 1,700,000 shares of the Company's Common Stock may be issued upon the exercise of options and under awards of restricted stock, incentive stock, and deferred stock.

There were no restricted stock awards in 1998. Restricted stock awarded during 1997 was 70,600 shares. Shares of unvested restricted stock were 184,000 shares on December 27, 1998 and 234,300 shares on December 28, 1997. The market value of restricted stock at each date of grant has been recorded as unearned compensation and is being amortized to expense (\$1,043,000 in 1998, \$880,000 in 1997 and \$840,000 in 1996) over the vesting periods, which range from one to six years.

Note 11

Stock Option and Deferred Stock Award Plans ("Stock Awards")

The Company uses the intrinsic value method in accounting for its employee Stock Awards. The application of this method has resulted in no compensation expense being recognized. As discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires use of option valuation models that were not developed for use in valuing employee stock options.

Stock options generally vest over a three-year period and have maximum contractual lives of 10 years. Deferred stock awards (granted to employees in

1998) totaling 585,000 shares have contractual lives of 3 years and vest upon meeting certain Company stock price performance. The deferred stock awards vest at various percentages as the Company's stock sustains prices of \$15, \$20 or \$25 per share over 20 consecutive trading days. No deferred stock awards vested in 1998.

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Crown Vantage Inc.

Note 11 (continued)

A summary of the Company's Stock Award activity and related information for the years ended December 27, 1998, and December 28, 1997, follows:

<TABLE>
<CAPTION>

	1998		1997	
	Stock Awards	Weighted Average Exercise Price	Stock Awards	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding-beginning of year	855,500	\$ 7.24	863,000	\$ 17.48
Granted	601,000	(2)	791,100	\$ 6.44
Exercised	(56,800)	\$ 6.33	(7,700)	\$ 6.31
Forfeited	(69,000)	\$ 3.88	(790,900)	\$ 16.11
Outstanding-end of year	1,330,700	(2)	855,500	\$ 7.24
Exercisable at end of year	127,900	\$ 7.03	224,900	\$ 6.79
Weighted average fair value (at grant date) of Stock Awards granted during the Year:				
Stock options		\$.68(1)		\$ 1.36(1)
Deferred stock		\$ 10.37(1)		

</TABLE>

(1) Using the Black-Scholes option valuation model discussed below.

(2) Exercise prices for stock options outstanding as of December 27, 1998, ranged from \$2.94 to \$11.44 with a weighted average exercise price of \$7.08 per share with an exercise price for the preponderance of the shares at \$6.31 per share. The weighted average exercise price for stock options granted during 1998 was \$4.74. The weighted-average remaining contractual life of stock options outstanding on December 27, 1998 is approximately 8 years. Deferred stock awards will vest based on the Company's stock price performance and effectively have an exercise price of \$0. The remaining contractual life for the deferred stock awards is approximately 2 years.

In 1997, the Company granted employees the opportunity to exchange stock options granted during 1995 and 1996 for ratably fewer options repriced as of April 29, 1997. The replacement stock options contained an exercise price of \$6.31 versus a weighted average exercise price of \$17.48 for the 1995 and 1996 options. Substantially all of the 1997 forfeitures resulted from this exchange.

Pro forma information regarding net loss and loss per share is required by SFAS No. 123 and has been determined as though the Company had accounted for its employee Stock Awards under the fair value method of that Statement. The fair value for these Stock Awards was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 5.43% for 1998 and 6.45% for 1997; dividend yield of 3.0% for 1998 and 1997; volatility factor of the expected market price of the Company's common stock of .21 and .18 for 1998 and 1997, respectively; and a weighted-average expected life of 3 years for the deferred stock awards and 7 years for the stock options granted in 1998 and 7 years for 1997. For purposes of pro forma disclosures, the estimated fair value of the Stock Awards is amortized to expense over the vesting period. The Company's pro forma net loss for 1998, 1997 and 1996 is \$140.8 million, \$32.6 million and \$25.7 million, respectively. The Company's pro forma loss per share in 1998, 1997 and 1996 is \$14.81, \$3.66 and \$2.99, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and deferred stock have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Crown Vantage Inc.

Note 12

Employee Stock Ownership Plan

Currently the Company sponsors an Employee Stock Ownership Plan ("ESOP") that is available to substantially all employees of the Company. Participants may elect to contribute up to 16% of their compensation as pretax contributions under Internal Revenue Code 401(k). The Company will make matching contributions (up to a maximum of 6%) based on each participant's contribution. On December 27, 1998, 381,000 shares were authorized but not yet issued to the ESOP.

Prior to the fourth quarter of 1998, the ESOP was leveraged and was funded by loans from Crown Paper Co., with the proceeds used to purchase shares of the Company's Common Stock. One loan was repaid in 1997 and the other loan was repaid in 1998. Prior to the loans being paid off, the Company's annual contributions to the ESOP in the form of matching contributions was equal to the amount needed by the ESOP to make the principal and interest payments on the loan.

When the ESOP was leveraged, shares were pledged as collateral for this debt. As the debt was repaid, shares were released from collateral and allocated to employees who made 401(k) contributions that year, based on the proportion of debt service paid in the year. The shares pledged as collateral were reported as unearned ESOP shares in the consolidated balance sheet. As the Company recognized compensation expense for its matching contribution, shares were committed for release from collateral and the shares became outstanding for earnings per share computations.

Compensation expense for the 401(k) match and the ESOP was \$3.8 million in 1998 and \$2.7 million in 1997.

The ESOP shares as of December 27, 1998, and December 28, 1997, were as follows:

	Number of Shares	
	1998	1997
Allocated shares	944,000	516,000
Shares released/ issued for allocation		101,000
Unearned shares		327,000
Total ESOP shares	944,000	944,000
Fair value of unearned shares at end of year	\$ -0-	\$2,534,000

Note 13

Asset Impairment, Timberland Gain and Other Charges

During the fourth quarter of 1998, the Company determined that the estimated future cash flows for certain of its fixed assets (primarily at the Berlin and Gorham, N.H., pulp and paper mills) were insufficient to recover the net book value of those assets. Accordingly, the Company recorded an asset impairment charge of \$146.9 million in the fourth quarter of 1998 to write down those assets. Also, the Company determined that the co-generation facility at the St. Francisville, La., mill no longer provides substantive use or benefit to the mill. Based on this assessment, the Company recorded a \$16.9 million charge during the fourth quarter of 1998, which represents discounted net future lease payments.

During the fourth quarter of 1997, the Company sold approximately 108,000 acres of timber-producing properties for approximately \$36 million and recognized a gain of \$13.5 million.

During the fourth quarter of 1997, the Company closed its Newark, Del., facility and recorded a charge related to the closure of the mill in the fourth quarter of 1997 totaling \$3.3 million.

Note 14

Work Force Reduction

During 1998, the Company accrued \$3.0 million relating to the announced 5% work force reduction. The accrual is for anticipated expenses resulting from the work force reduction, primarily for severance and benefit payments to the approximately 230 affected employees. Both hourly and salaried employees from manufacturing, maintenance, and office staff were affected. As of December 27, 1998 approximately \$1.6 million had been paid and the remainder will be paid during the first half of 1999.

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Crown Vantage Inc.

Note 15

Segment Information

The Company is organized around two segments based primarily on similarities in products, the manufacturing process and customers.

<TABLE>
<CAPTION>

(amounts in millions)	1998	1997	1996
Operating income (loss):			
<S>	<C>	<C>	<C>
Printing & Publishing Papers	\$ (166.1)	\$ 1.0	\$ 11.6
Specialty Papers	(6.0)	13.3	11.1
Total	\$ (172.1)	\$ 14.3	\$ 22.7
EBITDA:			
Printing & Publishing Papers	\$ 54.1	\$ 64.4	\$ 72.8
Specialty Papers	24.1	34.6	30.9
Other	.7	1.0	.4
Total	\$ 78.9	\$ 100.0	\$ 104.1
Total assets:			
Printing & Publishing Papers	\$ 457.6	\$ 631.4	\$ 678.5
Specialty Papers	204.1	222.0	237.0
Other	27.6	27.2	30.1
Total	\$ 689.3	\$ 880.6	\$ 945.6
Net sales:			
Printing & Publishing Papers	\$ 512.8	\$ 513.0	\$ 536.5
Specialty Papers	338.2	384.5	388.9
Total	\$ 851.0	\$ 897.5	\$ 925.4
Depreciation and amortization expense:			
Printing & Publishing Papers	\$ 62.3	\$ 63.3	\$ 60.2
Specialty Papers	23.7	21.2	20.2
Total	\$ 86.0	\$ 84.5	\$ 80.4
Asset impairment, other charges, and timberland gain:			
Printing & Publishing Papers	\$ (157.3)	\$ 10.2	
Specialty Papers	(6.5)		
Total	\$ (163.8)	\$ 10.2	
Expenditures for property, plant and equipment:			
Printing & Publishing Papers	\$ 27.2	\$ 43.5	\$ 60.8
Specialty Papers	13.9	13.0	16.0
Other	1.0	2.8	4.1
Total	\$ 42.1	\$ 59.3	\$ 80.9

</TABLE>

Both operating income (as used in the statement of operations) and EBITDA are used by the Company's chief operating decision makers to assess the performance of these segments. EBITDA represents income (loss) before income taxes, interest expense and depreciation and amortization. 1998 EBITDA for Printing and Publishing Papers excludes the \$145.2 million fixed asset write-down and the \$12.1 million charge for future lease payments for the co-generation facility at the St. Francisville, La., mill. Specialty Papers' 1998 EBITDA excludes \$1.7 million for the fixed asset write-down and the \$4.8 million charge for future lease payments for the co-generation facility at the St. Francisville, La., mill. Printing and Publishing Papers' 1997 EBITDA includes a \$13.5 million gain on sale of timberlands and a \$3.3 million charge due to the closure of the

Newark, Del. facility. "Other" consists primarily of corporate balances not allocated to segments such as prepaid pension assets, deferred income taxes and the balance sheet effect of certain financing arrangements. Other's revenue is interest income. The allocation of pension costs to the segments is actuarially determined. Corporate general and administrative expenses are allocated based on tons sold.

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Crown Vantage Inc.

Note 16

Quarterly Financial Summary (unaudited)

<TABLE>
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(amounts in thousands except shares and loss per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Net sales	\$ 221,806	\$ 215,413	\$ 211,768	\$ 202,007	\$ 850,994
Gross margin	8,998	11,982	21,679	11,400	54,059
Net loss before extraordinary item	(14,214)	(12,302)	(6,992)	(125,987)	(159,495)
Basic loss per share before extraordinary item	(1.55)	(1.32)	(.73)	(12.69)	(16.79)
Net loss	(14,214)	(12,302)	(6,992)	(106,999)	(140,507)
Basic loss per share (1)	(1.55)	(1.32)	(.73)	(10.78)	(14.79)
Shares used to compute loss per share	9,185	9,333	9,560	9,929	9,502
Stock price - High	9 3/8	12 3/4	10 1/2	4 3/4	12 3/4
- Low	6	6 1/2	2 3/8	2	2
- Close	7 3/4	9 7/8	2 1/2	2 3/8	2 3/8
1997					
Net sales	\$ 228,641	\$ 224,932	\$ 226,808	\$ 217,111	\$ 897,492
Gross margin	17,164	10,752	20,598	11,526	60,040
Net loss	(9,634)	(10,852)	(6,625)	(5,109)	(32,220)
Basic loss per share	(1.10)	(1.22)	(.74)	(.56)	(3.61)
Shares used to compute loss per share	8,732	8,903	8,979	9,061	8,931
Stock price - High	8 1/2	9 1/2	12 1/4	12	12 1/4
- Low	6 3/8	5 1/2	7 1/2	7 1/8	5 1/2
- Close	6 5/8	7 1/8	11 3/4	7 3/4	7 3/4

</TABLE>

(1) Basic loss per share is weighted average calculation performed on a quarterly and year-to-date basis that can result in the sum of the quarters not equaling the year-to-date basic loss per share, which is in accordance with generally accepted accounting principles. In 1998, the large loss and increase in weighted average shares outstanding that occurred in the fourth quarter significantly impacted the calculation and is the primary reason for the sum of the four quarters basic loss per share not equaling the year-to-date basic loss per share.

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Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-96788, 33-96854, 33-96856, File No. 333-09361, 333-4420 and 333-52355), of Crown Vantage Inc. of our report dated January 29, 1999, except for Note 6, paragraph 4, as to which the date is February 26, 1999, with respect to the consolidated financial statements of Crown Vantage Inc. incorporated by reference in the Annual Report on Form 10-K for the years ended December 27, 1998, December 28, 1997 and December 29, 1996 and our report on the financial statement schedule, on page 19 of this Form 10-K.

ERNST & YOUNG LLP

San Francisco, California
March 25, 1999

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