

HERITAGE PAPER CO.

July 29, 1997

Top Hat Plan Exemption
 Pension and Welfare Benefits Administration
 Room N-5644
 U.S. Department of Labor
 200 Constitution Avenue, N.W.
 Washington, D.C. 20210

Re: 29 C.F.R. Section 2520.104-23
 Alternative Reporting and Disclosure Statement for
 Pension Plans for Certain Selected Employees

Ladies/Gentlemen:

In compliance with the requirements of the alternative method of reporting and disclosure under Part 1 of Title I of the Employee Retirement Income Security Act of 1974 for unfunded or insured pension plans for a select group of management or highly compensated employees, specified in the above Regulation, the following information is provided by the undersigned employer:

Name and address of Employer: Heritage Paper Co.
 2400 South Grand
 Santa Ana CA 92705

Employer Tax Identification No.: 95-3218907

The undersigned employer maintains a plan primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

Number of Plans: 1

Participants in each plan:

Plan 1: 1

Plan 2: _____

Heritage Paper Co.

By


 Plan Administrator

**HERITAGE PAPER
DEFERRED COMPENSATION PLAN
PLAN DOCUMENT**

Presented by

SIGNATURE
Business Advisors, Inc.

**3 Imperial Promenade, Ste. 100
Santa Ana, CA 92707
(714) 957-6333**

July 23, 1997

Notes to Accompanying Specimen Document

The accompanying specimen agreement has been prepared for illustration purposes. Signature Business Advisors, Inc. (SBA) is a registered investment advisor regulated by the state of California. SBA is generally engaged to perform an interdisciplinary analysis of financial planning issues which may include information regarding the tax, legal, and accounting disciplines. The analysis and recommendations rendered by SBA planners, SBA staff, or SBA attorneys is not intended to fill the need for independent tax, accounting, or legal review by independent advisors. Individuals are advised to seek the counsel of such licensed professionals.

**HERITAGE PAPER
DEFERRED COMPENSATION PLAN**

WHEREAS Heritage Paper (the "Company") desires to retain the services of a select group of officers, management, and highly compensated employees and recognizes that the loss of the services of any member of such group would result in substantial loss to the Company; and

WHEREAS Heritage Paper desires to recognize the services rendered in the past and to be rendered in the future by the members of such group until the respective dates of their termination, retirement or death;

NOW THEREFORE, Heritage Paper hereby memorializes the terms of the Deferred Compensation Plan previously approved and adopted by the Company for such group as hereinafter set forth.

ARTICLE 1 -- DEFINITIONS

- 1.1 Account Balance:** Book entries maintained by the Company or agent thereof reflecting Deferred Amounts and Additions thereon; provided, however, that the existence of such book entries and the Account Balance shall not create a trust of any kind, or a fiduciary relationship between the Company and the Participant, his designated Beneficiary(ies), or other beneficiaries of the Participant.
- 1.2 Additions:** A dollar amount equivalent credited to a Participant's Account Balance by the Company in accordance with Section 2.3 hereof.
- 1.3 Beneficiary(ies):** Any person or persons, as designated pursuant to Article 4, to whom any benefits may be payable upon the death of a Participant pursuant to Article 3.2.
- 1.4 Committee:** The Deferred Compensation Plan Committee established by the Company.
- 1.5 Company:** Heritage Paper and any wholly-owned subsidiary thereof.
- 1.6 Compensation:** Total salary, bonuses, fees and/or commissions paid or accrued by the Company for services rendered by a Participant and reportable on Form W-2 or Form 1099 as taxable income for federal income tax purposes.
- 1.7 Deferred Amount:** An amount credited to this Plan by the Company in lieu of payment to a Participant as Compensation.

- 1.8 Effective Date of Plan:** May 1, 1994.
- 1.9 Participant:** A Participant shall be an officer, manager, or highly compensated employee of the Company who is so designated by the Committee and who has executed an application for participation pursuant to Section 2.1.
- 1.10 Plan:** The Plan shall consist of the prior oral agreement regarding this document between the Company and the Participant as memorialized in this document and any amendments thereto.
- 1.11 Plan Year:** January 1 to December 31; except for the first Plan Year of the Plan which began on May 1, 1994 and ended on December 31, 1994.
- 1.12 Termination:** The termination of the Participant's employer/employee or officer/corporation relationship with the Company for any reason, including but not limited to the death, disability, or retirement of the Participant.

ARTICLE 2 -- DEFERRED COMPENSATION

- 2.1 Eligibility and Participation:** Eligibility to commence participation in this Plan shall be restricted to those officers, managers, and highly compensated employees so designated by the Committee.
- (a) **Application:** An individual so eligible shall become a Participant by filing with the Company a written application for participation in a form satisfactory to the Company, within thirty (30) days of the date when he is first notified, in writing, that he is eligible to participate. If such application is not filed within such thirty (30) day period, such individual shall not thereafter be permitted to participate in the Plan until the next opportunity generally available to all Participants to make or change their Deferral Elections.
- (b) **Deferral Election:** The Participant shall indicate, in a written form satisfactory to the Company, the percentage or amount of Compensation to be deferred commencing on the first day that he is eligible to defer amounts under the Plan with respect to a specific Plan Year. Such Deferral Election shall be irrevocable and remain in effect until the earliest of (i) the Participant makes a new Deferral Election pursuant to this Article, (ii) the date the individual no longer participates in the Plan, or (iii) the date the Plan is terminated.
- (c) **Deferral Percentage:** The Committee may, in its discretion, permit a separate

deferral election to be made with respect to a Participant's base salary and a Participant's bonus (if applicable). If such application is not filed within such thirty (30) day period, participation thereafter shall not be permitted until the next opportunity generally available to all Participants for change of Deferral Elections. The Participant's Deferred Amounts shall be credited to the Participant's Account Balance as of the date or dates any Compensation would, but for such deferral, be payable to the Participant.

- (d) Deferral Maximums or Minimums: Company may establish a maximum and/or minimum dollar or percentage amount of deferral which may be made by each Participant annually. The Company shall notify Participants in writing of any such maximum or minimum prior to the beginning of each Plan Year. If no such notification is given, the annual maximum or minimum in effect for the prior Plan Year, if any, shall apply for the new Plan Year.

2.2 No less than thirty (30) days prior to the start of each Plan Year, the Committee shall provide notice to each Participant of the terms and conditions upon which deferrals may be made with respect to such Plan Year and make available a deferral form with which to make Deferral Elections for such Plan Year. Such election form must be filed at least twenty (20) days prior to the beginning of the Plan Year to which it pertains and shall be effective on the first day of the Plan Year following the filing thereof.

2.3 The Company hereby agrees that it will credit Deferred Amounts with Additions thereon from and after the dates Deferred Amounts are credited to the Account Balance. Additions to Deferred Amounts shall accrue commencing on the date the Account Balance first has a positive balance and shall continue until such time as the remainder of the Account Balance is paid in full pursuant to the distribution of the Retirement or Death Benefits, whichever applies. Additions shall be calculated on no less than a monthly basis based upon an interest rate determined by the Committee. The Committee shall have sole discretion to determine the amount of Additions to be credited to the Account Balance.

2.4 A Participant shall continue to be eligible to participate in this Plan until the earliest date on which any of the following events occurs:

- (a) the Plan is terminated pursuant to Article 5.1;
- (b) there occurs a Termination of the Participant as defined in Section 1.12;
- (c) the Committee makes a determination, for any reason and according to its sole discretion, that the Participant is no longer eligible to continue to participate in

the Plan;

- (d) the Participant incurs a disability, as defined by its long-term disability plan, and has received benefits under the Company's long-term disability plan for at least six (6) months; or
- (e) the Participant retires.

2.5 At such time as it is determined by the Committee that a Participant is no longer eligible to participate in the Plan pursuant to Section 2.5, the Participant (or his Beneficiary(ies)) shall be entitled to a distribution of their Account Balance *except* as limited in this Article and pursuant to Section 2.6 and Article 3.

2.6 Upon distribution, pursuant to Article 3, the Participant's Account Balance and all Additions thereto shall be paid in annual installments for a period of ten (10) years commencing with the first day of the month following the Participant's termination to the Participant or his Beneficiary whichever is applicable; provided, however, that the Participant may make one (1) request prior to the time benefit payments begin to receive distributions from his Account Balance in annual installment payments over a shorter period, to be requested by him in writing, than would otherwise apply, or in a single payment. The request referred to in the preceding sentence must be made at least fifteen (15) days prior to the date benefit payments begin and shall be irrevocable. The Company may grant or deny such request at its sole discretion.

Any such subsequent direction by the Participant shall be irrevocable and therefore not subject to further change by the Participant.

2.7 In the event a Participant is granted a leave of absence, no further Deferred Amounts shall be credited to the Plan for the duration of the period of such leave. Such a leave shall not, however, entitle the Participant to a distribution from the Plan.

2.8 A Participant may notify the Company, in writing, that he no longer wishes to defer Compensation pursuant to Article 2.1 for a year or years, but this will not entitle him to a distribution from the Plan.

2.9 Should a Participant no longer be eligible to participate in the Plan pursuant to Section 2.4, he may not thereafter participate in the Plan except upon prior approval by the Committee and at the Committee's sole discretion.

ARTICLE 3 -- BENEFITS

- 3.1 **Retirement Benefit:** If a Participant's coverage under this Plan ceases pursuant to Section 2.4 he shall be paid a Retirement Benefit. This benefit shall be the Participant's entire Account Balance, payable in accordance with Section 2.6.
- 3.2 **Death Benefit:** In the event of the death of a Participant prior to commencement or completion of all such payments due and owing hereunder, the Company shall pay the Account Balance in a lump sum within thirty (30) days of its notice of such event. Such continuing payments shall be made to the Participant's designated Beneficiary in accordance with Article 4.

ARTICLE 4 -- BENEFICIARY

- 4.1 Upon applying for participation in the Plan, each Participant shall designate on a form satisfactory to the Committee a Beneficiary or Beneficiaries for any benefits which may become payable hereunder in the event of his death. Any such Beneficiary can be changed by a Participant upon giving written notice to the Company.
- 4.2 The Beneficiary will be the person or persons named in the Beneficiary designation most recently filed with the Company at the time of the Participant's death.
- 4.3 If no Beneficiary designation has been received by the Company from the Participant prior to his death or if any payment is otherwise to be made as provided under this Plan, said payment shall be made as the Participant may designate under his last Will, making specific reference hereto; or if the Participant fails to so designate such person or persons by Will, then such payment shall be made in one lump sum to the Participant's estate pursuant to Section 3.2.

ARTICLE 5 -- MISCELLANEOUS

- 5.1 **Amendment and Termination:** The Company reserves the right to amend, in writing, or to terminate this Plan at any time, with or without notice; provided, however, that no such action shall reduce the amount accrued by any Participant or Beneficiary under the Plan prior to the date of amendment or termination.
- 5.2 **Insurance:** In the event that, in its discretion, the Company purchases an insurance policy or policies insuring the life of a Participant, to allow the Company to recover the cost of providing benefits, in whole or in part, hereunder, neither the Participant, his

designated Beneficiary nor any other beneficiary shall have any rights whatsoever therein or in the proceeds therefrom. The Company shall be the sole owner and beneficiary of any such insurance policy and shall possess and may exercise all incidents of ownership therein. No such policy, policies or other property shall be held in any trust for the Participant or any other person nor as collateral security for any obligation of the Company hereunder. The Participant shall have no rights in any insurance policy purchased by the Company on his life.

- 5.3 No Contract of Employment:** The Plan shall under no circumstance be deemed to have any effect upon the terms or conditions of employment of any employee of the Company whether or not he is a Participant hereunder. Neither the offering of the Plan, the payment of any expenses, costs or benefit amounts associated with the Plan, nor any documents published in connection with the Plan shall be construed as having created a contract of employment between the Participant and the Company. Additionally, this Plan shall under no circumstances be deemed to constitute a contract of insurance.
- 5.4 Benefits not Transferable:** Benefits under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge or encumbrance by any Participant or Beneficiary and any attempt to do so shall be null and void. Benefits under this Plan shall not be subject to or liable for the debts, contracts, liabilities, engagements or torts of any Participant or any Beneficiary, nor may the same be subject to attachment or seizure by any creditor of any Participant or any Beneficiary under any circumstances.
- 5.5 Determination of Benefits:** In the event of a Participant's termination, retirement or death, he or his Beneficiary, as the case may be, should notify the Company promptly, and the Company will then provide a claimant's statement form for completion which should be returned to the Company, together with an official death certificate, if applicable. Within ninety days after receipt of an application for benefits, the Company shall notify the applicant of its decision. If special circumstances require an extension of time, the Company shall notify the applicant of such circumstances within ninety days after receipt of the application, and the Company shall thereafter notify the applicant of its decision within 180 days after receipt of the application. If the application is denied in whole or in part, the Company's notice of denial shall be in writing and shall state:
- (a) the specific reasons for denial with specific reference to pertinent Plan provisions upon which the denial was based;
 - (b) a description of any additional materials or information necessary for the applicant to perfect his or her claim and an explanation of why the materials or information are necessary; and

- (c) an explanation of the Plan's claim review procedure.

During the sixty-day period following an applicant's receipt of a notice of denial of his application for benefits, the applicant or his duly authorized representative may review pertinent documents and within sixty (60) days submit a written request to the Company for review of the denial.

An applicant submitting a request for review shall be allowed to submit issues and comments in writing to the Company. The Company shall afford an applicant who requests a hearing a full and fair review of the decision denying the application and may, in its sole discretion, hold a hearing to review any or all issues raised by the applicant, which hearing shall take place within thirty (30) days of the date of the applicant's request. Within sixty (60) days after receipt of the request for review, the Company shall issue a written decision to the applicant. If special circumstances, such as the need to hold a hearing, require an extension of time, the Company shall issue a written decision no later than 120 days after receipt of the request for review. The Company's decision shall include specific reasons for the decision, written in a manner calculated to be understood by the applicant, and contain specific references to pertinent Plan provisions upon which the decision is based.

- 5.6 No Trust:** For purposes of Title I of ERISA, this Plan is intended to qualify as an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of officers, managers, or highly compensated employees, and shall be interpreted accordingly.

No action by the Company or its Board of Directors under this Plan shall be construed as creating a trust, escrow or other secured or segregated fund or other fiduciary relationship of any kind in favor of any Participant, his Beneficiary, or any other persons otherwise entitled to his plan benefits, nor shall any of said persons have rights under any agreement or insurance policy in connection therewith between the Company and any insurance company. The status of the Participant and his Beneficiary with respect to any liabilities assumed by the Company hereunder shall be solely those of unsecured creditors of the Company. Any insurance policy or any other asset acquired or held by the Company in connection with liabilities assumed by it hereunder, shall not be deemed to be held under any trust, escrow or other secured or segregated fund or other fiduciary relationship of any kind for the benefit of the Participant or his Beneficiary or to be security for the performance of the obligations of the Company, but shall be, and remain a general, unpledged, unrestricted asset of the Company at all times subject to the claims of general creditors of the Company. Notwithstanding the foregoing, the Company may transfer assets, including any insurance policies to a grantor trust of the type known as a "Rabbi Trust" with the Company as grantor and owner of such trust.

5.7 Plan Administration: The Plan shall be administered by the Company. The Company shall have the exclusive authority and responsibility for all matters in connection with the operation and administration of the Plan. The Company's powers and duties shall include, but not be limited to, the following: (a) responsibility for the compilation and maintenance of all records necessary in connection with the Plan; (b) authorizing the payment of all benefits under the Plan and expenses of the Plan; (c) authority to engage such legal, accounting and other professional services as it may deem proper; (d) discretionary authority to interpret the Plan; and (e) discretionary authority to determine eligibility for benefits under the Plan and to resolve all issues of fact and law in connection with such determination. Decisions by the Company shall be final and binding upon all parties.

The Company, from time to time, may allocate to other persons or organizations any of its rights, powers, and duties with respect to the operation and administration of the Plan. Any such allocation shall be reviewed from time to time by the Company; shall, unless the Company specifies otherwise, carry such discretionary authority as the Company possesses regarding the matter; and shall be terminable upon such notice as the Company, in its sole discretion, deems reasonable and prudent under the circumstances.

5.8 Satisfaction of Claims: Any payment to a Participant or Beneficiary or the legal representative of either, in accordance with the terms of this Plan shall to the extent thereof be in full satisfaction of all claims such person may have against the Company. The Company may require such payee, as a condition to such payment, to execute a receipt and release therefore in such form as shall be determined by the Company.

5.9 Governing Law: The Plan shall be construed, administered, and governed in all respects in accordance with the laws of the State of California to the extent not preempted by ERISA. If any provision of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions shall continue to be fully effective.

5.10 Other Benefits: Deferrals by the Participant shall be given effect in the Company's other benefits plans and/or whenever the Company is required to verify the employment of a Participant, as follows:

- (a) deferrals shall be considered for purposes of determining the Participant's total income when verifying a Participant's employment for credit grantors, credit reporting agencies, in response to legal process and/or to other authorized persons or entities;

- (b) where permissible by the insurer and subject to applicable law, amounts paid to the Participant under any salary replacement plan maintained by the Company may be used to partially or totally replace the Participant's salary and/or bonus deferral so long as the employee is a Participant in the Plan at the time of the requested deferral;
- (c) except where specifically excluded by the terms of such plans, deferrals of base salary into the Plan shall be considered by the Company when determining Participant's income in connection with eligibility for bonus, incentive or severance pay plans maintained by the Company;
- (d) deferrals up to the maximum amounts allowable under the terms of each plan of insurance maintained by the Company on behalf of a Participant, shall be included in total income amounts reported by the Company to such insurers for determination of such matters as insurance or salary replacement benefits.

5.11 Construction: masculine gender shall be deemed to include the feminine and neuter genders; the singular to include the plural; and the plural to include the singular; in each case where appropriate.

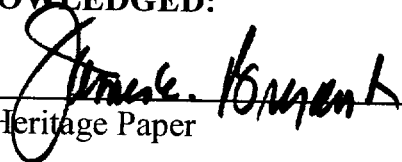
5.12 Severability: If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provision of the Plan, and the Plan shall be construed and enforced as if such provision had not been included herein.

5.12 Taxation: The Plan is intended to provide tax deferred benefits under certain provisions of the Internal Revenue Code (the "Code") but not under certain other provisions of the Code. If the Internal Revenue Service finds that Compensation intended to be deferred for federal income tax purposes pursuant to the Plan are immediately taxable to a Participant for federal income tax purposes, the Company may, but shall not be required to, amend the Plan to comply with the Internal Revenue Service requirements necessary to achieve the desired federal income tax benefits relating to the Plan. Notwithstanding the foregoing, each Participant agrees to be liable for any tax that may be imposed by the Internal Revenue Service or any other taxing entity with respect to any benefits provided pursuant to the Plan (including, without limitation, any and all withholding taxes), irrespective of whether such tax consequences were intended pursuant to the Plan and the Participant further agrees that the Company may withhold such amounts as necessary from any distribution under Article 3 in order to pay any such taxes.

5.13 Indemnification: The Company agrees to and shall indemnify and hold harmless each Indemnified Person (as hereinafter defined) from and against all claims, losses, damages,

5.13 Indemnification: The Company agrees to and shall indemnify and hold harmless each Indemnified Person (as hereinafter defined) from and against all claims, losses, damages, causes of action, suits, and liability of every kind, including all expenses of litigation, court costs and reasonable attorney's fees, incurred in connection with the Plan. "Indemnified Person" shall mean each employer or officer of the Company and any Employer and each employee, officer or director of any of the Company's shareholders, acting as a fiduciary of the Plan. Such indemnity shall apply regardless of whether the claims, losses, damages, causes of action, suits or liabilities arise in whole or in part from the negligence or fault on the part of the Indemnified Person, except to the extent there has been a final adjudication that the claim or liability results from the gross negligence of willful misconduct of the Indemnified Person.

ACKNOWLEDGED:


Heritage Paper _____ Date

