

REPORT OF THE EXECUTIVE COMPENSATION AND DEVELOPMENT COMMITTEE

Role of the Committee

The Executive Compensation and Development Committee, as of December 31, 2005, is comprised of four members of the Board of Directors, all of whom are independent in accordance with the Board's Director Independence Standards, which standards reflect the NYSE's director independence standards. The principal functions of the Committee include:

- periodically reviewing and approving the Company's executive compensation strategy and principles to ensure that they are aligned with the Company's business strategy and objectives, shareholder interests, desired behaviors and corporate culture;
- periodically reviewing the Company's executive compensation plans to ensure that they are consistent with the Company's executive compensation strategy and principles;
- reviewing and approving the adoption of, and changes to, the Company's executive compensation and equity-based compensation plans;
- overseeing the administration of the Company's executive compensation plans;
- annually reviewing and approving the goals and objectives relevant to the compensation of the CEO, evaluating the CEO's performance in light of these goals and objectives and setting the CEO's individual elements of total compensation based on this evaluation;
- overseeing the compensation of the Company's named executive officers and other executive officers;
- reviewing the process and plans for the assessment and selection of candidates for the positions of CEO and, if applicable, President;
- annually overseeing a performance evaluation of the Committee, which includes a comparison of the performance of the Committee with the requirements in its charter; and
- periodically reviewing the Company's executive staffing plan and executive development strategies for meeting present and future leadership needs.

To help perform its functions, the Committee makes use of Company resources and regularly retains the services of its external independent compensation consultant.

Executive Compensation Philosophy

The Company's overall philosophy is to provide an executive compensation package that attracts, retains and motivates world-class executive talent to achieve the Company's short- and long-term business goals.

In 2005, the Committee engaged in a review of the Company's executive compensation strategy in light of the Company's digital transformation business strategy. In the course of this review, the Committee sought the advice and input of both its external independent compensation consultant, as well as Company management. As a result of this review, the executive compensation goals of the Company were reaffirmed, as described below.

Executive Compensation Goals

- inspire and develop world-class executive talent
- attract, retain and motivate executives
- calibrate realized compensation to achievement of short-term and long-term objectives
- align management and shareholder interests
- maximize the financial efficiency of the executive compensation program
- ensure high standards and best practices

In order to achieve these goals, the Company's executive compensation strategy leverages all elements of market-competitive total compensation to drive profitable growth and superior long-term shareholder value consistent with the Company's values. Plan design and performance-based differentiation are intended to drive extraordinary rewards for outstanding performance. Consistent with this compensation strategy, the following principles provide a framework for the Company's executive compensation program.

Executive Compensation Principles

- Total target compensation for executives should be market competitive. Market competitive is defined as the 50th percentile with differences where warranted.
- The mix of total compensation elements will reflect competitive market requirements and strategic business needs taking into account differences in managing businesses for "cash" and businesses for "growth."
- A significant portion of each executive's compensation should be at risk, with a positive correlation between the degree of risk and the level of the executive's responsibility.
- Compensation is linked to both qualitative and behavioral expectations, and key operational and strategic metrics.
- Interests of executives are linked with the Company's owners through stock ownership.
- Executive compensation will be differentiated on the following bases:
 - base salaries — on relative responsibility;
 - short-term variable elements — on performance; and
 - long-term variable elements — on Company performance and individual execution/leadership.

The Committee's external consultant has confirmed that the Company's executive compensation goals and principles continue to be aligned with the Company's business strategy and best practices.

The Company is in the midst of an extraordinary digital transformation. 2005 marked the first time in the Company's history that digital revenue exceeded revenue from the traditional business. The Company now has a substantial presence in the graphic communications market and has strengthened its market position in consumer digital with several innovative, new product introductions. At the same time, the Company is aggressively driving a substantial reduction in its traditional manufacturing footprint and managing significant changes in its workforce necessitated by the transformation. Management and the Committee will continue to assess the Company's executive compensation philosophy to ensure that the objectives, principles and strategies are aligned with the unique nature of its complex and time-constrained digital transformation strategy, and they will make changes as deemed appropriate.

Executive Compensation Practices

In 2005, the Committee's independent external consultant analyzed the market competitiveness of each element of compensation paid to the Company's executive officers. The consultant concluded that, in the aggregate, the total compensation for some executive officers is slightly below the market median and that the overall mix of compensation was weighted more heavily to cash compensation. The Committee's consultant recommended continued emphasis by the Company on equity-based compensation, funded by constraints on cash compensation, in order to address this issue and ensure balance over the long-term. During 2005, various steps were taken by the Company as part of a multi-year plan to close the competitive deficit in long-term incentive compensation for its senior executives, including one-time stock option grants to certain key members of the Company's senior management team who have played major roles in the Company's digital transformation, and enhancements to the Company's long-term incentive compensation rate structure guidelines for senior executives.

The Committee utilizes a number of tools to determine the levels and types of compensation that should be paid to the Company's executive officers. These tools are described below.

Surveys

Each year, the Company participates in surveys conducted by external consultants. The companies included in these surveys are those the Company competes with for executive talent. Due to the unique product mix of the Company's business, during 2005 the Committee determined to utilize on a going-forward basis national third-party survey data to assess the competitive positioning of the named executive officers and the other executive officers. The survey data reflects general industry companies of comparable size to the Company as measured primarily by revenue and market capitalization.

Peer Group

Starting in 2002, the Company began measuring the competitiveness of its executive compensation program against a comparison group of approximately 15 other leading companies, referred to in this Report as the "Peer Group." The following criteria were used to select the Peer Group: 1) market capitalization; 2) revenue; 3) consumer/commercial/hi-tech mix; 4) mix of high growth and steady growth companies; and 5) similar industry and data availability. The data received from the Peer Group is size-adjusted so proper comparisons may be drawn. During 2005, the Committee modified the Peer Group to eliminate certain companies that were determined to be less comparable to the Company based on size and focus and to add certain other companies that were determined to be more comparable to the Company based on this criteria.

Aggregate Long-Term Incentive Costs

Each year the Committee asks its independent external consultant to assess the Company's aggregate costs associated with long-term incentives relative to market practice. The consultant's analysis focuses on two areas: share dilution and total economic cost, referred to as market value transfer (MVT). MVT measures the economic value of a company's aggregate long-term incentive awards, at grant date, expressed as a percent of market capitalization. In 2005, the consultant indicated that the Company's MVT is appropriate in comparison to the Peer Group.

Components of Executive Compensation Program

The three components of the Company's executive compensation program are:

- base salary;
- short-term variable pay; and
- long-term incentives.

In July 2005, the Company announced that the three metrics by which it is being managed are digital revenue growth, cash generation and digital earnings growth. The performance goals of the Company's short- and long-term compensation plans are aligned with these corporate objectives. That is, the performance goals of the Company's short-term variable pay plan are digital revenue and investable cash, and the performance goal of the Company's long-term incentive Leadership Stock Program is digital earnings from operations. The various compensation elements support the key objectives of the Company's compensation programs. For example, the use of stock options (and in certain instances, SARs) aligns the interests of the Company's executives with the interests of the shareholders by ensuring that gains accrue to management only when shareholder value appreciates. Performance-based awards, such as the performance stock unit Leadership Stock Program and the short-term variable pay EXCEL plan, ensure that payouts occur only when short- and long-term performance goals have been achieved, and vesting requirements on all equity-based compensation awards encourage the retention of the Company's executives.

Base Salary

Base salary is the only fixed portion of an executive's direct compensation. Each senior executive's base salary is reviewed annually based on the

executive's relative responsibility and market comparisons. As a result of the Company's emphasis on increased use of equity compensation for its executive officers, the trend has been away from increases in base salary for the Company's senior executives unless warranted by competitive data or promotion.

Short-Term Variable Pay

Effective January 1, 2002, the Compensation Committee implemented the Executive Compensation for Excellence and Leadership Plan (EXCEL), an executive assessment and short-term variable pay program for the Company's executives. Payouts under EXCEL are based on the successful attainment of specific financial goals established by the Committee in the first 90 days of each year. For 2005, these financial goals were based on digital revenue growth and investable cash flow. EXCEL places focus on key goals that are critical to the Company's short- and long-term success, provides a strong tie to current year performance, allows for rewards at an accelerated rate for performance above expectations and for reduced or no awards if performance falls below threshold targets and allows the Committee discretion in assessing individual performance with a particular emphasis on leadership. A description of EXCEL is set forth beginning on page 28.

As a starting point in determining the 2005 corporate funding pool, the Committee noted that the Company substantially exceeded its performance targets for both digital revenue growth and investable cash flow. As a result of these extremely strong results, the 2005 EXCEL performance matrix yielded a payout well in excess of target. In addition, the Committee took into consideration several other factors: 1) the Company's performance against its 2005 baseline EXCEL metrics described on page 28; 2) the accelerated pace at which the Company implemented its restructuring efforts in response to continued declines in the traditional film business; 3) digital revenues attributable to acquisitions made during the year that were in the Company's revised financial plan; 4) monetization of intellectual property that was not in the Company's original financial plan; and 5) the Company's overall performance.

With regard to the Company's performance against its 2005 EXCEL baseline metrics, the Committee noted that the Company was ahead of plan in executing its new business model and achieved its supply chain/inventory and improvement goal and its cost reduction goal regarding selling, general, administrative and advertising expenses. Against these positive results, the Committee also considered management's performance with respect to meeting its target baseline metric for earnings from operations in the traditional business.

After evaluating these results in total and at management's recommendation, the Committee chose to exercise negative discretion to reduce the size of the 2005 EXCEL corporate funding pool yielded by the performance matrix to 152% of target.

The Compensation Committee determines the amount of the award pool that is allocated to each of the Company's named executive officers and other executive officers. In making these determinations, the Compensation Committee considers the same factors that are used to assess the Plan's other participants: performance against pre-established individual goals, leadership and support of the Company's diversity and inclusion strategy. Funds are allocated to participants based on each participant's individual performance. The Summary Compensation Table on page 25 lists the awards for 2005 to the named executive officers.

Long-Term Incentives

Beginning in 2004, long-term compensation is provided to the Company's executives principally in the form of performance stock units under the Leadership Stock Program. Awards under this program are entirely performance-based. Payouts under the Leadership Stock Program are determined by the Company's performance against specific financial measures for two-year overlapping cycles established by the Committee in the first 90 days of each year. While the performance measure for the 2005-2006 performance cycle of this program originally was set by the Committee as operational earnings per share, in light of the Company's announcement in July 2005 that it will no longer report operational earnings per share and that digital earnings growth is one of the three key metrics by which the Company is being managed, the Committee revised the measure for this cycle to be digital earnings from operations for 2005 and 2006. The performance measure for the 2004-2005 performance cycle of the Leadership Stock Program was determined by the Committee to remain operational earnings per share during this two-year period, since the cycle was nearing completion at the time of the Company's announcement. The Committee determined that based on the Company's operational earnings per share performance for the two-year period from January 1, 2004 through December 31, 2005, the payout under the 2004-2005 performance cycle of the Leadership Stock Program will be equal to 51% of target allocations for all participants. A description of the Leadership Stock Program is set forth on page 31.

In addition to Leadership Stock, the Company's officers are eligible for an annual grant of stock options. A description of the Company's stock option program is set forth on page 28. The target Leadership Stock awards for the Company's officers are reduced to reflect their continuing participation in the stock option program.

The Company also is continuing its practice of periodically awarding grants of restricted stock or stock options to selected executives. These awards generally are made to either: 1) attract new executives or support retention objectives; or 2) recognize exceptional performance.

The Leadership Stock Program has replaced the Performance Stock Program, which measured performance over a three-year period based on the Company's total shareholder return relative to those companies within the Standard & Poor's 500 Composite Price Index. Based on the Company's performance over the final three-year performance cycle ending in 2005, no awards were paid for this cycle.

Share Ownership Program

The Company and the Committee believe that the interests of the Company's executives should be inseparable from those of its shareholders. The Company aims to link these interests by encouraging stock ownership on the part of its executives.

One program designed to meet this objective is the Company's share ownership program. All executive officers are required to retain a specified percentage of the shares attributable to stock option exercises or the vesting or earn-out of full value shares (such as restricted shares or Leadership

Stock) until they attain specified ownership levels, which are expressed below as a multiple of base salary.

The share ownership requirements operate as follows:

Level	Salary Multiple	Retention Ratio
CEO	5x	100%
COO/President	4x	100%
Executive VPs	3x	75%
Senior VPs	2x	75%
Other Executive Officers	1x	50%

Chief Executive Officer Compensation

On May 10, 2005, the Board of Directors accepted Mr. Daniel A. Carp's resignation as Chief Executive Officer, effective June 1, 2005, and as Chairman of the Board, effective December 31, 2005, in connection with Mr. Carp's planned retirement from the Company on January 1, 2006. On that same day, the Board elected Mr. Antonio M. Perez as Chief Executive Officer, effective June 1, 2005, and as Chairman of the Board, effective December 31, 2005.

Compensation Arrangements for Antonio M. Perez in Connection with Election as CEO and Chairman

The compensation arrangements for Mr. Perez in connection with his election as CEO and Chairman were approved by the Committee on May 10, 2005, after extensive discussions spanning two meetings which included the Committee's independent external compensation consultant and certain members of the Company's management team (excluding Messrs. Perez and Carp). Effective June 1, 2005, when Mr. Perez became CEO, he received: 1) an annual base salary of \$1,100,000 (with the excess over \$1 million to be deferred until after Mr. Perez's retirement in order to preserve the full deductibility for federal income tax purposes of Mr. Perez's base salary); 2) a one-time cash award of \$150,000; 3) a one-time award of 60,000 shares of restricted stock with a five-year vesting schedule with 50% of the shares vesting on the third anniversary of the grant date and 50% of the shares vesting on the fifth anniversary of the grant date; and 4) a one-time award of 300,000 non-qualified stock options with a seven-year term, an exercise price equal to the fair market value of the Company's common stock on the date of grant and a three-year vesting schedule with one-third of the options vesting on each of the first three anniversaries of the grant date. In addition, effective June 1, 2005, Mr. Perez became eligible to receive: 1) a target performance cash bonus equal to 155% of his base salary under EXCEL, if earned; 2) a target leadership stock allocation of 34,000 units for the 2006-2007 cycle under the Leadership Stock Program, subject to Company performance over the two years of the cycle and minimum vesting requirements; and 3) a target stock option allocation of 72,000 non-qualified stock options under the Company's Officer Stock Option Program. Effective December 31, 2005, when Mr. Perez became Chairman, he became eligible to receive: 1) a target leadership stock allocation of 50,000 units, commencing with the 2007-2008 cycle, under the Leadership Stock Program, subject to Company performance over the two years of the cycle and minimum vesting requirements; and 2) a target stock option allocation of 100,000 non-qualified stock options under the Company's officer stock option program. The Company's CEO and Chairman are required to use Company transportation, whenever possible, for business and personal travel for reasons of safety and security.

Compensation Arrangements for Daniel A. Carp in Connection with Retirement

The compensation arrangements for Mr. Carp in connection with his planned retirement on January 1, 2006 were approved by the Committee on May 10, 2005, after extensive discussions spanning two meetings which included the Committee's independent external compensation consultant and certain members of the Company's management team (excluding Messrs. Carp and Perez). The Committee granted "permitted and approved reason" status for all of Mr. Carp's equity awards, including all stock options, restricted stock and restricted stock units held by Mr. Carp upon his retirement from the Company, which means that Mr. Carp did not forfeit any of his equity awards as a result of his retirement, and all restriction periods on restricted stock or restricted stock units previously granted to Mr. Carp terminated as of January 1, 2006. It should be noted that in the case of all but less than approximately five percent in value of the total equity awards held by Mr. Carp, he would have retained the value of those awards upon his retirement by virtue of the terms of the awards, regardless of whether "permitted and approved reason" status was granted by the Committee.

Base Salary for Messrs. Perez and Carp

As discussed above, in 2005, the Committee increased Mr. Perez's annual base salary from \$975,000 to \$1,100,000 in connection with Mr. Perez's election as CEO and Chairman. For 2006, the Committee chose to maintain Mr. Perez's annual base salary at \$1,100,000. To preserve the Company's deductibility of all of Mr. Perez's base salary for U.S. income tax purposes, payment of base salary in excess of \$1,000,000 will not be made until after his retirement from the Company.

In 2005, the Committee chose to maintain Mr. Carp's annual base salary at \$1,100,000. To preserve the Company's deductibility of all of Mr. Carp's base salary for U.S. income tax purposes, payment of \$100,000 of his base salary was deferred until after his retirement from the Company.

Short-Term Variable Pay for Messrs. Perez and Carp

Mr. Perez's and Mr. Carp's short-term variable pay, like that of all the Company's other executives, is payable based upon the successful attainment

of specific financial goals established by the Committee each year under the Company's short-term variable pay plan, EXCEL. As described earlier, for 2005, these financial goals were based on digital revenue growth and investable cash flow. The Committee also considered each of Mr. Perez's and Mr. Carp's performance against his key EXCEL performance goals. In particular, the Committee noted that the Company is well underway in the execution of its digital transformation strategy and with regard to its leadership and diversity strategies. The Committee also took into account the results under the 2005 EXCEL baseline metrics and other factors noted earlier in this Report. In addition, the Committee noted that Messrs. Perez and Carp have been the chief architects in the digital transformation strategy of the Company, and that they each made substantial contributions to an effective and seamless CEO and Chairman transition, all of which is in the best interests of the shareholders.

In light of all of the foregoing, the Committee fixed each of Mr. Perez's and Mr. Carp's 2005 EXCEL award at 152%, which is the same level it established for the corporate funding pool. The amounts of the awards are listed in the Summary Compensation Table on page 25.

Stock Options for Messrs. Perez and Carp

Effective December 7, 2005, the Committee granted a stock option award to Mr. Perez of 135,000 shares and to Mr. Carp of 108,000 shares. These options were granted under the same terms and conditions as awards made to all officers generally under the Company's officer stock option program. That is, the options were priced at 100% of the fair market value of the Company's common stock on the date of grant, have a term of seven years and vest ratably over three years. With respect to Mr. Carp's award, the stock options will expire on January 1, 2009 as a result of his retirement, pursuant to the terms of the award. The amounts of the grants reflect the revisions to the long-term incentive compensation guidelines discussed earlier in this Report. The Committee determined each of these awards based on its review of competitive benchmark data and an assessment of Mr. Perez's and Mr. Carp's respective leadership.

As noted earlier, effective June 1, 2005, the Committee granted a stock option award to Mr. Perez of 300,000 shares in connection with his promotion to CEO. Effective June 1, 2005, the Committee granted a stock option award to Mr. Carp of 91,667 shares under a program to reward key executives for their role in the Company's digital transformation. The options were priced at 100% of the fair market value of the Company's common stock on the date of grant, have a term of seven years and vest ratably over three years. Mr. Carp's stock options will expire on January 1, 2009 as a result of his retirement, pursuant to the terms of the award.

Leadership Stock for Messrs. Perez and Carp

Based on the Company's operational earnings per share performance for the two-year period from January 1, 2004 through December 31, 2005, the performance formula for the 2004-2005 performance cycle of the Leadership Stock Program derived a payout allocation equal to 51% of target for all participants. This payout results in an award to Mr. Perez of 17,850 restricted units, subject to an additional one-year vesting period. With respect to Mr. Carp, the payout for this performance cycle results in an award to him of 30,600 shares of common stock, which shares are not subject to the one-year vesting period as a result of Mr. Carp's retirement, under the terms of the plan.

In December 2004, prior to Mr. Perez's election as CEO and Chairman, the Committee allocated to Mr. Perez a target award for the 2005-2006 performance cycle of the Leadership Stock Program of 32,500 performance stock units. The Committee determined Mr. Perez's allocation based on its assessment of his leadership and execution. At that time, the Committee allocated to Mr. Carp a target award for the 2005-2006 performance cycle of the Leadership Stock Program of 41,000 performance stock units. The Committee determined Mr. Carp's allocation based on its assessment of his leadership and execution. Mr. Carp's actual award for this cycle, if earned, will be prorated to reflect his retirement after completion of one year of the two-year cycle, in accordance with the terms of the plan.

The Committee allocated to Mr. Perez a target award for the 2006-2007 performance cycle of the Leadership Stock Program of 63,750 performance stock units. The Committee determined Mr. Perez's allocation based on its assessment of his leadership and execution. The allocation also reflects the revised long-term incentive compensation guidelines adopted by the Committee, as previously discussed in this Report.

Restricted Stock for Mr. Perez

As noted earlier, effective June 1, 2005, the Committee granted Mr. Perez 60,000 shares of restricted stock in connection with his promotion to CEO.

Performance Stock Program

Based on the Company's financial performance over the three-year period ending in 2005, neither Mr. Perez nor Mr. Carp received an award for the 2003-2005 performance cycle of the Performance Stock Program. This was the final cycle of this program.

Committee Review of All Components of CEO Compensation

The Committee has reviewed all components of the CEO's and each named executive officer's compensation, including salary, bonus, equity and long-term compensation, accumulated realized and unrealized stock option and restricted stock gains, the dollar value to the executive and cost to the Company of all perquisites and other personal benefits, the earnings and accumulated payout obligations under the Company's non-qualified deferred compensation program, the actual projected payout obligations under the Company's retirement plans and any applicable supplemental enhancements to retirement benefits, and under several potential severance and change-in-control scenarios. Tally sheets setting forth all the above components were prepared by the Committee's external consultant and reviewed in detail with the Committee.

Based on this review, the Committee finds the CEO's and each of the named executive officer's total compensation (and, in the case of the severance and change-in-control scenarios, the potential payouts) in the aggregate to be reasonable.

It should be noted that when the Committee considers any component of the CEO's and a named executive officer's total compensation, the aggregate amounts and mix of components are taken into consideration in the Committee's decisions. In addition, it is the Committee's policy to make most compensation decisions in a two-step process to ensure sufficient deliberation over these matters.

Company Policy on Qualifying Compensation

Under Section 162(m) of the Internal Revenue Code, the Company may not deduct certain forms of compensation in excess of \$1,000,000 paid to any of the named executive officers that are employed by the Company at year-end, unless certain specific and detailed criteria are satisfied. The Committee believes that it is generally in the Company's best interests to have compensation be deductible under Section 162(m). The Committee also feels, however, that there may be circumstances in which the Company's interests are best served by maintaining flexibility regardless of whether compensation is fully deductible under Section 162(m).

Timothy M. Donahue, Chair

Martha Layne Collins

Durk I. Jager

Debra L. Lee