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TAG IT PACIFIC INC
Form DEF 14A
April 25, 2003

SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO. _____)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | | | |
|-------------------------------------|---|--------------------------|---|
| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, For Use of the Commission Only (as permitted by Rule 14a-6 (e) (2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
| <input type="checkbox"/> | Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12 | | |

TAG-IT PACIFIC, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No Fee Required
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date filed:

TAG-IT PACIFIC, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME.....	9:00 a.m. Pacific Daylight Time on June 12, 2003
PLACE.....	Tag-It Pacific, Inc.'s Corporate Headquarters at 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367.
ITEMS OF BUSINESS.....	(1) To elect three Class III members of the Board of Directors for three-year terms. The persons nominated by our Board of Directors (Messrs. Mark Dyne and Colin Dyne and Ms. Donna Armstrong) are described in the accompanying Proxy Statement. (2) To approve an amendment to the Company's 1997 Stock Plan to increase the maximum number of shares of common stock that may be issued pursuant to awards granted under the plan from 2,277,500 shares to 2,577,500 shares; and (3) To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement.
RECORD DATE.....	You can vote if you were a stockholder of the Company at the close of business on April 18, 2003.

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PROXY VOTING.....

All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, you are urged to vote promptly by signing and returning the enclosed Proxy card. IF YOUR SHARES ARE HELD IN STREET NAME, YOU MUST OBTAIN A PROXY, EXECUTED IN YOUR FAVOR, FROM THE HOLDER OF RECORD IN ORDER TO BE ABLE TO VOTE AT THE ANNUAL MEETING.

Woodland Hills, California
April 24, 2003

/s/ Ronda Sallmen

Ronda Sallmen
Chief Financial Officer

IN ORDER TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE. IF YOU RECEIVE MORE THAN ONE PROXY CARD BECAUSE YOU OWN SHARES REGISTERED IN DIFFERENT NAMES OR AT DIFFERENT ADDRESSES, EACH CARD SHOULD BE COMPLETED AND RETURNED.

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TAG-IT PACIFIC, INC.
21900 BURBANK BOULEVARD, SUITE 270,
WOODLAND HILLS, CALIFORNIA 91367

PROXY STATEMENT

These Proxy materials are delivered in connection with the solicitation by the Board of Directors of Tag-It Pacific, Inc., a Delaware corporation ("Tag-It," the "Company", "we", or "us"), of Proxies to be voted at our 2003 Annual Meeting of stockholders and at any adjournments or postponements.

You are invited to attend our Annual Meeting of stockholders on June 12, 2003, beginning at 9:00 a.m. Pacific Daylight Time. The meeting will be held at the Company's corporate headquarters at 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367.

STOCKHOLDERS ENTITLED TO VOTE.

Holders of Tag-It common stock and convertible redeemable series C preferred stock at the close of business on April 18, 2003 are entitled to receive this notice and to vote their shares at the Annual Meeting. As of April 18, 2003, there were 9,619,909 shares of common stock outstanding. Holders of our convertible redeemable series C preferred stock have the right to vote with our common stock based on the number of common shares that the series C preferred shares could be converted into on the record date. As of April 18,

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2003, the outstanding shares of convertible redeemable series C preferred stock were convertible into 607,288 shares of common stock, which shares are entitled to vote with our common stock.

MAILING OF PROXY STATEMENTS.

We anticipate mailing this Proxy Statement and the accompanying Proxy to stockholders on or about May 1, 2003.

PROXIES.

Your vote is important. If your shares are registered in your name, you are a share owner of record. If your shares are in the name of your broker or bank, your shares are held in street name. We encourage you to vote by Proxy so that your shares will be represented and voted at the meeting even if you cannot attend. All share owners can vote by written Proxy card. Your submitting the enclosed Proxy will not limit your right to vote at the Annual Meeting if you later decide to attend in person. IF YOUR SHARES ARE HELD IN STREET NAME, YOU MUST OBTAIN A PROXY, EXECUTED IN YOUR FAVOR, FROM THE HOLDER OF RECORD IN ORDER TO BE ABLE TO VOTE AT THE MEETING. If you are a share owner of record, you may revoke your Proxy at any time before the meeting either by filing with the Secretary of the Company, at its principal executive offices, a written notice of revocation or a duly executed Proxy bearing a later date, or by attending the Annual Meeting and expressing a desire to vote your shares in person. All shares entitled to vote and represented by properly executed Proxies received prior to the Annual Meeting, and not revoked, will be voted at the Annual Meeting in accordance with the instructions indicated on those Proxies. If no instructions are indicated on a properly executed Proxy, the shares represented by that Proxy will be voted as recommended by the Board of Directors.

QUORUM.

The presence, in person or by Proxy, of a majority of the votes entitled to be cast by the stockholders entitled to vote at the Annual Meeting is necessary to constitute a quorum. Abstentions and broker non-votes will be included in the number of shares present at the Annual Meeting for determining the presence of a quorum. Broker non-votes occur when a broker holding customer securities in street name has not received voting instructions from the customer on certain non-routine matters and, therefore, is barred by the rules of the applicable securities exchange from exercising discretionary authority to vote those securities.

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VOTING.

Each share of Tag-It common stock is entitled to one vote on each matter properly brought before the meeting. In addition, each share of convertible redeemable series C preferred stock is entitled to one vote for each share of common stock into which it is convertible on each matter properly brought before the meeting. Abstentions will be counted toward the tabulation of votes cast on proposals submitted to stockholders and will have the same effect as negative votes, while broker non-votes will not be counted as votes cast for or against such matters.

ELECTION OF DIRECTORS.

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The three nominees for Class III director receiving the highest number of votes at the Annual Meeting will be elected. If any nominee is unable or unwilling to serve as a director at the time of the Annual Meeting, the Proxies will be voted for such other nominee(s) as shall be designated by the current Board of Directors to fill any vacancy. The Company has no reason to believe that any nominee will be unable or unwilling to serve if elected as a director.

AMENDMENT OF THE 1997 STOCK PLAN.

It is proposed to amend the 1997 Stock Plan to increase the number of shares of common stock that the Company may issue pursuant to awards under the 1997 Stock Plan from 2,277,500 shares to 2,577,500 shares. This amendment will require the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding shares of common stock that are present or represented by proxy at the Annual Meeting.

OTHER MATTERS.

At the date this Proxy Statement went to press, we do not know of any other matter to be raised at the Annual Meeting.

In the event a shareholder proposal was not submitted to the Company prior to April 16, 2003, the enclosed Proxy will confer authority on the Proxyholders to vote the shares in accordance with their best judgment and discretion if the proposal is presented at the Meeting. As of the date hereof, no shareholder proposal has been submitted to the Company, and management is not aware of any other matters to be presented for action at the Meeting. However, if any other matters properly come before the Meeting, the Proxies solicited hereby will be voted by the Proxyholders in accordance with the recommendations of the Board of Directors. Such authorization includes authority to appoint a substitute nominee for any Board of Directors' nominee identified herein where death, illness or other circumstance arises which prevents such nominee from serving in such position and to vote such Proxy for such substitute nominee.

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ITEM 1: ELECTION OF DIRECTORS

Item 1 is the election of three members of the Board of Directors. In accordance with our Certificate of Incorporation, the Board of Directors is grouped into three classes. At each Annual Meeting, directors constituting one class are elected, each for a three-year term. Our bylaws presently provide that the number of directors shall not be less than two nor more than nine, with the exact number to be fixed from time to time by resolution of our Board of Directors. The number of directors is currently fixed at eight.

The Class III directors whose terms expire at the 2003 Annual Meeting are Mark Dyne, Colin Dyne and Donna Armstrong. The Board of Directors has nominated Mark Dyne, Colin Dyne and Donna Armstrong to serve as Class III directors for terms expiring in 2006. The Class I directors are serving terms that expire in 2004, and the Class II directors are serving terms that expire in 2005. Three Class III directors will be elected at the Annual Meeting.

Unless otherwise instructed, the Proxy holders will vote the Proxies received by them for the nominees named below. If any nominee is unable or unwilling to serve as a director at the time of the Annual Meeting, the Proxies

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will be voted for such other nominee(s) as shall be designated by the then current Board of Directors to fill any vacancy. The Company has no reason to believe that any nominee will be unable or unwilling to serve if elected as a director.

The Board of Directors proposes the election of the following nominees as Class III directors:

Mark Dyne
Colin Dyne
Donna Armstrong

If elected, Mark Dyne, Colin Dyne and Donna Armstrong are expected to serve until the 2006 Annual Meeting of stockholders. The three nominees for election as Class III directors at the Annual Meeting who receive the highest number of affirmative votes will be elected.

The principal occupation and certain other information about the nominees, other directors whose terms of office continue after the Annual Meeting, and certain executive officers are set forth on the following pages.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES LISTED ABOVE.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information with respect to nominees, continuing directors and officers of the Company as of April 18, 2003:

NAME	AGE	YEAR FIRST ELECTED OR APPOINTED	DIRECTOR	POSITION
----	---	-----	-----	-----
CLASS III DIRECTOR NOMINEES:				

(terms expiring in 2003)				
Mark Dyne (3).....	42	1997		Chairman of the Board of Directors
Colin Dyne (3).....	40	1997		Chief Executive Officer, President and Director
Donna Armstrong.....	41	2001		Director
CONTINUING DIRECTORS:				
CLASS I DIRECTORS				
(terms expiring in 2004)				
Kevin Bermeister.....	42	1999		Director
Brent Cohen.....	44	1998		Director
CLASS II DIRECTORS (1)				
(terms expiring in 2005)				

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Michael Katz.....	61	1998	Director
Jonathan Burstein (2).....	36	1999	Vice President of Operations and Director

OTHER OFFICERS:

Jonathan Markiles.....	38		Secretary and Vice President of Strategic Planning and Business Development
Ronda Sallmen.....	37		Chief Financial Officer

- (1) There is currently a vacancy in the Class II directors.
- (2) Jonathan Burstein is Colin Dyne's and Mark Dyne's brother-in-law.
- (3) Colin Dyne and Mark Dyne are brothers.

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CLASS III DIRECTOR NOMINEES: TERMS EXPIRING IN 2003

MARK DYNE

Mr. Dyne has served as Chairman of the Board of Directors since 1997. He also serves as Chairman of the Board of Directors of Brilliant Digital Entertainment, Inc., a publicly traded corporation. Mr. Dyne currently serves as the Chief Executive Officer and the Managing Director of EuroPlay Capital Advisors, LLC, a merchant banking and advisory firm. He is a founder and former director of Sega Ozisoft Pty Ltd., a leading distributor of entertainment software in both Australia and New Zealand. Mr. Dyne previously served as Chairman and Chief Executive Officer of Sega Gaming Technology Inc. (USA), a gaming company. Mr. Dyne also served as Chairman and Chief Executive Officer of Virgin Interactive Entertainment Ltd., a distributor of computer software programs and video games based in London, England. Mr. Dyne was a founder and director of Packard Bell NEC Australia Pty. Ltd., a manufacturer and distributor of personal computers through the Australian mass merchant channel.

COLIN DYNE

Mr. Dyne founded Tag-It, Inc., one of our subsidiaries, in 1991 with his father, Harold Dyne, and has served as our President since inception and as our Chief Executive Officer since 1997. Before founding Tag-It, Inc. in 1991, Mr. Dyne worked in numerous positions within

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the stationery products industry, including owning and operating retail stationery businesses and servicing the larger commercial products industry through contract stationery and printing operations. Mr. Dyne is the brother of Mark Dyne.

DONNA ARMSTRONG

Ms. Armstrong was appointed as a member to the Board of Directors in September 2001. From 1996 to present, Ms. Armstrong has been employed by the UK-based thread conglomerate Coats plc where she has held several key positions with the Coats North American businesses, Finance Director of the Coats European businesses and most recently as the Chief Financial Officer of the Coats North American businesses. Ms. Armstrong served as the Accounting Manager for Continental General Tire, a German-owned tire manufacturer, from 1995-1996. Before joining Continental General Tire, Ms. Armstrong was employed with Deloitte & Touche for 11 years where she attained the position of Senior Manager in the Audit Advisory Services practice in Charlotte, North Carolina. In this role, she was responsible for providing audit and business advisory services to private and publicly held companies with primary focus in the manufacturing industry. Ms. Armstrong is a certified public accountant for the state of North Carolina.

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CLASS I DIRECTORS: TERMS EXPIRING IN 2004

KEVIN BERMEISTER

Mr. Bermeister has served on our Board of Directors since 1999. He has been a director of Brilliant Digital Entertainment, Inc. since August 1996 and has served as its President since October 1996 and as its Chief Executive Officer since the beginning of 2001. Mr. Bermeister is a director of Sega Ozisoft Pty. Ltd. and previously served as its Co-Chief Executive Officer. Mr. Bermeister is a founder of Sega Ozisoft which commenced business in 1982. Mr. Bermeister also is a director of Packard Bell NEC Australia Pty. Ltd. and Jacfun Pty. Ltd. Jacfun owns the Darling Harbour property occupied by the Sega World

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indoor theme park in Sydney, Australia. Mr. Bermeister has served on numerous advisory boards, including Virgin Interactive Entertainment Ltd.

Member: COMPENSATION COMMITTEE, AUDIT COMMITTEE

BRENT COHEN

Mr. Cohen has served on the Board of Directors since 1998. Mr. Cohen has served as president and chief executive officer of US SEARCH since February 2000. From July 1987 through October 1998, Mr. Cohen held senior management positions with Packard Bell NEC (formerly Packard Bell Electronics), including Chief Operating Officer, Chief Financial Officer and President--Consumer and International. Subsequently, Mr. Cohen served on the board of advisors and directors of several companies from October 1998 through January 2000. From January 1980 through December 1982 and from January 1985 through June 1987 Mr. Cohen held various management positions in both the management consulting and auditing practice of Arthur Young & Company (now Ernst & Young). Mr. Cohen holds a Bachelor of Commerce degree, a Graduate Diploma in Accounting and an MBA from the University of Cape Town in South Africa. He is also a chartered accountant.

Member: COMPENSATION COMMITTEE, AUDIT COMMITTEE

CLASS II DIRECTORS: TERMS EXPIRING IN 2005

MICHAEL KATZ

Mr. Katz has served on our Board of Directors since 1998. Mr. Katz has served as President, Chief Operating Officer and director of Transducer Controls Corporation, a manufacturer of position and pressure transducers, from 1987 to the present. From 1987 to June 2002, Mr. Katz also served as President, Chief Operating Officer and director of Tedea-Huntleigh, Inc., a manufacturer of load-cells and force-transducers. Since 1999, Mr. Katz has also served as Chairman of Lebow Products, a manufacturer of torque-transducers. Mr. Katz holds an MBA and Bachelor of Science degree in mechanical engineering.

Member: AUDIT COMMITTEE

JONATHAN BURSTEIN

Mr. Burstein has served as our Vice President of Operations since 1999 and has served on our Board of Directors since 1999. During this period, Mr.

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Burstein has been responsible for many of the internal operations of the Company, including logistics, purchasing and managing key customer relationships. From 1987 until 1999, Mr. Burstein has been responsible for managing many of our largest customer accounts, including transitioning customers to our Managed Trim Solution e-commerce system. Mr. Burstein is the brother-in-law of Colin Dyne and Mark Dyne.

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OTHER OFFICERS

JONATHAN MARKILES

Mr. Markiles is our Vice President, Strategic Planning and Business Development, and Secretary. Mr. Markiles joined Tag-It, Inc. in May 1994 as our general manager where he has been responsible for production, distribution and international operations. Before joining Tag-It, Inc., Mr. Markiles received his MBA from the University of Southern California in May 1994. From 1987 until August 1992, Mr. Markiles held various operational positions with Windshields America, Inc., a national chain of autoglass stores.

RONDA SALLMEN

Ms. Sallmen has served as our Chief Financial Officer since she joined us in June 2000. Before joining us, Ms. Sallmen was a senior manager at BDO Seidman, LLP, independent public accountants, where she was the director of the Apparel Industry Practice in Los Angeles, California. In this role, she was responsible for providing audit, transaction support and business advisory services to private and publicly held companies. Ms. Sallmen has over ten years experience in the apparel industry. She was also a member of the advisory board of a leading apparel industry group. Ms. Sallmen is a certified public accountant and a member of the American Institute of Certified Public Accountants and the California State Society of Certified Public Accountants.

Pursuant to the series C preferred stock purchase agreement entered into by us and Coats North America Consolidated, Inc., and for so long as Coats North America Consolidated holds 66 2/3% of the shares of the our series C preferred stock that it purchased in September 2001, we have agreed to use

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commercially reasonable efforts to cause a representative designated by Coats North America Consolidated to be nominated to serve as director of our company. Donna Armstrong currently serves as one of our directors pursuant to this agreement. BOARD MEETINGS AND COMMITTEES.

The Board of Directors held five general meetings, including two meetings of a special committee designated by the Board of Directors, during fiscal 2002. Each director attended at least 75% of all the meetings of the Board of Directors and those committees on which he or she served in fiscal 2002. The Board of Directors maintains an audit committee and a compensation committee.

The audit committee currently consists of Messrs. Bermeister, Cohen and Katz. The compensation committee currently consists of Messrs. Bermeister and Cohen.

The role and responsibilities of the audit committee are set forth in a written charter adopted by the Board. The audit committee approves the engagement of independent public accountants, reviews the scope of the audit to be conducted by the independent public accountants and meets quarterly with the independent public accountants and our Chief Financial Officer to review matters relating to our financial statements, our accounting principles and our system of internal accounting controls. The audit committee reports its recommendations as to the approval of our financial statements to the Board of Directors. All audit committee members are independent directors as defined in the listing standards of the American Stock Exchange. The audit committee held seven meetings during fiscal 2002.

The compensation committee is responsible for considering and making recommendations to the Board of Directors regarding executive compensation and is responsible for administering our stock option plan and executive incentive compensation. The compensation committee held three meetings and acted two additional times by unanimous written consent during fiscal 2002.

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DIRECTOR COMPENSATION

We currently pay nonemployee directors \$1,500 for their personal attendance at any meeting of the Board of Directors and \$500 for attendance at any telephonic meeting of the Board of Directors or at any meeting of a committee of the Board of Directors. Non-employee directors, Messrs. Bermeister, Cohen and Katz, received 25,000 options each to purchase shares of the Company's common stock in April 2003. We also reimburse directors for their reasonable travel expenses incurred in attending board or committee meetings.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION.

There are no interlocking relationships involving any of our compensation committee members required by the Securities and Exchange Commission to be reported in this Proxy Statement and none of our officers or full-time employees serves on our compensation committee.

EXECUTIVE COMPENSATION

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SUMMARY COMPENSATION TABLE

The following table sets forth, as to the Chief Executive Officer, and as to each of the other most highly compensated officers whose compensation exceeded \$100,000 during the last fiscal year (the "Named Executive Officers"), information concerning all compensation paid for services to the Company in all capacities for each of the three years ended December 31 indicated below.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED DECEMBER 31	ANNUAL COMPENSATION		LONG TERM COMPENSATION
		SALARY	OTHER (1)	NUMBER OF SECURITIES UNDERLYING OPTIONS
Colin Dyne.....	2002	\$438,305	\$ 55,787	100,000
Chief Executive Officer,	2001	326,536	51,680	50,000
President and Director	2000	317,000	54,940	140,000
Jonathan Burstein.....	2002	\$197,980	\$ 21,005	25,000
Vice President of	2001	187,596	22,434	15,000
Operations and Director	2000	167,980	27,942	50,000
Ronda Sallmen (2).....	2002	\$118,592	\$ 11,248	25,000
Chief Financial Officer	2001	142,308	8,833	20,000
	2000	74,505	1,554	55,000
Jonathan Markiles	2002	\$200,000	\$ --	--
Vice President of Strategic	2001	190,769	--	15,000
Planning and Business	2000	178,846	--	30,000
Development and				
Secretary				

(1) Other compensation indicated in the above table consists of car and expense allowances and medical and disability insurance.

(2) Ms. Sallmen joined the Company in June 2000.

OPTION GRANTS IN FISCAL 2002

The following table sets forth information regarding stock options granted to the Named Executive Officers during the fiscal year ended December 31, 2002. This information includes hypothetical potential gains from stock options granted in fiscal 2002. These hypothetical gains are based entirely on assumed annual growth rates of 5% and 10% in the value of our common stock price over the 10-year life of the stock options granted in fiscal 2002. These assumed rates of growth were selected by the Securities and Exchange Commission for illustrative purposes only and are not intended to predict future stock prices, which will depend upon market conditions and our future performance and prospects.

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OPTION GRANTS IN FISCAL 2002

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (1)	EXERCISE OR BASE PRICE PER SHARE (2)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM (3)	
					5%	10%
Colin Dyne.....	100,00 (4)	37.0%	\$ 3.63	12/31/12	\$ 228,289	\$ 578,529
Jonathan Burstein..	25,00 (5)	9.3	3.63	12/31/12	57,072	144,632
Ronda Sallmen.....	25,00 (5)	9.3	3.63	12/31/12	57,072	144,632
Jonathan Markiles..	--	--	--	--	--	--

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AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth, for each of the Named Executive Officers, certain information regarding the number of shares of common stock underlying stock options held at fiscal year-end and the value of options held at fiscal year-end based upon the last reported sales price of the underlying securities on the American Stock Exchange (\$3.63 per share) on December 31, 2002, the last trading day during 2002, as reported by the American Stock Exchange. No options were exercised by the Named Executive Officers during fiscal 2002.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 2002		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS DECEMBER 31, 2002	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Colin Dyne	--	\$ --	435,000	--	\$ --	\$ --
Jonathan Burstein.	--	--	115,000	25,000	69,900	--
Ronda Sallmen.....	--	--	75,000	25,000	--	--
Jonathan Markiles.	--	--	80,000	--	46,600	--

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EMPLOYMENT CONTRACTS

None of the Named Executive Officers have employment agreements with the Company and their employment may be terminated at any time.

STOCK INCENTIVE PLAN

The Company adopted the Tag-It Pacific, Inc. 1997 Stock Plan (the "1997 Plan") in October 1997. The purpose of the 1997 Plan is to provide incentives and rewards to selected eligible directors, officers, employees and consultants of the Company or its subsidiaries in order to assist the Company and its subsidiaries in attracting, retaining and motivating those persons by providing for or increasing the proprietary interests of those persons in the Company, and by associating their interests in the Company with those of the Company's stockholders. Currently, the maximum number of shares of common stock that may be issued pursuant to awards granted under the 1997 Plan is 2,277,500, subject to certain adjustments to prevent dilution. Any shares of common stock subject to an award which for any reason expires or terminates unexercised are again available for issuance under the 1997 Plan.

The 1997 Plan authorizes its administrator to enter into any type of arrangement with an eligible participant that, by its terms, involves or might involve the issuance of (1) shares of common stock, (2) an option, warrant, convertible security, stock appreciation right or similar right with an exercise or conversion privilege at a price related to the common stock, or (3) any other security or benefit with a value derived from the value of the common stock. Any stock option granted may be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or a nonqualified stock option. The 1997 Plan currently is administered by the Compensation Committee of the Board of Directors of the Company. Subject to the provisions of the 1997 Plan, the Compensation Committee will have full and final authority to select the executives and other employees to whom awards will be granted thereunder, to grant the awards and to determine the terms and conditions of the awards and the number of shares to be issued pursuant thereto. No participant may receive awards representing more than 25% of the aggregate number of shares of common stock that may be issued pursuant to all awards under the 1997 Plan.

As of December 31, 2002, 259,000 shares of common stock remained available for grant of awards to eligible participants under the 1997 Plan.

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REPORT OF COMPENSATION COMMITTEE

The Compensation Committee is charged with the responsibility of administering all aspects of the Company's executive compensation programs. The committee, which currently is comprised of two independent, non-employee directors, also grants all stock options and otherwise administers the 1997 Plan. In connection with its deliberations, the committee seeks, and is significantly influenced by, the views of the Chief Executive Officer with respect to appropriate compensation levels of the other officers.

TOTAL COMPENSATION. It is the philosophy of the committee that

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executive compensation should be structured to provide an appropriate relationship between executive compensation and performance of the Company and the share price of the common stock, as well as to attract, motivate and retain executives of outstanding abilities and experience. The principal elements of total compensation paid to executives of the Company are as follows:

BASE SALARY. Base salaries are negotiated at the commencement of an executive's employment with the Company, and are designed to reflect the position, duties and responsibilities of each executive officer, the cost of living in the area in which the officer is located, and the market for base salaries of similarly situated executives at other companies engaged in businesses similar to that of the Company. Base salaries may be annually adjusted in the sole discretion of the committee to reflect changes in any of the foregoing factors.

STOCK INCENTIVE PLAN OPTIONS AND AWARDS. Under the 1997 Plan, the committee is authorized to grant any type of award which might involve the issuance of shares of common stock, options, warrants, convertible securities, stock appreciation rights or similar rights or any other securities or benefits with a value derived from the value of the common stock. The number of options granted to an individual is based upon a number of factors, including his or her position, salary and performance, and the overall performance and stock price of the Company.

ANNUAL INCENTIVES. The committee believes that executive compensation should be determined with specific reference to the Company's overall performance and goals, as well as the performance and goals of the division or function over which each individual executive has primary responsibility. In this regard, the committee considers both quantitative and qualitative factors. Quantitative items used by the committee in analyzing the Company's performance include sales and sales growth, results of operations and an analysis of actual levels of operating results and sales to budgeted amounts. Qualitative factors include the committee's assessment of such matters as the enhancement of the Company's image and reputation, expansion into new markets, and the development and success of new strategic relationships and new marketing opportunities.

DETERMINATION OF CHIEF EXECUTIVE OFFICER'S COMPENSATION. The committee believes that the Chief Executive Officer's compensation should be determined with specific reference to the Company's overall performance and goals applying the same quantitative and qualitative factors with which it determines the annual incentives of its other executive officers. The committee set the base salary for the Chief Executive Officer for the fiscal year 2002 at a level which is designed to provide the Chief Executive Officer with a salary which is competitive with salaries paid to chief executive officers of similarly-sized companies in the industry and commensurate with the Chief Executive Officer's experience.

OMNIBUS BUDGET RECONCILIATION ACT IMPLICATIONS FOR EXECUTIVE COMPENSATION. Effective January 1, 1994, under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), a public company generally will not be entitled to a deduction for non-performance-based compensation paid to certain executive officers to the extent such compensation exceeds \$1.0 million. Special rules apply for "performance-based" compensation, including the approval of the performance goals by the stockholders of the Company.

All compensation paid to the Company's employees in fiscal 2002 will be fully deductible. With respect to compensation to be paid to executives in 2003 and future years, in certain instances such compensation may exceed \$1.0 million. However, in order to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Compensation Committee has not adopted a policy that all compensation must be deductible.

Compensation Committee:

Kevin Bermeister
Brent Cohen

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REPORT OF AUDIT COMMITTEE

The audit committee of the Board of Directors, which consists of 3 independent directors, as that term is defined in Section 121(A) of the listing standards of the American Stock Exchange, has furnished the report set forth below.

The audit committee assists the Board in overseeing and monitoring the integrity of the Company's financial reporting process, its compliance with legal and regulatory requirements and the quality of its internal and external audit processes. The role and responsibilities of the audit committee are set forth in a written charter adopted by the Board. The audit committee reviews and reassesses the charter annually and recommends any changes to the Board for approval.

The audit committee is responsible for overseeing the Company's overall financial reporting process. In fulfilling its responsibilities for the financial statements for fiscal year 2002, the audit committee:

- Reviewed and discussed the audited financial statements for the year ended December 31, 2002 with management and BDO Seidman, LLP ("BDO"), the Company's independent auditors;
- Discussed with BDO the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit;
- Received written disclosures and a letter from BDO regarding its independence as required by Independence Standards Board Standard No. 1. The audit committee discussed with BDO their independence; and
- Based on its review of the audited financial statements and discussions with management and BDO, recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 for filing with the Securities and Exchange Commission.

The audit committee also considered the status of pending litigation and other areas of oversight relating to the financial reporting and audit process that the committee determined appropriate.

AUDIT FEES

The aggregate fees billed by BDO for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2002 and the reviews of the financial statements included in the Company's Forms 10-Q for that fiscal year, were \$109,000.

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FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

BDO did not bill any fees for professional services rendered for information technology services relating to financial information systems design and implementation for the fiscal year ended December 31, 2002.

ALL OTHER FEES

The aggregate fees billed by BDO for services rendered to the Company other than the services described above under "Audit Fees" and "Financial Information Systems Design and Implementation Fees," for the fiscal year ended December 31, 2002, were \$1,870.

The audit committee has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

Audit Committee:

Kevin Bermeister
Brent Cohen
Michael Katz

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PERFORMANCE GRAPH

The following graph sets forth the percentage change in cumulative total stockholder return of the common stock of the Company during the period from January 23, 1998 to December 31, 2002, compared with the cumulative returns of the American Stock Exchange Composite Index and The Dow Jones Textiles & Apparel Index. The comparison assumes \$100 was invested on January 23, 1998 in the common stock of the Company and in each of the foregoing indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

[PERFORMANCE GRAPH OMITTED]

	Cumulative Total Return				
	January 23, 1998	December 31, 1998	December 31, 1999	December 31, 2000	December 31, 2001
Tag-It Pacific, Inc.	100.00	109.38	140.63	101.58	98.75
AMEX Market Value	100.00	107.33	137.12	140.90	134.27

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Dow Jones Textiles & Apparel	100.00	83.74	81.52	99.06	99.90
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CERTAIN TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

Except as disclosed in this Proxy Statement, neither the nominees for election as directors of the Company, the directors or senior officers of the Company, nor any stockholder owning more than five percent of the issued shares of the Company, nor any of their respective associates or affiliates, had any material interest, direct or indirect, in any material transaction to which the Company was a party during fiscal 2002, or which is presently proposed.

TRANSACTIONS INVOLVING OUR OFFICERS, DIRECTORS, OR THEIR IMMEDIATE FAMILY AND AFFILIATES

Pursuant to a consulting agreement, we paid \$150,000 in consulting fees to Diversified Consulting, LLC, a company owned by Audrey Dyne, mother of Colin Dyne and Mark Dyne, for the year ended December 31, 2002. We also paid \$70,800 in consulting fees to Kevin Bermeister, a director, for the year ended December 31, 2002.

As of December 31, 2002, we were indebted to Monto Holdings Pty. Ltd. in the aggregate amount of \$60,919. Mark Dyne, our Chairman, holds a significant equity interest in Monto Holdings Pty. Ltd. Kevin Bermeister, one of our directors, also holds an equity interest in Monto Holdings Pty. Ltd. The loans from Monto Holdings Pty. Ltd. are all evidenced by promissory notes and are due and payable on the fifteenth day following the date on which the holder of the promissory note makes written demand for payment.

Mark Dyne loaned us \$160,000 in August 1999 and \$15,000 in January 1999. This indebtedness is evidenced by unsecured promissory notes, dated August 17, 1999 and January 31, 1999, which are due and payable on demand and bear interest at a rate of 7.0% and 7.5% per annum. During the year ended December 31, 2000, we repaid \$95,205 to Mr. Dyne. In October 2000, Mark Dyne loaned us a further \$500,000. This indebtedness is evidenced by a convertible secured subordinated promissory note, dated October 4, 2000, which is due and payable on demand, bears interest at a rate of 11.0% per annum and convertible at the election of the holder into our common stock at a price of \$4.50 per share. At December 31, 2002, we were indebted to Mr. Dyne in the aggregate amount of \$579,795.

As of December 31, 2002, Colin Dyne was indebted to Tag-It, Inc. as part of a series of loans in the aggregate amount of \$636,669. A portion of this indebtedness is evidenced by a promissory note, dated August 31, 1997, in the principal amount of \$71,542 and a promissory note, dated October 15, 1997, in the principal amount of \$6,089. Both promissory notes are due and payable on demand and bear interest at a rate of 7.5% per annum. The remaining indebtedness is due and payable on demand and bears interest at 8.5% and prime. In addition to these two promissory notes, Colin Dyne loaned the Company \$185,000 in December 2000. The note payable is unsecured, bears interest at a rate of 11% and is due on demand. The aggregate net amount due from Mr. Dyne during the year ended December 31, 2002 amounted to \$451,669.

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As of December 31, 2002, Jonathan Burstein was indebted to Tag-It, Inc. as part of a series of loans in the aggregate amount of \$92,689, the largest aggregate balance during the year ended December 31, 2002. This indebtedness bears interest of 7.5 % and is due and payable on demand.

In a series of transactions on December 28, 2001, January 7, 2002 and January 8, 2002, we entered into stock and warrant purchase agreements with three private investors, including Mark Dyne, the chairman of our board of directors. Pursuant to the stock and warrant purchase agreements, we issued Mr. Dyne an aggregate of 166,666 shares of common stock at a price per share of \$3.00 for aggregate proceeds of \$499,998. Pursuant to the stock and warrant purchase agreements, 83,334 warrants to purchase common stock were issued to Mr. Dyne. The warrants are exercisable immediately after closing, one half of the warrants at \$4.34 per share and the second half at \$4.73 per shares, representing 110% and 120%, respectively, of the market value of our common stock on the date of closing. The exercise price for the warrants shall be adjusted upward by 25% of the amount, if any, that the market price of our common stock on the exercise date exceeds the initial exercise price (as adjusted) up to a maximum exercise price of \$5.25. The warrants have a term of four years. The shares contain restrictions related to the sale or transfer of the shares, registration and voting rights.

On October 4, 2002, we entered into a note payable agreement with Harris Toibb, the beneficial owner of approximately 13% of our common stock at April 18, 2003, in the amount of \$500,000 to fund additional working

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capital requirements. The note payable was unsecured, due on demand, accrued interest at 4% and was subordinated to UPS Capital. This note was re-paid on February 28, 2003.

TRANSACTIONS INVOLVING STRATEGIC RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

In October 1998, KG Investment, LLC, a Los Angeles-based private investment company, purchased 2,390,000 restricted shares of our common stock for an aggregate price of \$2,688,750. KG Investment, LLC, is currently a significant stockholder, owning approximately 25.6% of the outstanding shares of our common stock at December 31, 2002. KG Investment, LLC is also affiliated with Tarrant Apparel Group, our largest customer, because the owners of KG Investment, LLC are Gerard Guez, Chairman of the Board and Chief Executive Officer and a significant stockholder of Tarrant Apparel Group, and Todd Kay, President and a significant stockholder of Tarrant Apparel Group. Total sales to Tarrant for the years ended December 31, 2002, 2001 and 2000 amounted to approximately \$24,947,000, \$18,438,000 and \$23,760,000. As of December 31, 2002, 2001 and 2000, accounts receivable related parties included approximately \$9,362,000, \$4,995,000 and \$8,270,000 due from Tarrant. Terms are net 60 days. During the year ended December 31, 1999, we loaned Mr. Guez \$75,000 in the form of an unsecured promissory note which bears interest at prime and is payable on demand.

In connection with this investment, KG Investment, LLC agreed not to dispose of its shares of common stock before October 16, 2000, except to affiliated parties, without our prior written consent. After October 16, 2000, KG Investment, LLC may sell or transfer any of the shares in accordance with applicable law; provided that we have an assignable right of first refusal to

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purchase the shares upon the same or economically equivalent terms and conditions, if the sale is not made in accordance with the volume restrictions of Rule 144 under the Securities Act of 1933 or in connection with a public offering initiated by us. We granted KG Investment, LLC piggyback registration rights which entitles it to sell its shares of common stock in a registered public offering in the same proportion as shares of common stock sold in the same offering by any of Colin Dyne, Mark Dyne, the Estate of Harold Dyne, Larry Dyne or Jonathan Burstein. During 2002, KG Investments, LLC transferred 195,000 shares to Gerard Guez and 1,195,000 shares to Todd Kay.

On December 22, 2000, we entered into an exclusive supply agreement with Azteca Production International, Inc., AZT International SA D RL, and Commerce Investment Group, LLC. Pursuant to this supply agreement we provide all trim-related products for certain programs manufactured by Azteca Production International. The agreement provides for a minimum aggregate total of \$10,000,000 in annual purchases by Azteca Production International and its affiliates during each year of the three-year term of the agreement, if and to the extent, we are able to provide trim products on a basis that is competitive in terms of price and quality. Under the terms of the supply agreement, we issued 1,000,000 shares of restricted common stock to Commerce Investment Group, LLC, or approximately 10.7% the outstanding shares of our common stock at December 31, 2002. The shares of restricted stock were issued at the market price of our stock at the time of issuance. Total sales to Azteca for the years ended December 31, 2002, 2001 and 2000 amounted to approximately \$16,946,000, \$9,016,000 and \$1,878,000. As of December 31, 2002, 2001 and 2000, accounts receivable related parties included approximately \$5,408,000, \$2,920,000 and \$771,000 due from Azteca. Terms are net 60 days. Transportation fees paid to a company that has common ownership with Azteca for the years ended December 31, 2002 and 2001 amounted to \$225,000 and \$15,000.

In accordance with the series C preferred stock purchase agreement entered into by the Company and Coats North America Consolidated, Inc., an affiliate of Coats, plc, on September 20, 2001, 759,494 shares of series C convertible redeemable preferred stock were issued to Coats North America Consolidated, Inc. in exchange for an equity investment from Coats North America Consolidated of \$3 million cash. Pursuant to the series C preferred stock purchase agreement, and for so long as Coats holds 66 2/3% of the shares of the series C preferred stock, the Company has agreed to use commercially reasonable efforts to cause a representative designated by Coats to be nominated to serve as director of our company. Each holder of the series C preferred shares has the right to vote with the common stock based on the number of common shares that the series C preferred shares could then be converted into on the record date. In connection with the series C preferred stock purchase agreement, the Company also entered into a 10-year co-marketing and supply agreement with Coats that provides for selected introductions into Coats' customer base and the Company's trim packages will exclusively offer thread manufactured by Coats. Total purchases from Coats for the years ended December 31, 2002 and 2001 amounted to approximately \$12,276,000 and \$18,247,000.

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ITEM 2: PROPOSAL TO AMEND THE 1997 STOCK PLAN

GENERAL

The Board of Directors has approved an amendment (the "Plan Amendment")

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to the Tag-It Pacific, Inc. 1997 Stock Plan to increase the number of shares of common stock available for issuance under the 1997 Plan from 2,277,500 shares to 2,577,500 shares. The 1997 Plan is attached hereto as Appendix A. The Plan Amendment is being submitted to the Company's stockholders for approval.

The Board of Directors approved the Plan Amendment to ensure that a sufficient number of shares of common stock are available for issuance under the 1997 Plan. At April 18, 2003, only 259,000 shares remained available for grants of awards under the 1997 Plan. The Board of Directors believes that the ability to grant stock-based awards is important to the future success of the Company. The grant of stock options and other stock-based awards can motivate high levels of performance and provide an effective means of recognizing employee contributions to the success of the Company. In addition, stock-based compensation can be valuable in recruiting and retaining highly qualified technical and other key personnel who are in great demand as well as rewarding and providing incentives to our current employees. The increase in the number of shares available for awards under the 1997 Plan will enable the Company to continue to realize the benefits of granting stock-based compensation.

At April 18, 2003, the last reported sales price of the common stock on the American Stock Exchange was \$4.22 per share.

SUMMARY OF THE 1997 PLAN

PURPOSE. The purpose of the 1997 Plan is to provide incentives and rewards to selected eligible directors, officers, employees and consultants of the Company or its subsidiaries in order to assist the Company and its subsidiaries in attracting, retaining and motivating those persons by providing for or increasing the proprietary interests of those persons in the Company, and by associating their interests in the Company with those of the Company's stockholders.

ADMINISTRATION. The 1997 Plan may be administered by the Board of Directors, or a committee of two or more directors appointed by the Board of Directors whose members serve at the pleasure of the Board. The 1997 Plan currently is administered by the Compensation Committee of the Board of Directors. The party administering the 1997 Plan is referred to as the "Administrator." Subject to the provisions of the 1997 Plan, the Administrator has full and final authority to (i) select from among eligible directors, officers, employees and consultants, those persons to be granted awards under the 1997 Plan, (ii) determine the type, size and terms of individual awards to be made to each person selected, (iii) determine the time when awards will be granted and to establish objectives and conditions (including, without limitation, vesting and performance conditions), if any, for earning awards, (iv) amend the terms or conditions of any outstanding award, subject to applicable legal restrictions and to the consent of the other party to such award, (v) to determine the duration and purpose of leaves of absences which may be granted to holders of awards without constituting termination of their employment, (vi) authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the 1997 Plan, (vii) by resolution adopted by the Board, to authorize one or more officers of the Company to designate eligible employees of the Company or any of its subsidiaries to be recipients of awards and/or determine the number of such awards to be received by such employees, provided that the resolution so authorizing such officer or officers shall specify the total number of awards such officer or officers may award, and (viii) make any and all other determinations which the Administrator determines to be necessary or advisable in the administration of the 1997 Plan. The Administrator has full power and authority to administer and interpret the 1997 Plan and to adopt, amend and revoke such rules, regulations, agreements, guidelines and instruments for the administration of the 1997 Plan and for the conduct of its business as the Administrator deems necessary or advisable.

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ELIGIBILITY. Any person who is a director, officer, employee or consultant of the Company, or any of its subsidiaries (a "Participant"), is eligible to be considered for the grant of awards under the 1997 Plan. No Participant may receive awards representing more than 25% of the aggregate number of shares of common stock that may be issued pursuant to all awards under the 1997 Plan. At April 18, 2003, approximately 72 officers, directors and employees of the Company were eligible to receive awards under the 1997 Plan.

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TYPES OF AWARDS. Awards authorized under the 1997 Plan may consist of any type of arrangement with a Participant that, by its terms, involves or might involve or be made with reference to the issuance of shares of the Company's common stock, or a derivative security with an exercise or conversion price related to the common stock or with a value derived from the value of the common stock. Awards are not restricted to any specified form or structure and may include sales, bonuses and other transfers of stock, restricted stock, stock options, reload stock options, stock purchase warrants, other rights to acquire stock or securities convertible into or redeemable for stock, stock appreciation rights, phantom stock, dividend equivalents, performance units or performance shares, or any other type of award which the Administrator shall determine is consistent with the objectives and limitations of the 1997 Plan. An award may consist of one such security or benefit, or two or more of them in tandem or in the alternative.

CONSIDERATION. The common stock or other property underlying an award may be issued for any lawful consideration as determined by the Administrator, including, without limitation, a cash payment, services rendered, or the cancellation of indebtedness. An award may provide for a purchase price of the common stock or other property at a value less than the fair market value of the common stock or other property on the date of grant. In addition, an award may permit the recipient to pay the purchase price of the common stock or other property or to pay such recipient's tax withholding obligation with respect to such issuance, in whole or in part, by delivering previously owned shares of capital stock of the Company or other property, or by reducing the number of shares of common stock or the amount of other property otherwise issuable pursuant to such award.

TERMINATION OF AWARDS. All awards granted under the 1997 Plan expire ten years from the date of grant, or such shorter period as is determined by the Administrator. No option is exercisable by any person after such expiration. If an award expires, terminates or is canceled, the shares of common stock not purchased thereunder shall again be available for issuance under the 1997 Plan.

AMENDMENT AND TERMINATION OF THE 1997 PLAN. The Administrator may amend the 1997 Plan at any time, may suspend it from time to time or may terminate it without approval of the stockholders; provided, however, that stockholder approval is required for any amendment which materially increases the number of shares for which awards may be granted, materially modifies the requirements of eligibility, or materially increases the benefits which may accrue to recipients of awards under the 1997 Plan. However, no such action by the Board of Directors or stockholders may unilaterally alter or impair any award previously granted under the 1997 Plan without the consent of the recipient of the award. In any event, the 1997 Plan shall terminate on October 1, 2007 (ten years following the date it was approved by the Company's stockholders) unless sooner terminated by action of the Board of Directors.

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EFFECT OF SECTION 16(B) OF THE SECURITIES EXCHANGE ACT OF 1934. The acquisition and disposition of common stock by officers, directors and more than 10% stockholders of the Company ("Insiders") pursuant to awards granted to them under the 1997 Plan may be subject to Section 16(b) of the Securities Exchange Act of 1934. Pursuant to Section 16(b), a purchase of common stock by an Insider within six months before or after a sale of common stock by the Insider could result in recovery by the Company of all or a portion of any amount by which the sale proceeds exceed the purchase price. Insiders are required to file reports of changes in beneficial ownership under Section 16(a) of the Securities Exchange Act of 1934 upon acquisitions and dispositions of shares. Rule 16b-3 provides an exemption from Section 16(b) liability for certain transactions pursuant to certain employee benefit plans. The 1997 Plan is designed to comply with Rule 16b-3.

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FEDERAL INCOME TAX CONSEQUENCES FOR STOCK OPTIONS

As of April 18, 2003, the only type of award granted by the Company under the 1997 Plan has been stock options. The following is a general discussion of the principal United States federal income tax consequences of both "incentive stock options" within the meaning of Section 422 of the Code ("Incentive Stock Options") and non-statutory stock options ("Non-statutory Stock Options") based upon the United States Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder, all of which are subject to modification at any time. The 1997 Plan does not constitute a qualified retirement plan under Section 401(a) of the Code (which generally covers trusts forming part of a stock bonus, pension or profit-sharing plan funded by employer and/or employee contributions which are designed to provide retirement benefits to participants under certain circumstances) and is not subject to the Employee Retirement Income Security Act of 1974 (the pension reform law which regulates most types of privately funded pension, profit sharing and other employee benefit plans).

CONSEQUENCES TO EMPLOYEES: INCENTIVE STOCK OPTIONS. No income is recognized for federal income tax purposes by an optionee at the time an Incentive Stock Option is granted, and, except as discussed below, no income is recognized by an optionee upon his or her exercise of an Incentive Stock Option. If the optionee makes no disposition of the common stock received upon exercise within two years from the date such option was granted or one year from the date such option is exercised (the "ISO Holding Period Requirements"), the optionee will recognize long-term capital gain or loss when he or she disposes of his or her common stock. Such gain or loss generally will be measured by the difference between the exercise price of the option and the amount received for the common stock at the time of disposition.

If the optionee disposes of the common stock acquired upon exercise of an Incentive Stock Option without satisfying the ISO Holding Period Requirements, any amount realized from such "disqualifying disposition" will be taxed at ordinary income tax rates in the year of disposition to the extent that (i) the lesser of (a) the fair market value of the shares of common stock on the date the Incentive Stock Option was exercised or (b) the fair market value of such shares at the time of such disposition exceeds (ii) the Incentive Stock Option exercise price. Any amount realized upon disposition in excess of the fair market value of the shares of common stock on the date of exercise will be treated as long-term or short-term capital gain depending upon the length of

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time the shares have been held.

The use of stock acquired through exercise of an Incentive Stock Option to exercise an Incentive Stock Option will constitute a disqualifying disposition if the ISO Holding Period Requirements have not been satisfied.

For alternative minimum tax purposes, the excess of the fair market value of the shares of common stock as of the date of exercise over the exercise price of the Incentive Stock Option is included in computing that year's alternative minimum taxable income. However, if the shares of common stock are disposed of in the same year, the maximum alternative minimum taxable income with respect to those shares is the gain on disposition of the shares. There is no alternative minimum taxable income from a disqualifying disposition in subsequent years.

CONSEQUENCES TO EMPLOYEES: NON-STATUTORY STOCK OPTIONS. No income generally is recognized by a holder of Non-statutory Stock Options at the time Non-statutory Stock Options are granted under the 1997 Plan. In general, at the time shares of common stock are issued to a holder pursuant to the exercise of Non-statutory Stock Options, the holder will recognize ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the exercise price.

A holder will recognize gain or loss on the subsequent sale of common stock acquired upon exercise of Non-statutory Stock Options in an amount equal to the difference between the sales price and the tax basis of the common stock, which will include the exercise price paid plus the amount included in the holder's income by reason of the exercise of the Non-statutory Stock Options. Provided the shares of common stock are held as a capital asset, any gain or loss resulting from a subsequent sale will be short-term or long-term capital gain or loss depending upon the length of time the shares have been held.

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CONSEQUENCES TO THE COMPANY: INCENTIVE STOCK OPTIONS. The Company will not be allowed a deduction for federal income tax purposes at the time of the grant or exercise of an Incentive Stock Option. There are also no federal income tax consequences to the Company as a result of the disposition of common stock acquired upon exercise of an Incentive Stock Option if the disposition is not a "disqualifying disposition." At the time of a disqualifying disposition by an optionee, the Company will be entitled to a deduction for the amount received by the optionee to the extent that such amount is taxable to the optionee at ordinary income tax rates.

CONSEQUENCES TO THE COMPANY: NON-STATUTORY STOCK OPTIONS. Generally, the Company will be entitled to a deduction for federal income tax purposes in the Company's taxable year in which the optionee's taxable year of income inclusion ends and in the same amount as the optionee is considered to have realized ordinary income in connection with the exercise of Non-statutory Stock Options.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2002 regarding equity compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance:

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	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF S REMAINING A FOR FUTURE UNDER EQ COMPENSATIO
	-----	-----	-----
Equity compensation plans approved by security holders.....	1,733,500	\$3.48	544,0
Equity compensation plans not approved by security holders.....	608,122	\$4.35	
	-----		-----
Total.....	2,341,622	\$3.71	544,0
	=====		=====

See Note 13 to the Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2002 for information regarding the material features of the above plans. Each of the above plans provides that the number of shares with respect to which options and warrants may be granted, and the number of shares of Common Stock subject to an outstanding option or warrant, shall be proportionately adjusted in the event of a subdivisions or consolidation of shares or the payment of a stock dividend on Common Stock.

REQUIRED VOTE

The approval of the Plan Amendment requires the affirmative vote of a majority of the votes entitled to be cast by the holders of shares of the Company's common stock present or represented and entitled to vote on this matter at the Annual Meeting. An abstention will be counted toward the tabulation of votes cast and will have the same effect as a vote against the proposal. A broker non-vote, however, will not be treated as a vote cast for or against approval of the proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF THE PLAN AMENDMENT.

PRINCIPAL STOCKHOLDERS

The following table presents information regarding the beneficial ownership of our common stock as of April 18, 2003:

- o each person who is known to us to be the beneficial owner of more than 5.0% of our outstanding common stock;
- o each of our directors;
- o the Named Executive Officers; and

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o all of our directors and executive officers as a group

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission that deem shares to be beneficially owned by any person who has or shares voting or investment power with respect to such shares. Shares of common stock under warrants or options currently exercisable or exercisable within 60 days of the date of this information are deemed outstanding for purposes of computing the percentage ownership of the person holding such warrants or options but are not deemed outstanding for computing the percentage ownership of any other person. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding at April 18, 2003. Unless otherwise indicated, the persons named in this table have sole voting and sole investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable.

The address of each person listed is in our care, at 21900 Burbank Boulevard, Suite 270, Woodland Hills, California 91367, unless otherwise set forth below such person's name.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT OF CLASS

DIRECTORS:		
Colin Dyne (1).....	2,192,580	21.6%
Mark Dyne (2).....	1,090,512	10.8%
Kevin Bermeister (3).....	222,117	2.3%
Jonathan Burstein (4).....	223,288	2.3%
Brent Cohen (5).....	70,000	*
Michael Katz (6).....	50,000	*
NON-DIRECTOR NAMED EXECUTIVE OFFICERS:		
Jonathan Markiles (7)	133,248	1.4%
Ronda Sallmen (8)	87,500	*
5% HOLDERS:		
KG Investment, LLC 3151 East Washington Blvd. Los Angeles, CA 90023.....	2,390,000	24.8%
Harris Toibb 307 21st Street Santa Monica, CA 90402 (9).....	1,290,498	13.0%
Commerce Investment Group, LLC 5804 E. Slauson Ave., Commerce, CA 90046 ...	1,000,000	10.4%
The Estate of Harold Dyne (10).....	757,507	7.8%
Coats North America Consolidated, Inc. Two Lake Point Plaza 4135 South Stream Blvd. Charlotte, NC 28217 (11)	607,288	5.9%

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Talon, Inc.

c/o Grupo Industrial Cierres Ideal

Paseo de la Reforma Num. 2608 PH

Col. Lomas Altas

Mexico D.F., 11950	500,000	5.2%
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Directors and executive officers as a group (9 persons) (12)	4,069,245	36.5%
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* Less than one percent.

- (1) Includes 535,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable and 1,000,000 shares of common stock owned by Commerce Investment Group, LLC which are voted by Colin Dyne pursuant to a voting agreement.
- (2) Includes 268,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable, 83,334 shares of common stock reserved for issuance upon exercise of warrants which currently are exercisable and 111,111 shares of common stock reserved for issuance upon conversion of debt which is currently convertible.
- (3) Includes 65,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable.
- (4) Includes 127,500 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable.
- (5) Consists of 70,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable.
- (6) Consists of 50,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable.
- (7) Includes 80,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable and 39,235 shares of common stock reserved for issuance upon exercise of warrants which currently are exercisable.
- (8) Consists of 87,500 shares of common stock reserved for issuance upon exercise of stock options which are currently exercisable.
- (9) Includes 333,332 shares of common stock reserved for issuance upon exercise of warrants which are currently exercisable.
- (10) Harold Dyne served as our President until his death in October 1999. The estate of Mr. Dyne exercises beneficial ownership over shares which he previously held. The shares consist of 659,507 shares of common stock held by H&A Dyne Holdings, LP and 98,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable.
- (11) Consists of 759,494 shares of series C convertible redeemable preferred stock, convertible into 607,288 shares of common stock. The shares are convertible at the election of the holder after September 20, 2003 and are entitled to vote with our common stock based on the number of common shares that the series C preferred shares could be converted into on the record date.
- (12) Includes 1,283,000 shares of common stock reserved for issuance upon exercise of stock options which currently are exercisable, 1,000,000 shares of common stock owned by Commerce Investment Group, LLC which are voted by Colin Dyne pursuant to a voting agreement, 111,111 shares of common stock reserved for issuance upon conversion of debt which is currently convertible and 122,569 shares of common stock reserved for issuance upon exercise of warrants which currently are exercisable.

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The information as to shares beneficially owned has been individually furnished by the respective directors, named executive officers, and other stockholders of the company, or taken from documents filed with the Securities and Exchange Commission.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater-than-ten percent stockholders are required by Securities and Exchange Commission regulations to furnish the Company with all Section 16(a) forms they file. Based solely on its review of the copies of the forms received by it and written representations from certain reporting persons that they have complied with the relevant filing requirements, the Company believes that, during the year ended December 31, 2002, all of the Company's executive officers, directors and greater-than-ten percent stockholders complied with all Section 16(a) filing requirements with the exception of the following: Colin Dyne, Jonathan Burstein and Ronda Sallmen each filed a Form 5 on February 12, 2003 reporting one transaction occurring on December 31, 2002, which transactions should have been previously reported on a Form 4.

STOCKHOLDER PROPOSALS

Any stockholder who intends to present a proposal at the 2004 Annual Meeting of stockholders for inclusion in the Company's Proxy Statement and Proxy form relating to such Annual Meeting must submit such proposal to the Company at its principal executive offices by February 14, 2004. In addition, in the event a stockholder proposal is not received by the Company by April 16, 2004, the Proxy to be solicited by the Board of Directors for the 2004 Annual Meeting will confer discretionary authority on the holders of the Proxy to vote the shares if the proposal is presented at the 2004 Annual Meeting without any discussion of the proposal in the Proxy Statement for such meeting.

SEC rules and regulations provide that if the date of the Company's 2004 Annual Meeting is advanced or delayed more than 30 days from the date of the 2003 Annual Meeting, stockholder proposals intended to be included in the proxy materials for the 2004 Annual Meeting must be received by the Company within a reasonable time before the Company begins to print and mail the proxy materials for the 2004 Annual Meeting. Upon determination by the Company that the date of the 2004 Annual Meeting will be advanced or delayed by more than 30 days from the date of the 2003 Annual Meeting, the Company will disclose such change in the earliest possible Quarterly Report on Form 10-Q.

INDEPENDENT PUBLIC ACCOUNTANTS

BDO Seidman, LLP, independent public accountants, were selected by the Board of Directors to serve as independent public accountants of the Company for fiscal 2002 and have been selected by the Board of Directors to serve as independent auditors for fiscal 2003. Representatives of BDO Seidman, LLP are expected to be present at the Annual Meeting, and will be afforded the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions from stockholders.

SOLICITATION OF PROXIES

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It is expected that the solicitation of Proxies will be by mail. The cost of solicitation by management will be borne by the Company. The Company will reimburse brokerage firms and other persons representing beneficial owners of shares for their reasonable disbursements in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of the Company's directors and officers, without additional compensation, personally or by mail, telephone, telegram or otherwise.

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ANNUAL REPORT ON FORM 10-K

THE COMPANY'S ANNUAL REPORT ON FORM 10-K, WHICH HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2002, WILL BE MADE AVAILABLE TO STOCKHOLDERS WITHOUT CHARGE UPON WRITTEN REQUEST TO RONDA SALLMEN, CHIEF FINANCIAL OFFICER, TAG-IT PACIFIC, INC., 21900 BURBANK BOULEVARD, SUITE 270, WOODLAND HILLS, CALIFORNIA 91367.

ON BEHALF OF THE BOARD OF DIRECTORS

/s/ Ronda Sallmen

Ronda Sallmen
Chief Financial Officer

Tag-It Pacific, Inc.,
21900 Burbank Boulevard, Suite 270,
Woodland Hills, California 91367

April 24, 2003

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APPENDIX "A"

AMENDED AND RESTATED

1997 STOCK OPTION PLAN

1. PURPOSE OF THE PLAN.

The purpose of this 1997 Stock Plan (the "Plan") is to provide incentives and rewards to selected eligible directors, officers, employees and consultants of Tag-It Pacific, Inc. (the "Company") or its subsidiaries in order to assist the Company and its subsidiaries in attracting, retaining and motivating those persons by providing for or increasing the proprietary interests of those persons in the Company, and by associating their interests in the Company with those of the Company's stockholders.

2. ADMINISTRATION OF THE PLAN.

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The Plan shall be administered by the Board of Directors of the Company (the "Board"), or a committee of the Board (the "Committee") whose members shall serve at the pleasure of the Board. If administration is delegated to the Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board (and references in this Plan to the Board shall thereafter be to the Committee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan as may be adopted from time to time by the Board.

The Board shall have all the powers vested in it by the terms of the Plan, including authority (i) to select from among eligible directors, officers, employees and consultants, those persons to be granted "Awards" (as defined below) under the Plan; (ii) to determine the type, size and terms of individual Awards (which need not be identical) to be made to each person selected; (iii) to determine the time when Awards will be granted and to establish objectives and conditions (including, without limitation, vesting and performance conditions), if any, for earning Awards; (iv) to amend the terms or conditions of any outstanding Award, subject to applicable legal restrictions and to the consent of the other party to such Award; (v) to determine the duration and purpose of leaves of absences which may be granted to holders of Awards without constituting termination of their employment for purposes of their Awards; (vi) to authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan; (vii) by resolution adopted by the Board, to authorize one or more officers of the Company to do one or both of the following: (a) designate eligible employees of the Company or any of its subsidiaries to be recipients of Awards and (b) determine the number of such Awards to be received by such employees, provided that the resolution so authorizing such officer or officers shall specify the total number of Awards such officer or officers may award; and (viii) to make any and all other determinations which it determines to be necessary or advisable in the administration of the Plan. The Board shall have full power and authority to administer and interpret the Plan and to adopt, amend and revoke such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Board deems necessary or advisable. The Board's interpretation of the Plan, and all actions taken and determinations made by the Board pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including the Company, its stockholders, any participants in the Plan and any other employee of the Company or any of its subsidiaries.

3. PERSONS ELIGIBLE UNDER THE PLAN.

Any person who is a director, officer, employee or consultant of the Company, or any of its subsidiaries (a "Participant"), shall be eligible to be considered for the grant of Awards under the Plan.

4. AWARDS.

(a) COMMON STOCK AND DERIVATIVE SECURITY AWARDS. Awards authorized under the Plan shall consist of any type of arrangement with a Participant that is not inconsistent with the provisions of the Plan and that,

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by its terms, involves or might involve or be made with reference to the issuance of (i) shares of the Common Stock, \$.001 par value per share, of the Company (the "Common Stock") or (ii) a "derivative security" (as that term is

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defined in Rule 16a-1(c) of the Rules and Regulations of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as the same may be amended from time to time) with an exercise or conversion price related to the Common Stock or with a value derived from the value of the Common Stock.

(b) TYPES OF AWARDS. Awards are not restricted to any specified form or structure and may include, but need not be limited to, sales, bonuses and other transfers of stock, restricted stock, stock options, reload stock options, stock purchase warrants, other rights to acquire stock or securities convertible into or redeemable for stock, stock appreciation rights, phantom stock, dividend equivalents, performance units or performance shares, or any other type of Award which the Board shall determine is consistent with the objectives and limitations of the Plan. An Award may consist of one such security or benefit, or two or more of them in tandem or in the alternative.

(c) CONSIDERATION. Common Stock may be issued pursuant to an Award for any lawful consideration as determined by the Board, including, without limitation, a cash payment, services rendered, or the cancellation of indebtedness.

(d) GUIDELINES. The Board may adopt, amend or revoke from time to time written policies implementing the Plan. Such policies may include, but need not be limited to, the type, size and term of Awards to be made to participants and the conditions for payment of such Awards.

(e) TERMS AND CONDITIONS. Subject to the provisions of the Plan, the Board, in its sole and absolute discretion, shall determine all of the terms and conditions of each Award granted pursuant to the Plan, which terms and conditions may include, among other things:

- (i) any provision necessary for such Award to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") (an "Incentive Stock Option");
- (ii) a provision permitting the recipient of such Award to pay the purchase price of the Common Stock or other property issuable pursuant to such Award, or to pay such recipient's tax withholding obligation with respect to such issuance, in whole or in part, by delivering previously owned shares of capital stock of the Company (including "pyramiding") or other property, or by reducing the number of shares of Common Stock or the amount of other property otherwise issuable pursuant to such Award; or
- (iii) a provision conditioning or accelerating the receipt of benefits pursuant to the Award, or terminating the Award, either automatically or in the discretion of the Board, upon the occurrence of specified events, including, without limitation, a change of control of the Company, an acquisition of a specified percentage of the voting power of the Company, the dissolution or liquidation of the Company, a sale of substantially all of the property and assets of the Company or an event of the type described in Section 7 of the Plan.

(f) SUSPENSION OR TERMINATION OF AWARDS. If the Company believes that a Participant has committed an act of misconduct as described below, the Company may suspend the Participant's rights under any then outstanding Award pending a determination by the Board. If the Board determines that a Participant has committed an act of embezzlement, fraud, nonpayment of any obligation owed to the Company or any subsidiary, breach of fiduciary duty or deliberate disregard of the Company's rules resulting in loss, damage or injury to the Company, or if a Participant makes an unauthorized disclosure of trade secret or confidential information of the Company, engages in any conduct constituting unfair competition, or induces any customer of the Company to breach a contract with

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the Company, neither the Participant nor his or her estate shall be entitled to exercise any rights whatsoever with respect to such Award. In making such determination, the Board shall act fairly and shall give the Participant a reasonable opportunity to appear and present evidence on his or her behalf to the Board.

(g) MAXIMUM GRANT OF AWARDS TO ANY PARTICIPANT. No Participant shall receive Awards representing more than 25% of the aggregate number of shares of Common Stock that may be issued pursuant to all Awards under the Plan as set forth in Section 5 hereof.

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5. SHARES OF COMMON STOCK SUBJECT TO THE PLAN.

The aggregate number of shares of Common Stock that may be issued or issuable pursuant to all Awards under the Plan (including Awards in the form of Incentive Stock Options and Non-Statutory Stock Options) shall not exceed an aggregate of 2,277,500 shares of Common Stock, subject to adjustment as provided in Section 7 of the Plan. Shares of Common Stock subject to the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares. Any shares of Common Stock subject to an Award which for any reason expires or is terminated unexercised as to such shares shall again be available for issuance under the Plan. For purposes of this Section 5, the aggregate number of shares of Common Stock that may be issued at any time pursuant to Awards granted under the Plan shall be reduced by: (i) the number of shares of Common Stock previously issued pursuant to Awards granted under the Plan, other than shares of Common Stock subsequently reacquired by the Company pursuant to the terms and conditions of such Awards and with respect to which the holder thereof received no benefits of ownership, such as dividends; and (ii) the number of shares of Common Stock which were otherwise issuable pursuant to Awards granted under this Plan but which were withheld by the Company as payment of the purchase price of the Common Stock issued pursuant to such Awards or as payment of the recipient's tax withholding obligation with respect to such issuance.

6. PAYMENT OF AWARDS.

The Board shall determine the extent to which Awards shall be payable in cash, shares of Common Stock or any combination thereof. The Board may, upon request of a Participant, determine that all or a portion of a payment to that Participant under the Plan, whether it is to be made in cash, shares of Common Stock or a combination thereof, shall be deferred. Deferrals shall be for such periods and upon such terms as the Board may determine in its sole discretion.

7. DILUTION AND OTHER ADJUSTMENT.

In the event of any change in the outstanding shares of the Common Stock or other securities then subject to the Plan by reason of any stock split, reverse stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, or if the outstanding securities of the class then subject to the Plan are exchanged for or converted into cash, property or a different kind of securities, or if cash, property or securities are distributed in respect of such outstanding securities as a class (other than cash dividends), then the Board may, but it shall not be required to, make such equitable adjustments to the Plan and the Awards thereunder (including, without limitation, appropriate and proportionate adjustments in (i) the number and type of shares or other securities or cash or

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other property that may be acquired pursuant to Incentive Stock Options and other Awards theretofore granted under the Plan, (ii) the maximum number and type of shares or other securities that may be issued pursuant to Incentive Stock Options and other Awards thereafter granted under the Plan; and (iii) the maximum number of securities with respect to which Awards may thereafter be granted to any Participant in any fiscal year) as the Board in its sole discretion determines appropriate, including any adjustments in the maximum number of shares referred to in Section 5 of the Plan. Such adjustments shall be conclusive and binding for all purposes of the Plan.

8. MISCELLANEOUS PROVISIONS.

(a) DEFINITIONS. As used herein, "subsidiary" means any current or future corporation which would be a "subsidiary corporation," as that term is defined in Section 424(f) of the Code, of the Company; and the term "or" means "and/or."

(b) CONDITIONS ON ISSUANCE. Securities shall not be issued pursuant to Awards unless the grant and issuance thereof shall comply with all relevant provisions of law and the requirements of any securities exchange or quotation system upon which any securities of the Company are listed, and shall be further subject to approval of counsel for the Company with respect to such compliance. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is determined by Company counsel to be necessary to the lawful issuance and sale of any security or Award, shall relieve the Company of any liability in respect of the nonissuance or sale of such securities as to which requisite authority shall not have been obtained.

(c) RIGHTS AS STOCKHOLDER. A participant under the Plan shall have no rights as a holder of Common Stock with respect to Awards hereunder, unless and until certificates for shares of such stock are issued to the participant.

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(d) ASSIGNMENT OR TRANSFER. Subject to the discretion of the Board, and except with respect to Incentive Stock Options which are not transferable except by will or the laws of descent and distribution, Awards under the Plan or any rights or interests therein shall be assignable or transferable.

(e) AGREEMENTS. All Awards granted under the Plan shall be evidenced by written agreements in such form and containing such terms and conditions (not inconsistent with the Plan) as the Board shall from time to time adopt.

(f) WITHHOLDING TAXES. The Company shall have the right to deduct from all Awards hereunder paid in cash any federal, state, local or foreign taxes required by law to be withheld with respect to such awards and, with respect to awards paid in stock, to require the payment (through withholding from the participant's salary or otherwise) of any such taxes. The obligation of the Company to make delivery of Awards in cash or Common Stock shall be subject to the restrictions imposed by any and all governmental authorities.

(g) NO RIGHTS TO AWARD. No Participant or other person shall have any right to be granted an Award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ of the Company or any of its subsidiaries or shall interfere with or restrict in any way the rights of the Company or any of its subsidiaries, which are hereby reserved, to discharge a Participant at any time for any reason whatsoever, with or without good cause.

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(h) COSTS AND EXPENSES. The costs and expenses of administering the Plan shall be borne by the Company and not charged to any Award nor to any Participant receiving an Award.

(i) FUNDING OF PLAN. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan.

9. AMENDMENTS AND TERMINATION.

(a) AMENDMENTS. The Board may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards theretofore made under the Plan. However, with the consent of the Participant affected, the Board may amend outstanding agreements evidencing Awards under the Plan in a manner not inconsistent with the terms of the Plan.

(b) STOCKHOLDER APPROVAL. To the extent that Section 422 of the Code, other applicable law, or the rules, regulations, procedures or listing agreement of any national securities exchange or quotation system, requires that any amendment of the Plan be approved by the stockholders of the Company, no such amendment shall be effective unless and until it is approved by the stockholders in such a manner and to such a degree as is required.

(c) TERMINATION. Unless the Plan shall theretofore have been terminated as above provided, the Plan (but not the awards theretofore granted under the Plan) shall terminate on and no awards shall be granted after October 1, 2007.

10. EFFECTIVE DATE.

The Plan is effective on October 1, 1997, the date on which it was adopted by the Board of Directors of the Company and the holders of the majority of the Common Stock of the Company.

11. GOVERNING LAW.

The Plan and any agreements entered into thereunder shall be construed and governed by the laws of the State of Delaware applicable to contracts made within, and to be performed wholly within, such state, without regard to the application of conflict of laws rules thereof.

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TAG-IT PACIFIC, INC.
PROXY FOR ANNUAL MEETING OF STOCKHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned, a stockholder of Tag-It Pacific, Inc., a Delaware corporation (the "Company"), hereby nominates, constitutes and appoints Colin Dyne and Ronda Sallmen, or either one of them, as proxy of the undersigned, each with full power of substitution, to attend, vote and act for the undersigned at the Annual Meeting of Stockholders of the Company, to be held on June 12, 2003, and any postponements or adjournments thereof, and in connection therewith, to vote and represent all of the shares of the Company which the undersigned would

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be entitled to vote with the same effect as if the undersigned were present, as follows:

A VOTE FOR ALL PROPOSALS IS RECOMMENDED BY THE BOARD OF DIRECTORS:

Proposal 1. To elect the following two nominees as Class III directors:

Mark Dyne Colin Dyne Donna Armstrong

___ FOR ALL NOMINEES LISTED ABOVE (except as marked to the contrary below)

___ WITHHELD for all nominees listed above

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name in the space below:)

The undersigned hereby confer(s) upon the proxies and each of them discretionary authority with respect to the election of directors in the event that any of the above nominees is unable or unwilling to serve.

Proposal 2. To amend the Company's 1997 Stock Plan to increase the maximum number of shares of common stock which may be issued pursuant to awards granted under the plan.

___ FOR ___ AGAINST ___ ABSTAIN

The undersigned hereby revokes any other proxy to vote at the Annual Meeting, and hereby ratifies and confirms all that said attorneys and proxies, and each of them, may lawfully do by virtue hereof. With respect to matters not known at the time of the solicitation hereof, said proxies are authorized to vote in accordance with their best judgment.

THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ABOVE OR, TO THE EXTENT NO CONTRARY DIRECTION IS INDICATED, WILL BE TREATED AS A GRANT OF AUTHORITY TO VOTE FOR ALL PROPOSALS. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING, THIS PROXY CONFERS AUTHORITY TO AND SHALL BE VOTED IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE PROXIES.

The undersigned acknowledges receipt of a copy of the Notice of Annual Meeting dated April 24, 2003 and the accompanying Proxy Statement relating to the Annual Meeting.

Dated: _____, 2003

Signature: _____

Signature: _____

Signature(s) of Stockholder(s) (See Instructions Below)

The Signature(s) hereon should correspond exactly with the name(s) of the Stockholder(s) appearing on the Share Certificate. If stock is held jointly, all joint owners should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If signer is a corporation, please sign the full corporation name, and give title of signing officer.

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Please indicate by checking this box if you anticipate attending the Annual Meeting.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD
PROMPTLY USING THE ENCLOSED ENVELOPE

e; FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman">The combination of the positions contributes to a more effective and efficient Board, and the Board believes it does not undermine the Board's independence, particularly in light of the role played by the Board's lead independent director.

The lead independent director serves an important corporate governance function by providing separate leadership for the non-management and independent directors. The Board makes the determination of the appropriate leadership structure based on current circumstances. The Board also believes that the solid and profitable performance of CTBI under Ms. Hale's direction, particularly in light of the recent financial crisis, demonstrates the effectiveness of CTBI's leadership structure. Ms. Hale is the direct link between executive management and the Board, and as a banking professional with more than 40 years of industry experience, she provides critical insight and perception to the Board, as well as feedback to executive management, through her understanding of the issues at hand.

During 2010, the Board held four executive sessions, under the guidelines for executive sessions prescribed in the Corporate Governance Guidelines, which included only non-management directors.

Corporate Governance Guidelines and the Code of Business Conduct and Ethics adopted by the Board may be found on CTBI's website at www.ctbi.com. The Code of Business Conduct and Ethics governs the actions of CTBI's directors, officers, and employees. The Code is reviewed by the Nominating and Corporate Governance Committee and approved by the Board.

Shareholders may communicate directly with the Board of Directors by sending a written communication addressed to the Chairman of the Board of Directors at CTBI's address.

The Board of Directors held seven meetings during the 2010 fiscal year, including the annual organizational meeting. Each director attended at least 75% of the aggregate number of Board meetings and meetings of Board committees on which such director served in 2010. It is the Board's policy that directors should attend each annual meeting of shareholders subject to a substantial personal or business conflict. All of CTBI's directors who were serving at the time attended the 2010 annual meeting of shareholders. The Board has the following committees: Audit and Asset Quality Committee, Compensation Committee, Executive Committee, Nominating and Corporate Governance Committee, Risk and Compliance Committee, and Corporate Retirement and Employee Benefit Committee.

The Audit and Asset Quality Committee (the "Audit Committee") Charter, which is subject to annual review, was last reviewed and approved in January 2011 and may be found on CTBI's website at www.ctbi.com. The Audit Committee consists of Dr. James R. Ramsey (Chairman), M. Lynn Parrish (Vice Chairman), Nick Carter, Nick A. Cooley, James E. McGhee II, and Anthony W. St. Charles, all of whom meet the independence standards of Rule 4200(a)(15) and the audit committee qualifications of Rule 4350(d)(2) of the NASDAQ listing standards. The Board of Directors has determined that none of the Audit Committee members has a relationship to CTBI that may interfere with his independence from the corporation and its management. The Board has determined that Dr. James R. Ramsey is an audit committee financial expert for CTBI and is independent as described above. For further information regarding the Audit Committee, please see the Report of the Audit and Asset Quality Committee below.

The Compensation Committee consists of M. Lynn Parrish (Chairman), Nick A. Cooley (Vice Chairman), and Nick Carter, all of whom meet the applicable independence standards. The Compensation Committee Charter may be found on CTBI's website at www.ctbi.com. The Compensation Committee: (i) oversees and recommends to the Board executive officer compensation, (ii) evaluates and approves benefit and incentive compensation policies and programs for CTBI, (iii) reviews and approves related party transactions, and (iv) reviews the risks related to CTBI's compensation policies and programs. The Compensation Committee has determined that the risks associated with CTBI's compensation policies and programs are not reasonably likely to have a material adverse effect on CTBI. This committee met six times during 2010.

The Nominating and Corporate Governance Committee consists of M. Lynn Parrish (Chairman), Nick A. Cooley (Vice Chairman), and James E. McGhee II, all of whom meet the applicable independence standards. The Nominating and Corporate Governance Committee Charter can also be found on CTBI's website at www.ctbi.com. The Nominating and Corporate Governance Committee: (i) evaluates and recommends nominee directors for election to the Board and appointment to committee membership and (ii) develops and recommends to the Board policies and guidelines relating to corporate governance and the identification and nomination of directors and committee members. This committee is also responsible for the annual review of the Board's performance as a whole, each committee's performance as a whole, and each individual director's performance and the annual review of CTBI's succession plans for its Chief Executive Officer and other executive officers. Each of our directors is evaluated annually on the basis of personal characteristics, financial literacy, mature confidence, high performance standards, and core competencies. The Nominating and Corporate Governance Committee met three times in 2010. See Election of Directors for more information.

The Risk and Compliance Committee consists of James E. McGhee II (Chairman), M. Lynn Parrish, Nick Carter, and Anthony W. St. Charles, all of whom meet the applicable independence standards. The Risk and Compliance Committee Charter may be found on CTBI's website at www.ctbi.com. The Risk and Compliance Committee: (i) oversees management's compliance with all of CTBI's regulatory obligations arising under applicable federal and state banking and financial institutions laws, rules, and regulations and (ii) oversees management's implementation and enforcement of CTBI's risk management policies and procedures. On a quarterly basis, CTBI's Chief Internal Audit/Risk Officer provides a comprehensive risk report to the Risk and Compliance Committee. The Risk and Compliance Committee met four times during 2010.

Under our Corporate Governance Guidelines, the Board is charged with providing oversight of our risk management processes. The Audit Committee and the Enterprise Wide Risk Management (EWRM) Committee are primarily responsible for overseeing our risk management function on behalf of the Board. In carrying out its responsibilities, the Audit and EWRM Committees work closely with our Chief Risk Officer and other members of our enterprise wide risk management team. Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including general economic risks, credit risks, regulatory risks, audit risks, reputational risks and others, such as the impact of competition. Management is responsible for the day-to-day management of risks the company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

While the full Board of Directors is charged with ultimate oversight responsibility for risk management, various committees of the Board and members of management also have responsibilities with respect to our risk oversight. The Audit Committee plays a large role in monitoring and assessing our financial, legal, and organizational risks. CTBI utilizes an EWRM process designed to provide the Board and management with the capabilities needed to identify, assess, and manage the full spectrum of risks inherent to our industry. While business unit managers are primarily responsible for managing risk inherent in their areas of responsibility, CTBI has established a risk management governance structure to establish policies, monitor adherence to the policies, and manage the overall risk profile of the company. CTBI's EWRM program is not intended to replace normal risk management activities

conducted by the business unit managers. The EWRM program is designed to provide a portfolio view of risks across the entire enterprise.

As an integral part of the risk management process, management has established various committees consisting of senior executives and others within CTBI. The purpose of these committees is to closely monitor risks and ensure that adequate risk management practices exist within their respective areas of authority. Some of the principal committees include the Asset/Liability Management (ALCO) Committee, the Loan Portfolio Risk Management Committee, the Senior Credit Committee, the Information Technology Steering Committee, and various compliance-related committees. Overlapping membership of these committees by senior executives and others helps provide a unified view of risk on an enterprise-wide basis. To facilitate an enterprise-wide view of CTBI's risk profile and coordinate the enterprise risk management governance process, a Chief Risk Officer has been appointed, who oversees the process and reports on CTBI's risk profile. Additionally, risk champions are assigned for various areas. The risk champions facilitate implementation of the enterprise risk management and governance process across the company. The EWRM Committee oversees and supports the EWRM process. The Board of Directors, through its Risk and Compliance Committee, has overall responsibility for oversight of CTBI's enterprise risk management governance process, while the EWRM Committee monitors and assesses regular reports from the management team's senior risk officer regarding comprehensive organizational risk as well as particular areas of concern. In addition, the Nominating Committee considers risks related to succession planning. The Compensation Committee considers risks related to the attraction and retention of critical employees and risks relating to CTBI's compensation programs and contractual employee arrangements and oversees incentives that encourage a level of risk-taking consistent with our overall strategy. The Compensation Committee reviews compensation and benefit plans affecting employees in addition to those applicable to executive officers.

REPORT OF THE AUDIT AND ASSET QUALITY COMMITTEE

The Audit and Asset Quality Committee (the "Audit Committee") oversees the financial reporting process of CTBI on behalf of the Board of Directors. All directors who serve on the Audit Committee meet the independence standards of Rule 4200(a)(15) and the audit committee qualifications of Rule 4350(d)(2) of the NASDAQ listing standards. The Audit Committee monitors the integrity of CTBI's financial statements, the qualifications and independence of CTBI's independent registered public accounting firm ("independent auditor"), the performance of CTBI's internal audit function, CTBI's system of internal controls, financial reporting, and disclosure controls, and compliance with the Corporate Governance Guidelines and Code of Business Conduct and Ethics. The Audit Committee has established procedures for the confidential, anonymous submission of concerns about accounting matters, internal controls, and auditing matters. Management has the responsibility for the preparation of CTBI's consolidated financial statements and management's assertion on the design and effectiveness of CTBI's internal control over financial reporting. The independent auditor has the responsibility for the examination of those consolidated financial statements.

The Audit Committee reviewed with the independent auditor, which is responsible for expressing an opinion on the conformity of the audited financial statements with accounting principles generally accepted in the United States of America, its judgments as to the quality, not just the acceptability, of CTBI's accounting principles and such other matters as are required to be discussed with the Audit Committee under auditing standards generally accepted in the United States of America. Additionally, the Audit Committee's review included discussion with CTBI's independent auditor of matters required to be discussed pursuant to Statement on Auditing Standards No. 61, Communication with Audit Committees, ("SAS 61"). SAS 61 requires CTBI's independent auditor to provide the Audit Committee with additional information regarding the scope and results of its audit of CTBI's financial statements, including with respect to (i) its responsibility under audit standards generally accepted in the United States of America, (ii) significant accounting policies, (iii) management judgments and estimates, (iv) any significant audit adjustments, (v) any disagreements with management, and (vi) any difficulties encountered in performing the audit.

The Audit Committee received from BKD, LLP a letter providing the disclosures required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, with respect to any relationships between BKD, LLP and CTBI that, in its professional judgment, may reasonably be thought to bear on independence. BKD has discussed its independence with the Audit Committee and has confirmed in such letter that, in its professional judgment, it is independent of CTBI within the meaning of the federal securities laws.

The Audit Committee pre-approves all audit and non-audit services performed by the independent auditor. The Audit Committee will periodically grant general pre-approval of certain audit and non-audit services. Any other services must be specifically approved by the Audit Committee, and any proposed services exceeding the pre-approved cost levels must be specifically pre-approved by the Audit Committee. In periods between Audit Committee meetings, the Chairman of the Audit Committee has the delegated authority from the Audit Committee to pre-approve additional services, and such pre-approvals are then communicated to the full Audit Committee.

The Audit Committee discussed with CTBI's internal auditor and independent auditor the overall scope and plans for their respective audits. The Audit Committee met with its internal auditor and independent auditor, with and without management present, to discuss the results of their examinations, their evaluations of CTBI's internal controls, and the overall quality of CTBI's financial reporting. The Audit Committee held twelve meetings during fiscal year 2010.

In fulfilling its oversight responsibilities, the Audit Committee reviewed with management and the independent auditor the audited consolidated financial statements of CTBI as of and for the year ended December 31, 2010 and management's assertion on the design and effectiveness of CTBI's internal control over financial reporting as of December 31, 2010.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission. The Audit Committee has also recommended, subject to shareholder ratification, the selection of BKD, LLP as CTBI's independent registered public accounting firm.

Dr. James R. Ramsey, Chairman
M. Lynn Parrish, Vice Chairman
Nick Carter, Member
Nick A. Cooley, Member
James E. McGhee II, Member
Anthony W. St. Charles, Member

March 14, 2011

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors of CTBI engaged BKD, LLP (“BKD”) to serve as its independent registered certified public accounting firm for the year ended December 31, 2010.

Aggregate fees billed to CTBI for the fiscal years ending December 31, 2010 and 2009 by CTBI’s principal accounting firm, BKD, LLP were as follows:

	2010	2009
Audit fees	\$424,100	\$291,565
Audit related fees	64,313	43,814
Subtotal	488,413	335,379
Tax fees	26,820	36,216
Total	\$515,233	\$371,595

Audit related fees included payments for audits of CTBI’s ESOP and 401(k) Plan and out-of-pocket expenses related to the audit of the consolidated financial statements. Tax fees include payments for preparation of the federal and state corporate income tax returns and the preparation of the Form 5500s for the CTBI sponsored benefit plans.

RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee will request shareholders to ratify its selection of BKD to examine the consolidated financial statements of CTBI for the fiscal year ending December 31, 2011. Although action by the shareholders on this matter is not required, the Board believes that it is appropriate to seek shareholder ratification of this appointment in light of the critical role played by independent auditors in maintaining the integrity of CTBI’s financial controls and reporting. Even if shareholders vote on an advisory basis in favor of the appointment, the Audit Committee may, in its discretion, direct the appointment of different auditors at any time during the year if it determines that such a change would be in the best interest of CTBI and its shareholders. BKD is not expected to have a representative present at the Annual Meeting. **THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE SELECTION OF BKD, LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF CTBI.**

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The compensation of our Chief Executive Officer, Principal Financial Officer, and other three most highly compensated executive officers (“Named Executive Officers”) is described in the Compensation Discussion and Analysis and Executive Compensation sections of this Proxy Statement. Shareholders are urged to read both of these sections of this Proxy Statement, which discuss our compensation policies and procedures with respect to our Named Executive Officers. As discussed in the Compensation Discussion and Analysis, the Compensation Committee seeks to establish executive compensation at fair, reasonable, and competitive levels, with a meaningful portion of compensation tied to performance.

In accordance with Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the recently adopted changes to Section 14A of the Securities Exchange Act of 1934, we are providing CTBI’s shareholders the opportunity to vote on an advisory (nonbinding) resolution to approve the compensation of our Named Executive Officers. Accordingly, the following resolution will be submitted for a shareholder vote at the 2011 Annual Meeting:

“RESOLVED, that the shareholders of Community Trust Bancorp, Inc. (“CTBI”) approve, on an advisory basis, the overall compensation of CTBI’s Named Executive Officers, as described in the Compensation Discussion and Analysis and Executive Compensation sections set forth in the Proxy Statement for this Annual Meeting.”

This advisory vote, commonly referred to as a “say-on-pay” advisory vote, is nonbinding on CTBI and the Board. However, the Board values constructive dialogue on executive compensation and other important governance topics with CTBI’s shareholders and encourages all shareholders to vote their shares on this matter.

Approval of this resolution requires the affirmative vote of a majority of the votes cast at the Annual Meeting. While this vote is required by law, it will neither be binding on CTBI or the Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, CTBI or the Board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions. Brokers and other nominees do not have discretionary voting power over the advisory vote on executive compensation. Therefore, if you hold shares through a broker or other nominee and do not provide voting instructions to your broker or other nominee, your shares will not be voted with respect to this proposal. **THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE ADVISORY (NONBINDING) RESOLUTION RELATING TO EXECUTIVE COMPENSATION.**

FREQUENCY OF ADVISORY VOTES ON EXECUTIVE COMPENSATION

In accordance with Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the recently adopted changes to Section 14A of the Securities Exchange Act of 1934, we are providing CTBI’s shareholders the opportunity to cast an advisory (nonbinding) vote on whether the vote on a nonbinding shareholder resolution to approve the compensation of CTBI’s Named Executive Officers (the “say-on-pay” advisory vote) should occur every year, every two years, or every three years.

After careful consideration, the Board of Directors recommends that future shareholder “say-on-pay” advisory votes on executive compensation be conducted every year. The determination was based upon the premise that Named Executive Officer compensation is evaluated, adjusted, and approved on an annual basis by the Board of Directors upon a recommendation from the Compensation Committee and the belief that investor sentiment should be a factor taken into consideration by the Compensation Committee in making its annual recommendation.

Although the Board of Directors recommends a “say-on-pay” vote every year (a “1 year” frequency), shareholders will be able to specify one of four choices for this proposal on the proxy card: 1 year, 2 years, 3 years, or abstain. Shareholders are not voting to approve or disapprove of the Board of Directors’ recommendation. Generally, approval of any matter presented to shareholders requires a majority of the votes cast. However, because this vote is advisory and nonbinding, if none of the frequency options receive a majority of the votes cast, the option receiving the greatest number of votes will be considered the frequency recommended by CTBI’s shareholders. Even though this vote will neither be binding on CTBI or the Board nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, CTBI or the Board, the Board of Directors will take into account the outcome of this vote in making a determination on the frequency at which advisory votes on executive compensation will be included in CTBI’s Proxy Statement. Brokers and other nominees do not have discretionary voting power over the advisory vote on the frequency of voting with respect to executive compensation. Therefore, if you hold shares through a broker or other nominee and do not provide voting instructions to your broker or other nominee, your shares will not be voted with respect to this proposal. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “1 YEAR” ON THE FREQUENCY OF THE ADVISORY (NONBINDING) VOTE ON EXECUTIVE COMPENSATION.**

INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

In the ordinary course of business, CTBI, through its wholly-owned commercial bank subsidiary, Community Trust Bank, Inc. (the “Bank”), has had in the past and expects to have in the future banking transactions, including lending to its directors, officers, principal shareholders, and their associates. When these banking transactions are credit transactions, they are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. None of the credits are disclosed as nonaccrual, past due, restructured, or potential problem credits. In the opinion of CTBI’s Board of Directors, such transactions, do not involve more than the normal risk of collectability or present any other unfavorable features.

Mr. Charles J. Baird, a director of CTBI, is a shareholder in Baird and Baird, P.S.C., a law firm that provided services to CTBI and its subsidiaries during 2010 and will be retained by CTBI and its subsidiaries during the fiscal year 2011. Approximately \$979,000 in legal fees and \$158,000 in expenses paid on behalf of CTBI, \$1,137,000 in total, were paid to Baird and Baird, P.S.C. during 2010.

The Board of Directors has determined that the Compensation Committee of the Board should review and approve related party transactions. Accordingly, at each calendar year’s first regularly scheduled Compensation Committee meeting, management recommends related party transactions to be entered into by CTBI for that calendar year, including the proposed aggregate value of such transactions if applicable. After review, the Compensation Committee recommends approval or disapproval of such transactions and at each subsequently scheduled meeting, management updates the Compensation Committee as to any material change to those proposed transactions. In the event management recommends any further related party transactions subsequent to the first calendar year meeting, such transactions may be presented to the Compensation Committee for consideration. The Compensation Committee provides a report to the Board of Directors at each regularly scheduled meeting of the related party transactions approved by the Compensation Committee since the date of its previous report to the Board.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the “Act”) requires CTBI’s executive officers and directors and persons who own more than ten percent (10%) of the Common Stock to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission (“SEC”), as well as to furnish CTBI with a copy of such report. Additionally, SEC regulations require CTBI to identify in its Proxy Statement those individuals for whom one of the referenced reports was not filed on a timely basis during the most recent fiscal year. Based upon a review of Forms 3, 4, and 5 furnished to CTBI, there were no late filings in 2010.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis is designed to provide shareholders with a better understanding of our executive compensation philosophy and decision-making process. It also explains the components of compensation paid to CTBI’s executive officers.

Executive Summary

The duties of the Compensation Committee of the Board of Directors of CTBI are to set the compensation of the CEO, review the recommendations of the CEO concerning appropriate compensation of the other executive officers, and make recommendations to the Board concerning executive compensations for approval. The Compensation Committee has responsibility for establishing, implementing, and continually monitoring adherence with CTBI’s

compensation philosophy and objectives. The objectives of the compensation program are focused on increasing the profitability and growth of CTBI in a manner which is consistent with the goals of the company with the understanding that the program must attract, retain, motivate, and reward personnel of outstanding ability and encourage excellent performance.

The Compensation Committee has established various processes designed to ensure that CTBI's compensation program is achieving its objectives including the assessment of CTBI's performance in relation to the compensation of the Named Executive Officers. The review of compensation encompasses all components of executive compensation including salary, cash and stock incentives, benefits, severance, and change in control agreements. The Compensation Committee also retained a leading executive compensation consulting firm to review CTBI's executive compensation program.

Following the completion of its review, the Compensation Committee has concluded as follows:

Ø CTBI's performance has compared favorably to other, similar banks, despite a very challenging operating environment, by exceeding peer performance on nearly a dozen metrics over the last one and three year time periods, with EPS and ROAA in the 70th percentile of peer companies.

Ø CTBI's executive pay is positioned conservatively versus peer compensation.

Ø CTBI's executive pay approximately equals the 25th percentile of market values which is low relative to CTBI's good performance.

Ø CTBI's incentive opportunities are relatively modest and no incentive awards are granted unless the financial results equal or exceed budget.

Ø If CTBI's performance significantly exceeds budget, CTBI's executives have the potential to earn incentive compensation which would result in total pay in the 50th or 75th percentiles of market compensation.

A detailed discussion of the Compensation Committee's activities and analysis is included herein after this summary.

Role of the Compensation Committee

All directors who serve on the Compensation Committee are independent in accordance with the NASDAQ listing standards. During 2010, there were no interlocking relationships between any executive officers of CTBI and any entity whose directors or executive officers serve on the Board of Directors' Compensation Committee.

The principal duties of the Compensation Committee are to set the compensation of the CEO, review the recommendations of the CEO concerning appropriate compensation of the other executive officers of CTBI and establish the compensation of the other executive officers, and make recommendations to the Board concerning executive officer compensation for approval. The Compensation Committee has responsibility for establishing, implementing, and continually monitoring adherence with CTBI's compensation philosophy.

The Compensation Committee periodically reviews the compensation levels of the Board. In its review, the Compensation Committee looks to ensure that the compensation is fair and reasonable commensurate to the amount of work required from the individual directors as well as from the Board in aggregate. The Compensation Committee also periodically reviews Board committee compensation levels and practices and recommends to the Board changes in such compensation levels and practices. Although the Compensation Committee did not increase the level of Board compensation for 2010 and 2011, the Compensation Committee expects to review the level of Board compensation in upcoming years and make adjustments as appropriate. At the current time, chairs of two Board committees (the Audit and Asset Quality Committee and the Risk and Compliance Committee) receive additional compensation for serving

as chair, while chairs of the other Board committees receive the same compensation as other members of the committees. The Compensation Committee expects to review the compensation paid to chairs of those Board committees in the future and make adjustments as appropriate.

The Compensation Committee is responsible for the review and approval of corporate goals and objectives relevant to the compensation of CTBI's CEO and to evaluate the performance of the CEO in light of the goals and objectives. The Compensation Committee determines and approves the CEO's compensation levels based on this evaluation. Additionally, the Compensation Committee reviews compensation levels of CTBI's other executive officers. To achieve these goals and objectives, the Compensation Committee expects to maintain compensation plans that create an executive compensation program that is set at competitive levels within our peer group to attract and retain strong executive management for CTBI. The Compensation Committee makes recommendations to the Board with respect to compensation plans, incentive plans, and equity ownership plans and oversees the administration of these plans.

The Compensation Committee has followed certain fundamental objectives to ensure the effectiveness of CTBI's compensation strategy. The Compensation Committee recognizes the importance of perceived fairness both internally and externally of compensation practices. The Compensation Committee believes that the long-term success of CTBI and its ability to consistently increase shareholder value is dependent on its ability to attract and retain skilled executives. CTBI's compensation strategy encourages alignment with the interests of management and shareholders. The Compensation Committee seeks to provide full disclosure to the independent members of the Board of Directors of CTBI's compensation policies, practices, and issues to ensure that all directors understand the implications of committee decisions.

The Compensation Committee recognizes that the competition among financial institutions for attracting and retaining senior management executives has become more intense in the past few years. The Compensation Committee takes such market considerations into account to ensure that CTBI is providing appropriate long-term incentives to enable it to continue to attract new senior management executives and to retain current executives.

The Compensation Committee also considers the current economic and industry environment when reviewing executive compensation. When establishing executive compensation for 2010 and 2011, the Compensation Committee took into consideration the significant challenges facing the US economy and the banking industry.

The Compensation Committee has established various processes to assist it in ensuring CTBI's compensation program is achieving its objectives. Among these are:

- Assessment of Company Performance - The Compensation Committee uses company performance measures in two ways. In establishing total compensation ranges, the Compensation Committee considers various measures of company and industry performance, asset growth, earnings per share, return on assets, return on equity, total shareholder return, and the effective execution of CTBI's growth strategy. The Compensation Committee does not apply a formula or assign these performance measures relative weights. Instead, it makes a subjective determination after considering such measures collectively.
- Assessment of Individual Performance - Individual performance has a strong impact on the compensation of all employees, including the CEO and the other executive officers. The CEO's compensation is determined by the Compensation Committee. For the other Named Executive Officers, the Compensation Committee receives a performance assessment and compensation recommendation from the CEO and also exercises its judgment based on the Board's interactions with the executive officer. As with the CEO, the performance evaluation of these executives is based on their contributions to CTBI's performance, and other leadership accomplishments.
- Total Compensation Review – The Compensation Committee reviews each executive's base pay, bonus, and equity incentives annually. In addition to these primary compensation elements, the Compensation

Committee reviews other compensation and payments that would be required under various severance and change in control scenarios.

Executive Compensation Philosophy

The Compensation Committee believes that executive officer compensation is an integral component of CTBI's business and human resources strategy. It is important to CTBI's success that highly talented individuals serve as executive officers. The Compensation Committee seeks to establish executive compensation at fair, reasonable and competitive levels. The Compensation Committee strives to provide compensation which is appropriate to attract and retain such individuals. The Compensation Committee also believes it is important that compensation be strategy-focused and recognize individual and group contributions and results. Therefore, the Compensation Committee desires to offer competitive, market-driven executive officer compensation packages which also provide for a meaningful portion of compensation to be tied to performance. As a result, CTBI's executive compensation packages include base salary and benefits as well as incentive-based cash and equity compensation.

The goal of the Compensation Committee is to offer competitive compensation packages, without being the highest or lowest provider, which will enable CTBI to attract and retain key personnel in order that shareholder value may be increased. Total compensation packages, including base salaries, are set at levels the Compensation Committee believes are sufficient to attract and retain qualified executives. The compensation of Named Executive Officers is based on the same criteria and performance factors used for all other executive officers.

Executive Compensation Components

CTBI's executive compensation consists of the following components:

- Salaries and Annual Cash Incentive Compensation
 - Annual Incentive-Based Compensation
 - Long-Term Equity Compensation
 - Benefits and Perquisites

Salaries and Annual Cash Incentive Compensation – Salaries for CTBI's executives are established based upon the scope of their responsibilities, taking into account competitive market compensation paid by other similarly situated companies for comparable positions. The CEO's compensation is set by the Compensation Committee and presented to the full Board of Directors for approval. The salary of the CEO is set based on the Compensation Committee's review of performance objectives for CTBI which include asset and revenue growth, asset quality, identification of strategic opportunities, development and maturation of the core earnings performance, and execution of CTBI's growth strategy, as well as the comparison of peer group data. Compensation of the other executive officers is recommended by the CEO and approved, after making any adjustments considered appropriate, by the Compensation Committee. Salary increases are approved based upon performance for the previous year, responsibilities for the upcoming year, and compensation paid by other companies within CTBI's peer group. The objective is to grant salary increases to retain and motivate successful performance while maintaining affordability within CTBI's business plan.

The Compensation Committee retained Pearl Meyer & Partners (the "Consultant"), an executive compensation consulting firm, to provide comprehensive compensation consulting services in reviewing CTBI's 2010 executive compensation program. The engagement objectives were: (1) to provide information on regulatory and legislative trends that may impact executive compensation in the banking industry, (2) to compare pay levels of eleven executive officers to published survey data and executive pay data contained in the most recent SEC Proxy Statement filings of its peer companies, (3) to assess CTBI's business performance relative to its peer group and test the alignment of executive pay and business performance, and (4) to prepare recommendations and advise the Compensation Committee how, if at all, existing pay plans for executives could be improved to ensure market competitiveness,

comply with current regulations and/or improve the alignment of executive pay and business performance. The Compensation Committee did not utilize a consultant in 2009. During 2008, the Compensation Committee engaged Amalfi Consulting, LLC, an independent compensation consulting firm specializing in the financial services industry, to provide an update to the comprehensive review completed by the consultant during 2007. The comprehensive review (“2008 Report”) completed at that time was to assist the Compensation Committee in assessing the reasonableness of current executive officer compensation packages and help the Compensation Committee set the direction for future compensation determinations.

The peer group selected by the Consultant for its review of the 2010 compensation of CTBI’s executive officers included the following eighteen publically traded companies, with an orientation toward regional bank holding companies, that ranged in asset size from \$1.8 billion to \$6.1 billion with an average asset size of \$3.1 billion. The peer group included both Troubled Asset Relief Program (“TARP”) and non-TARP participating banks.

Bank	Ticker	Bank	Ticker
1st Source Corporation	SRCE	Lakeland Financial Corporation	LKFN
City Holding Company	CHCO	MainSource Financial Group, Inc.	MSFG
Farmers Capital Bank Corporation	FFKT	Peoples Bancorp, Inc.	PEBO
First Community Bancshares, Inc.	FCBC	Republic Bancorp, Inc.	RBCAA
First Financial Bancorp	FFBC	S.Y. Bancorp, Inc.	SYBT
First Financial Corporation	THFF	Stellar One Corporation	STEL
First Merchants Corporation	FRME	Towne Bank	TOWN
Green Bankshares, Inc.	GRNB	Union First Market Bankshares Corporation	UBSH
Integra Bank Corporation	IBNK	Virginia Commerce Bancorp, Inc.	VCBI

The information provided by the Consultant was reviewed by the Compensation Committee and was incorporated into the Compensation Committee’s analysis of executive compensation. The report compared the cash compensation, long-term incentive compensation, and total direct compensation of the Named Executive Officers and CTBI’s business performance relative to the peer group for the one and three year periods ending December 31, 2009 and the nine months ended September 30, 2010. The report included the following conclusions: (1) CTBI’s business performance relative to the peer group was at or above the peer group median during those periods; (2) cash compensation and long-term incentive compensation at the target/budgeted performance was below market but the potential long-term incentive compensation based upon attaining maximum levels of financial performance targets was above market; (3) CTBI’s pay plans provide executives the opportunity to earn very competitive total compensation, contingent upon performance; and (4) actual pay delivered to CTBI’s executives for 2010 and 2009 was somewhat low given business performance relative to the peer group.

The Compensation Committee continues to utilize historic and current information and analysis provided by its consultants in the management of CTBI’s executive compensation to execute its executive compensation philosophy.

The Compensation Committee believes that the Named Executive Officers performed at a high level during 2010 as they did in 2009 and 2008. During 2010, CTBI’s return on average asset ratio at 1.03% was in the 84th percentile of its peer group and the one-year core earnings per share growth was at 44.7%. Although the Compensation Committee believes that the Named Executive Officers performed at a high level during 2010, 2009, and 2008, in light of the ongoing challenging and turbulent economic conditions, the Compensation Committee determined that it would be in the best interest of CTBI to consider only nominal increases in executive salaries during those years.

The operating environment for commercial banks is impacted by a variety of factors such as local, national and global economic conditions, interest rate levels and trends, monetary policies of the Federal Reserve Board, fiscal policies of the United States government, liquidity in the capital markets, and the changing values of real estate and other assets. Many of these factors are outside the control of CTBI and its management. The Compensation Committee considered the Named Executive Officers' performance during 2010, including their response to the challenging economic and operating environment in 2010, and determined that it was appropriate to approve nominal salary increases for the Named Executive Officers. The salary increases for 2010 and 2011 reflect CTBI's desire to balance the need to compensate our Named Executive Officers at levels that recognize their performance and value to CTBI with the need to control our expenses in the current difficult economic environment. Named Executive Officers' base salaries remain at or near the median of the market. The base salaries of the Named Executive Officers for the years ended December 31, 2009, 2010, and 2011 are shown below:

	Base Salary 2009	Base Salary 2010	% Increase 2009 to 2010	Base Salary 2011	% Increase 2010 to 2011
Jean R. Hale Chairman, President, and Chief Executive Officer	\$437,000	\$446,000	2.1%	\$470,000	5.4%
Kevin J. Stumbo Executive Vice President and Treasurer (Principal Financial Officer)	\$172,000	\$174,000	1.2%	\$183,000	5.2%
Mark A. Gooch Executive Vice President and Secretary	\$322,000	\$328,500	2.0%	\$344,000	4.7%
Larry W. Jones Executive Vice President	\$182,000	\$205,000	12.6%	\$210,000	2.4%
James B. Draughn Executive Vice President	\$185,000	\$189,000	2.2%	\$200,000	5.8%

Annual Incentive-Based Compensation – Annual cash incentive bonuses may be awarded under the Senior Management Incentive Compensation Plan (the “Incentive Plan”), which is open to executive officers and other members of senior management (“Participants”). The bonuses for the Participants are based on achieving the targets set for earnings per share (“EPS”) and return on average assets (“ROAA”) of CTBI. This plan was designed to reward Participants for meeting or exceeding industry standards for profitability and was adopted to achieve the following objectives:

- Increase the profitability and growth of CTBI in a manner which is consistent with other goals of the company
- Provide executive compensation which is competitive with other financial institutions in the peer group
- Attract and retain personnel of outstanding ability and encourage excellence in the performance of individual responsibilities

Motivate and reward those members of management who contribute to the success of CTBI

For 2010, Incentive Plan awards were calculated according to a schedule comparing EPS and ROAA for the award period to a pre-determined performance standard. For 2010, the Targeted (Base) ROAA was established as follows: ROAA per CTBI's budget (0.96%) and core EPS growth per CTBI's budget (19.3% growth to \$1.98 per share). CTBI achieved the required level of performance under the Incentive Plan for the year ended December 31, 2010. Accordingly, the Named Executive Officers were entitled to the following cash incentive awards (paid in January 2011):

	2010 Cash Incentive Awarded Under the Senior Management Incentive Compensation Plan (\$)
Jean R. Hale Chairman and Chief Executive Officer	66,900
Kevin J. Stumbo Executive Vice President and Treasurer (Principal Financial Officer)	26,100
Mark A. Gooch Executive Vice President and Secretary	49,275
Larry W. Jones Executive Vice President	30,750
James B. Draughn Executive Vice President	28,350

For 2011, Incentive Plan awards will also be calculated according to a schedule comparing EPS and ROAA for the award period to a pre-determined performance standard. The 2011 Incentive Plan may be amended, modified, or terminated by the Board of Directors at any time at its sole discretion, except that after the 90th day of the year, the target award and the performance standards may not be changed in a manner that would increase the amount of incentive compensation payable for such year. The Targeted (Base) ROAA for 2011 is established as follows: ROAA per CTBI's budget (1.16%) and core EPS growth per CTBI's budget (18.0% growth to \$2.56 per share). With respect to the executive officers who serve on CTBI's Executive Committee (which includes the Named Executive Officers), the following cash incentive awards may be earned:

Target/ROAA	Award as a % of Salary
BASE 1.16%	5%
1.18%	7.50%
1.20%	10%
1.22%	15%
1.24%	20%
1.26%	25%
1.28%	30%
1.30%	40%
1.32%	45%

Other senior officers consisting of the officers responsible for the divisions of consumer lending, residential real estate lending, trust divisions, sales and marketing, human resources, compliance, facilities management and the presidents of each market (“Group II Officers”) may receive awards for the year ending December 31, 2011 based on the targets applicable to members of the Executive Committee, ranging from 4.5% to 15% of salary. Other members of senior management consisting of Senior Vice Presidents of consolidated functions as well as others below the Senior Vice President level who are selected for participation by the Compensation Committee (“Group III Officers”) may receive awards for the year ending December 31, 2011 based on the targets applicable to members of the Executive Committee, ranging from 4.25% to 12.5% of salary.

The number of senior management incentive stock awards granted annually is also determined under the terms of the Incentive Plan and based on EPS and ROAA of CTBI. CTBI achieved the targets under the Incentive Plan for 2010. The Compensation Committee chose to issue restricted stock in lieu of stock options in amounts financially equivalent to the stock options earned under the Incentive Plan. The following senior management incentive stock awards were granted to the Named Executive Officers in January 2011:

	Restricted Stock Granted (Shares)
Jean R. Hale Chairman and Chief Executive Officer	4,952
Kevin J. Stumbo Executive Vice President and Treasurer (Principal Financial Officer)	1,932
Mark A. Gooch Executive Vice President and Secretary	3,647
Larry W. Jones Executive Vice President	2,276
James B. Draughn Executive Vice President	2,099

The restrictions on the restricted stock will generally lapse at the end of five years following the date of grant if the holder continues to be employed by CTBI. However, in the event of a change in control of CTBI or the death of the Participant, the restrictions will lapse. In the event of the disability of the Participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the Participant’s restricted stock for each year since the date of award). The Compensation Committee will have discretion to review and revise restrictions applicable to a Participant’s restricted stock in the event of the Participant’s retirement. Each share of restricted stock shown above was granted on January 25, 2011, and the closing price on that date was \$30.09 per share.

For 2011, the Targeted (Base) ROAA is established as follows: ROAA per CTBI’s budget (1.16%) and core EPS growth per CTBI’s budget (18.0% growth to \$2.56 per share). Based on CTBI’s performance for the year ending December 31, 2011, the following stock awards may be made to the executive officers who serve on CTBI’s Executive Committee (which includes the Named Executive Officers) under the Senior Management Incentive Plan:

Target/ROAA	Stock Award as a % of Salary
BASE 1.16%	25.00%
1.18%	50.00%
1.20%	100.00%
1.22%	112.00%

1.24%	125.00%
1.26%	137.50%
1.28%	150.00%
1.30%	162.50%
1.32%	175.00%

The Compensation Committee at its sole discretion may choose to issue restricted stock or a combination of stock options and restricted stock of an amount deemed the financial equivalent of the stock options earned under the terms of the Incentive Plan.

Group II Participants may receive stock awards for the year ending December 31, 2011 based on the targets applicable to members of the Executive Committee, ranging from 12.5% to 80% of salary. Group III Participants may receive stock awards for the year ending December 31, 2011 based on the targets applicable to members of the Executive Committee, ranging from 6% to 40% of salary.

CTBI has structured its incentive compensation plans in a manner which is designed to permit a large percentage of the potential incentive compensation to be paid to participants who are not Named Executive Officers. During 2011, executive officers, other members of senior management, and employees are eligible to participate in various company incentive compensation plans. Based on the number of participants and structure of CTBI's incentive compensation plans, if CTBI achieves its 2011 targets at the base level, participants other than the Named Executive Officers will receive approximately 96% of the total amount paid under all company incentive compensation plans.

Long-Term Equity Compensation – CTBI's philosophy is that long-term performance is achieved through aligning the interests of its executives with its shareholders through the use of stock-based awards. The Community Trust Bancorp, Inc. 2006 Stock Ownership Incentive Plan (the "2006 Plan") was approved by CTBI's shareholders at the 2006 Annual Meeting of Shareholders. The purpose of the 2006 Plan is to enhance the ability of CTBI to secure and retain the services of persons eligible to participate and to provide incentives for such persons to exert maximum efforts for the success of CTBI. The 2006 Plan is administered by the Compensation Committee.

In addition to the senior management stock awards that may be awarded pursuant to the Incentive Plan, stock awards may also be granted for management retention purposes under the 2006 Plan upon approval by the Compensation Committee. The Compensation Committee has authority under that plan to select the form of the grant for equity awards in different forms, such as options or restricted stock. Management retention awards are granted in connection with the hiring of new executives and the retention of key executives. Stock awards are granted at the closing market price on the date of the grant, and the 2006 Plan does not permit the Board or the Compensation Committee to reprice stock awards.

Pursuant to the 2006 Plan, the Compensation Committee granted the following non-incentive shares of restricted stock to the Named Executive Officers in January 2010:

	Restricted Stock Granted (Shares)
Jean R. Hale Chairman and Chief Executive Officer	9,642
Kevin J. Stumbo Executive Vice President and Treasurer (Principal Financial Officer)	3,214
Mark A. Gooch Executive Vice President and Secretary	6,428

Larry W. Jones Executive Vice President	3,214
James B. Draughn Executive Vice President	3,214

The restrictions on the restricted stock will generally lapse at the end of five years following the date of grant if the holder continues to be employed by CTBI. However, in the event of a change in control of CTBI or the death of the Participant, the restrictions will lapse. In the event of the disability of the Participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the Participant's restricted stock for each year since the date of award). The Compensation Committee will have discretion to review and revise restrictions applicable to a Participant's restricted stock in the event of the Participant's retirement. Each share of restricted stock shown above was granted on January 26, 2010, and the closing price on that date was \$25.09 per share.

When determining the amount of stock option and restricted stock grants, the Compensation Committee considered equity incentive grants made by other companies within the financial services industry, including the Peer Group. The Compensation Committee believes that both stock options and restricted stock align executive officer incentives with shareholder interests. The Compensation Committee also believes that restricted stock is a particularly effective vehicle to retain key executives because none of the restricted shares will become free of restriction (subject to exceptions related to death, disability or change in control of CTBI and, with the approval of the Compensation Committee, retirement) unless the holder remains in the employment of CTBI for a period of five years from the date of grant.

The Consultant's report on executive compensation included the following conclusions:

- CTBI's performance has compared favorably to other, similar banks despite a very challenging environment for the economy in general and the banking industry in particular. CTBI's performance versus peers on nearly a dozen metrics over the last one and three year time periods has been above the median (between the 50th and 75th percentiles), and performance on key metrics such as EPS and ROAA has been at the 70th percentile of peer companies.
- In contrast, CTBI's executive pay approximately equals the 25th percentile of market values; thus, pay is relatively low given the performance of CTBI. CTBI has chosen to be conservative in compensating its executives relative to other, similar banks in the current environment, despite its relatively good performance.
- CTBI's incentive opportunities are relatively modest and no bonus or stock incentive awards are granted unless the financial results equal or exceed budget.
- If CTBI's performance significantly exceeds budget, CTBI's executives have the potential to earn substantially higher levels of incentive compensation, which could result in total pay above the 50th or 75th percentiles of market depending on performance.
- The Compensation Committee feels it has been appropriate to position CTBI's executive pay conservatively versus the market given the uncertain economic environment. The Compensation Committee will continue to monitor CTBI pay levels and make adjustments to ensure pay is appropriately aligned with performance.

Benefits and Perquisites – CTBI does not provide significant perquisites or personal benefits to its executive officers; however, the Named Executive Officers, as well as other executive officers and members of senior management, are provided with perquisites with an aggregate value of less than \$10,000, including country club memberships.

Long-term incentives to align the interests of CTBI's employees with the shareholders have been implemented through the development of a company-sponsored ESOP. The ESOP provides awards of CTBI stock subject to vesting requirements. Participation in the ESOP is available to any employee of CTBI or its subsidiaries who has been employed for one year, completed 1,000 hours of service, and attained the age of 21. CTBI currently contributes 4% of covered employees' gross wages to the ESOP. The ESOP uses the contribution to acquire shares of CTBI's common stock.

CTBI has established a 401(k) Plan within which employees can contribute 1% to 15% of their annual salary and CTBI will contribute 50% of the first 8% of contributions. CTBI also provides health insurance, life insurance, and other programs that are usual and customary to encourage retention of employees. Named Executive Officers also participate in CTBI's supplemental executive life insurance plan. This plan provides a split-dollar share of death benefits at an amount necessary to provide the Named Executive Officer with a total company-provided death benefit of three times their annual salary. This amount is consistent with the death benefit provided to other eligible employees. The benefit is dependent upon the executive's eligibility to receive payments. Additionally, each Named Executive Officer is provided a post-retirement death benefit equal to one times his or her annual salary. The benefits are funded with bank-owned life insurance (BOLI). The BOLI is used to provide the additional post-retirement death benefit to the Named Executive Officer with minimal cost to CTBI. Split-dollar life insurance plans are widely available in the banking industry, because the financial institution will recover its plan costs upon the death of an executive, and the executive's beneficiary will receive a split of the insurance proceeds. This benefit provides further incentive for long-term employment with CTBI.

The 2008 Report found that CTBI offered a competitive level of benefits compared to the Peer Group. However, CTBI does not sponsor any supplemental executive retirement plan or deferred compensation plan. The 2008 Report noted that 79% of the Peer Group has either a deferred compensation plan or a supplemental executive retirement plan. The Compensation Committee determined that it would not recommend that CTBI implement a deferred compensation plan or supplemental executive retirement plan at this time. However, the Compensation Committee may consider the implementation of such a plan in the future.

On a long-term basis, the Compensation Committee believes that it is in the best interest of CTBI to establish executive officer compensation at levels similar to compensation paid by peer group companies with comparable past performance. The Compensation Committee believes that CTBI's executive officers performed at a high level in 2010. However, in light of the current economic uncertainties and challenges facing financial institutions, the Compensation Committee concluded that CTBI should not make significant changes to executive compensation levels for 2010. Instead, the Compensation Committee believes it is in the best interest of CTBI to attain these executive officer compensation levels on a gradual basis over the next few years.

OBRA Deductibility Limitation

The Omnibus Budget Reconciliation Act of 1994 ("OBRA") prohibits the tax deduction by public companies of compensation of certain executive officers in excess of \$1 million, unless certain criteria are met. CTBI has no executive officers that exceed this amount and, therefore, has determined not to take any action at this time with respect to its compensation plans to seek to meet these criteria.

Employment Contracts, Termination of Employment, and Change in Control Arrangements

As of December 31, 2010, CTBI had in effect certain termination of employment and change in control agreements ("Severance Agreements") with each of its Named Executive Officers, as well as its other executive officers. Severance Agreements are offered in order to attract and retain key executives by protecting them in case of a change in control

of CTBI. The Severance Agreements are effective for a term equal to the longer of three years or the covered period should a change in control of CTBI occur during such three-year period. These agreements are automatically renewable for additional one-year periods, and the covered period during which the terms and conditions of the Severance Agreements are effective is the period of time following a change in control equal to (i) two years following the occurrence of the change in control in the event of an involuntary termination or a voluntary termination following a change in duties or (ii) the thirteenth month following the change in control in the event of a voluntary termination not preceded by a change in duties.

The Severance Agreements require the payment to a Named Executive Officer or other executive officer of a severance amount in the event of an involuntary or voluntary termination of employment after a change in control of CTBI during the covered period. The severance amount payable under the Severance Agreements is equal to (i) 2.99 times the Named Executive Officer's or other executive officer's base annual salary in the event of involuntary termination or in the event of a voluntary termination of employment preceded by a change in duties subsequent to a change in control of CTBI or (ii) 2.00 times the Named Executive Officer's or other executive officer's annual base salary in the event of a voluntary termination of employment not preceded by a change in duties subsequent to a change in control of CTBI.

A change in control occurs, for purposes of the Severance Agreements, when (i) any person, including a group under Section 13(d)(3) of the Securities Exchange Act of 1934, is or becomes the owner of 30% or more of the combined voting power of CTBI's outstanding securities; (ii) as a result of, or in connection with, any tender offer, exchange offer, merger or other combination, sale of assets or contested election, the persons who were directors of CTBI before such transaction(s) cease to constitute a majority of the Board of Directors of CTBI or successor of CTBI; (iii) a tender or exchange offer is made and consummated for the ownership of 30% or more of the combined voting power of CTBI's outstanding voting securities; or (iv) CTBI transfers substantially all of its assets to another corporation that is not a wholly-owned subsidiary of CTBI.

The Compensation Committee believes the use and structure of the Severance Agreements are consistent with CTBI's compensation objectives to attract, motivate and retain highly qualified executives. The Compensation Committee also believes that the Severance Agreements promote job stability and financial security, preserve morale and productivity, and encourage retention in the event of an actual or potential change in control. However, the Compensation Committee intends to review the terms of the Severance Agreements annually in the context of executive compensation packages and related developments.

No termination of employment or change in control payments were made in 2010.

Compensation Risk

The Compensation Committee is responsible for the oversight of compensation risk and reviews the Senior Management Incentive Compensation Plan and the Employee Incentive Compensation Plan to evaluate the plans' potential for creating or increasing risk to CTBI. The Compensation Committee reviewed the risk assessment completed by management of all incentive plans that are used within CTBI. The Compensation Committee concluded that CTBI's compensation plans do not create any risks that are likely to have a material adverse impact on CTBI. Incentive compensation plans are designed according to CTBI's compensation philosophy. The Compensation Committee has discretion to make changes in the plans and discretion regarding payments under the plans based upon review of the plans and CTBI's performance.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of CTBI has reviewed and discussed the Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of

Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

M. Lynn Parrish, Chairman
 Nick A. Cooley, Vice Chairman
 Nick Carter, Member

March 23, 2011

EXECUTIVE COMPENSATION

The following table sets forth the total annual compensation paid or accrued by CTBI to or for the account of the Chief Executive Officer, the Principal Financial Officer, and each of the other three most highly compensated executive officers of CTBI for the fiscal years ended December 31, 2010, 2009, and 2008.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (1) (\$)	Options (2) (\$)	All Other Compensation (3) (\$)	Total Compensation (\$)
Jean R. Hale, Chairman, President and Chief Executive Officer	2010	445,308	66,900	107,714	23,390	643,312
	2009	452,077	0	85,248	21,256	558,581
	2008	420,462	0	106,830	20,440	547,732
Kevin J. Stumbo, Executive Vice President and Treasurer (Principal Financial Officer)	2010	173,846	26,100	43,527	11,140	254,613
	2009	177,807	0	38,332	11,434	227,573
	2008	164,423	0	47,424	10,545	222,392
Mark A. Gooch, Executive Vice President and Secretary	2010	328,000	49,275	77,559	19,304	474,138
	2009	333,231	0	65,146	17,930	416,307
	2008	310,846	0	81,249	17,431	409,526
Larry W. Jones, Executive Vice President	2010	188,615	30,750	44,295	16,323	279,983
	2009	188,192	0	40,314	17,656	246,162
	2008	174,463	0	49,170	17,335	240,968
James B. Draughn, Executive Vice President	2010	188,692	28,350	64,547	15,788	297,377
	2009	191,250	0	59,352	16,058	266,660
	2008	176,731	0	68,696	13,044	257,264

(1) Bonuses are paid under the Senior Management Incentive Compensation Plan (“Incentive Plan”), which is open to all executive officers, market presidents, and senior vice presidents of consolidated functions. Individuals below senior vice president level may be recommended and approved by the Compensation Committee for special awards of options for extraordinary performance. Bonuses for executive officers are earned based on CTBI reaching certain earnings per share and return on assets goals after accruing for the cost of the bonuses. CTBI achieved the required level of performance under the Incentive Plan for the year ended December 31,

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2010. Accordingly, the Named Executive Officers were entitled to cash incentive awards (paid in January 2011). In 2009, CTBI did not meet its internal performance targets but did meet its alternative Peer Group performance goal. However, the Compensation Committee determined that the overall level of performance was not adequate to recommend any incentive compensation. In 2008, CTBI did not meet its internal performance goals, and therefore, no bonus was earned. (See the Compensation Discussion and Analysis for more information.)

(2) This column includes the value of all option and restricted stock awards under the company stock ownership plans. The value is the amount recognized for financial statement reporting purposes with respect to fiscal years 2010, 2009, and 2008 in accordance with ASC 718. The assumptions used in the valuation of option awards are included in notes 1 and 15 to CTBI's consolidated financial statements for the year ended December 31, 2010 included in CTBI's Annual Report on Form 10-K filed with the SEC on March 15, 2011.

(3) The compensation represented by the amounts for 2010, 2009, and 2008 set forth in the All Other Compensation column for NEOs is detailed in the following tables.

Name	Year	Company Contributions to ESOP (\$)	Company Contributions to 401(k) (\$)	Perquisites (\$)	Company Paid Life Insurance Premiums (\$)	Total All Other Compensation (\$)
		(a)	(a)		(b)	
Jean R. Hale	2010	9,800	8,250	-	5,340	23,390
	2009	9,800	6,756	-	4,700	21,256
	2008	9,200	6,995	-	4,245	20,440
Kevin J. Stumbo	2010	6,695	3,477	-	709	11,140
	2009	7,112	3,556	-	766	11,434
	2008	6,577	3,288	-	680	10,545
Mark A. Gooch	2010	9,800	8,250	-	1,254	19,304
	2009	9,800	6,756	-	1,374	17,930
	2008	9,200	6,995	-	1,236	17,431
Larry W. Jones	2010	7,545	7,545	-	1,233	16,323
	2009	7,680	7,680	-	1,646	13,413
	2008	8,766	6,103	-	1,439	109,536
James B. Draughn	2010	7,548	7,548	-	692	15,788
	2009	7,650	7,650	-	758	16,058
	2008	7,069	5,302	-	673	13,044

(a) For further information regarding the ESOP and 401(k) Plans, see the Compensation Discussion & Analysis.

(b) This column included excess premiums reported as taxable compensation on the NEO's W-2 for life insurance at three times salary. A similar insurance benefit at three times salary is provided to all full-time employees on a nondiscriminatory basis.

The following table sets forth the information regarding plan based awards granted to NEOs in 2010.

GRANTS OF PLAN BASED AWARDS

Name	Grant Date	Payouts Under Non-Equity Incentive Plan Awards (1) (\$)	All Other Awards: Number of Securities Underlying Options Granted (2) (#)	Exercise or Base Price (\$/share)	Grant Date Fair Value of Equity Awards (3) (\$)
Jean R. Hale	-	66,900	-	-	-
Restricted Stock Grant	01/26/10	-	9,642	25.09	241,918
Kevin J. Stumbo	-	26,100	-	-	-
Restricted Stock Grant	01/26/10	-	3,214	25.09	80,639
Mark A. Gooch	-	49,275	-	-	-
Restricted Stock Grant	01/26/10	-	6,428	25.09	161,279
Larry W. Jones	-	30,750	-	-	-
Restricted Stock Grant	01/26/10	-	3,214	25.09	80,639
James B. Draughn	-	28,350	-	-	-
Restricted Stock Grant	01/26/10	-	3,214	25.09	80,639

(1) This column shows the payouts for 2010 performance and paid in January 2011, under the Senior Management Incentive Compensation Plan as described in the Incentive Based Compensation section of the Compensation Discussion & Analysis.

(2) Restricted stock grants were made under the company stock ownership plans and become vested after five years or upon a change in control of CTBI.

(3) The grant-date fair value of restricted stock grants was \$25.09 per share, measured in accordance with ASC 718.

The following tables set forth information concerning options exercised by the NEOs during 2010 and the number and value of unexercised options held by the NEOs of CTBI at December 31, 2010.

OPTION EXERCISES

Name	Shares Acquired on Exercise (#)	Value Realized (1) (\$)
Jean R. Hale	13,310	218,909
Kevin J. Stumbo	11,120	89,494
Mark A. Gooch	13,310	200,675

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Larry W. Jones	5,000	37,940
James B. Draughn	0	-

(1) The value realized is calculated based on the closing market price on the date of exercise.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2010

Name	Number of Securities Underlying Unexercised Options and Restricted Stock Grants at Fiscal Year-End (1) (#)		Option Exercise Price (\$)	Expiration Date	Value of Unexercised In-the-Money Options and Restricted Stock Grants at Fiscal Year-End (2) (\$)	
	Exercisable	Unexercisable			Exercisable	Unexercisable
Jean R. Hale						
Stock Option Grants:						
Granted 01/29/02	13,310	0	16.717	01/29/12	162,958	-
Granted 01/17/03	12,390	0	20.983	01/17/13	98,829	-
Granted 01/27/04	8,250	0	27.109	01/27/14	15,270	-
Granted 01/28/05	9,552	0	30.880	01/28/15	-	-
Granted 01/27/06	9,864	0	32.440	01/27/16	-	-
Granted 01/23/07	5,648	5,549	38.950	01/23/17	-	-
Granted 01/29/08	0	6,250	28.320	01/29/18	-	-
Restricted Stock Grants:						
Granted 01/29/08	0	1,420	-	01/29/13	-	41,123
Granted 01/27/09	0	1,223	-	01/27/14	-	35,418
Granted 01/26/10	0	9,642	-	01/26/15	-	279,232
Kevin J. Stumbo						
Stock Option Grants:						
Granted 01/27/04	2,750	0	27.109	01/27/14	5,090	-
Granted 01/28/05	2,024	0	30.880	01/28/15	-	-
Granted 01/27/06	3,121	0	32.440	01/27/16	-	-
Granted 01/23/07	3,611	1,204	38.950	01/23/17	-	-
Granted 01/29/08	0	3,750	28.320	01/29/18	-	2,400
Restricted Stock Grants:						
Granted 01/29/08	0	852	-	01/29/13	-	24,674
Granted 01/27/09	0	408	-	01/27/14	-	11,816
Granted 01/26/10	0	3,214	-	01/26/15	-	93,077
Mark A. Gooch						
Stock Option Grants:						
Granted 01/29/02	9,983	0	16.717	01/29/12	122,224	-
Granted 01/17/03	9,293	0	20.983	01/17/13	74,126	-
Granted 01/27/04	5,500	0	27.109	01/27/14	10,180	-
Granted 01/28/05	7,284	0	30.880	01/28/15	-	-
Granted 01/27/06	7,552	0	32.440	01/27/16	-	-
Granted 01/23/07	6,499	2,166	38.950	01/23/17	-	-
Granted 01/29/08		5,000	28.320	01/29/18	-	3,200
Restricted Stock Grants:						
Granted 01/29/08	0	1,136	-	01/29/13	-	32,899
Granted 01/27/09	0	815	-	01/27/14	-	23,602
Granted 01/26/10	0	6,428	-	01/26/15	-	186,155

Larry L. Jones

Stock Option Grants:

Granted 10/22/02	9,120	0	19.992	10/22/12	81,784	-
Granted 01/27/04	2,750	0	27.109	01/27/14	5,090	-
Granted 01/28/05	2,606	0	30.880	01/28/15	-	-
Granted 01/27/06	4,623	0	32.440	01/27/16	-	-
Granted 01/23/07	3,791	1,264	38.950	01/23/17	-	-
Granted 01/29/08	0	3,750	28.320	01/29/18	-	2,400

Restricted Stock Grants:

Granted 01/29/08	0	852	-	01/29/13	-	24,674
Granted 01/27/09	0	408	-	01/27/14	-	11,816
Granted 01/26/10	0	3,214	-	01/26/15	-	93,077

James B. Draughn

Stock Option Grants:

Granted 01/17/03	1,406	0	20.983	01/17/13	11,215	-
Granted 01/27/04	2,750	0	27.109	01/27/14	5,090	-
Granted 01/28/05	4,208	0	30.880	01/28/15	-	-
Granted 01/27/06	0	10,000	32.440	01/27/16	-	-
Granted 01/27/06	4,161	0	32.440	01/27/16	-	-
Granted 01/23/07	3,611	1,204	38.950	01/23/17	-	-
Granted 01/29/08	0	3,750	28.320	01/29/18	-	2,400

Restricted Stock Grants:

Granted 01/29/08	0	852	-	01/29/13	-	24,674
Granted 01/27/09	0	408	-	01/27/14	-	11,816
Granted 01/26/10	0	3,214	-	01/26/15	-	93,077

(1) Options granted as senior management incentive options in the stock ownership plans become exercisable in equal 25% installments beginning one year after the date of the grant and become fully exercisable upon a change in control of CTBI. Options granted as management retention options in the stock ownership plans and restricted stock become exercisable after five years and become fully exercisable upon a change in control of CTBI. Options expire if not exercised ten years after the date of the grant.

(2) Based on the closing price of \$28.96 of our common stock at December 31, 2010.

CHANGE IN CONTROL AND TERMINATION BENEFITS

CTBI provides additional benefits, not included in the previous tables, to the NEOs in the event of a change in control. The following table provides an estimate of the value of such benefits, assuming the change in control had occurred on December 31, 2010.

Name	Severance payment equal to 2.99 times annual base salary (1) (\$)	Severance payment equal to 2.00 times annual base salary (2) (\$)	Acceleration of stock options and restricted stock grants (3) (\$)	Total (based on 2.99 times annual base salary) (1) (\$)	Total (based on 2.00 times annual base salary) (2) (\$)
Jean R. Hale	1,333,540	892,000	359,774	1,693,314	1,251,774
Kevin J. Stumbo	520,260	348,000	131,967	652,227	479,967
Mark A. Gooch	982,215	657,000	245,856	1,228,071	902,856
Larry W. Jones	612,950	410,000	131,967	744,917	541,967
James B. Draughn	565,110	378,000	131,967	697,077	509,967

- (1) Severance agreements with the NEOs require payment of an amount equal to 2.99 times annual base salary in the event of a change in control of CTBI followed by: (a) a subsequent involuntary termination; or (b) a voluntary termination preceded by a change in duties.
- (2) Severance agreements with the NEOs require payment of an amount equal to 2.00 times annual base salary in the event of a voluntary termination not preceded by a change in duties subsequent to a change in control of CTBI.
- (3) Stock options held by the NEOs provide for full vesting upon a change in control. In addition, upon the death or disability of the NEOs, stock options held by the NEOs become fully vested. The amounts shown represent the in-the-money value of the options that would accelerate, calculated based on the positive difference between the option exercise price and \$28.96 which was the closing price for a share of our common stock on December 31, 2010. The restricted shares will become free of restriction (subject to exceptions related to death, disability or change in control of CTBI and, with the approval of the Compensation Committee, retirement) upon the holder remaining in the employment of CTBI for a period of five years from the date of grant. The amounts shown for restricted stock represent the number of shares granted multiplied by the closing price at December 31, 2010 of \$28.96.

See the Employment Contracts, Termination of Employment, and Change in Control Agreements section of the Compensation Discussion & Analysis for further information.

SHAREHOLDER PROPOSALS

It is currently contemplated that next year's Annual Meeting of Shareholders will be held on or about April 24, 2012. In the event that a shareholder desires to have a proposal considered for presentation at CTBI's next Annual Meeting of Shareholders and inclusion in the Proxy Statement for such meeting, the proposal must be forwarded in

writing to the Secretary of CTBI so that it is received no later than December 2, 2011. Any such proposal must comply with the requirements of Rule 14(a)-8 promulgated under the Act. If a shareholder intends to present a proposal at the next Annual Meeting of Shareholders, but has not sought the inclusion of such proposal in CTBI's Proxy, Notice of Meeting, and Proxy Statement, such proposal must be received by the Secretary of CTBI prior to February 15, 2012 or CTBI's management proxies for the Annual Meeting will be entitled to use their discretionary voting authority should such proposal then be raised, without any discussion of the matter in CTBI's Proxy, Notice of Meeting or Proxy Statement.

MISCELLANEOUS

The Board of Directors of CTBI knows of no other business to be presented to the Annual Meeting. If other matters should properly come before the Annual Meeting or any adjournment thereof, a vote may be cast pursuant to the accompanying proxy in accordance with the judgment of the person or persons voting the proxy. The Board of Directors urges each shareholder who does not intend to be present and to vote at the Annual Meeting to submit a proxy as promptly as possible.

By Order of the Board of Directors

/s/ Jean R. Hale

Jean R. Hale

Chairman of the Board,

President and CEO

Pikeville, Kentucky
March 31, 2011

ATTACHMENT A

PROXY FOR ANNUAL MEETING OF SHAREHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF COMMUNITY TRUST BANCORP, INC., 346 NORTH MAYO TRAIL, PIKEVILLE, KY 41501-1492

The Undersigned Shareholder of COMMUNITY TRUST BANCORP, INC., a Kentucky corporation, hereby appoints DR. ORVILLE CLARK, JR., MARILYN T. JUSTICE, and ERNEST M. ROGERS, or any one of them acting in the absence of the others, as the attorneys and proxies of the undersigned with full power of substitution, to vote all shares of stock of Community Trust Bancorp, Inc., as designated below which the undersigned holds of record at the close of business on February 28, 2011, and is entitled to vote at the Annual Meeting of Shareholders to be held at COMMUNITY TRUST BANCORP, INC., 346 NORTH MAYO TRAIL, PIKEVILLE, KENTUCKY, at 10:00 a.m. on April 26, 2011, and at any adjournment thereof.

Dated: _____, 2011.

(Please sign exactly as your name appears hereon.)

(Signature of Shareholder)

(Signature of Shareholder)

(When shares are held by joint tenants, both should sign. Trustees, guardians, attorneys, executors, administrators and others signing in a representative capacity should indicate the capacity in which they sign. If a corporation, the president or other authorized officer should sign in the full corporate name. If a partnership, an authorized person should sign in partnership name.)

PLEASE MARK, SIGN, DATE, AND RETURN PROMPTLY THIS PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

(THIS PROXY IS CONTINUED ON THE REVERSE SIDE. PLEASE SEE FOR IMPORTANT INFORMATION.)

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED BY THE SHAREHOLDER. IF NO SPECIFIC DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED AS RECOMMENDED BY THE BOARD OF DIRECTORS. THE BOARD OF DIRECTORS PROPOSES AND RECOMMENDS YOU VOTE "FOR" PROPOSAL NOS. 1, 2 AND 3, AND "1 YEAR" ON PROPOSAL NO. 4.

1. ELECTION OF DIRECTORS:

FOR all nominees listed below (except as marked to the contrary below) WITHHOLD AUTHORITY to vote for all nominees listed below.

Charles J. Baird, Nick Carter, Nick A. Cooley, Jean R. Hale, James E. McGhee II, M. Lynn Parrish, Dr. James R. Ramsey, Anthony W. St. Charles
(or any substitute nominee should any of the above become unavailable for any reason)

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, write that nominee's name on the line below.)

If you wish to cumulate your votes for any nominee(s) as explained in the Proxy Statement, mark the box on the right and indicate on the line below the name(s) of such nominee(s) and the number of votes to be cast for such nominee(s).

2. Proposal to ratify and approve the appointment of BKD, LLP as Community Trust Bancorp, Inc.'s Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2011.

FOR AGAINST ABSTAIN

3. Proposal to approve the advisory (nonbinding) resolution relating to executive compensation.

FOR AGAINST ABSTAIN

4. Advisory (nonbinding) vote on the frequency of the advisory vote on executive compensation.

1 YEAR 2 YEARS 3 YEARS
 ABSTAIN

In their discretion, the Proxies are authorized to vote in accordance with their judgment upon such other business as may properly come before the meeting.

I do not I do plan to attend the Annual Meeting N U M B E R A T T E N D I N G : _____

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE MARK, DATE, AND SIGN THIS PROXY CARD, AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. (THIS PROXY IS CONTINUED ON THE REVERSE SIDE. PLEASE SEE FOR IMPORTANT INFORMATION.)