

TAG IT PACIFIC INC
Form PRE 14A
June 09, 2006

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 x
Filed by a Party other than the Registrant o
Check the appropriate box:
x Preliminary Proxy Statement o Confidential, For Use of the Commission Only
.. Definitive Proxy Statement (as permitted by Rule 14a-6(e)(2))
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

TAG-IT PACIFIC, INC.
(Name of Registrant)

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

Payment of Filing Fee (Check the appropriate box):

x No Fee Required
 o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transactions 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:
- o 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:
- (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 Savings Time on July 31, 2006

PLACE Hilton Hotel
6360 Canoga Avenue
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, Colin Dyne and Raymond Musci) are described in the accompanying Proxy Statement;
- (2) To approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 30,000,000 to 100,000,000;
- (3) To approve an amendment to the Company's 1997 Stock Plan (the "Plan") to increase the maximum number of shares of common stock that may be issued pursuant to awards granted under the Plan from 3,077,500 to 6,000,000 shares;
- (4) To approve an amendment to the Plan to increase the number of shares of common stock that may be issued pursuant to awards granted to any individual under the Plan in a single year to 50% of the total number of shares available under the Plan; and
- (5) 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 June 15, 2006.

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
June [___], 2006

Lonnie D. Schnell
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.

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 2006 Annual Meeting of stockholders and at any adjournments or postponements.

You are invited to attend our Annual Meeting of stockholders on July 31, 2006, beginning at 9:00 a.m. Pacific Daylight Savings Time. The meeting will be held at the Hilton Hotel, 6360 Canoga Avenue, Woodland Hills, California 91367.

Stockholders Entitled to Vote.

Holders of Tag-It common stock at the close of business on June 15, 2006 are entitled to receive this notice and to vote their shares at the Annual Meeting. As of June 15, 2006, there were 18,376,180 shares of common stock outstanding.

Mailing of Proxy Statements.

We anticipate mailing this Proxy Statement and the accompanying Proxy to stockholders on or about June 30, 2006.

Proxies.

Your vote is important. If your shares are registered in your name, you are a stockholder 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 shareowners 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, including the proposed amendments to our 1997 Stock Plan, and, therefore, is barred by the rules of the applicable securities exchange from exercising discretionary authority to vote those securities.

Voting.

Each share of Tag-It common stock is entitled to one vote 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.

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 Company's Certificate of Incorporation.

The approval of the amendment to the Company's Certificate of Incorporation will require the affirmative vote of a majority of the outstanding shares of common stock as of the record date.

Amendments of the 1997 Stock Plan.

The approval of each of the amendments of the 1997 Stock Plan will require the affirmative vote of a majority of the shares of common stock present or represented and entitled to vote at the Annual Meeting. Broker non-votes will not be counted as votes cast for or against the proposed amendments of the 1997 Stock Plan.

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 the date of this Proxy Statement, the enclosed Proxy will confer authority on the Proxy holders 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 Proxy holders 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.

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 nine.

The Class III directors whose terms expire at the 2006 Annual Meeting are Mark Dyne, Colin Dyne and Raymond Musci. The Class I directors are serving terms that expire in 2007, and the Class II directors are serving terms that expire in 2008. 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 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
Raymond Musci

If elected, Mark Dyne, Colin Dyne and Raymond Musci are expected to serve until the 2009 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 June 15, 2006:

Name	Age	Position
Mark Dyne (1)	45	Chairman of the Board of Directors
Stephen P. Forte	38	Chief Executive Officer and Director
Colin Dyne (1)	43	Vice Chairman of the Board of Directors
Jonathan Burstein (2)	40	Executive Vice President of Operations, Secretary and Director
Kevin Bermeister	45	Director
Susan White	56	Director
Raymond Musci	45	Director
Joseph Miller	42	Director
Brent Cohen	47	Director
Lonnie D. Schnell	57	Chief Financial Officer
Wouter van Biene	56	Chief Operating Officer

(1) Colin Dyne and Mark Dyne are brothers.

(2) Jonathan Burstein is Colin Dyne's and Mark Dyne's brother-in-law.

Class III Directors: Terms Expiring In 2006

Mark Dyne

Mr. Dyne has served as Chairman of the Board of Directors since 1997. Mr. Dyne currently serves as the Chief Executive Officer and the Managing Partner of Europlay Capital Advisors, LLC, a merchant banking and advisory firm. Mr. Dyne previously served as Chairman and Chief Executive Officer of Sega Gaming Technology Inc. (USA), a gaming company, and 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, and he was a founder and former director of Sega Ozisoft Pty Ltd., a leading distributor of entertainment software in both Australia and New Zealand.

Member: Governance Committee

Colin Dyne

Currently, Mr. Dyne serves as Vice Chairman of the Board of Directors and has served as a Director since 1997. Mr. Dyne founded Tag-It, Inc., one of our subsidiaries, in 1991 with his father, Harold Dyne. Mr. Dyne served as our President from inception and as our Chief Executive Officer from 1997 to 2005. Before founding Tag-It, Inc. in 1991, Mr. Dyne worked in numerous positions within the stationery products industry, including owning and operating retail stationery businesses and servicing the larger commercial products industry through contract stationery and printing operations.

Raymond Musci

Mr. Musci has served as a Director of the Company since June 2005. From October 1999, Mr. Musci has served as the President and Chief Executive Officer and a director of BAM! Entertainment, Inc., a publicly traded company that develops, publishes and distributes entertainment software products and video games. Mr. Musci currently serves as a director of Brilliant Digital Entertainment, Inc., a publicly traded corporation (OTCBB: BDEI). From May 1990 to July 1999, Mr. Musci served as the President, Chief Executive Officer and as a director of Infogrames Entertainment, Inc. (formerly Ocean of America, Inc.), a company that develops, publishes and distributes software products. Mr. Musci also previously served as a director of Ocean International, Ltd., the holding company of Ocean of America, Inc. and Ocean Software, Ltd., and as Executive Vice President/General Manager of Data East USA, Inc., a subsidiary of Data East Corp., a Japanese company.

Member: Audit Committee

Class I Directors: Terms Expiring In 2007

Joseph Miller

Mr. Miller has served on the Board of Directors since June 2005. Since 2003, he has been a Managing Director of Europlay Capital Advisors, LLC, a merchant banking and advisory firm. From 1998 to 2003, Mr. Miller was a Senior Vice President at Houlihan Lokey Howard & Zukin, a leading middle-market investment bank.. From 1994 to 1998, Mr. Miller served as the Vice President, Corporate Development for Alliance Communications Corporation, Canada's leading independent producer and distributor of filmed entertainment. Mr. Miller has bachelor's degree in Economics and Business from the University of California, Los Angeles

Member: Audit Committee

Brent Cohen

Mr. Cohen has served on the Board of Directors since 1998. Mr. Cohen has served as Chief Executive Officer and a director of Dovebid Inc. since August 2005. Mr. Cohen served as President and was a member of the Board of Directors of First Advantage Corporation (formed by the merger of US Search and First American Financial screening companies) in June 2003. Mr. Cohen served as Chairman of the Board, President and Chief Executive Officer of US Search from February 2000 until June 2003. 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, Nominating and Governance Committees

Kevin Bermeister

Mr. Bermeister has served on our Board of Directors since 1999. He has been a director of Brilliant Digital Entertainment, Inc. (OTCBB: BDEI) 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 indoor theme park in Sydney, Australia. Mr. Bermeister has served on numerous advisory boards, including Virgin Interactive Entertainment Ltd.

Member: Compensation and Nominating Committees

Class II Directors: Terms Expiring In 2008

Stephen P. Forte

Mr. Forte has served as our Chief Executive Officer since October 2005. Mr. Forte was appointed to the Board of Directors in March 28, 2006. Prior to joining us Mr. Forte served as a principal at the Forte Group, LLC, a business development consulting company founded by Mr. Forte in February of 2005, which focuses on assisting U.S. companies expand business overseas and foreign corporations expand their business in the U.S. Prior to founding the Forte Group, Mr. Forte served as President of Ascendent

Telecommunications, Inc., a premier voice mobility company, which he founded in 1999. Before launching Ascendent, Mr. Forte founded Travelers Telecom (aka Wilshire Cellular) in 1993, a leading cellular rental provider and wireless carrier for short term users and government. Mr. Forte earned a bachelor's degree from the University of Southern California and an MBA from George Washington University. He currently serves on the Board for the School of Business at The George Washington University, and serves as a mentor at the Marshall School of Business, at the University of Southern California.

Susan White

Ms. White has served on the Board of Directors since June 2005. Ms. White has served as Chief Executive Officer and President of Brand Identity Solutions, LLC, a branding, marketing and licensing consulting company, since 1984. Ms. White has also served as Chief Executive Officer and President of Whitespeed, LLC, an Internet design, branding and marketing company, since 2000. Ms. White also previously served as Director of Marketing and Advertising Worldwide for Warnaco from November 1997 through August 1999. Ms. White received a BA from Bay State College.

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. 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. Mr. Burstein has served as our Secretary since November 2004.

Other Executive Officers

Lonnie D. Schnell

Mr. Schnell joined the Company in January 2006 as our Chief Financial Officer. Mr. Schnell served as Vice President of Finance for Capstone Turbine Corporation, a manufacturer of micro-turbine electric generators from 2004 until 2005. From 2002 to 2004 Mr. Schnell served as Chief Financial Officer of EMSource, LLC, an electronic manufacturing service company. Prior to EMSource, in 2002, Mr. Schnell served as Chief Financial Officer of Vintage Capital Group, a private equity investment firm. From 1999 through 2002, Mr. Schnell served as Chief Financial Officer of Need2Buy, Inc. a business-to-business internet marketplace for electronic components. Mr. Schnell has completed an executive MBA program with the Stanford University Executive Institute, and earned his Bachelor of Science in Accounting at Christian Brothers University. Mr. Schnell is a Certified Public Accountant with experience in the international accounting firm of Ernst & Young LLP.

Wouter van Biene

Mr. van Biene joined the Company in March 2006 as our Chief Operating Officer. Prior to joining us, Mr. van Biene served as Senior Vice President - Operations for Ascendent Telecommunications Inc., a provider of mobile telecommunications solutions, from 2002 through February 2006. Prior to joining Ascendent, Mr. van Biene served from 2001 to 2002 as CFO of AbraComm Inc., a private, high tech start up company in the telecommunications arena, and from 2000 to 2001 as Vice President of Operations of CentreCom, another high tech telecommunications firm. Earlier in his career, Mr. van Biene served as CIO of UStel, Inc, a regional Long Distance Carrier and as Founder/CFO of Consortium 2000, Inc. a telecommunications marketing organization. Prior to that, Mr. van Biene held several executive positions over a fourteen-year time span at American Medical International, Inc. Mr. van Biene holds a Masters degree in Economics and Business Administration from the University of Amsterdam in the Netherlands.

Board Meetings and Committees.

The Board of Directors held 12 general meetings during fiscal 2005. The Board of Directors also acted 2 times by unanimous written consent during fiscal 2005. Each current 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 2005, with the exception of Kevin Bermeister who attended 42% of the Board of Director meetings. While the Company has not established a policy

with respect to members of the Board of Directors attending annual meetings, directors are generally in attendance at the annual meeting of shareholders. The Board of Directors maintains an audit committee, a compensation committee, a nominating committee and a governance committee.

7

Audit Committee. We currently have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The roles and responsibilities of the audit committee are set forth in a written charter adopted by the Board and approved by the committee. The audit committee approves the engagement of the independent registered public accounting firm, reviews the scope of the audit to be conducted by the independent registered public accounting firm and meets quarterly with the independent registered public accounting firm 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 (“AMEX”).

The Audit Committee currently consists of Messrs. Musci and Miller. Messrs. Musci and Miller both meet the AMEX financial knowledge requirements, and the Board of Directors has further determined that Mr. Musci (i) is an “audit committee financial expert” as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC and (ii) meets the AMEX professional experience requirements. We are currently not in compliance with the AMEX listing requirement that we maintain an audit committee of at least three independent board members. The audit committee held 9 meetings during fiscal 2005. The audit committee acted 1 time by unanimous written consent during fiscal 2005.

Compensation Committee. The compensation committee currently consists of Messrs. Bermeister and Cohen. 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 did not meet during 2005, as its functions were performed by the full Board of Directors.

Nominating Committee. The nominating committee currently consists of Messrs. Bermeister and Cohen. The nominating committee is responsible for considering and approving nominations for candidates for director, including determining the appropriate qualifications and experience required of such candidates, and related matters. The nominating committee held 1 meeting during fiscal 2005. The members of the nominating committee are all independent directors within the meaning of applicable AMEX listing standards. The nominating committee operates pursuant to a written charter.

In carrying out its function to nominate candidates for election to the Board of Directors, the nominating committee considers the mix of skills, experience, character, commitment, and diversity of background, all in the context of the requirements of the Board of Directors at that point in time. The nominating committee believes that each candidate should be an individual who has demonstrated integrity and ethics in such candidate’s personal and professional life, has an understanding of elements relevant to the success of a publicly-traded company and has established a record of professional accomplishment in such candidate’s chosen field. Each candidate should be prepared to participate fully in board activities, including attendance at, and active participation in, meetings of the Board of Directors, and not have other personal or professional commitments that would, in the nominating committee’s judgment, interfere with or limit such candidate’s ability to do so. The nominating committee has no stated specific, minimum qualifications that must be met by a candidate for a position on our Board of Directors.

The nominating committee’s methods for identifying candidates for election to the Board of Directors (other than those proposed by our stockholders, as discussed below) include the solicitation of ideas for possible candidates from a number of sources—members of the Board of Directors; our executives; individuals personally known to the members of the Board of Directors; and other research. The nominating committee may also from time to time retain one or more third-party search firms to identify suitable candidates.

A Tag-It stockholder may nominate one or more persons for election as a director at an annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in our Bylaws.

In addition, the notice must be made in writing and include (i) the qualifications of the proposed nominee to serve on the Board of Directors, (ii) the principal occupations and employment of the proposed nominee during the past five years, (iii) directorships currently held by the proposed nominee and (iv) a statement that the proposed nominee has consented to the nomination. The recommendation should be addressed to our Secretary.

Governance Committee. The Governance Committee currently consists of Messrs. Mark Dyne and Cohen. The governance committee's primary purpose is to review and make recommendations regarding the functioning of the Board of Directors as an entity, recommend corporate governance principles applicable to the Company and assist the Board of Directors in its reviews of the performance of the Board and each committee. The Governance Committee did not meet during 2005, as its functions were performed by the full Board of Directors.

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. We also pay non-employee directors an annual fee of \$25,000 and a committee fee of \$10,000. Non-employee directors, Mr. Mark Dyne and Messrs. Bermeister, Cohen and Katz, each received an option to purchase 25,000 shares of our common stock in March 2005. Mr. Katz resigned from the Board of Directors on March 27, 2006. Ms. White and Messrs. Miller and Musci, each received an option to purchase 30,000 shares of our common stock in December 2005. We also reimburse directors for their reasonable travel expenses incurred in attending board or committee meetings and pay nonemployee directors a per diem for board services. During 2005, we paid \$24,000 and \$21,000, to Messrs. Cohen and Musci, respectively, in additional per diem fees for board related services provided by these directors.

Colin Dyne resigned as Chief Executive Officer as of October 21, 2005. Mr Dyne continues to serve as Vice Chairman of the Board of Directors and as a consultant pursuant to an oral agreement for an indefinite term. For his consulting services, Mr. Dyne is paid a monthly fee of \$18,000. In addition, Mr. Dyne is reimbursed for reasonable travel expenses, receives a car allowance of \$2000 per month and receives certain medical benefits.

Compensation Committee Interlocks and Insider Participation.

As of December 31, 2005, we were indebted to Monto Holdings Pty. Ltd. in the aggregate amount of \$60,919, plus accrued interest of \$99,398. Kevin Bermeister, a member of the compensation committee of our Board of Directors, 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.

No current executive officer of the Company has served as a member of the board of directors or compensation committee of any entity for which a member of our Board of Directors or Compensation Committee has served as an executive officer.

Code of Ethics.

We have adopted a Code of Ethical Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as well as to our other employees and directors generally. A copy of our Code of Ethical Conduct was filed as an exhibit to our Annual Report on Form 10-K.

Stockholder Communications with the Board of Directors.

Our Board of Directors has adopted three methods by which our stockholders may communicate with the Board regarding matters of substantial importance to the Company. These methods are as follows:

1. *Procedures for Submission of Communications Regarding Audit and Accounting Matters.* Pursuant to the duties and responsibilities delegated to the Audit Committee of our Board of Directors in its Audit Committee Charter, our Audit Committee adopted procedures for (a) the receipt, retention, and treatment of communications received by us regarding accounting, internal accounting controls, or auditing matters; and (b) the submission by our employees, on a confidential and anonymous basis, of communications regarding questionable accounting or auditing matters. These procedures allow any person to submit a good faith communication regarding these various audit, internal accounting control and accounting matters to the Audit Committee, or to our management, and any employee to do so on a confidential and anonymous basis, without fear of dismissal or retaliation of any kind. Ultimately, the Audit

Committee will oversee treatment of communications in this area, and therefore any submissions would be reviewed by those members of the Board of Directors serving on the Audit Committee. The Audit Committee also may submit such communications to the Board of Directors for review and oversight as well. The Procedures for Submission of Audit and Accounting Matters can be found on this website at www.tagitpacific.com.

2. *Code of Ethical Conduct.* Our Code of Ethical Conduct, a copy of which was filed as an exhibit to our Annual Report on Form 10-K, identifies a mailing address of the Audit Committee of our Board of Directors. This allows individuals to contact Board members in connection with matters concerning the code and our company's overall ethical values and standards.

3. *Investor Relations.* Our investor relations manager, Rayna Long, addresses all of our investor relations matters. Stockholders are free to contact Ms. Long at info@tagitpacific.com, or our Investor Relations Department, at 818-444-4100. Ms. Long determines whether inquiries or other communications with respect to investor relations should be relayed to our Board of Directors or to management. Typical communications relayed to our Board of Directors or management involve stockholder proposal matters, audit and accounting matters addressed in item 1 above, and matters related to our code of ethical conduct addressed in item 2 above.

Each director on our Board of Directors is encouraged to attend our annual meeting of stockholders. All of our directors attended our 2005 Annual Meeting of Stockholders.

EXECUTIVE COMPENSATION

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 Number of Securities Underlying Options
		Salary (\$)	Other (\$)	
Stephen P. Forte (2) Chief Executive Officer	2005	38,250	(1)	--
August DeLuca (3) Former Chief Financial Officer	2005	166,385	(1)	35,000
Colin Dyne (4) Vice Chairman of Board of Directors (former Chief Executive Officer)	2005 2004 2003	556,309 450,594 452,397	73,097(5) (1) (1)	-- -- 100,000
Jonathan Burstein Executive Vice President of Operations and Director	2005 2004 2003	239,950 244,950 246,079	(1) (1) (1)	-- -- 35,000

(1) Certain of the named executive officers receive personal benefits in addition to salary and cash bonuses, including car allowances and expenses. The aggregate amount of such personal benefits does not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus reported for the officer.

(2) Mr. Forte was appointed Chief Executive Officer on October 21, 2005. Prior to joining us as CEO, Mr. Forte was paid certain fees as a consultant (See below "Certain Transactions with Directors and Executive Officers").

(3) Mr. DeLuca was appointed Chief Financial Officer on April 1, 2005 and resigned on January 20, 2006.

(4) Mr. Dyne served as Chief Executive Officer from 1997 to October 21, 2005.

(5) Comprised of car allowances of \$24,000; life insurance premiums of \$35,000; and other personal expenses.

Option Grants In Fiscal 2005.

The following table sets forth certain information regarding the grant of stock options made during fiscal 2005 to the Named Executive Officers.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted To Employees In Fiscal Year ⁽¹⁾	Exercise Or Base Price ⁽²⁾	Expiration Date	Potential Realizable Value At Assumed Rate of Stock Price Appreciation for Option Term ⁽³⁾	
					5%	10%
August DeLuca	35,000 (4)	15%	\$ 5.00	2/14/2015	\$ 11,057	\$ 278,905

(1) Options covering an aggregate of 235,000 shares were granted to employees during fiscal 2005.

(2) The exercise price and tax withholding obligations related to exercise may be paid by delivery of already owned shares, subject to certain conditions.

(3) The potential realizable value is based on the assumption that the common stock appreciates at the annual rate shown (compounded annually) from the date of grant until the expiration of the option term. These amounts are calculated pursuant to applicable requirements of the SEC and do not represent a forecast of the future appreciation of the common stock.

(4) Mr. DeLuca resigned from the Company effective January 20, 2006. All unexercised options held by Mr. DeLuca terminated 30 days following the date of his resignation.

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 (\$0.36 per share) on December 30, 2005, the last trading day in 2005.

Name	Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Stephen P. Forte	--	--	--	--	--	--
August DeLuca (1)	--	--	8,750	26,250	--	--
Colin Dyne	--	--	535,000	--	--	----
Jonathan Burstein	--	--	175,000	--	--	--

(1) Mr. DeLuca resigned from the Company effective January 20, 2006. All unexercised options held by Mr. DeLuca terminated 30 days following the date of his resignation.

Employment Contracts.

During fiscal year 2005, we did not have employment agreements with any of the Named Executive Officers. In 2006, we entered into the following employment agreements with our executive officers.

On March 16, 2006, we entered into an Executive Employment Agreement with Stephen Forte, pursuant to which Mr. Forte serves as our Chief Executive Officer. This employment agreement has a term continuing through December 31, 2008, which may be extended to December 31, 2009. Pursuant to this agreement, Mr. Forte will receive an annual base salary of \$275,000 for 2006 and \$325,000 for each subsequent year of the term and will be entitled to receive an annual incentive bonus based upon our earnings before interest and taxes. In the event that prior to the end of the term, Mr. Forte's employment is terminated by us "without cause" (as defined in the agreement), by Mr. Forte for "good reason" (as defined in the agreement) or due to Mr. Forte's death or disability, then Mr. Forte or his estate will be entitled to receive, in addition to all accrued salary, (i) severance payments equal to Mr. Forte's base salary for the remaining term of the agreement or, in the case of death or disability, through December 31, 2008, (ii) a pro rated portion of the annual incentive bonus for the year in which the termination occurred, (iii) full acceleration of vesting of the options issued to Mr. Forte pursuant to the agreement and (iv) continued healthcare coverage for Mr. Forte and his dependents for the remaining term of the agreement. In connection with the employment agreement and as an inducement to employment, we previously granted Mr. Forte an option to purchase 900,000 shares of our common stock, which vests over a period of three years. In addition, in lieu of \$50,000 in cash compensation, we granted Mr. Forte 135,135 shares of common stock and an option to purchase 135,135 shares of common stock that vests in full on October 24, 2006. All of these options will vest in full upon a change of control of our company or upon termination of Mr. Forte's employment without cause, for good reason or due to his death or disability.

On March 16, 2006, we entered into an employment offer letter with Wouter van Biene, pursuant to which Mr. van Biene serves as our Chief Operating Officer on an “at-will” basis. Pursuant to this offer letter, Mr. van Biene will receive an annual base salary of \$225,000 and will be eligible to receive an annual incentive bonus based upon our earnings before interest and taxes. In the event that Mr. van Biene’s employment is terminated by us without “cause” (as defined in the agreement) or due to Mr. van Biene’s death or disability, then Mr. van Biene or his estate will be entitled to receive as severance, in addition to all accrued salary, (i) salary continuation and continuation of coverage under our group health plan for a period of six months if the termination occurs during the first year of employment, a period of twelve months if the termination occurs during the second year of employment or a period of eighteen months if the termination occurs after the second year of employment, and (ii) twelve months acceleration of vesting of all outstanding options. In connection with the offer letter and as an inducement to employment, we previously granted Mr. van Biene an option to purchase 325,000 shares of our common stock, which vests over a period of three years. Upon a change of control of our company, 50% of Mr. van Biene’s then-outstanding unvested stock options shall vest and the remaining unvested options shall vest in full if Mr. van Biene is terminated, his position or base pay is reduced or he is required to relocate within twelve months following the change of control.

On March 16, 2006, we entered into an employment offer letter with Lonnie Schnell, pursuant to which Mr. Schnell serves as our Chief Financial Officer on an “at-will” basis. Pursuant to this offer letter, Mr. Schnell will receive an annual base salary of \$185,000 and will be eligible to receive an annual incentive bonus based upon our earnings before interest and taxes. In the event that Mr. Schnell’s employment is terminated by us without “cause” (as defined in the agreement) or due to Mr. Schnell’s death or disability, then Mr. Schnell or his estate will be entitled to receive as severance, in addition to all accrued salary, (i) salary continuation and continuation of coverage under our group health plan for a period of six months and (ii) six months acceleration of vesting of all outstanding options. In connection with the offer letter and as an inducement to employment, we previously granted Mr. Schnell an option to purchase 400,000 shares of our common stock, which vests over a period of four years. Upon a change of control of our company, 50% of Mr. Schnell’s then-outstanding unvested stock options shall vest and the remaining unvested options shall vest in full if Mr. Schnell is terminated, his position or base pay is reduced or he is required to relocate within six months before or twelve months following the change of control.

On March 16, 2006, we entered into an employment offer letter with Jonathan Burstein, pursuant to which Mr. Burstein will continue to serve as our Executive Vice President of Operations on an “at-will” basis. Pursuant to this offer letter, Mr. Burstein will receive an annual base salary of \$240,000 for 2006 and of \$300,000 beginning on January 1, 2007, and will be eligible to receive an annual incentive bonus based upon our earnings before interest and taxes. Additionally, on or before December 31, 2006, we agreed to pay to Mr. Burstein, at our option, either: (i) \$60,000 in cash or (ii) 162,162 shares of our common stock and an option to purchase 162,162 shares of common stock with an exercise price equal to the fair market value on the date of grant and which options shall vest in full on December 31, 2006. In the event that Mr. Burstein’s employment is terminated by us without “cause” (as defined in the agreement) or due to Mr. Burstein’s death or disability, then Mr. Burstein or his estate will be entitled to receive, in addition to all accrued salary, (i) severance payments equal to eighteen months’ base salary, payable in six monthly installments, (ii) continuation of coverage under our group health plan for a period of eighteen months and (iii) twelve months acceleration of vesting of all outstanding options. In connection with the offer letter, we previously granted Mr. Burstein an option to purchase 425,000 shares of our common stock, which vests over a period of three years. Upon a change of control of our company, 50% of Mr. Burstein’s then-outstanding unvested stock options shall vest and the remaining unvested options shall vest in full if Mr. Burstein is terminated, his position or base pay is reduced or he is required to relocate within twelve months following the change of control.

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 3,077,500, subject to certain adjustments to prevent dilution. Our Board of Directors has approved an amendment to our 1997 Plan to increase the number of shares of common stock available for issuance under the 1997 Plan from 3,077,500 shares to 6,000,000 shares, which such amendment is being submitted to the stockholders for approval at the Annual Meeting. 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. Our Board of Directors has approved an amendment to our 1997 Plan to increase the number of shares of common stock that may be issued pursuant to awards granted to any individual under the Plan in a single year to 50% of the total number of shares available thereunder.

As of March 31, 2006, 230 shares remained available for grants of awards under the 1997 Plan.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2005 regarding equity compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance:

	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 securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,833,000	\$ 3.46	1,244,500
Equity compensation plans not approved by security holders	1,377,147	\$ 4.36	-
Total	3,210,147	\$ 3.92	1,244,500

Warrants issued pursuant to equity compensation plans not approved by security holders are summarized as follows:

- 172,500 warrants issued for services in 2003, are exercisable at \$5.06 per share and expire in May 2008.
- 30,000 warrants issued for services in 2004, are exercisable at \$4.29 per share and expire in July 2007.
- 102,741 warrants issued in conjunction with a private placement transaction in 2004, are exercisable at \$3.65 per share and expire in November 2009.
- 215,754 warrants issued for services in 2004, are exercisable at \$3.65 per share and expire in November 2009.
- 572,818 warrants issued for services in 2003, are exercisable at \$4.74 per share and expire in December 2008.
- 66,667 warrants issued in conjunction with private placement transaction in 2001 and 2002, are exercisable at \$4.34 per share and expired in March 2006.
- 66,667 warrants issued in conjunction with private placement transaction in 2001 and 2002, are exercisable at \$4.73 per share and expired in March 2006.
- 150,000 warrants issued in conjunction with private placement transaction in 2001 and 2002, are exercisable at \$3.50 per share and expire at various date through February 2007.

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 subdivision or consolidation of shares or the payment of a stock dividend on Common Stock.

14

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 stock options and otherwise administers the 1997 Plan to the extent not administered by the full Board of Directors. 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 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 2005 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 2005 will be fully deductible. With respect to compensation to be paid to executives in 2006 and future years, in certain instances such compensation may exceed

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\$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 Ber