

SPESCOM SOFTWARE INC
Form PRE 14A
March 01, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

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 (as permitted by Rule 14a-6(e)(2))**
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

SPESCOM SOFTWARE 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):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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- o Fee paid previously with preliminary materials.
- 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:

SPESCOM SOFTWARE INC.

10052 Mesa Ridge Court, Suite #100

San Diego, California 92121

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be held on April 24, 2007

The Annual Meeting of Shareholders of Spescom Software Inc., a California corporation (the Company), will be held at the Company's principal executive offices at 10052 Mesa Ridge Court, Suite #100, San Diego, California, at 9:00 a.m. on April 24, 2007 for the following purposes:

1. To elect six directors to hold office until the next annual meeting of shareholders and until their successors have been elected and qualified.
2. To vote upon a proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 100,000,000 to 200,000,000.
3. To vote upon a proposal to approve the adoption of the 2007 Stock Incentive Plan.
4. To vote upon a proposal to amend the Company's Articles of Incorporation to change the name of the Company to Enterprise Informatics Inc.
5. To transact such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on March 22, 2007 as the record date for the determination of shareholders entitled to receive notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE. THIS WILL ENSURE THAT YOUR SHARES ARE VOTED IN ACCORDANCE WITH YOUR WISHES AND THAT A QUORUM WILL BE PRESENT. YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING, AND YOU MAY VOTE IN PERSON EVEN THOUGH YOU HAVE RETURNED YOUR PROXY. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THE RECORD HOLDER.

By Order of the Board of Directors,

John W. Low

Secretary

San Diego, California

March 28, 2007

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SPESCOM SOFTWARE INC.

10052 Mesa Ridge Court, Suite #100

San Diego, California 92121

PROXY STATEMENT

Annual Meeting of Shareholders

April 24, 2007

INFORMATION CONCERNING SOLICITATION AND VOTING

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Spescom Software Inc., a California corporation (the "Company"), for use at the Annual Meeting of Shareholders to be held at the Company's principle executive offices at 10052 Mesa Ridge Court, Suite #100, San Diego, California, on April 24, 2007 at 9:00 a.m., or at any adjournments or postponements thereof, for the purposes set forth herein and in the foregoing Notice. This Proxy Statement and the accompanying proxy card will be first sent to shareholders on or about March 28, 2007.

Shares represented by properly executed proxies, if received in time and not revoked or suspended, will be voted in accordance with the instructions indicated thereon or, if no instructions are given for any or all of the proposals, will be voted: (i) in favor of the election of all persons named in, or otherwise nominated as set forth in, this Proxy Statement to serve as directors; (ii) in favor of the proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of the Company's common stock (the "Common Stock") from 100,000,000 to 200,000,000; (iii) in favor of the proposal to approve the adoption of the 2007 Stock Incentive Plan; and (iv) in favor of the proposal to amend the Company's Articles of Incorporation to change the name of the Company to Enterprise Informatics Inc.

Record Date; Outstanding Shares; Voting Rights

Each holder of record of the Common Stock and of the Company's Series F Convertible Preferred Stock (the "Series F Preferred Stock") at the close of business on March 22, 2007 is entitled to vote on all matters submitted to a vote of the shareholders at the Annual Meeting. At the close of business on March 1, 2007, there were 37,144,494 shares of Common Stock outstanding held of record by approximately 800 shareholders and 5,291 shares of Series F Preferred Stock outstanding held of record by two shareholders. The outstanding shares of Series F Preferred Stock are presently convertible into 11,757,778 shares of Common Stock.

The holders of Series F Preferred Stock are entitled to vote as a class with the holders of Common Stock on all matters submitted to the shareholders at the Annual Meeting. On all such matters, other than the elections of directors, (i) each holder of Common Stock is entitled to one vote for each share of Common Stock held and (ii) each holder of Series F Preferred Stock is entitled to the number of votes equal to the number of shares of Common Stock into which such holder's shares of Series F Preferred Stock are convertible.

In the election of directors, unless the election is subject to cumulative voting, each holder of Common Stock and of Series F Preferred Stock is entitled to cast for any one or more candidates no greater than the number of votes to which such shareholder is entitled on matters other than the election of directors (as described in the preceding paragraph). If any shareholder gives notice to the Secretary of such shareholder's intention to cumulate votes prior to the voting, the election will be subject to cumulative voting. Under cumulative voting, each holder of Common Stock or Series F Preferred Stock may give any one candidate whose name was placed in nomination prior to the commencement of voting a number of votes equal to the number of votes to which such shareholder is entitled on matters other than the election of directors multiplied by the number of directors to be elected, or distribute such number of votes on the same principle among as many candidates as the shareholder sees fit. The proxy holders will have authority, in their discretion, to vote cumulatively for less than all of the nominees.

Vote Required

Directors will be elected by a plurality of the votes of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) represented at the Annual Meeting and voting on the election of directors. Therefore, the six nominees receiving the highest number of affirmative votes will be elected.

The affirmative vote of a majority of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) entitled to vote at the Annual Meeting will be required for approval of (i) the proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of Common Stock from 100,000,000 to 200,000,000 and (ii) the proposal to amend the Company's Articles of Incorporation to change the name of the Company to Enterprise Informatics Inc.

Approval of the adoption of the 2007 Stock Incentive Plan requires the affirmative vote of shares constituting (i) a majority of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) represented at the Annual Meeting and voting on the proposal and (ii) a majority of the required quorum, as described in the following paragraph.

Quorum

A quorum comprising a majority of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) entitled to vote at the Annual Meeting, represented in person or by proxy at the meeting, is required to be present in order for business to be transacted at the meeting. If the required quorum is not present at the Annual Meeting, the meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum.

Recommendations of the Board of Directors

The Company's Board of Directors recommends that you vote **FOR** each of the nominees of the Board of Directors (Proposal 1); **FOR** the increase in authorized shares of Common Stock (Proposal 2); **FOR** the adoption of the 2007 Stock Incentive Plan (Proposal 3); and **FOR** the change of the Company's name to Enterprise Informatics Inc. (Proposal 4).

Revocability of Proxies

A shareholder giving a proxy has the power to revoke it at any time before it is exercised by attending and voting at the Annual Meeting or by filing with the Secretary of the Company either a written notice of revocation or a duly executed proxy bearing a later date.

Abstentions and Broker Non-Votes

Broker non-votes and abstentions will be counted as present for purposes of determining the presence or absence of a quorum, but will not be counted for purposes of determining the number of votes cast regarding any particular proposal except as specifically discussed in this paragraph. Because directors are elected by plurality, abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on its outcome. Proposal 3 must be approved by a majority of the votes cast, provided that the total votes cast in favor represents at least a majority of the quorum required for the meeting. As a result, abstentions and broker non-votes on Proposal 3 generally have no effect, unless an insufficient number of shares is voted to satisfy the majority of a quorum requirement. Proposals 2 and 4 must be approved by the affirmative vote of a majority of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) entitled to vote at the Annual Meeting. As a result, abstentions and broker non-votes have the same effect as votes against Proposals 2 and 4.

Broker non-votes include shares for which a bank, broker or other nominee (i.e., record) holder has not received voting instructions from the beneficial owner and for which the nominee holder does not have discretionary power to vote on a particular matter. Under the rules that govern brokers who are record owners of shares that are held in brokerage accounts for the beneficial owners of the shares, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on routine matters but have no discretion to vote them on non-routine matters. The proposals to be voted upon at the Annual Meeting include both routine matters, such as the election of directors (Proposal 1) and the increase in authorized shares of Common Stock (Proposal 2), and non-routine matters, such as the adoption of the 2007 Stock Incentive Plan (Proposal 3).

Solicitation of Proxies

The cost of this solicitation of proxies will be borne by the Company. Solicitation will be made by mail, telephone, facsimile or e-mail and personally by directors, officers and other employees of the Company, but such persons will not receive compensation for such services over and above their regular salaries. The Company will reimburse brokers, banks, custodians, nominees and fiduciaries holding stock in their names or in the names of their nominees for their reasonable charges and expenses in forwarding proxy material to the beneficial owners of such stock.

Householding of Annual Disclosure Documents

The Securities and Exchange Commission has approved a rule governing the delivery of annual disclosure documents. This rule allows us to send a single set of our Annual Report and Proxy Statement to any household at which two or more of our shareholders reside if we believe that the shareholders are members of the same family. Some banks, brokers and other intermediaries may be participating in this practice of householding proxy statements and annual reports. This rule benefits both our shareholders and us. It reduces the volume of duplicate information received at a shareholder's house and helps reduce our expenses. Each shareholder, however, will continue to receive individual proxy cards or voting instruction forms.

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If your household has previously received a single set of disclosure documents, but you would prefer to receive your own copy this year or in future years, you should contact your bank, broker or other nominee record holder. You may also request additional copies of either our Annual Report or Proxy Statement by writing to Spescom Software Inc., 10052 Mesa Ridge Court, Suite #100, San Diego, California 92121, Attention: Corporate Secretary, or by calling (858) 625-3000. Similarly, if you share an address with another shareholder of the Company and together both of you wish to receive only a single set of our annual disclosure documents, please follow the same instructions.

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PROPOSAL 1**ELECTION OF DIRECTORS**

Six directors are to be elected at the Annual Meeting to hold office until the next Annual Meeting and until their successors are elected and qualified. In the election of directors, in the absence of instructions to the contrary, the proxy holders intend to vote for the election of the six nominees named below. If additional persons are nominated for election as directors, the proxy holders, in the absence of instructions to the contrary, intend to vote all proxies received by them in order to elect as many of the nominees named below as possible, whether or not by cumulative voting. In such event, if the election is subject to cumulative voting, the proxy holder will determine the specific nominees for whom votes will be cumulated. Should any nominee decline or become unavailable to serve as a director or should any vacancy occur before the election, the proxies will be voted, in the absence of instructions to the contrary, for the election of the remaining nominees named in this Proxy Statement.

In accordance with the Stock Purchase Agreement dated as of January 14, 2000 between the Company and Spescom Ltd., the Company has covenanted to include two nominees of Spescom Ltd. in management's slate of nominees to be elected to the Board of Directors and to recommend to the shareholders the election of such nominees for as long as Spescom Ltd. or any affiliate of Spescom Ltd. holds at least 33% of the Common Stock. Dr. Myers and Mr. Isaacman are the current nominees designated by Spescom Ltd.

The following table sets forth certain information concerning each person nominated for election as a director:

Name	Age	Position
Alan Kiraly	46	Chief Executive Officer and Director
Michael Silverman	62	Chairman and Director
Hilton Isaacman	53	Director
D. Ross Hamilton	69	Director
Larry D. Unruh	56	Director
James P. Myers	66	Director

Mr. Kiraly was appointed Chief Executive Officer and a Director of the Company in January 2007, after having served as Interim Chief Executive Officer since August 2006. Mr. Kiraly joined the Company as Vice President of Product Development in August 2004. From October 2000 until joining the Company, he was the Chief Executive Officer of Lascom Solutions Inc., the United States subsidiary of Lascom, SA, a French software developer. Mr. Kiraly was Vice President, Product Management and Development from November 1999 to October 2000 at Motiva Software Inc. Prior to Motiva he held a variety of management positions in product marketing, development and project services at various companies in the software industry. Mr. Kiraly earned a B.S. degree in Mechanical Engineering from Michigan State University in 1983, and Masters of Science in Mechanical Engineering from the University of Dayton in 1986.

Mr. Silverman has been a Director of the Company since April 2004. He was appointed Chairman of the Board of the Company in September 2004. Since 2001 Mr. Silverman has been a director of Island Pacific, Inc., a publicly held software company in the retail industry and in February 2004 was appointed its Chairman. Mr. Silverman founded Advanced Remote Communications Solutions, Inc. (formerly known as Boatracs, Inc.) in 1990 and serves on its board of directors. He previously served as its Chairman until May 2002, and as Chief Executive Officer and President until October 1997, and from November 1999 to May 2002. Mr. Silverman is a Chartered Accountant (South Africa) and received M.B.A. from Stanford University in 1969.

Mr. Isaacman, a nominee of Spescom Ltd., has been a Director of the Company since April 2000. Mr. Isaacman was the Executive Director Corporate Finance of Spescom Ltd. from 1999 to 2005. Mr. Isaacman previously served as Spescom Ltd.'s Financial Director from 1990 to 1998. Mr. Isaacman began his career with Spescom Ltd. in 1988 as Financial Manager and was a member of Spescom Ltd.'s Board of Directors from 1990 to 2005. Mr. Isaacman is a Chartered Accountant (South Africa) and received a certificate in accounting, tax and auditing from the University of Capetown in 1982.

Mr. Hamilton has been a Director of the Company since June 1994. He served as Chairman of the Board of the Company from January 1997 through June 1997. Since 1983 Mr. Hamilton has served as President of Hamilton Research, Inc., a financial consulting firm. Mr. Hamilton received a B.S. degree in Economics from Auburn University in 1961.

Mr. Unruh has served as a Director of the Company since May 1988. Since January 2003 he has been Managing Partner of Hein & Associates LLP, certified public accountants, as well as its Managing Tax Partner since 1982. Mr. Unruh has served as a director of Advanced Laser Technology, Inc. since 1999 and also served as a director of Basin Exploration, Inc., an oil exploration and development company from 1992 to 2001. Mr. Unruh received a B.S. degree in Accounting from the University of Denver in 1973.

Dr. Myers, a nominee of Spescom Ltd., has been a Director of the Company since July 2001. In October 2003 Dr. Myers was appointed as a member of the board of directors of Spescom Ltd. and serves as Chairman. Dr. Myers, currently a consultant, has over 30 years of international business experience specializing in the telecommunications industry. Dr. Myers served as President of Southwestern Bell International Development Africa (Pty) Ltd from 1985 to 1998. Dr. Myers served as the Executive Vice President of that company from 1994 to 1995. From 1993 to 1994, Dr. Myers was the Executive Director of Technology Resources Incorporated. From 1991 to 1993, Dr. Myers was the President of JMA, Inc. From 1979 to 1991, Dr. Myers was the President of The Gammon Group, Inc. From 1969 to 1978, Dr. Myers was a Principal with the accounting firm Arthur Young & Company. From 1965 to 1969, Dr. Myers was an Operations Research Analyst with Texas Instruments, Inc. Dr. Myers earned his B.A. in Mathematics from Texas A&M University in 1963, a Master of Arts in Mathematical Physics from the University of Arizona in 1965, and a Doctor of Philosophy in Industrial Engineering/Operations Research from Texas Tech University in 1969. Dr. Myers is currently serving as a Director for the following entities: Blackstar Investors PLC, African Merchant Bank, Econet Wireless, and American Chamber of Commerce of South Africa.

All directors are elected annually and serve until the next annual meeting of shareholders and until their successors have been elected and qualified.

Vote Required and Recommendation of the Board

The six nominees receiving the highest number of affirmative votes of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) represented at the Annual Meeting and voting on the election of directors shall be elected as directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION OF ALL SIX NOMINEES NAMED ABOVE.

When a proxy in the form of the proxy enclosed with this Proxy Statement is returned properly executed, unless marked to the contrary, such proxy will be voted in order to elect as many of the directors named above as possible, as described in the first paragraph of this Proposal 1.

PROPOSAL 2

**APPROVAL OF AMENDMENT TO ARTICLES OF INCORPORATION
TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK**

The Board of Directors has unanimously adopted a resolution approving, and is recommending to the shareholders for approval at the Annual Meeting, an amendment to Article III of the Company's Restated Articles of Incorporation to increase the number of shares of Common Stock that the Company is authorized to issue from 100,000,000 to 200,000,000. This proposal is referred to elsewhere in this Proxy Statement as the Authorized Share Amendment. The Board has determined that this amendment is in the best interests of the Company and its shareholders. The Company is currently authorized to issue 1,000,000 shares of preferred stock, and the proposed amendment will not affect that authorization.

Purpose and Effect of the Proposed Amendment

The proposed amendment would increase the number of shares of Common Stock the Company is authorized to issue from 100,000,000 to 200,000,000. The additional 100,000,000 shares of Common Stock would be a part of the same existing class of Common Stock, and, if and when issued, would have the same rights and privileges as the shares of Common Stock currently issued and outstanding. The authorization of the additional 100,000,000 shares of Common Stock would not effect the rights, preferences or privileges of the holders of the Company's preferred stock.

The Company currently has 100,000,000 shares of authorized Common Stock. As of March 1, 2007, the Company had approximately 37,144,494 shares of Common Stock issued and outstanding. In addition, as March 1, 2007, the following shares of Common Stock were reserved for issuance by the Company: (i) 4,372,750 shares of Common Stock issuable upon the exercise of outstanding stock options; (ii) 6,726,852 shares of Common Stock issuable upon exercise of outstanding warrants; (iii) 11,757,778 shares of Common Stock issuable upon conversion of outstanding Series F Convertible Preferred Stock; and (iv) up to 33,793,103 shares of Common Stock issuable upon conversion of outstanding Series I Convertible Preferred Stock. Accordingly, as of March 1, 2007, there were an aggregate of 93,794,477 shares of Common Stock outstanding or reserved for issuance and only 6,205,523 authorized shares of Common Stock that were not outstanding or reserved for issuance.

The Board believes that it is desirable to increase the number of shares of Common Stock the Company is authorized to issue to provide the Company with adequate flexibility in the future with respect to the issuance of its Common Stock for general corporate purposes, including grants of stock options or other stock-based compensation to employees and consultants, payment of stock dividends, equity financings, acquisitions or other business combinations, and stock splits or other recapitalizations, and with respect to the establishment of reserves for uses including employee incentive programs. The Board has no present arrangements, agreements, commitments, understandings or definitive plans with regard to the issuance of the proposed additional shares other than current commitments associated with the shares reserved for issuance as discussed in the preceding paragraph, which can be effected even if this proposal were not approved. As discussed in the following paragraph, the board anticipates that, if the shareholders approve both the Authorized Share Amendment and the 2007 Stock Incentive Plan, a portion of the newly authorized shares will be reserved for issuance pursuant to awards under the 2007 Plan.

As set forth in Proposal 3, the Board is seeking approval of the 2007 Stock Incentive Plan (the 2007 Plan), which provides that the number of shares of Common Stock that may be issued pursuant to stock options and other awards under the plan may not exceed 7,500,000. In the event the adoption of the 2007 Plan is approved by the shareholders, the Board intends to reserve for issuance pursuant to awards

under the plan a number of shares of Common Stock no greater than the number of shares then authorized but not outstanding or otherwise reserved for issuance, even if fewer than the 7,500,000 share maximum set forth in the 2007 Plan. (As indicated above, as of March 1, 2007, there were 6,205,523 authorized shares that were neither outstanding nor reserved for issuance.) Consequently, if the 2007 Plan is approved by the shareholders but the Authorized Share Amendment is not so approved, the Board anticipates that, immediately following the Annual Meeting, it would be limited to reserving fewer than 7,500,000 shares of Common Stock for issuance pursuant to awards under the 2007 Plan. If both proposals are approved, the Board will reserve 7,500,000 shares for issuance pursuant to awards under the 2007 Plan, a portion of which the Board anticipates would be shares newly authorized pursuant to the Authorized Share Amendment. In no event will awards be made under the 2007 Plan pursuant to which the number of shares of Common Stock subject to issuance exceeds the associated reserve established by the Board.

The proposed amendment to Article III would permit the issuance of additional shares of Common Stock, at the discretion of the Board, up to the new maximum authorization. If the Board deems it to be in the best interests of the Company and its shareholders to issue additional shares of Common Stock in the future, the Board will not generally seek further authorization by vote of the shareholders, unless such authorization is otherwise required in a specific case by law or by the listing requirements of any exchange on which the Company's common stock may be quoted. The Board believes it is prudent for the Company to have this flexibility. The holders of Common Stock are not entitled to preemptive rights. Accordingly, the issuance of additional shares of Common Stock will have the effect, under certain circumstances, of diluting the ownership, earnings per share, and voting right of shareholders.

The proposed increase in the number of shares of common stock that the Company is authorized to issue is not intended to inhibit a change in control of the Company. The Board is aware, however, that an increase in the number of authorized but unissued shares of common stock could discourage, or make more difficult, efforts to effect a change in control of the Company. The Board could use the increased number of authorized shares to frustrate persons attempting to gain control of the Company that would otherwise pay an above-market premium favored by holders of a majority of the shares of Common Stock. For example, the Board could privately place shares with purchasers who may side with the Board in opposing a hostile takeover or issue securities that would dilute the stock ownership of persons seeking to obtain control of the Company. There are certain provisions in the Bylaws and Restated Articles of Incorporation of the Company that also could have an anti-takeover effect, in particular the ability to grant shares of our preferred stock, which may be convertible into Common Stock. The Board is not aware of any pending or threatened efforts to effect a change in control of the Company and is not recommending this proposal as part of an anti-takeover strategy.

Implementing the Proposed Amendment

To effect the Authorized Share Amendment, a Certificate of Amendment would be filed with the Secretary of State of the State of California amending and restating Paragraph (a) of Article III of the Company's Restated Articles of Incorporation to read as follows:

(a) This corporation is authorized to issue two classes of shares of stock, designated, respectively as Common Stock and Preferred Stock. The total number of shares of all classes of stock that this Corporation is authorized to issue is Two Hundred-One Million (201,000,000), consisting of Two Hundred Million (200,000,000) shares of Common Stock and One Million (1,000,000) shares of Preferred Stock.

Vote Required and Recommendation of the Board of Directors

The affirmative vote of a majority of the shares of Common Stock (whether outstanding or issuable upon the conversion of outstanding shares of Series F Preferred Stock) entitled to vote at the Annual Meeting will be required for approval of the Authorized Shares Amendment. In the absence of approval, the authorized number of shares of Common Stock will remain 100,000,000.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF THE AUTHORIZED SHARES AMENDMENT TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK TO 200,000,000.

When a proxy in the form of the proxy enclosed with this Proxy Statement is returned properly executed, unless marked to the contrary, such proxy will be voted in favor of the increase in authorized shares of Common Stock contemplated by the Authorized Shares Amendment.

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PROPOSAL 3

APPROVAL OF 2007 STOCK INCENTIVE PLAN

The Board of Directors has unanimously adopted a resolution approving, and is recommending to the shareholders for approval at the Annual Meeting, the Spescom Software Inc. 2007 Stock Incentive Plan (the 2007 Plan). The Board has determined that adoption of the 2007 Plan is in the best interests of the Company and its shareholders.

The 2007 Plan is intended to be the successor to the Spescom Software Inc. Amended and Restated 1996 Stock Incentive Plan, which expired in 2006, and to govern the grant of stock-based awards to our employees (including officers), directors and consultants. Its purpose is to enable the Company and any other entity controlling or controlled by the Company (an affiliate) to attract, retain and motivate their directors, employees (including officers) and consultants by providing for or increasing the proprietary interests of such persons in the Company through the granting of stock-based awards.

The principal provisions of the 2007 Plan are summarized below. This summary is qualified in its entirety by reference to the actual 2007 Plan, a copy of which is attached as Appendix A to this Proxy Statement.

Purpose of Adopting the 2007 Plan

Adoption of the 2007 Plan will provide the Company with the continued ability to provide equity-based compensation to employees (including officers), directors and consultants of the Company and its affiliates, thereby enabling the Company to attract, retain and motivate its directors, employees (including officers) and consultants by providing for or increasing the proprietary interests of such persons in the Company.

If shareholders approve the 2007 Plan, the Company will use the 2007 Plan to compensate employees (including officers), directors and consultants of the Company and its affiliates. If the shareholders do not approve the 2007 Plan, the Company will not have a shareholder-approved plan from which to be able to make incentive stock awards to such persons on an ongoing basis, as the Company's Amended and Restated 1996 Stock Incentive Plan expired last year and no new incentive stock awards may be granted under that plan. As a result, if the shareholders do not approve the 2007 Plan, the Board believes that the Company will be placed at a disadvantage in keeping its current employees and attempting to attract new employees.

Summary of the Key Terms of the 2007 Plan

The following is a brief description of the 2007 Plan. The full text of the 2007 Plan is attached as Appendix A to this Proxy Statement, and the following description is qualified in its entirety by reference to the text of the 2007 Plan set forth in Appendix A.

Eligibility. All employees (including officers), directors and consultants of the Company or its affiliates, are eligible to receive stock awards under the 2007 Plan, except that consultants are ineligible to receive incentive stock options by law (each employee, director or consultant who receives such a stock award, a Participant). As of March 1, 2007, there were approximately 35 employees (including officers), 5 directors, and 5 consultants who would be eligible to participate in the 2007 Plan. Participants will receive grants of stock awards at the discretion of the Board as compensation for their services to the Company of its affiliates.

Types of Awards. The types of stock awards that are available for grant under the Plan are:

- incentive stock options;
- nonstatutory stock options;
- stock bonus awards;
- stock appreciation rights;
- phantom stock units; and
- restricted stock units.

Administration of the 2007 Plan. The Board shall administer the 2007 Plan unless and until the Board delegates administration to a committee (the Committee). The Board has the power and authority to, among other things: (i) determine which persons eligible under the 2007 Plan shall be granted stock awards, (ii) determine the type(s), number, terms and conditions of stock awards, as well as the timing and manner of grant, (iii) interpret the 2007 Plan, and establish, amend and revoke rules and regulations to administer the 2007 Plan, (iv) amend the 2007 Plan or any stock award granted pursuant thereto, (v) terminate or suspend the 2007 Plan, (vi) adopt sub plans and/or special provisions applicable to stock awards regulated by the laws of a foreign jurisdiction, and (vii) exercise such powers and perform such acts as the Board deems necessary, desirable, convenient or expedient to promote the best interests of the Company that are not in conflict with the provisions of the 2007 Plan. If the Board delegates administration to the Committee, the Committee may exercise, in connection with the administration of the 2007 Plan, any of the powers and authority granted to the Board under the 2007 Plan. The Committee may delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise, subject to such resolutions as may be adopted from time to time by the Board (and references in the 2007 Plan and this summary to the Board shall thereafter be to the Committee or the subcommittee, as applicable). The Board may also delegate to one or more officers of the Company the authority to grant stock awards to Participants who are not officers to the extent permitted by California law. The Board may abolish the Committee at any time and revest in the Board some or all of the administration of the 2007 Plan.

Stock Subject to the 2007 Plan.

The number of shares of our Common Stock that may be issued pursuant to stock awards under the 2007 Plan may not exceed 7,500,000 shares (the Share Reserve). Each share of Common Stock issued pursuant to a stock award will reduce the Share Reserve by one share. To the extent that a distribution pursuant to a stock award is made in cash, the Share Reserve will not be reduced. Shares of Common Stock covered by stock awards that expire, are cancelled, terminate, are repurchased by us at cost or reacquired by us prior to vesting, will revert to and again become available for issuance under the 2007 Plan.

In addition, the number of shares of our Common Stock that may be issued pursuant to stock awards under the 2007 Plan may not exceed the reserve for the issuance of such shares that the Board will establish if the 2007 Plan is approved. The number of shares included in that reserve will be 7,500,000 if both the 2007 Plan and the Authorized Share Amendment (as discussed in Proposal 2) are approved by the shareholders. If, however, the 2007 Plan is approved by the shareholders but the Authorized Share Amendment is not, the Board anticipates that, immediately following the Annual Meeting, it will be limited to reserving fewer than 7,500,000 shares for issuance pursuant to stock awards under the 2007 Plan. See Purpose and Effect of the Proposed Amendment under Proposal 2 for more information regarding the anticipated effects of the approval or non-approval of the Authorized Share Amendment with respect to the issuance of stock awards under the 2007 Plan and of shares of Common Stock pursuant to such awards.

Other Share Limits. The maximum aggregate number of shares of Common Stock that may be issued pursuant to incentive stock options under the 2007 Plan is 7,500,000 shares. No employee shall be eligible to be granted incentive stock options, nonstatutory stock options, or stock appreciation rights covering more than 2,000,000 shares of Common Stock during any calendar year.

Fair Market Value. Generally, fair market value of the Company's Common Stock will be the closing sales price of the Company's Common Stock on the OTC Bulletin Board on the date of determination. On February 23, 2007, the fair market value per share of the Company's Common Stock determined on such basis was \$0.09.

Terms and Conditions of Options.

For each option, the Board will determine in the optionholder's option agreement whether and how such option will vest. Generally, only the vested portion of an option will be exercisable for shares of Common Stock. To the extent required by California securities law, options granted to employees who are not officers will provide for vesting at a rate of at least 20% per year over 5 years from the date of grant.

The exercise price per share of incentive stock options and nonstatutory stock options will be at least 100% of the fair market value per share of our Common Stock on the date the option is granted. The purchase price of Common Stock acquired pursuant to an option will be paid to the Company (i) in cash or by check at the time the option is exercised, or (ii) in the discretion of the Board, in another form of legal consideration other than a promissory note or other form of deferred payment. Unless there is a provision to the contrary in the individual optionholder's option agreement, payment for Common Stock pursuant to an option may only be made in the form of cash or check.

If an optionholder's continuous service terminates for any reason other than disability, death or for cause, he or she will generally have three months from the date of such termination to exercise his or her options (to the extent that the optionholder was entitled to exercise such options as of the date of such termination), unless his or her option agreement provides otherwise. If an optionholder's continuous service terminates as a result of the optionholder's disability or death, he or she will generally have twelve months in the case of disability and eighteen months in the case of death to exercise (or for his or her estate to exercise) his or her options (to the extent that the optionholder was entitled to exercise such options as of the date of such termination), unless his or her option agreement provides otherwise. If an optionholder's continuous service is terminated for cause, his or her option will immediately terminate. However, in no event may the optionholder exercise an option past the expiration of its term as set forth in the option agreement. The term of each option granted under the 2007 Plan will generally be ten years from the date of grant.

Terms and Conditions of Stock Bonus Awards. Stock bonus awards are grants of shares of Common Stock not requiring the payment of any monetary consideration by a Participant. Stock bonus awards may be subject to vesting and such vesting may be based on a Participant's continuous service and/or the achievement of performance criteria. For each stock bonus award the Board will determine in the Participant's award agreement whether and how such stock bonus award will vest. In the event a Participant's continuous service terminates, all unvested shares under these awards shall be automatically reacquired by us at no cost to us.

Terms and Conditions of Stock Appreciation Rights. The Board may grant stock appreciation rights independently of or in connection with an option grant. The base price per share of a stock appreciation right will be at least 100% of the fair market value per share of underlying Common Stock on the date of grant. Each stock appreciation right entitles a Participant upon redemption to an amount equal to (a) the excess of (1) the fair market value on the redemption date of one share of Common Stock over (2) the base price, times (b) the number of shares of Common Stock covered by the stock appreciation right being redeemed. To the extent a stock appreciation right is granted concurrently with an option grant, the redemption of the stock appreciation right will proportionately reduce the number of shares of Common Stock subject to the concurrently granted option. Stock appreciation rights may be paid in shares of Common Stock, cash or a combination thereof in the Board's discretion.

Terms and Conditions of Phantom Stock Units. A phantom stock unit is the right to receive the value of one share of Common Stock, redeemable upon terms and conditions set by the Board. Phantom stock units may be paid in shares of Common Stock, cash or a combination thereof in the Board's discretion at the time of vesting.

Terms and Conditions of Restricted Stock Units. The Board also may award restricted stock units which entitle a Participant to receive one share of Common Stock per unit at the time the unit vests. The Board has discretion to provide that a Participant pay for restricted stock units with cash or other consideration permitted by law. The vesting of restricted stock units may be based on a Participant's continuous service or the achievement of performance criteria. In the event a Participant's continuous service terminates, the unvested portion of any restricted stock unit will expire immediately. To the extent permitted under the terms of the applicable restricted stock unit agreement, a Participant may elect to defer receipt of shares of Common Stock otherwise deliverable upon the vesting of such restricted stock units if such election complies with the procedures established by the Board and applicable law.

Repurchase Option Limitation. The terms of any repurchase option applicable to the unvested portion of a Participant's stock award (or shares of Common Stock subject to the unvested portion of a stock award) granted under the 2007 Plan will be at the original purchase price of such stock award. To the extent required by California securities law, the Company's right to repurchase or reacquire at the original purchase price will lapse at the rate of at least 20% of the shares of Common Stock per year over 5 years from the date the stock award is granted and the right to repurchase will be exercised within 90 days of termination of the Participant's continuous service or such longer period as may be agreed to by the Company and the Participant whose stock award is the subject of a repurchase option.

Acceleration of Stock Awards. The Board shall have the power to accelerate the time at which a stock award may first be exercised or the time during which a stock award will vest, notwithstanding the provision in any stock award agreement to the contrary.

Adjustment. The maximum number of shares of Common Stock subject to the 2007 Plan, the maximum number of shares of Common Stock that can be granted to an employee during any calendar year pursuant to incentive stock options, nonstatutory stock options, or stock appreciation rights, the exercise, redemption or base price applicable to outstanding stock awards, and the number of shares of Common Stock subject to outstanding stock awards, shall be proportionally adjusted on account of mergers, consolidations, reorganizations, recapitalizations, stock splits, spinoffs, stock dividends, extraordinary dividends and distributions other than regular cash dividends, combinations or exchanges of shares, or other similar transactions (except that conversion of convertible securities of the Company shall not be treated as a transaction that would cause the Board to make such an adjustment). Subject to any required action by the shareholders, the Board shall make such adjustments and the Board's determinations with respect to any adjustment will be final, binding and conclusive.

Effect of Change in Control. In the event of a Change in Control (as defined below), any surviving entity or acquiring entity may (a) assume or continue any stock awards outstanding under the 2007 Plan or (b) substitute similar stock awards with substantially equivalent economic value for those outstanding under the 2007 Plan. If the outstanding awards will not be so continued, assumed, or substituted, then with respect to stock awards held by Participants whose continuous service has not terminated, the Board in its discretion may (1) provide for payment of a cash amount in exchange for the cancellation of the stock awards, (2) continue the stock awards, or (3) terminate the stock awards upon the consummation of the Change in Control, but only if Participants have been permitted to exercise or redeem any portion of (including at the discretion of the Board, any unvested portion of) certain stock awards at or prior to the Change in Control. In the event of a dissolution or liquidation of the Company, all outstanding stock awards will terminate immediately prior to such dissolution or liquidation. A stock award held by any Participant whose continuous service has not terminated prior to a change in control may be entitled to additional acceleration of vesting and exercisability or other terms and conditions as set forth in the stock award agreement for such stock award or in any other written agreement between the Company and the Participant.

Definition of Change in Control. Change in Control means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following: (a) any person or group, other than (i) an employee benefit plan maintained by the Company or an entity controlled by the Company or (ii) Spescom Ltd. or any of its controlled affiliates (each, a Permitt a director from office.

The proposed amendment to the Company's Articles of Incorporation consists of amending Article X, Section 3, in its entirety, to read as follows:

3. Removal of Directors. Any director may be removed, with or without cause, only by the affirmative vote of the holders of two-thirds of the outstanding Common Stock.

This amendment to the Company's Articles of Incorporation will have an anti-takeover effect. The proposed amendment is intended to reduce the possibility that a third party could effect a sudden or surprise change in majority control over the Company's Board of Directors. The Board believes that it is in the best interests of the Company and its shareholders to discourage certain unilateral attempts by a purchaser to take control of the Company. The amendment is designed to encourage any purchaser to propose a takeover of the Company only if that proposal is made at a price and upon terms and conditions that the Board believes are in the best interests of the Company and its shareholders.

The proposed amendment is permitted under the laws of the State of West Virginia, the Company's state of incorporation, and, assuming approval by a majority vote of shareholders at the Annual Meeting, would become effective upon the filing of Articles of Amendment with the Secretary of State. This filing is expected to be made shortly after the adoption of the amendment if the proposed amendments are approved by the shareholders at the Annual Meeting.

The Board believes that adoption of the foregoing proposed amendment to the Articles of Incorporation is in the best interests of all shareholders and unanimously recommends that shareholders vote in favor of its adoption.

TIE VOTE AMENDMENT (Proposal 4)

The Board of Directors has unanimously approved and recommends an amendment to the Company's Articles of Incorporation to provide that in the event that a vote brought before the Company's Board of Directors results in a tie vote, the vote of the Chairman of the Board of the Company or his duly appointed delegate (who shall also be a Director) shall be counted twice.

The proposed amendment is intended to provide for governance of the Company in the event of a tie vote on its Board of Directors. The Board believes that it is in the best interests of the Company and its shareholders that the Company's Articles of Incorporation include the provision for tie votes which may occur as a result of having an even number of Directors on the Board.

The Board believes that the adoption of the foregoing proposed amendment to the Articles of Incorporation is in the best interests of all shareholders and unanimously recommends that shareholders vote in favor of its adoption.

EXECUTIVE OFFICERS OF CITY HOLDING COMPANY

At March 24, 2006, the executive officers of the Company were as follows:

Name	Age	Business Experience
Charles R. Hageboeck	43	President and Chief Executive Officer, City Holding Company and City National Bank since February 1, 2005. Executive Vice President and Chief Financial Officer, City Holding Company and City National Bank from June 2001 - January 31, 2005. Director of Forecasting, Roche Diagnostics Corp. from 2000 - 2001. Chief Financial Officer, Peoples Bancorp of Indianapolis, IN from 1995 - 1999.
Craig G. Stilwell	50	Executive Vice President of Retail Banking since February 23, 2005. Executive Vice President of Marketing & Human Resources, City Holding Company and City National Bank May 2001 - February 22, 2005. Industry Consulting Leader-Financial Services, Olive LLP from 1999 - 2001. Senior Vice President, Human Resources & Marketing, Peoples Bank Corp. of Indianapolis, IN from 1978 - 1999.
John A. DeRito	56	Executive Vice President of Commercial Banking, City Holding Company and City National Bank since June 25, 2004. Credit Officer, Central West Virginia Region, BB&T from November 2000 - June 2004. Senior Vice President & Credit Officer, One Valley Bank from November 1983 - November 2000 .
John W. Alderman, III	41	Senior Vice President and Chief Legal Counsel, City Holding Company and City National Bank since April 1997.
David L. Bumgarner	40	Senior Vice President and Chief Financial Officer, City Holding Company and City National Bank since 2005. Audit Senior Manager, Arnett & Foster, PLLC from August 2000 - January 2005. Assistant Controller/Director of Accounting, Eastern States Oil & Gas, Inc. from May 1998 - August 2000.

EXECUTIVE COMPENSATION

The following table sets forth the annual compensation for the Company's Chief Executive Officers during 2005 and the Company's four other most highly paid executive officers (the named executive officers) whose salary and bonus for the last fiscal year exceeded \$100,000, as well as the total compensation paid to each individual during the Company's last three fiscal years:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Long Term Compensation		
		Salary (\$)	Bonus (\$) ⁽¹⁾	Awards		
				Restricted Stock	Underlying Securities	All Other
Charles R. Hageboeck ⁽³⁾	2005	317,167	201,401		50,000	7,540
President, Chief Executive Officer and Director	2004	231,000	181,335		10,000	7,040
	2003	220,000	187,000		10,000	6,540
	Craig G. Stilwell ^{(4) (5) (6)}	2005	184,000	169,440	11,070	10,000
Executive Vice President, Retail Banking	2004	184,000	144,440		10,000	6,170
	2003	175,000	148,750		10,000	5,886
	John A. DeRito ^{(7) (8)}	2005	170,833	100,000	7,380	10,000
Executive Vice President, Commercial Banking	2004	75,000	77,108		10,000	2,783
	John W. Alderman, III	2005	164,000	65,597		5,000
Senior Vice President & Chief Corporate Counsel						
David L. Bumgarner	2005	131,667	58,526		12,500	4,149
Senior Vice President & Chief Financial Officer						
Gerald R. Francis ⁽⁹⁾	2005	37,318				594,000
Former President, Chief Executive Officer and Director	2004	420,000	659,400		50,000	20,384
	2003	400,000	680,000		50,000	18,642

⁽¹⁾ Bonus amounts paid for 2005, 2004 and 2003 were determined based upon the Company's profitability for the year.

⁽²⁾ All Other Compensation for 2005 consisted of the following: (i) the Company's matching contribution under the City Holding Company 401(k) Plan & Trust in the amount of \$7,000 for Mr. Hageboeck, \$5,313 for Mr. Stilwell, \$5,139 for Mr. DeRito, \$4,920 for Mr. Alderman and \$3,811 for Mr. Bumgarner; (ii) group term life insurance premium payments in the amount of \$540 for Mr. Hageboeck, \$1,179 for Mr. Stilwell, \$1,948 for Mr. DeRito, \$432 for Mr. Alderman and \$338 for Mr. Bumgarner; (iii) termination benefits of \$593,140 for Mr. Francis and (iv) an automobile allowance of \$860 for Mr. Francis.

⁽³⁾ Salary information provided for Mr. Hageboeck for the years 2003 and 2004 reflect his salary as Executive Vice President and Chief Financial Officer while 2005 salary information reflects his salary as President and Chief Executive Officer.

- (4) Salary information provided for Mr. Stilwell for the years 2003 and 2004 reflect his salary as Executive Vice President, Human Resources and Marketing while 2005 salary information reflects his salary as Executive Vice President Retail Banking.
- (5) Mr. Stilwell's 2005 bonus amount includes a \$25,000 bonus associated with the acquisition of Classic Bancshares, Inc. and a performance bonus of \$144,400. The \$25,000 bonus is specifically excluded from the calculation of his termination benefits.
- (6) Represents the value of 300 shares of the restricted stock awarded to Mr. Stilwell under the Company's 2003 Incentive Plan on December 21, 2005 based on the value of such shares on the grant date. Such shares vest on February 28, 2007. Dividends are paid on the restricted shares at the same time and at the same rate as dividends paid to all shareholders of the Company's common stock. At December 31, 2005, the value of Mr. Stilwell's restricted stock award would have been \$10,795.
- (7) Represents the value of 200 shares of the restricted stock awarded to Mr. DeRito under the Company's 2003 Incentive Plan on December 21, 2005 based on the value of such shares on the grant date. Such shares vest on February 28, 2007. Dividends are paid on the restricted shares at the same time and at the same rate as dividends paid to all shareholders of the Company's common stock. At December 31, 2005, the value of Mr. DeRito's restricted stock award would have been \$7,190.
- (8) 2004 salary reflects Mr. DeRito's employment beginning in June 2004. Mr. DeRito's 2004 bonus amount includes a signing bonus of \$20,000 and a performance bonus of \$57,108.
- (9) Mr. Francis resigned as President and Chief Executive Officer effective February 1, 2005 and he resigned as a director effective August 1, 2005.

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

The following table shows the stock options granted to each named executive officer during the fiscal year ended December 31, 2005. The Company did not grant any stock appreciation rights (SARs) during the 2005 fiscal year.

Individual Grants

Name	Number of	% of	Price (\$/sh)	Date	Grant Date Present Value (\$)
	Securities	Total Options			
	Underlying	Granted to	Exercise	Expiration	
	Options	Employees in	or Base		
	Granted (#)	Fiscal Year			
Charles R. Hageboeck	50,000	35.59%	\$ 32.925	1/30/2015	\$ 487,500
Craig G. Stilwell	5,000	3.56%	\$ 31.32	2/24/2015	\$ 45,950
Craig G. Stilwell	5,000	3.56%	\$ 36.90	12/20/2015	\$ 56,650
John A. DeRito	5,000	3.56%	\$ 30.65	2/22/2015	\$ 44,650
John A. DeRito	5,000	3.56%	\$ 36.90	12/20/2015	\$ 56,650
John W. Alderman, III	5,000	3.56%	\$ 36.90	12/20/2015	\$ 56,650
David L. Bumgarner	10,000	7.12%	\$ 32.925	1/30/2015	\$ 97,500
David L. Bumgarner	2,500	1.78%	\$ 36.90	12/20/2015	\$ 28,325

In accordance with the Securities and Exchange Commission rules, grant date present value is determined using the Black-Scholes Model. The Black-Scholes Model is a complicated mathematical formula widely used to arrive at short-term valuations for exchange-traded options. Stock options granted by the Company are long-term, non-transferable, and subject to vesting restrictions. The Black-Scholes Model relies

on several key assumptions to estimate the present value of options, including the volatility of, and dividend yield on, the security underlying the option, the risk-free rate of return on the date of grant and the estimated time period until exercise of the option. In calculating the grant date present value for City Holding Company Common Stock, the volatility was calculated using month-end closing prices of City Holding Common Stock between January 1996 and June 2005. The risk-free rate of return was fixed at the rate of the five-year U.S. Treasury Note for the month as reported in Federal Reserve Statistical Release H.15(159), and the estimated time period until exercise was assumed to be five years. The following assumptions were used in the table:

Stock Option Grant	Expiration Date	Volatility	Dividend Yield	Risk Free Rate of Return	Time Period
January 31, 2005	January 30, 2015	0.39%	3.04%	3.71%	5.0 years
February 23, 2005	February 22, 2015	0.39%	3.26%	3.89%	5.0 years
February 25, 2005	February 24, 2015	0.39%	3.19%	3.89%	5.0 years
December 21, 2005	December 20, 2015	0.38%	2.71%	4.40%	5.0 years

Effective December 21, 2005, the Board of Directors approved the acceleration of the vesting of certain options previously granted pursuant to the City Holding Company 2003 Incentive Plan (the Plan). No other terms of the stock option agreements changed. Value-vesting of the options was to occur in three separate installments. The Board of Directors accelerated the vesting of the options for Messrs. Hageboeck, Stilwell and DeRito. The Board of Directors determined that accelerating the vesting of these options was in the Company's best interests due to the compensation expense associated with the affected options under changes in US Generally Accepted Accounting Principles which will apply to the Company beginning on January 1, 2006. Prior to 2006, the Company accounted for stock options using the intrinsic value method of accounting, which provided for footnote disclosure of the compensation expense associated with stock options.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION/SAR VALUES

The following table shows the stock options exercised by the named executive officers during the fiscal year ended December 31, 2005 and the number and value of all unexercised options held by the named executive officers at December 31, 2005.

Name	Shares		Number of Securities		Value of Unexercised	
	Acquired		Underlying Unexercised		In-the-Money Options	
	On Exercise(#)	Value Realized(\$)	Options at Fiscal Year End(#)	at Fiscal Year End(\$)	Exercisable ⁽¹⁾	Unexercisable
Charles R. Hageboeck	12,718	\$ 328,113.52	35,332	45,000	\$ 349,145	\$ 136,125
Craig G. Stilwell	9,480	\$ 232,833.00	27,807	5,000	\$ 163,579	\$ 23,150
John A. DeRito			15,000	5,000	\$ 35,400	\$ 26,500
John W. Alderman, III			5,000		\$	\$
David L. Bumgarner			5,000	7,500	\$ 7,563	\$ 22,688

⁽¹⁾ Value excludes exercisable options of 5,000 shares each for Messrs. Stilwell, DeRito and Alderman and 2,500 shares for Mr. Bumgarner that were not in-the-money as of year end.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about stock options outstanding and shares available for future awards under the Company's equity compensation plans as of December 31, 2005.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	(b) Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
1993 Stock Incentive Plan ⁽²⁾	138,798	\$ 22.06	
2003 Incentive Plan	179,334	\$ 33.60	819,000
Equity compensation plans not approved by security holders ⁽³⁾			

⁽¹⁾ This column contains information regarding employee stock options only; there are no warrants or stock appreciation rights outstanding.

⁽²⁾ After March 2003, no additional options can be granted under the 1993 Stock Incentive Plan.

⁽³⁾ The Company does not have any equity compensations plans that have not been approved by shareholders.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

To the Board of Directors of City Holding Company:

The Compensation Committee of the Board of Directors (the "Committee") is comprised of six independent directors and operates under a charter (attached as *Appendix A*) approved by the Board of Directors. The Committee is charged with the design and implementation of compensation plans affecting the Board of Directors and the Company's executive officers, including salary, bonuses, annual grants of stock options, and any other forms of compensation.

Basis for Director Compensation

During 2004, the Committee engaged Clark Consulting ("Clark") to make recommendations in regard to the Company's compensation of its Board of Directors. After reviewing the Compensation practices of the Company's peers, Clark recommended an increase in the retainer for all directors to \$12,500 annually, increases in fees for audit committee meetings to \$400, the establishment of additional annual retainers of \$5,000 for the Board's lead outside director, \$10,000 for the chair of audit committee, \$5,000 for the chairs of the compensation committee and the nominating/governance committee, and \$2,500 for the chair of the trust committee. Further, Clark recommended annual grants of City Holding Company common stock with a market value of \$10,000 in lieu of cash bonuses based on Company performance. Stock awards were determined to more closely align the interests of the directors with those of shareholders, who in turn are focused on the long-

term performance of the Company. Clark also recommended that Board members that attend continuing education receive a stipend of \$500 for a day of approved continuing education completed. During 2004, these recommendations were approved by the Compensation Committee and the full Board of Directors.

Executive Compensation

The Company's executive compensation program includes three components: base salary, an incentive program for annual bonuses, and stock awards. Each element of the Company's executive compensation program has a somewhat different purpose. The Committee believes that its principal responsibility is to ensure that the Company's compensation practices allow the Company to attract and retain qualified management and to incent and reward executive performance in ways that are aligned with increasing shareholder value. Further, the Committee believes that overall compensation should be significantly dependent upon performance as measured by the Company's profitability and the market price of the Company's Common Stock. As a result, a significant portion of the compensation of executive officers of the Company is tied to the incentive program and stock awards. The incentive plan for annual bonuses for executive officers of the Company is based upon the profitability achieved by the Company in the fiscal year. Stock options provide a long-term incentive for future performance that aligns executive officers' interests with those of the shareholders in general. During 2005, and under the Company's 2003 Stock Incentive Plan, the Committee recommended, and the full Board approved, grants of stock options to executive officers of the Company. These grants were made at current market value with vesting schedules which ranged from immediate vesting through five years from the date of grant.

In order to attract and retain the qualified management able to lead the Company successfully, the Committee believes that overall executive compensation must be set at levels commensurate with peer financial institutions and that consideration must be given to the nature and scope of the executive officer's responsibilities, performance, experience, and credentials. Salary payments during 2005 were made to the executive officers after review and consideration of all of these factors. Bonuses for 2005 were based upon the Company's profitability. In 2005, the Company earned \$2.84 per diluted share as compared to \$2.75 in 2004. The Company's Return on Assets was 2.09% in 2005 as compared to 2.10% in 2004. The Company's Board of Directors believes that improvement in the Company's performance during 2005 was impressive in light of the following factors. Firstly, in 2004, the Company's net income included \$3.2 million (net of certain expense and taxes) in legal revenues (approximately \$0.19 per share). Secondly, the Company incurred no provision for loan losses in 2004, but incurred \$1.4 million in 2005 (approximately \$0.05 per share). Thirdly, the Company's pre-tax interest income declined by \$3.1 million (approximately \$0.12 per share) associated with its portfolio of previously securitized loans. In spite of these three factors, the Company still managed to deliver an increase in earnings and maintained a return on assets of 2.09% which placed the Company among the top 2% of publicly traded banks in the U.S. with total assets over \$1 billion. The Company's Return on equity was 19.0% in 2005 as compared to 22.4% in 2004. The decrease in return on equity reflected completion of a successful merger with Classic Bancshares in May of 2005 which increased equity by \$33.8 million. Measuring the return on capital in terms of the return on tangible equity (equity net of goodwill and other intangibles) resulted in a small decrease in the return on tangible capital to 22.3% in 2005 as compared to 23.1% in 2004.

Basis for Chief Executive Officer Compensation

The Company had two CEO s during 2005. Gerald R. Francis served as CEO from January 1, 2005 thru February 1, 2005. Mr. Francis was employed under an Amended and Restated Employment Agreement dated November 18, 2003. See *Other Executive Compensation Plans and Arrangements: Employment and Consulting Agreements*. For 2005, Mr. Francis earned \$37,318 in salary as shown in the Summary Compensation Table as shown on page 17, and received Termination Compensation as discussed in *Other Executive Compensation Plans and Arrangements* beginning on page 24.

Charles R. Hageboeck has served as CEO since February 1, 2005. Mr. Hageboeck is employed under an Amended and Restated Employment Agreement dated February 1, 2005. In negotiating this employment agreement, and in setting Mr. Hageboeck s compensation, the Board utilized the services of Clark Consulting and the Company s attorneys. Mr. Hageboeck s base compensation was determined by the Committee and reflects Mr. Hageboeck s demonstrated experience and achievements, both as CFO of the Company between 2001 and 2005 and his experience at other institutions within the industry, as well as compensation levels at comparable companies. His base salary was initially set at \$325,000, and was increased to \$338,000 effective February 22, 2006. Mr. Hageboeck s bonus was based upon the Company s strong performance during 2005. Mr. Hageboeck s employment agreement called for a bonus based upon the Company s return on equity, which was 19.0% during 2005. The Company s return on equity decreased following the acquisition of Classic Bancshares in May of 2005 as the result of increasing goodwill by \$33.1 million. The Company s return on tangible equity, however, remained relatively stable from 2004 to 2005, decreasing from 23.1% to 22.3% as did the Return on Assets which was 2.09% in 2005 as compared to 2.10% in 2004. The Company s return on assets was the best among its peers (defined as publicly traded banks and thrifts with total assets of \$1 to \$5 billion) in both 2004 and 2005. Mr. Hageboeck received a bonus of \$181,335 representing 78.5% of base salary in 2004 while serving as the Company s CFO. Whereas the Company maintained its strong profitability during 2005, the Company determined that a bonus of \$201,401 representing 63.5% of Mr. Hageboeck s base salary, was warranted during 2005. As a result, Mr. Hageboeck s total compensation for 2005 (base salary and bonus and other cash compensation) was \$518,568. Mr. Hageboeck s total cash compensation is lower than the \$688,177 average total compensation during 2004 (the most current available) for CEO s of all banks with assets between \$1 and \$5 billion as well as lower than the total cash compensation of \$789,423 for CEO s of banks with assets between \$1 and \$5 billion and return on average equity of more than 15% as reported by *SNL Executive Compensation Review*.

The Company granted Mr. Hageboeck options to purchase 50,000 shares of the Company s Common Stock on January 31, 2005 at an exercise price of \$32.925 based on that day s closing stock price. A total of 5,000 of these options vested in June of 2005 and 9,000 shares vested on February 2, 2006. The remaining 36,000 shares vest proportionately on February 2nd of 2007, 2008, 2009, and 2010. The Committee s grant was made in light of its desire to link Mr. Hageboeck s long-term compensation with the Company s success as well as a review of option grants at similar institutions.

Compensation for Other Executive Officers

Similarly, the Committee approved the CEO s recommendation with respect to base salaries in regard in 2005 for the other executive officers based upon their responsibilities, experience, achievements, and

compensation levels at similar institutions. Based upon the Company's profitability and their individual performances, the other executive officers received bonuses which the Committee believes reflects their performance and aligns the interests of those executive officers with those of the shareholders. On January 31, 2005, the Company granted options to Mr. Bumgarner to purchase 10,000 shares of the Company's Common Stock at an exercise price of \$32.925, the closing price of the Company's common stock on that date. Of these shares, 2,500 vested immediately with the remainder to vest between February 1, 2006 and February 1, 2008. On February 23, 2005 the Company granted options to Mr. DeRito to purchase 5,000 shares of the Company's Common stock at an exercise price of \$30.65 to vest between February 23, 2006 and February 23, 2010. On February 25, 2005 the Company granted options to Mr. Stilwell to purchase 5,000 shares of the Company's Common Stock at an exercise price of \$31.32 which vest between February 25, 2006 and February 25, 2010. In December of 2005, the Company granted options to purchase 5,000 shares to Mr. Stilwell, Mr. DeRito and Mr. Alderman and 2,500 shares to Mr. Bumgarner all at an exercise price of \$36.90 and all of which were immediately vested. The Company believes that these options align the Executives and the Company's long-term interests.

Respectfully submitted,

C. Dallas Kayser, Chairman

Hugh Clonch

Oshel B. Craig

Jay C. Goldman

Robert D. Fisher

James E. Songer II

February 15, 2006

This report shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless the Company specifically incorporates this report by reference. It will not be otherwise filed under such Acts.

STOCK PERFORMANCE

The following graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) to the Company's shareholders during the five-year period ended December 31, 2005, as well as an overall stock market index (The Nasdaq Stock Market Index) and the Company's Peer Group. The Peer Group consists of certain publicly-traded banking institutions over \$1 billion but less than \$7 billion in assets located in West Virginia and adjoining states. The trading symbols for such financial institutions include: FCBC, SASR, CTBI, FNBP, NPBC, UBSH, WSBC, VFGI, KNBT, CMTY, HNBC, PRK, PVSA, RBCAA, PEBO, SLFI, STBA, UBSI, FFBC and UVSP.

Comparison of Five-Year Cumulative Total Return

Among City Holding Company, Nasdaq Stock Market Index and Peer Group

This graph shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless the Company specifically incorporates this report by reference. It will not be otherwise filed under such Acts.

OTHER EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

Employment and Consulting Agreements

The Company entered into an employment agreement with Gerald R. Francis on January 31, 2001. The agreement specified terms of employment, including compensation in the form of salary, a bonus formula, stock

options granted at the date of hire, and other benefits that the Company believed were typical for executives with his experience and responsibilities. On January 26, 2005, the Company announced that Gerald R. Francis would resign as President and Chief Executive Officer of the Company effective February 1, 2005. Accordingly, on that date, Mr. Francis' Employment Agreement, as revised and amended on November 18, 2003, terminated and the termination benefits agreed to became applicable. Under the agreement, Mr. Francis is entitled to receive 60% of his Termination Compensation for five years. Mr. Francis' Termination Compensation was defined as the highest annual compensation reported in the Company's Summary Compensation Table for both Salary and Bonus for the most recent three-year period. In 2003, Mr. Francis received salary and bonus totaling \$1,080,000. Therefore, he is currently receiving termination benefits totaling \$54,000 monthly for sixty months, or a total of \$3,240,000. The Company accrued an amount sufficient to cover these termination benefits during the period of Mr. Francis' employment. In addition, Mr. Francis is eligible to receive health insurance coverage on the same terms as were in effect prior to his termination, under the Employer's plans for five years from the date of termination.

The Company entered into an employment agreement with Charles R. Hageboeck on June 11, 2001, which was amended and restated effective November 18, 2003. On February 1, 2005, as a result of Mr. Hageboeck's appointment as President and Chief Executive Officer of the Company, the Company and Mr. Hageboeck amended that employment agreement. The employment agreement, as amended, provides that effective February 1, 2005, Mr. Hageboeck will serve as the President and Chief Executive Officer of the Company and as President and Chief Executive Officer of the Company's wholly-owned subsidiary, City National Bank of West Virginia. Pursuant to a letter dated January 31, 2005, from the Company to Mr. Hageboeck, the employment agreement has a term of three years commencing from February 15, 2005, although the benefits continue if Mr. Hageboeck continues his employment after the end of the term.

Under the employment agreement, Mr. Hageboeck's compensation will consist of a base annual salary at a rate of no less than \$325,000 per year, payable in accordance with the payroll practices of the Company applicable to its officers. Additionally, Mr. Hageboeck will be paid a bonus at the end of the Company's fiscal year calculated based on the Company's profitability as measured by its return on equity.

The employment agreement provides that if the Company terminates Mr. Hageboeck's employment other than for Just Cause (as defined in the Employment Agreement), Mr. Hageboeck will be entitled, subject to his compliance with certain non-competition provisions, to receive termination benefits equal to the highest amount of cash compensation (including bonuses) received during any of the preceding three calendar years (Termination Compensation) times 2.00. Based upon Mr. Hageboeck's earnings in 2005 as reflected in the Summary Compensation Table for Salary and Bonus, Mr. Hageboeck's Termination Compensation is \$518,568 resulting in total termination benefits of \$1,037,136 which would be paid on a monthly basis over 60 months.

If Mr. Hageboeck terminates his employment for Good Reason (defined below), he may elect instead to receive a lump sum amount consisting of (1) any compensation due but not yet paid through the date of termination, and (2) in lieu of any further salary payments, an amount equal to the termination benefits specified above in a lump sum. Mr. Hageboeck would continue to receive health care coverage for five years.

Under the terms of his employment agreement, Mr. Hageboeck may voluntarily terminate his employment at any time and be eligible to receive the termination benefits described above subject to certain

non-competition provisions. In the event of Mr. Hageboeck's death, Mr. Hageboeck's estate would be eligible for total termination benefits as described above. As such, over the term of his employment, the Company has accrued a sum sufficient to cover both cash termination benefits totaling \$1,037,136 as well as the cost of health care benefits in the event that Mr. Hageboeck dies or voluntarily resigns his position as President & CEO.

If Mr. Hageboeck is deemed to become disabled, Mr. Hageboeck, during the first 12 months after his termination due to disability, will receive all compensation for which he would have been entitled if he had not been disabled, except such amount would be reduced by any compensation received pursuant to any applicable disability insurance plan of the Company. If he remains disabled after a period of 12 months, Mr. Hageboeck would become eligible for total termination benefits as described above.

Under Mr. Hageboeck's employment agreement, "Good Reason" means the occurrence of any of the following events without Mr. Hageboeck's express written consent: (1) the assignment to Mr. Hageboeck of duties inconsistent with the position status of the offices and positions provided for in the Employment Agreement; (2) a reduction by the Company in Mr. Hageboeck's base salary then in effect or the exclusion of Mr. Hageboeck from participation in the Company's benefit plans; (3) an involuntary relocation of Mr. Hageboeck more than 50 miles from the location where he worked immediately following his most recent voluntary relocation or the breach by the Company of any other material provision of the employment agreement; (4) any purported termination of the employment of Mr. Hageboeck by the Company which is not effected in accordance with the employment agreement; or (5) the occurrence of a Change of Control within the period of 24 months preceding such termination. The agreement defines "Change in Control" to mean, among other things, if any person or group of persons owns beneficially 25% or more of the combined voting power of the Company's then-outstanding securities.

In addition to the foregoing, if Mr. Hageboeck dies, becomes disabled, is terminated without Just Cause or terminates his employment for Good Reason, Mr. Hageboeck will also be paid an additional lump sum payment equal to the Termination Compensation, or an amount equal to \$518,568.

Pursuant to the letter agreement, if after the term of the employment agreement Mr. Hageboeck's continued employment terminates due to death, disability, termination other than for Just Cause or voluntary termination, the Company will pay him (or his estate) the same compensation and provide the same health insurance coverage following termination as he would have been entitled to receive had the employment agreement been terminated during its term.

The Company entered into an employment agreement with Craig G. Stilwell on May 15, 2001, which was amended and restated effective November 18, 2003. On February 25, 2005, as a result of Mr. Stilwell assuming the duties of overseeing retail banking, the Company and Mr. Stilwell amended that employment agreement. The employment agreement provides that effective February 25, 2005, Mr. Stilwell will serve as Executive Vice President of Retail Banking of the Company and its wholly-owned subsidiary, City National Bank of West Virginia. Pursuant to a letter dated January 31, 2005, from the Company to Mr. Stilwell, the employment agreement has a term of three years commencing from February 15, 2005.

The employment agreement provides that if the Company terminates Mr. Stilwell's employment other than for Just Cause (as defined in the Employment Agreement), Mr. Stilwell will be entitled, subject to his

compliance with certain non-competition provisions, to receive termination benefits equal to the highest amount of cash compensation (including bonuses) received during any of the preceding three calendar years (Termination Compensation) times 2.00. Based upon Mr. Stilwell's earnings in 2004 and 2005, as reflected in the Summary Compensation Table for Salary and Bonus, Mr. Stilwell's Termination Compensation is \$328,440, resulting in total termination benefits of \$656,880 which would be paid on a monthly basis over 60 months.

If Mr. Stilwell terminates his employment for Good Reason (defined below), he may elect instead to receive a lump sum amount consisting of (1) any compensation due but not yet paid through the date of termination, and (2) in lieu of any further salary payments, an amount equal to the termination benefits specified above. Mr. Stilwell would continue to receive health care coverage for five years.

Under the terms of his employment agreement, Mr. Stilwell may voluntarily terminate his employment and receive the termination benefits described above subject to certain non-competition provisions. In the event of Mr. Stilwell's death, Mr. Stilwell's estate would be eligible for total termination benefits as described above. As such, over the term of his employment, the Company has accrued a sum sufficient to cover both the cash termination benefits totaling \$656,880 as well as the cost of health care benefits in the event that Mr. Stilwell dies or voluntarily resigns his position as Executive Vice President of the Company.

If Mr. Stilwell is deemed to become disabled, Mr. Stilwell, during the first 12 months after his termination due to disability, he will receive all compensation for which he would have been entitled if he had not been disabled, except such amount would be reduced by any compensation received pursuant to any applicable disability insurance plan of the Company. If he remains disabled after a period of 12 months, Mr. Stilwell would become eligible for total termination benefits as described above.

In addition to the foregoing, if Mr. Stilwell dies, becomes disabled, is terminated without Just Cause or terminates his employment for Good Reason as defined in his employment agreement, Mr. Stilwell will also be paid an additional lump sum payment equal to the Termination Compensation, or an amount equal to \$328,440.

Good Reason means the occurrence of any of the following events without Mr. Stilwell's express written consent: (1) the assignment to Mr. Stilwell of duties inconsistent with the position status of the offices and positions provided for in the employment agreement; (2) a reduction by the Company in Mr. Stilwell's base salary then in effect or the exclusion of Mr. Stilwell from participation in the Company's benefit plans; (3) an involuntary relocation of Mr. Stilwell more than 50 miles from the location where he worked immediately following his most recent voluntary relocation or the breach by the Company of any other material provision of the employment agreement; (4) any purported termination of the employment of Mr. Stilwell by the Company which is not effected in accordance with the employment agreement; or (5) the occurrence of a Change of Control within the period of 24 months preceding termination initiated by the Company. The agreement defines Change in Control to mean, among other things, if any person or group of persons owns beneficially 25% or more of the combined voting power of the Company's then-outstanding securities.

In addition to the foregoing, if Mr. Stilwell dies, becomes disabled, is terminated without Just Cause or terminates his employment for Good Reason, except to the extent that Good Reason is caused solely by a

Change of Control, Mr. Stilwell will also be paid an additional lump sum payment equal to the Termination Compensation.

Pursuant to the letter agreement, if after the term of the employment agreement Mr. Stilwell's continued employment terminates due to death, disability, termination other than for Just Cause or voluntary termination, the Company will pay him (or his estate) the same compensation and provide the same health insurance coverage following termination as he would have been entitled to receive had the employment agreement been terminated during its term.

The Company entered into a Change in Control and Termination Agreement on June 28, 2004, with John A. DeRito. Under this agreement, in the event of a Change in Control, Mr. DeRito may voluntarily terminate his employment with the Company until the expiration of the 24-month period after the Change in Control for good reason and be entitled to receive in a lump sum an amount consisting of (1) any compensation due but not yet paid through the date of termination and (2) in lieu of any further salary payments, an amount equal to the Termination Compensation specified below times 2.00, or at his election, he may receive this amount in installments paid out over 24 months according to the Company's payroll practices during which time he shall also be eligible for health insurance coverage at the same rate as any employee. Based upon Mr. DeRito's earnings in 2005, as reflected in the Summary Compensation Table for Salary and Bonus, Mr. DeRito's Termination Compensation is \$230,833, resulting in total termination benefits of \$541,666, which would be paid on a monthly basis over 24 months.

The Termination Compensation under Mr. DeRito's contract means the highest amount of annual cash compensation (including cash bonuses and other cash-based benefits, including amounts earned or payable, whether or not deferred, and excluding any signing bonus for employment, stock bonuses, stock options or stock acquired pursuant to stock options) and continuation of other benefits or cash equivalent value received by Mr. DeRito during any one of the three calendar years preceding the year of termination of employment or what Mr. DeRito would earn at his current rate of pay during the then-current calendar year.

Under Mr. DeRito's Change in Control and Termination Agreement, Good Reason means the occurrence of any of the following events without Mr. DeRito's express written consent: (1) the assignment to Mr. DeRito of duties inconsistent with the position held by him immediately prior to a Change in Control; (2) a reduction by the Company in Mr. DeRito's base salary as then in effect or the exclusion of Mr. DeRito from participation in the Company's benefit plans; (3) any involuntary relocation of Mr. DeRito more than 30 miles from the location where he worked immediately prior to a Change in Control or the breach by the Company of any other material provision of his Agreement; or (4) any termination of his employment by the Company without Just Cause (as defined in the agreement). The agreement defines Change in Control to mean, among other things, if any person or group of persons owns beneficially 20% or more of the combined voting power of the Company's then outstanding securities.

The Company entered into an Employment Agreement with John W. Alderman, III, on March 14, 2002. The Employment Agreement provides that Mr. Alderman will serve as the Chief Legal Officer and Senior Vice President of the Company. Pursuant to a letter dated January 31, 2005, from the Company to Mr. Alderman, the Employment Agreement has a term of two years commencing on March 14, 2005. Under Mr. Alderman's Employment Agreement, Mr. Alderman's compensation consists of a base annual salary at a rate of no less than

\$164,000, payable in accordance with the payroll practices of the Company applicable to its officers. Mr. Alderman is entitled to participate in such incentive plans of the Company, including payment of an annual bonus.

The Employment Agreement provides that if Mr. Alderman dies while employed by the Company, Mr. Alderman's estate shall receive annually 40% of Mr. Alderman's Termination Compensation until the earlier to occur of five years from the date of death or the date on which Mr. Alderman would have reached the age of 65.

The Employment Agreement provides that if the Company terminates Mr. Alderman's employment other than for Just Cause (as defined in his Employment Agreement), Mr. Alderman will be entitled, subject to his compliance with certain non-competition provisions, to receive Termination Compensation times 1.00. For purposes of Mr. Alderman's Agreement, Termination Compensation means the highest amount of the annual cash compensation (including cash bonuses and other cash-based benefits, and excluding amounts earned upon exercise of stock options) received during any of the preceding five calendar years in each year until the end of the term of the Agreement. Based upon Mr. Alderman's earnings for the preceding five calendar years, Mr. Alderman's termination compensation is \$229,597, resulting in total termination benefits of \$229,597, which would be paid on a monthly basis over 12 months.

Mr. Alderman may voluntarily terminate his employment with the Company up until 24 months after the Change in Control if he terminates his employment for good reason. Good Reason means the occurrence of any of the following events without Mr. Alderman's express written consent: (1) the assignment to Mr. Alderman of duties inconsistent with the position and status of the offices and positions of the Company held immediately prior to a Change in Control; (2) a reduction by the Company in Mr. Alderman's pay grade or base salary as then in effect or the exclusion of Mr. Alderman from participation in the Company's benefit plans or the Company's failure to increase (within 12 months of Mr. Alderman's last increase in base salary) his base salary in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executives entitled to participate in the Company's executive incentive plans for which Mr. Alderman was eligible during the preceding 12 months; (3) an involuntary relocation of Mr. Alderman more than 50 miles from the location where he worked immediately following his most recent voluntary relocation or the breach by the Company of any material provision of his Employment Agreement; or (4) any purported termination of Mr. Alderman's employment which is not effected in accordance with his Employment Agreement. Mr. Alderman's Agreement defines Change in Control to mean, among other things, if any person or group of persons owns beneficially 20% or more of the combined voting power of the Company's then-outstanding securities. If Mr. Alderman terminates his employment, under these provisions, he will be entitled to receive in a lump sum an amount consisting of (i) any compensation due but not yet paid through the date of termination and (ii) in lieu of any further salary, payments from the date of termination to the end of the term, an amount equal to the termination compensation times 2.0. Based upon Mr. Alderman's earnings for the preceding five calendar years, Mr. Alderman's Termination Compensation is \$229,597, resulting in total termination benefits of \$459,194, which would be paid on a monthly basis over 24 months.

If Mr. Alderman is deemed to become disabled, Mr. Alderman, during the first 12 months after his termination due to disability, will receive all compensation for which he would have been entitled if he had not been disabled, except such amount would be reduced by any compensation received pursuant to any applicable disability insurance plan of the Company.

The Company entered into a Change in Control Agreement with David Bumgarner on February 1, 2005. Mr. Bumgarner's Agreement provides that in the event of a Change in Control of the Company, Mr. Bumgarner may voluntarily terminate his employment with the Company until the expiration of the 12-month period after the Change in Control for good reason. In that situation, Mr. Bumgarner would be entitled to receive (1) any compensation already due and earned but not yet paid through the date of termination, and (2) in lieu of any further salary payment, an amount equal to Termination Compensation times 1.00. For purposes of Mr. Bumgarner's Agreement, Termination Compensation means the highest amount of annual cash compensation including cash bonuses; but not including stock bonuses, stock options or stock acquired pursuant to stock options; and not including the value of any other non-cash benefits received during any one of the three calendar years preceding the year of termination of employment. Based upon Mr. Bumgarner's earnings in 2005, as reflected in the Summary Compensation Table for Salary and Bonus, Mr. Bumgarner's Termination Compensation is \$190,193, resulting in total termination benefits of \$190,193, which would be paid on a monthly basis over 12 months.

Under Mr. Bumgarner's Employment Agreement, Good Reason means the occurrence of any of the following events without Mr. Bumgarner's express written consent: (1) the assignment to Mr. Bumgarner of duties substantially inconsistent with the position held by Mr. Bumgarner immediately prior to the Change in Control; (2) the reduction by the Company in Mr. Bumgarner's base salary as then in effect; (3) an involuntary relocation of Mr. Bumgarner more than 40 miles from the location where he worked immediately prior to the Change of Control; and (4) any purported termination of Mr. Bumgarner's employment by the Company within 18 months after a Change of Control without Just Cause (as defined in the Agreement).

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers, directors and persons who own more than 10% of a registered class of the Company's equity securities to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Such officers, directors and 10% shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely upon the review of copies of such reports furnished to the Company through the date hereof, or written representations that no reports were required, the Company believes that during the fiscal year ended December 31, 2005, all filing requirements applicable to its executive officers and directors were met except as follows:

In July 2005, Philip L. McLaughlin filed a late Form 4 with respect to one open market sale transaction of 2,500 shares.

In January 2006, Albert M. Tieche, Jr. filed a Form 5 to report 19 transactions that were required to have been reported on Form 4 during calendar years 2004 and 2005. These transactions related to shares held in a marital trust constituting 166,111 shares of which Mr. Tieche is a beneficiary and his mother is the trustee. Mr. Tieche was granted a power of attorney over his mother's personal affairs. Mr. Tieche filed a Form 5 to report

the series of transactions disposing of the 166,111 shares in question but has disclaimed beneficial ownership of these shares.

In February 2006, Mr. Hageboeck filed a late Form 4 with respect to a one cashless stock option exercise and five corresponding sale transactions involving 3,000 shares in November 2005. Both Mr. Hageboeck and his broker advised representatives of the Company of the transaction promptly; however, the Company inadvertently failed to file the report timely. In February 2006, the omission was discovered and a report was immediately filed.

**CERTAIN TRANSACTIONS INVOLVING DIRECTORS AND
EXECUTIVE OFFICERS**

During 2005, the Company's subsidiaries had, and expect to have in the future, banking transactions with directors of the Company, their immediate families and entities in which they are principal owners (more than 10% interest). The transactions are in the ordinary course of business and on substantially the same terms, including interest rates and security, as those prevailing at the same time for comparable transactions with others and do not involve more than the normal risk of collectibility or present other unfavorable factors.

The Company has entered into employment agreements and an employment and consulting agreement with certain of its named executive officers and directors and provided other compensation to certain of its directors. See *Employment and Consulting Agreements* above under the section titled *Other Executive Compensation Plans and Arrangements* and *Compensation of Directors* above under the section titled *Additional Information Concerning the Board of Directors*.

APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal 5)

Subject to ratification by the Company's shareholders, the Company's Audit Committee has appointed Ernst & Young LLP (Ernst & Young) as the Company's independent registered public accounting firm to audit the consolidated financial statements of the Company for the year ending December 31, 2006.

Representatives of Ernst & Young are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Recommendation

The Audit Committee and the Board of Directors unanimously recommend the shareholders vote FOR such ratification.

Principal Accounting Fees and Services

During the fiscal years ended December 31, 2005 and 2004, the Company engaged Ernst & Young as its independent registered public accounting firm principally to perform the annual audit and to render other allowable services. The following table lists fees paid to Ernst & Young, for services rendered in fiscal years 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Audit Fees	\$ 581,571	\$ 519,170
Audit-Related Fees	35,860	28,767
Tax Fees	93,205	53,875
Total Fees	\$ 710,636	\$ 601,812

Audit Fees include fees associated with the annual audit of the Company's consolidated financial statements, incorporated by reference in its annual report on Form 10-K filed with the Securities and Exchange Commission, the audit of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, and 2004, reviews of the Company's quarterly report on Form 10-Q filed with the Securities and Exchange Commission, audit procedures related to the Classic acquisition and the issuance of consents in filings with the Securities and Exchange Commission.

Audit-Related Fees primarily include audits of the Company's employee benefits plans.

Tax Fees primarily include fees associated with tax return preparation, research and consultation.

Pre-Approval Policies and Procedures

The Audit Committee charter requires that the Audit Committee pre-approve all audit and non-audit services to be provided to the Company by the independent registered public accounting firm, provided, however, that the Audit Committee may specifically authorize its chairman to pre-approve the provision of any non-audit service to the Company. All of the services described above which Ernst & Young provided and for which they billed the Company were pre-approved by the Company's Audit Committee. For the fiscal year ended December 31, 2005 the Company's Audit Committee did not waive the pre-approval requirement of any non-audit services provided to the Company by Ernst & Young.

SHAREHOLDER PROPOSALS AND NOMINATIONS

Under the regulations of the SEC, any shareholder desiring to make a proposal pursuant to Rule 14a-8 of the SEC's proxy rules to be acted upon at the Company's 2006 annual meeting of shareholders must present such proposal to the Company's Secretary at the principal executive offices of the Company at 25 Gatewater Road, Charleston, West Virginia 25313, not later than November 19, 2006 in order for the proposal to be considered for inclusion in the Company's proxy statement for the 2007 annual meeting of shareholders.

Pursuant to the Company's Amended and Restated Bylaws, a shareholder may nominate persons for election to the Board of Directors and, pursuant to the Governance Committee's Charter, the Governance Committee considers nominees recommended by shareholders, in each case, if written notice is submitted to the Company's Secretary at the principal executive offices of the Company not less than 120 calendar days prior to the first anniversary of the previous year's annual meeting. If no annual meeting was held in the previous year or if the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received by the later of 120 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made.

The shareholder's notice must include:

as to each person whom the shareholder proposes to nominate for election as a director:

all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required pursuant to Regulation 14A under the Exchange Act; and

such person's written consent to being named in the proxy statement as a nominee and to serving as such as a director if elected; and

as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made:

the name and address of such shareholder, as they appear on the Company's books, and of such beneficial owner;

the class and number of shares of the Company's capital stock that are owned beneficially and of record by such shareholder and such beneficial owner;

a description of all arrangements or understandings between the shareholder and each nominee and any other persons (naming them) pursuant to which the nominations are to be made by the shareholder;

a representation that such shareholder is a holder of record of the Company's stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such nomination; and

a representation whether the shareholder intends to solicit proxies from shareholders in support of such nomination.

In order for a shareholder to bring other business before a shareholder meeting, timely notice must be received by the Company's Secretary within the time limits described in the immediately following paragraph. The shareholder's notice must contain:

as to each matter:

a brief description of the business desired to be brought before the meeting;

the reasons for conducting such business at the meeting;

in the event that such business includes a proposal to amend the Company's Articles of Incorporation or Bylaws, the language of the proposed amendment; and

any material interest in such business of such shareholder and for the beneficial owner, if any, on whose behalf the proposal is made; and

as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made, the information described above, with respect to the shareholder proposing such business.

The Company's Secretary must receive written notice of a shareholder proposal to be acted upon at the 2007 annual meeting not later than the close of business on November 19, 2006. In addition, if the Company does not receive notice of a shareholder proposal at least 45 days before the Company first mails its proxy statement for the 2007 annual meeting, the persons named as proxies in the Company's proxy card for the 2007 annual meeting will have discretionary authority to vote on such proposal at the 2007 annual meeting.

The requirements found in the Company's Amended and Restated Bylaws are separate from and in addition to the requirements of the SEC that a shareholder must meet to have a proposal included in the Company's proxy statement.

OTHER MATTERS

As of the date of this proxy statement, the Board of Directors is not informed of any matters, other than those stated above, that may be brought before the annual meeting. However, if any other matters are brought before the annual meeting or any adjournments or postponements thereof, the persons named on the accompanying proxy card or their substitutes will vote with respect to such matters in accordance with their best judgment.

By Order of the Board of Directors,

Victoria A. Evans
Secretary

March 24, 2006

City Holding Company

Compensation Committee Charter

(rev. 11/2005)

Purpose

The Compensation Committee is appointed by the Board of Directors to discharge the Board's responsibilities relating to compensation of the Company's executives.

Committee Membership

The Committee will be composed of at least three directors, all of whom satisfy the definition of "independent" under the listing standards of The Nasdaq Stock Market. All Committee members shall also be "non-employee directors" as defined by Rule 16b-3 under the Securities Exchange Act of 1934 and "outside directors" as defined by Section 162(m) of the Internal Revenue Code. The Committee members will be appointed by the Board and may be removed by the Board in its discretion. The Committee shall have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate, provided the subcommittees are composed entirely of independent directors.

Meetings

The Committee shall meet as often as its members deem necessary to perform the Committee's responsibilities.

Committee Authority and Responsibilities

The Committee will have the authority, to the extent it deems necessary or appropriate, to retain a compensation consultant to assist in the evaluation of director, Chief Executive Officer (CEO) or senior executive compensation. The Committee shall have sole authority to retain and terminate any such consulting firm, including sole authority to approve the firm's fees and other retention terms. The Committee shall also have authority, to the extent it deems necessary or appropriate, to retain other advisors. The Company will provide for appropriate funding, as determined by the Committee, for payment of compensation to any consulting firm or other advisors employed by the Committee.

The Committee will make regular reports to the Board and will propose any necessary action to the Board. The Committee will review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval.

In carrying out its responsibilities:

The Committee shall have responsibility for developing and maintaining an executive compensation policy that creates a direct relationship between pay levels and corporate performance and returns to shareholders. The Committee shall monitor the results of such policy to assure that the compensation payable to the Company's executive officers provides overall competitive pay levels, creates proper incentives to enhance shareholder value, rewards superior performance, and is justified by the returns available to shareholders.

The Committee shall have the responsibility to review and to make recommendations to the full Board of Directors for the approval of compensation and benefit plans, which may include amendments to existing plans, cash- and equity-based incentive compensation plans, and non-qualified deferred compensation and retirement plans.

The Committee shall establish annually subjective and objective criteria to serve as the basis for the Chief Executive Officer's compensation, evaluate the Chief Executive Officer's performance in light of those criteria and determine the Chief Executive Officer's compensation based on that evaluation.

The Committee shall establish annually subjective and objective criteria to serve as the basis for the other executive officers' compensation, evaluate the other executive officers' performance in light of those criteria and determine the other executive officers' compensation based on that evaluation.

In establishing the compensation to be paid or provided to executive officers, the Committee shall utilize, where it deems appropriate, comparative data regarding compensation practices. The Committee may utilize flexible compensation structures to attract, retain, motivate and appropriately reward executive officers, consistent with the Company's compensation philosophy. The Committee may retain one or more compensation consultants or other advisors to assist the Committee with these duties. The Committee shall have sole authority to approve the fees and other retention terms of any such consultant or advisor.

With respect to the Company's equity-based compensation plans, the Committee shall review and recommend for the approval of the full Board of Directors grants of stock options, restricted stock, performance shares, stock appreciation rights, and other equity-based incentives to executive officers to the extent provided under the compensation plans. The committee may delegate to the President and Chief Executive Officer all or part of the committee's authority and duties with respect to grants and awards to individuals who are not subject to the reporting requirements and other provisions of Section 16 of the Securities Exchange Act of 1934 as in effect from time to time

The Committee shall from time to time review and make recommendations to the Board of Directors regarding the compensation of non-employee directors.

The Committee shall provide, over the names of the Committee members, the required Compensation Committee report for the Company's proxy statement for the annual meeting of shareholders.

The Committee shall have available to it such support personnel, including management staff, outside auditors, attorneys and consultants as it deems necessary to discharge its responsibilities.

The Committee shall consider the application of Section 162(m) of the Internal Revenue Code to the Company and its compensation practices and develop a policy for the Company with respect to Section 162(m).

The Secretary of the Committee shall be the Corporate Secretary or his or her designee. The proceedings of all Committee meetings shall be documented in minutes. At the next regular Board meeting following any Committee meeting, the Chairman of the Committee shall report to the Board of Directors on behalf of the Committee.

The Chairman of the Committee shall discuss the Committee's performance with each member of the Committee, following which discussions the Chairman shall lead the Committee in an annual evaluation of its performance. The annual evaluation shall include a review of the Committee's charter.

The Committee shall cause to be provided to Nasdaq appropriate written confirmation of any of the foregoing matters as Nasdaq may from time to time require.

CITY HOLDING COMPANY
c/o Stock Transfer Department
P. O. Box 105649
Atlanta, GA 30348

VOTE BY TELEPHONE

Have your proxy card available when you call **Toll-Free 1-888-693-8683** using a touch-tone phone and follow the simple instructions to record your vote.

VOTE BY INTERNET

Have your proxy card available when you access the website **www.cesvote.com** and follow the simple instructions to record your vote.

VOTE BY MAIL

Please mark, sign and date your proxy card and return it in the **postage-paid envelope** provided or return it to: Corporate Election Services, P.O. Box 3230, Pittsburgh PA 15230.

Vote by Telephone

Call Toll-Free using a
touch-tone telephone:

1-888-693-8683

Vote by Internet

Access the Website and
cast your vote:

www.cesvote.com
Vote 24 hours a day, 7 days a week.

Vote by Mail

Return your proxy
in the postage-paid
envelope provided

If you vote by telephone or Internet, please do not send your proxy by mail.

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Proxy card must be signed and dated below.

ê **Please fold and detach card at perforation before mailing.** ê

CITY HOLDING COMPANY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR

THE ANNUAL MEETING OF SHAREHOLDERS ON MAY 10, 2006.

PROXY

Edgar Filing: SPESCOM SOFTWARE INC - Form PRE 14A

The undersigned shareholder of City Holding Company hereby appoints John W. Alderman, III and Victoria A. Evans and each of them, with full power of substitution, as proxies and hereby authorizes them to represent and to vote, as designated below, all the shares of Common Stock of City Holding Company held of record by the undersigned on March 17, 2006 at the 2006 Annual Meeting of Shareholders to be held on May 10, 2006 or any adjournment or adjournments thereof. The undersigned shareholder authorizes the proxies to cumulate their votes at their discretion.

Dated: _____, 2006

Signature

Signature, if held jointly

Please date and sign exactly as name appears hereon. If shares are held jointly, each shareholder should sign. Agents, executors, administrators, guardians, trustees, etc. should use full title, and, if more than one, all should sign. If the shareholder is a corporation, please sign full corporate name by the president or another authorized officer. If a partnership, please sign in partnership name by authorized person.

YOUR VOTE IS IMPORTANT

If you do not vote by telephone or Internet, please sign and date this proxy card and return it promptly in the enclosed postage-paid envelope, or otherwise to Corporate Election Services, P.O. Box 3230, Pittsburgh, PA 15230, so your shares may be represented at the Annual Meeting. If you vote by telephone or Internet, it is not necessary to return this proxy card.

Proxy card must be signed and dated on the reverse side.

ê **Please fold and detach card at perforation before mailing.** ê

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This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR Proposals 1, 2, 3, 4 and 5. You may revoke this proxy at any time prior to the time it is voted at the Annual Meeting.

1. Proposal to elect four Class I directors to serve a term of three years.

CLASS I NOMINEES:

(1) David W. Hambrick (2) James L. Rossi (3) James E. Songer II (4) Mary H. Williams

q **FOR** (except as marked to the contrary above) q **WITHHOLD** authority

To withhold authority to vote for any individual nominee, strike a line through the nominee's name above.

	FOR	AGAINST	ABSTAIN
2. Proposal to approve an amendment to the Company's Articles of Incorporation to provide a waiver of liability of directors under certain circumstances as permitted under the West Virginia Business Corporation Act enacted in 2002.	q	q	q
3. Proposal to approve an amendment to the Company's Articles of Incorporation to change the percentage of votes required to remove a director from office from 51% to two-thirds of the shares issued and outstanding.	q	q	q
4. Proposal to approve an amendment to the Company's Articles of Incorporation to provide that in the event that a vote brought before the Company's Board of Directors results in a tie vote, the vote of the Chairman of the Board of the Company or his duly appointed delegate (who shall also be a Director) shall be counted twice.	q	q	q
5. Proposal to ratify the Board of Directors' appointment of Ernst & Young LLP as the independent registered public accounting firm for City Holding Company for 2006.	q	q	q
6. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Annual Meeting of Shareholders or any adjournment or adjournments thereof.			

Please mark, sign, date and return the proxy promptly using the enclosed envelope.