

CITY HOLDING CO
Form 8-K
July 22, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported): July 20, 2005

CITY HOLDING COMPANY

(Exact Name of Registrant as Specified in its Charter)

Commission File Number: 0-17733

West Virginia
(State or Other Jurisdiction of
Incorporation or Organization)

55-0169957
(I.R.S. Employer
Identification No.)

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25 Gatewater Road, Cross Lanes, WV 25313

(Address of Principal Executive Offices, Including Zip Code)

304-769-1100

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12(b) under the Exchange Act (17 CFR 240.14a-12(b))
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17CFR240.13e-4(c))

Section 2 Financial Information

Item 2.02 Results of Operations and Financial Condition.

On July 20, 2005, City Holding Company (the Company) issued a news release, attached as Exhibit 99, announcing the Company's second quarter 2005 earnings. Furnished as Exhibit 99 and incorporated herein by reference is the news release issued by the Company announcing its second quarter 2005 earnings.

Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99 News Release issued on July 20, 2005

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the Undersigned hereunto duly authorized.

Dated: July 21, 2005

City Holding Company

By: /s/ Charles R. Hageboeck

Charles R. Hageboeck
President and Chief Executive Officer

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This Audit Committee Charter was adopted by the Board of Directors of AutoZone, Inc., on December 9, 1999, and has been revised on June 6, 2000, and on August 26, 2002.

Purpose

The audit committee assists AutoZone's Board in fulfilling its oversight responsibilities by:

- appointing , determining the compensation of, and overseeing the work of the independent auditor and the internal auditor;
- reviewing the financial reporting processes and the information that will be provided to the stockholders and others;
- reviewing the adequacy and effectiveness of AutoZone's systems of internal accounting and financial controls;
- reviewing the internal audit function and the annual independent audit of AutoZone's financial statements; and
- reviewing the overall corporate "tone" for quality financial reports, controls and ethical behavior.

Membership

The Committee shall have at least three directors as members, up to a maximum as the Board of Directors may determine from time to time. The Committee shall consist solely of independent directors. An independent director is defined as a director who:

- has not been employed by AutoZone in the last five years;
- has not been employed by AutoZone's independent auditor in the last five years;
- is not, and is not affiliated with a company that is, an adviser, or consultant to AutoZone or a member of AutoZone's senior management;
- is not affiliated with a significant customer or supplier of AutoZone;
- has no personal services contract with AutoZone or with any member of AutoZone's senior management;
- is not affiliated with a not-for-profit entity that receives significant contributions from AutoZone;
- within the last three years, has not had any business relationship with AutoZone for which AutoZone has been or will be required to make disclosure under Rule 404 (a) or (b) of Regulation S-K of the Securities and Exchange Commission as currently in effect;

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- receives no compensation from AutoZone other than as a director;
- is not employed by a public company at which an executive officer of AutoZone serves as a director;
- has not had any of the relationships described above with any affiliate of AutoZone; and
- is not a member of the immediate family of any person with any relationships described above.

Each audit committee member shall have a minimum level of financial literacy and at least one member should possess accounting or financial expertise, as the Board reasonably determines such qualification in its business judgement.

The Board of Directors shall annually appoint Committee members and its chair, shall fill any vacancies as they occur, and may remove any member at any time.

General Functions

- A. The audit committee shall serve as an informed voice to the Board regarding AutoZone's accounting and auditing groups in their responsibilities for control and reporting of all financial transactions.
- B. The audit committee shall provide a channel of communication between the internal auditors, independent auditor, and the Board. The audit committee shall meet in private session with the internal auditors and the independent auditor to discuss the process and progress of their work.
- C. The audit committee shall report committee actions to the Board and may make appropriate recommendations.
- D. The audit committee shall meet quarterly and even more frequently if circumstances warrant such meetings, as may be called by the chair of the Committee.
- E. While the audit committee has the responsibilities and powers set forth in this Charter, the audit committee shall not have the duty to plan or conduct audits or to determine that AutoZone's financial statements are complete and accurate and are in accordance with generally accepted accounting principles; AutoZone's management and the independent auditor have this responsibility. Nor does the audit committee have the duty to conduct investigations, to resolve disagreements, if any, between management and the independent auditor, or to assure compliance with laws and regulations and the policies of the Board of Directors.
- F. The audit committee, the Board, management, and the independent auditor shall jointly understand that the independent auditor are ultimately accountable to the Board and the audit committee.

Specific Functions

The audit committee, as may be required by law, by the Securities and Exchange Commission, or by the rules of the New York Stock Exchange, or otherwise to the extent it deems necessary or appropriate shall perform the following functions:

- A. The audit committee shall review annually the qualifications and proposed audit fees for the next fiscal year of the independent auditor currently retained by the company and shall review such information regarding other potential independent auditors as the committee may deem appropriate. Upon completion of the review, the audit committee shall retain an independent auditor on behalf of and for AutoZone, shall approve the fees for the audit, and shall recommend the selection of the auditors to AutoZone's stockholders for ratification.
- B. The audit committee shall discuss with the independent auditor its independence from management and AutoZone and the matters included in the written disclosures required by the Independence Standards Board.
- C. The audit committee shall, after completion of each annual audit, review with management and the independent auditor, the audit report, the management letter relating to the audit report, any significant questions (resolved or unresolved) between management and the independent auditor that arose during the audit or in connection with the preparation of the annual financial statements, and the cooperation afforded or limitations, if any, imposed by management in the conduct of the audit.

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- D. The audit committee shall review and approve AutoZone's risk assessment process. The committee will review internal audit's planned scope of work relative to the assessment and internal audit's evaluation of each identified issue.
- E. The audit committee shall review the effectiveness of AutoZone's internal audit process and adequacy of staff and resources; approve the appointment of AutoZone's senior internal audit executive; approve the retention and compensation of any firm retained for outsourced internal audit services; and review the cooperation afforded or limitations, if any, imposed by management in the conduct of the internal auditing. The senior internal audit executive shall not be terminated or reassigned without the consent of the audit committee.
- F. The audit committee shall review the adequacy of AutoZone's information systems control and security with the independent auditor and the CFO.
- G. The audit committee shall review with the CFO and the independent auditor compliance with AutoZone's code of conduct.
- H. The audit committee shall review the legal and regulatory matters that may have a material effect on the organization's financial statements, compliance policies and programs.
- I. The audit committee shall review the quality, effectiveness and appropriateness of AutoZone's accounting practices and critical accounting policies.
- J. The audit committee shall review the interim financial statements with the CEO and CFO and other appropriate members of management and the independent auditor prior to the filing of AutoZone's Quarterly Report on Form 10-Q, and shall review with the CEO and CFO the contents of any required certification related to the filing of the Form 10-Q. Also, the committee shall discuss the results of the quarterly review and any other matters required to be communicated to the committee by the independent auditor under generally accepted auditing standards.
- K. The audit committee shall review with the CEO and CFO and other appropriate members of management and the independent auditor the information to be included in AutoZone's Annual Report on Form 10-K including their judgment about the quality, not just acceptability, of the critical accounting policies and practices, the reasonableness of significant judgments, the alternatives available to AutoZone for applying different generally accepted accounting principles and the effect and desirability of such alternatives and the independent auditor's preferred treatment, and the clarity of the information disclosed. The committee shall also review with the CEO and CFO the contents of any required certification related to the filing of the Form 10-K. Also, the committee shall discuss the results of the annual audit and any other matters required to be communicated to the committee by the independent auditor under generally accepted auditing standards, by law, as required by the Securities and Exchange Commission, or the New York Stock Exchange.
- L. The audit committee shall review the adequacy of AutoZone's systems of internal accounting controls, review of overall compliance with administrative policies and recommend to the Board of Directors any changes in the system of internal controls, procedures and practices which the Committee determines to be appropriate. Such controls shall be evaluated through a review of the reports issued by AutoZone's internal auditors and the independent auditor, which identify and describe control weaknesses. The Committee shall inquire as to whether management is taking appropriate corrective action.
- M. The audit committee shall review the scope and plan for the external audit and internal audits for the year.
- N. The audit committee shall review and report to the Board on compliance with the Foreign Corrupt Practices Act and AutoZone's policies on business integrity, and ethics and conflict of interest.
- O. Any retention of the independent auditor (or any affiliate of the independent auditor) for any non-audit service, and the fee for such service, shall be approved by the audit committee prior to the engagement. The independent auditor shall not be retained for the purpose of performing:
- bookkeeping services or other services related to the accounting records or financial statements of AutoZone;
 - financial information systems design and implementation;
 - appraisal or valuations services, fairness opinions, or contribution-in-kind reports;

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- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser, or investment banking services;
- legal services and expert services unrelated to the audit; or
- any other service as prohibited by law, the Securities and Exchange Commission, the New York Stock Exchange, or the Public Company Accounting Oversight Board.

In making its consideration for approval, the Audit Committee shall consider:

- Whether the service is being performed principally for the audit committee;
- The effects of the service, if any, on audit effectiveness or on the quality and timeliness of the entity's financial reporting process;
- Whether the service would be performed by specialists (e.g., technology specialists) who ordinarily also provide recurring audit support;
- Whether the service would be performed by audit personnel and, if so, whether it will enhance their knowledge of the entity's business and operations;

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- Whether the role of those performing the service (e.g., a role where neutrality, impartiality and auditor skepticism are likely to be subverted) would be inconsistent with the auditor's role;
- Whether the audit firm's personnel would be assuming a management role or creating a mutuality of interest with management;
- Whether the independent auditor, in effect, would be "auditing its own numbers;"
- The availability of alternative providers of the service and whether the project must be started and completed very quickly;
- Whether the audit firm has unique expertise in the service; and
- The size of the fee(s) for the non-audit service(s)

For purposes of this Charter, "non-audit services" shall mean services provided by the independent auditor other than those services provided in connection with an audit or a review of AutoZone's financial statements.

- P. The audit committee shall approve employment as an AutoZone officer any employee of the independent auditor that worked on AutoZone's account in the prior year before the offer of employment is tendered to the prospective officer. However, under no circumstance may AutoZone hire any person that was an employee of the independent auditor and performed audit services for AutoZone as AutoZone's CEO, CFO, Controller, or any person performing any similar function, unless at least a period of one year has passed since the termination of such person's employment as an employee of the independent auditor. Upon granting of any approval to hire a former employee of the independent auditor, the audit committee may require that AutoZone or the independent auditor, or both, develop an appropriate plan to maintain the auditor's independence.
- Q. The audit committee shall annually obtain assurance from the independent auditor that Section 10A of the Securities Exchange Act of 1934 has not been implicated.
- R. The audit committee shall prepare the report required by the rules of the Securities and Exchange Commission for inclusion in AutoZone's proxy statement.
- S. The audit committee shall be completely accessible to the CFO, the independent auditor, the internal auditors, and management (both individually and collectively) to discuss any matters the committee or these persons believe should be discussed privately with the audit committee.
- T. The audit committee shall establish procedures for:

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- the receipt, retention and treatment of complaints received by AutoZone regarding accounting, internal accounting controls, or auditing matters; and
- the confidential, anonymous submission by AutoZone employee of concerns regarding questionable accounting or auditing matters.

Consultants

The Committee shall have the authority to retain consultants or counsel of its selection to advise it with respect to its work, at AutoZone's expense.

Meetings

A quorum for any Committee meeting shall be a majority of the Committee members.

The action of a majority of the members present at any meeting in which a quorum is present shall be the action of the Committee.

Notice for all meetings shall be given as required by AutoZone's Bylaws.

Committee meetings may be held in person, by telephone, or any other method of communication in which all committee members may be heard. In lieu of a meeting, a Committee may act by unanimous written consent.

The chair of the Committee shall report results of its meeting to the full Board of Directors at the next following Board meeting.

The agenda and other materials for any meeting should be provided to Committee members in advance of the meeting as may be practical.

The CFO shall coordinate the Committee meeting notices and distribution of materials to Committee members.

APPENDIX C

AutoZone, Inc. 2003 Director Stock Option Plan

SECTION 1. PURPOSE OF THE PLAN.

Under this 2003 Director Stock Option Plan (the "Plan") of AutoZone, Inc. (the "Company"), non-qualified stock options to purchase shares of the Company's Common Stock shall be granted to Non-Employee Directors (as defined below) of the Company. The Plan is designed to enable the Company to attract and retain Non-Employee Directors of the highest caliber and experience, and to increase their ownership of the Company's Common Stock.

SECTION 2. STOCK SUBJECT TO PLAN.

The maximum number of shares of stock for which non-qualified stock options ("Options") granted hereunder may be exercised shall be 400,000 shares of the Company's Common Stock, par value \$.01 per share (the "Common Stock"), subject to the adjustments provided in Section 7. All shares of stock subject to Options may be authorized but unissued shares or treasury shares of Common Stock. Shares of stock subject to the unexercised portions of any Options which expire or terminate or are canceled may again be subject to Options granted hereunder.

SECTION 3. PARTICIPATING DIRECTORS.

Each member of the Board of Directors of the Company (the "Board") who is not, at the time that eligible directors are granted Options pursuant to Section 5 hereof, an employee or officer of the Company or any of its subsidiaries (a "Non-Employee Director"), shall be eligible to participate in the Plan.

SECTION 4. ADMINISTRATION.

(a) The Plan shall be administered by the Compensation Committee of the Board (the "Committee") which shall consist of two or more directors who are Non-Employee Directors, appointed by and holding office at the pleasure of the Board. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may

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resign at any time by delivering written notice to the Board. Vacancies on the Committee shall be filled by the Board.

(b) The Committee shall have the power to interpret the Plan and the Options and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. The Board shall have no right to exercise any of the rights or duties of the Committee under the Plan.

(c) The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

(d) All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons, and the Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding on each Non-Employee Director who has been granted an Option hereunder (sometimes referred to hereinafter as an "Optionee"), the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Options, and all members of the Committee shall be fully protected by the Company with respect to any such action, determination or interpretation.

SECTION 5. GRANT OF OPTIONS.

During the existence of the Plan, Options shall be granted as follows:

(a) (i) On January 1 of each year, each Non-Employee Director as of such date shall be granted an Option to purchase 1,500 shares of Common Stock (subject to the adjustments provided in Section 7), and (ii) each new Non-Employee Director shall be granted an initial Option to purchase 3,000 shares of Common Stock as of the date of his or her election as a director and a pro-rata portion of that year's annual grant set forth in (i);

(b) On January 1 of each year, each Non-Employee Director who, as of December 31 of the prior year, beneficially owns shares of Common Stock having an aggregate Fair Market Value (as determined below) greater than or equal to five (5) times such Non-Employee Director's annual director fee (not including meeting fees or any fees for being a committee chair) payable by the Company for such year, shall be granted an Option to purchase 1,500 shares of Common Stock (subject to the adjustments provided in Section 7). For purposes of this Plan, the "Fair Market Value" of a share of Common Stock shall mean, as to any particular day, the average of the highest and lowest prices quoted for a share of Common Stock trading on the New York Stock Exchange on the immediately prior Business Day. The highest and lowest prices for the shares of Common Stock shall be those published in the edition of *The Wall Street Journal* or any successor publication reporting stock quotations for such day. For purposes of this Plan, the term "Business Day" shall mean a day on which the Company's executive offices in Memphis, Tennessee, are open for business and on which trading is conducted on the New York Stock Exchange. Notwithstanding any other provision of the Plan, no Option shall be granted unless sufficient shares (subject to said adjustments) are then available therefor under Sections 2 and 7. In consideration of the granting of an Option, the Optionee shall be deemed to have agreed to remain as a Director of the Company for a period of at least one year after the date upon which the Option was granted (the "date of grant"). Nothing in the Plan shall, however, confer upon any Optionee any right to continue as a director of the Company or shall interfere with or restrict in any way the rights of the Company or the Company's stockholders, which are hereby expressly reserved, to remove any Optionee at any time for any reason whatsoever, with or without cause, to the extent permitted by the Company's bylaws and applicable law.

SECTION 6. OPTION PROVISIONS.

Each Option shall be evidenced by a written agreement between the Company and the Non-Employee Director and shall contain the following terms and provisions, and such other terms and provisions as the Committee may authorize:

(a) The exercise price of each Option shall be equal to the aggregate Fair Market Value of the shares of Common Stock as of the date of grant;

(b) Payment for shares of Common Stock purchased upon any exercise of the Option shall be made in full at the time of such exercise (i) in cash, (ii) by delivery of shares of Common Stock already owned by the Optionee, duly endorsed for transfer to the Company, (iii) by delivery of a notice that the Optionee has placed a market sell order with a broker approved by the Company with respect to shares of Common Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the option exercise price, or (iv) by a combination of any of the foregoing methods of payment. For purposes of exercising the Option, the value of any shares of Common Stock delivered in

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payment shall be the Fair Market Value of such shares of Common Stock as of the day of delivery;

(c) Subject to subsection (d) below and Section 7 hereof, the Option shall become fully vested and exercisable on the first to occur of either:

- (i) the date on which the Optionee ceases to be a Director of the Company; or
- (ii) the third anniversary of the date of grant.

(d) The Option shall terminate and may not be exercised to any extent by anyone after the first to occur of the following events:

- (i) the expiration of ten years from the date of grant;
- (ii) the expiration of five years from the date upon which the Non-Employee Director ceases to be a director of the Company if the Non-Employee Director has become ineligible to be reelected as a result of reaching the term limits or mandatory retirement age specified in the Company's Corporate Governance Principles, in effect as of the applicable date ("Normal Retirement Age");
- (iii) the expiration of 90 days from the date of the Non-Employee Director's death;
- (iv) the expiration of 30 days from the date that the Non-Employee Director ceases to be a director of the Company (for a reason other than the death of the Non-Employee Director) if the Non-Employee Director has not reached Normal Retirement Age; or
- (v) subject to Section 7(b) hereof, the effective date of a Corporate Transaction (as defined below), unless the Committee waives this provision in connection with such transaction.

(e) Notwithstanding any other provision herein, the Option may not be exercised prior to the admission of the shares of stock issuable upon exercise of the Option to listing on notice of issuance on any stock exchange on which shares of the same class are then listed; nor unless and until, in the opinion of counsel for the Company, such securities may be issued and delivered without causing the Company to be in violation of or incur any liability under any Federal, state or other securities law, any requirement of any securities exchange listing agreement to which the Company may be a party, or any other requirement of law or of any regulatory body having jurisdiction over the Company; and

(f) The Option shall not be transferable by the Optionee other than by will or the laws of descent and distribution, may not be pledged or hypothecated, and shall be exercisable during the Optionee's lifetime only by the Optionee or by his or her guardian or legal representative.

SECTION 7. CORPORATE EVENTS.

(a) Subject to subsection (d) below, in the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company (including, but not limited to, a Corporate Transaction, as defined below), or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Committee's sole discretion, affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits intended to be made available under the Plan or with respect to any Option, then the Committee shall, in such manner as it may deem equitable, adjust any or all of:

- (i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Options may be granted under the Plan (including, but not limited to, adjustments of the limitations in Section 2 on the maximum number and kind of shares which may be issued under the

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Plan);

(ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Options; and

(iii) the grant or exercise price with respect to any Option.

(b) Subject to subsection (d) below, in the event of any Corporate Transaction (as defined below), the Plan shall terminate, and all outstanding Options shall terminate, unless provisions shall be made in writing in connection with such Corporate Transaction for the continuance of the Plan and/or for the assumption of Options theretofore granted, or the substitution for such Options of options covering the stock of a successor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, in which event the Plan and Options theretofore granted shall continue in the manner and under the terms so provided. If the Plan and unexercised Options would otherwise terminate pursuant to the foregoing sentence, then, for such period of time prior to the consummation of such Corporate Transaction as the Company shall designate, all outstanding Options shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in Section 6(c) hereof or the provisions of such Option;

(c) For purposes of the Plan, the term "Corporate Transaction" shall mean any of the following stockholder-approved transactions to which the Company is a party:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which the Company is incorporated, form a holding company or effect a similar reorganization as to form whereupon this Plan and all Options are assumed by the successor entity;

(ii) the sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, in complete liquidation or dissolution of the Company in a transaction not covered by the exceptions to clause (i) above; or

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

(d) No adjustment or action described in this Section 7 shall be authorized or occur to the extent such adjustment or action would result in short-swing profits liability under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or violate the exemptive conditions of Rule 16b-3 of the Exchange Act unless the Committee determines that the Option is not to comply with such exemptive conditions.

SECTION 8. TAX WITHHOLDING.

The Company shall be entitled to require payment in cash or deduction from other compensation payable to each Optionee of any sums required by federal, state or local tax laws to be withheld with respect to the issuance, vesting or exercise of any Option. The Committee may in its discretion and in satisfaction of the foregoing requirement allow such Optionee to elect to have the Company withhold shares of Common Stock otherwise issuable under such Option (or allow the return of shares of Common Stock) having an aggregate Fair Market Value equal to the sums required to be withheld.

SECTION 9. TERMINATION AND AMENDMENT OF PLAN.

Unless sooner terminated, this Plan shall expire on December 31, 2012, so that no Option may be granted hereunder after that date although any option outstanding on that date may thereafter be exercised in accordance with its terms. The Board may alter, amend, suspend or terminate this Plan, provided that no such action shall deprive an Optionee, without his or her consent, of any Option previously granted pursuant to the Plan or of any of the Optionee's rights under such Option. However, without approval of the Company's stockholders given within 12 months before or after the action by the Board, no action of the Board may increase the limit imposed in Section 2 on the maximum number of shares which may be issued as Options under the Plan (other than adjustments under Section 7), change the types of shares issued

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under the Plan, extend the term of the Plan, materially change the method of determining the exercise price under the Plan, materially modify the definition of "Non-Employee Director" under the Plan, or modify the Plan in a manner requiring stockholder approval under the listed company rules of the New York Stock Exchange, and no action of the Board may be taken that would otherwise require stockholder approval as a matter of applicable law, regulation or rule.

SECTION 10. COMPLIANCE WITH LAWS.

This Plan, the granting and vesting of Options under this Plan and the issuance and delivery of shares of Common Stock and the payment of money under this Plan or under Options granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities laws and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restriction, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Options granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules or regulations.

SECTION 11. TITLES.

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Plan.

SECTION 12. GOVERNING LAW.

This Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Nevada without regard to the conflicts of laws rules thereof.

SECTION 13. STOCKHOLDER APPROVAL

The Company shall take such actions with respect to the Plan as may be necessary to satisfy the stockholder approval requirements of the New York Stock Exchange. This Plan shall be submitted for the approval of the Company's stockholders within twelve months after the date of the Board's adoption of this Plan. This Plan shall become effective immediately upon approval by the stockholders.

APPENDIX D

AutoZone, Inc. 2003 Director Compensation Plan

SECTION 1. PURPOSE.

This 2003 Director Compensation Plan (this "Plan") is established to allow the non-employee directors of AutoZone, Inc. ("AutoZone") to participate in the ownership of AutoZone through ownership of shares of AutoZone Common Stocks or units representing the right to receive shares of AutoZone Common Stock. In addition, the Plan is intended to allow AutoZone's non-employee directors to defer all or a portion of their compensation for their service as directors of AutoZone.

SECTION 2. DEFINITIONS.

As used herein, the following words shall have the definitions given them below:

"Affiliate" means any corporation, company limited by shares, partnership, limited liability company, business trust, other entity, or other business association that is controlled by AutoZone.

"Annual Fee" means the amount of the fixed annual Director fees set by the Board from time to time as payable to a Director in each Plan Year (including any compensation as a committee member or chairman) on the terms and subject to the conditions stated in this Plan, subject to reduction for any portion thereof that a Director elects to defer as provided in this Plan.

"Board" means the Board of Directors of AutoZone.

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"Business Day" means on a day which AutoZone's executive offices in Memphis, Tennessee are open for business and on which trading is conducted on the New York Stock Exchange.

"Committee" means the Compensation Committee appointed by the Board.

"Common Stock" means the Common Stock, \$0.01 par value per share, of AutoZone.

"Compensation Date" means the first Business Day of each Plan Quarter.

"Deferral Account" means an account established upon the conversion of a Unit Account by a Director and maintained in the Special Ledger for such Director to which cash equivalent amounts allocable to the Director under this Plan are credited.

"Director" means any member of the Board who is not an employee or officer of AutoZone or an Affiliate.

"Fair Market Value" means, as to any particular day, the average of the highest and lowest prices quoted for a share of Common Stock trading on the New York Stock Exchange on the immediately prior Business Day. The highest and lowest prices for the shares of Common Stock shall be those published in the edition of *The Wall Street Journal* or any successor publication reporting stock quotations for such day.

"Fee" means the amount of compensation (including, without limitation, Annual Fees and Meeting Fees) set by the Board from time to time as payable to a Director in each Plan Year on the terms and subject to the conditions stated in this Plan.

"First Component" means the portion of the Fee payable to a Director that accounts for at least one-half of the Fee and at the Director's option, up to the full amount of the Fee and that is payable in Shares and may be deferred by crediting Units to a Unit Account maintained for the Director.

"Interest Rate" means the annual rate at which interest is deemed to accrue on the amounts credited in a Deferral Account for a Director. The Interest Rate shall be set by the Board or a committee of the Board and may be changed from time to time as necessary to reflect prevailing interest rates.

"Meeting Fee" means the amount of compensation, other than the Annual Fee, set by the Board from time to time as payable to a Director (including, without limitation, fees for attending meetings of the Board) on the terms and subject to the conditions stated in this Plan, subject to reduction for any portion thereof that a Director elects to defer as provided in this Plan.

"Plan Quarter" the three month period beginning each September 1, December 1, March 1, and June 1.

"Plan Year" means each 12-month period beginning September 1 of each year.

"Second Component" means the balance, if any of the Fee (after reduction for the First Component) payable to a Director in cash.

"Shares" means shares of Common Stock.

"Special Ledger" means a record established and maintained by AutoZone in which the Deferral Accounts and Unit Accounts for the Directors, if any, and the Units and/or amounts credited to the accounts, are noted.

"Termination Date" means the date on which a Director ceases to be a member of the Board.

"Unit Account" shall mean the account maintained in the Special Ledger for a Director to which Units allocable to the Director under this Plan are credited.

"Unit" means a credit in a Director Unit Account representing one Share.

SECTION 3. FEE.

During each Plan Year in which a person is a Director and is entitled to receive the Fee during the existence of the Plan, the Director will be eligible to receive the Fee payable as follows:

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(a) The First Component shall be (1) payable to the Director in Shares, or (2) at the Director's option, deferred by having AutoZone credit Units to a Unit Account maintained for the Director as provided in this Plan, and

(b) The Second Component, if any, shall be payable to the Director in cash.

The Annual Fee will be payable in advance in equal quarterly installments on each Compensation Date unless deferred as provided herein. Each quarterly installment will consist of one-fourth of the First Component and one-fourth of the Second Component, if any, for each Director. The Meeting Fee will be payable or deferred in arrears on each Compensation Date. Each quarterly installment will consist of the Meeting Fees earned for Board meetings attended by the Director in the Plan Quarter immediately preceding the Compensation Date.

SECTION 4. ELECTIONS.

With respect to each Plan Year, each Director who was a Director during the prior Plan Year must elect by no later than August 31 of the prior Plan Year how he or she will receive the Fee for the Plan Year. Each Director who becomes a Director during a Plan Year must elect within 30 days after becoming a Director how he or she will receive the Fee for such Plan Year. Each election must be made by the Director filing an election form with the Secretary of AutoZone. If a Director does not file an election form for each Plan Year by the specified date the Director will be deemed to have elected to receive and defer the Fee in the manner elected by the Director in his or her last valid election or, if there had been no prior election, will be deemed to have elected to receive all of the Fee in Shares. Any election to defer a portion of the Fee made by a person who becomes a Director during a Plan Year will be valid as to the portion of the Fee received after the election is filed with the Secretary of AutoZone. When an election is made for a Plan Year, the Director may not revoke or change that election with respect to such Plan Year.

SECTION 5. THE SHARES.

If a Director elects (or is deemed to elect) to receive Shares in payment of all or any part of the Director's Fee, the number of Shares to be issued on any Compensation Date shall be a whole number of shares (truncating any fractional share) nearest to one-fourth of the amount of the Fee to be paid in Shares for the Plan Year divided by the Fair Market Value of a Share as of the Compensation Date. The amount of the Fee representing a fractional share not paid in Shares shall be paid in cash. Any Shares issued under this Plan will be registered under the Securities Act of 1933, as amended, and, so long as shares of the Common Stock are listed for trading on the New York Stock Exchange, will be listed for trading on the New York Stock Exchange.

SECTION 6. THE UNITS.

If a Director defers any portion of the Fee in the form of Units, then on each Compensation Date, AutoZone will credit a Unit Account maintained for the Director with a number of Units (rounded to the nearest one-tenth) equal to (1) one-fourth of the dollar amount of the Fee that the Director has elected to defer in the form of Units for the Plan Year divided by (2) the Fair Market Value of a Share as of the Compensation Date. AutoZone will credit to the Director's Unit Account on the date any dividend is paid on the Common Stock, an additional number of Units equal to (i) the aggregate amount of the dividend that would be paid on a number of Shares equal to the number of Units credited to the Director's Unit Account on the date the dividend is paid divided by (ii) the Fair Market Value of a Share as of that date.

SECTION 7. DISTRIBUTION OF THE AMOUNTS IN A UNIT ACCOUNT.

Upon the Termination Date for a Director, such Director shall be entitled to receive that whole number of Shares (truncating any fractional share) with which the Director's Unit Account is credited. Subject to Section 11 hereof, the Director may elect to receive such Shares in any one of the following forms:

(a) a single lump-sum issuable as soon as practicable after the Termination Date; or

(b) a single lump-sum issuable as soon as practicable after the fifth anniversary of the Termination Date; or

(c) a single lump-sum issuable as soon as practicable after the tenth anniversary of the Termination Date; or

(d) two (2) equal installments, one of which shall be issuable as soon as practicable after the fifth anniversary of the Termination Date and the other of which shall be issuable as soon as practicable after the tenth anniversary of the Termination Date, as provided below.

If the Director has elected to receive the Shares in the manner set forth in (d) above (i.e., in two equal installments), one-half of the Shares credited to the Unit Account as of the Termination Date will be issued to the Director for each installment plus additional Shares equal to the Units credited to the Unit Account respecting dividends paid on the Common Stock since the prior installment was made (or, in the case of the first installment, since the Termination Date). Any fractional share amount shall be valued at the Fair Market Value and be paid in cash at the

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date of distribution of the Shares.

SECTION 8. CONVERSION OF UNIT ACCOUNT.

A Director who has a Unit Account may convert all (but not less than all) of the Unit Account into a Deferral Account, provided that such Director delivers notice to AutoZone of such election to convert at least 12 full months prior to the Director's Termination Date. The cash amount to be credited to the Director's Deferral Account upon the conversion shall equal (i) the number of Units credited to his or her Unit Account so converted multiplied by (ii) the Fair Market Value of a Share on the date of the Director's election to convert.

Any election to convert must be made on a form prescribed by AutoZone and filed with its Secretary. The conversion of a Unit Account into a Deferral Account shall be deemed to occur on the date of the Director's election, except that, unless the Board provides otherwise, any portion of a Unit Account granted within six months of the date of election shall be converted to a Deferral Account six months and one day from the date in which the Units representing such portion were credited to the Unit Account.

A Deferral Account shall accrue interest from the effective date of conversion at the Interest Rate, accrued and compounded quarterly.

SECTION 9. DISTRIBUTION OF THE AMOUNTS IN A DEFERRAL ACCOUNT.

Upon the Termination Date for a former Director, such former Director shall be entitled to receive an amount of cash equal to the amount with which the former Director's Deferral Account is credited. Subject to Section 11 hereof, the former Director may elect to receive such cash in any one of the following forms:

- (a) a single lump-sum payable as soon as practicable after the Termination Date; or
- (b) a single lump-sum payable as soon as practicable after the fifth anniversary of the Termination Date; or
- (c) a single lump-sum payable as soon as practicable after the tenth anniversary of the Termination Date; or

(d) two (2) equal installments, one of which shall be payable as soon as practicable after the fifth anniversary of the Termination Date and the other of which shall be payable as soon as practicable after the tenth anniversary of the Termination Date, as provided below.

If the former Director has elected to receive the cash in the manner set forth in (d) above (i.e., in two equal installments), one-half of the amount credited to the Deferral Account as of the Termination Date will be paid in each installment, along with the additional amount credited to the Deferral Amount as interest (at the Interest Rate) since the prior installment was paid (or, in the case of the first installment, since the Termination Date).

SECTION 10. DISTRIBUTION IN THE EVENT OF A DIRECTOR'S DEATH.

With respect to a Director's Unit Account (or, if applicable, the Director's Deferral Account), each Director who defers any part of the Fee payable to him or her in any Plan Year may designate one or more beneficiaries which may be changed from time to time upon written notice to AutoZone. The designation of a beneficiary must be made by filing with AutoZone's Secretary a form prescribed by AutoZone. If no designation of a beneficiary is made, any deferred benefits under this Plan will be paid to the Director's or former Director's estate. If a Director dies while in office or a former Director dies during the installment payment period, AutoZone will issue the Shares that are issuable (or if applicable, pay the amounts of cash that are payable) to the Director or former Director in the manner set forth in the most recent timely election filed by such Director or former Director, or if no such election has been filed, in a single lump-sum as soon as practicable after the death of the Director or the former Director.

SECTION 11. TIMING OF ELECTION TO RECEIVE DEFERRED BENEFITS IN INSTALLMENTS.

If a Director desires to have his Unit Account and/or Deferral Account distributed in installments as provided in Section 7(d) or Section 9(d) hereof, the election to receive payments in installments must be delivered to the Secretary of AutoZone at least 12 full months prior to the Director's Termination Date. Any such election delivered by the Director within the 12-month period ending on the Director's Termination Date shall be of no force or effect. If a Director has filed more than one timely election, the most recent such election shall govern and all prior elections shall be superseded and shall be of no force or effect.

SECTION 12. HOLDING PERIOD

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Notwithstanding anything contained herein, unless the Board provides otherwise, (i) no Shares issued hereunder may be sold, assigned or otherwise transferred until at least six months and one day have elapsed from the date on which such Shares were issued, and (ii) no right or interest of a Director or a former Director in Units credited his or her Unit Account hereunder (including Units credited to such Unit Account respecting dividends paid on the Common Stock) shall be sold, assigned or otherwise transferred until at least six months and one day have elapsed from the date on which such Units were credited to such Unit Account, except by will or in accordance with the laws of decent and distribution.

SECTION 13. HARDSHIP WITHDRAWALS.

Prior to the complete distribution of a Director's Unit Account and/or Deferral Account, such Director may request a withdrawal of any portion of his or her Unit Account or Deferral Account in an amount sufficient to meet a "hardship." For purposes of this Plan, "hardship" shall mean a demonstrated and severe financial hardship resulting from any one or more of the following: (i) sudden or unexpected illness or accident of the Director or of a dependent (as defined in Section 152(a) of the Internal Revenue Code of 1986, as amended) of the Director, (ii) a loss of the Director's property due to casualty, or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Director's control; in each case only to the extent that the hardship is not relieved (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Director's assets (to the extent that such liquidation does not itself cause a "hardship"), or (c) by cessation of deferrals under the Plan. The Board, in its sole and absolute discretion, shall determine the existence of a bona fide hardship based on non-discriminatory procedures, taking into account any then applicable rulings or regulations from the Internal Revenue Service. The standards established by the Board for determining the existence of hardship shall be uniformly applied to all Directors who request such a withdrawal and the Board's decision with respect to each such request shall be final.

An approved hardship withdrawal shall be paid to the Director in cash as soon as practicable after the approval. In the event that part or all of the withdrawal is to be made from a Unit Account, a number of Units equal to (i) the amount of the hardship withdrawal required to be made from the Unit Account, divided by (ii) the Fair Market Value of a Share on the date of approval, shall be converted into cash and paid to the Director as provided herein, and the balance of the Unit Account shall be reduced accordingly.

SECTION 14. WITHHOLDING FOR TAXES.

AutoZone will withhold the amount of cash and Shares necessary to satisfy AutoZone's obligation to withhold federal, state, and local income and other taxes on any benefits received by the Director, the former Director or a beneficiary under this Plan

SECTION 15. NO TRANSFER OF RIGHTS UNDER THE PLAN.

A Director or former Director shall not have the right to transfer, grant any security interest in or otherwise encumber rights he or she may have under this Plan, any Deferral Account or any Unit Account maintained for the Director or former Director or any interest therein. No right or interest of a Director or a former Director in a Deferral Account or a Unit Account shall be subject to any forced or involuntary disposition or to any charge, liability, or obligation of the Director or former Director, whether as the direct or indirect result of any action of the Director or former Director or any action taken in any proceeding, including any proceeding under any bankruptcy or other creditors' rights law. Any action attempting to effect any transaction of that type shall be null, void, and without effect.

SECTION 16. UNFUNDED PLAN.

This Plan will be unfunded for federal tax purposes. The Deferral Accounts and the Unit Accounts are entries in the Special Ledger only and are merely a promise to make payments in the future. AutoZone's obligations under this Plan are unsecured, general contractual obligations of AutoZone.

SECTION 17. AMENDMENT AND TERMINATION OF THE PLAN.

Unless sooner terminated, this Plan shall expire on December 31, 2012, so that no benefits may be granted hereunder after that date. Except as otherwise provided in this Section 17, the Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board. However, without approval of AutoZone's stockholders given within 12 months before or after the action by the Board, no action of the Board may increase the limit imposed in Section 19 on the maximum number of shares which may be issued under the Plan (other than adjustments under Section 20), change the type of equity compensation paid under the plan, extend the term of the plan, materially change the method of determining the price of equity compensation granted under the plan, materially modify the definition of "Director" under the Plan, or modify the Plan in a manner requiring stockholder approval under the listed company rules of the New York Stock Exchange, and no action of the Board may be taken that would otherwise require stockholder approval as a matter of applicable law, regulation or rule.

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An amendment or the termination of this Plan will not adversely affect the right of a Director, former Director, or Beneficiary to receive Shares issuable or cash payable at the effective date of the amendment or termination or any rights that a Director, former Director, or a Beneficiary has in any Deferral Account or Unit Account at the effective date of the amendment or termination. If the Plan is terminated, however, AutoZone may, at its option, accelerate the payment of all deferred and other benefits payable under this Plan.

SECTION 18. GOVERNING LAW.

This Plan shall be administered, interpreted and enforced under the internal laws of the State of Nevada without regard to the conflicts of law rules thereof. AutoZone has the right to interpret this Plan, and any interpretation by AutoZone shall be conclusive as to the meaning of this Plan.

SECTION 19. SHARES SUBJECT TO THE PLAN.

AutoZone shall reserve 100,000 Shares for issuance under the Plan. Shares issued under the Plan may be authorized but unissued shares or treasury shares. No Plan participant shall have any of the rights or privileges of an AutoZone stockholder in respect to any of the Shares unless and until certificates representing such Shares have been issued by AutoZone.

SECTION 20. CORPORATE EVENTS.

(a) Subject to subsection (d) below, in the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of AutoZone (including, but not limited to, a Corporate Transaction, as defined below), or exchange of Common Stock or other securities, issuance of warrants or other rights to purchase Common Stock or other securities of AutoZone, or other similar corporate transaction or event, in the Committee's sole discretion, affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares of Common Stock (or other securities or property) which may be granted under the Plan (including, but not limited to, adjustments of the limitations in Section 19 on the maximum number of shares which may be issued under the Plan, and adjustments to the number and kind of shares of Common Stock (or other securities or property) that may be paid upon the distribution of Units).

(b) For purposes of the Plan, the term "Corporate Transaction" shall mean any of the following stockholder-approved transactions to which AutoZone is a party:

- (i) a merger or consolidation in which AutoZone is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which AutoZone is incorporated, form a holding company or effect a similar reorganization as to form whereupon this Plan and all Units are assumed by the successor entity;
- (ii) the sale, transfer, exchange or other disposition of all or substantially all of the assets of AutoZone, in complete liquidation or dissolution of AutoZone in a transaction not covered by the exceptions to clause (i) above; or
- (iii) any reverse merger in which AutoZone is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of AutoZone's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

(c) No adjustment or action described in this Section 20 shall be authorized or occur to the extent such adjustment or action would result in short-swing profits liability under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or violate the exemptive conditions of Rule 16b-3 of the Exchange Act unless the Committee determines that the issuance of the Shares or other securities or property is not to comply with such exemptive conditions.

SECTION 21. ADMINISTRATION.

(a) The Plan shall be administered by the Committee which shall consist of two or more Directors, appointed by and holding office at the pleasure of the Board. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies on the Committee shall be filled by the Board.

(b) The Committee shall have the power to interpret the Plan and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules.

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(c) The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

(d) All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by AutoZone. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons, and the Committee, and AutoZone and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding on each Director participating in the Plan, AutoZone and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, and all members of the Committee shall be fully protected by AutoZone with respect to any such action, determination or interpretation.

SECTION 22. STOCKHOLDER APPROVAL

AutoZone shall take such actions with respect to the Plan as may be necessary to satisfy the stockholder approval requirements of the New York Stock Exchange. This Plan shall be submitted for the approval of AutoZone's stockholders within twelve months after the date of the Board's adoption of this Plan. Fees may not be paid in Common Stock under the Plan prior to such stockholder approval. This Plan shall become effective immediately upon approval by the stockholders.

Relentlessly creating the most exciting Zone for vehicle solutions!

DETACH HERE ZAUZC2

PROXY

AUTOZONE, INC.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY FOR THE ANNUAL MEETING OF STOCKHOLDERS

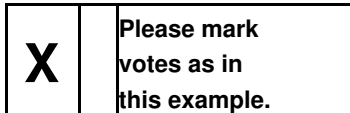
I hereby appoint Harry L. Goldsmith and Donald R. Rawlins, and each of them, as proxies, with full power of substitution to vote all shares of common stock of AutoZone, Inc., which I would be entitled to vote at the Annual Meeting of AutoZone, Inc., to be held at The Waldorf - Astoria, 301 Park Avenue, New York, New York, on Thursday, December 12, 2002, at 8 a.m., EST, and at any adjournments, on items 1, 2, 3 and 4, as I have specified and in their discretion on other matters as may come before the meeting.

SEE REVERSE SIDE	CONTINUED AND TO BE SIGNED ON REVERSE SIDE	SEE REVERSE SIDE
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AUTOZONE, INC.
C/O EQUISERVE
P.O. BOX 43068
PROVIDENCE, RI 02940

Vote by Telephone		Vote By Internet	
It's fast, convenient, and immediate! Call Toll-Free on a Touch-Tone Phone 1-877-PRX-VOTE (1-877-779-8663).		It's fast, convenient, and your vote is immediately confirmed and posted.	
Follow these four easy steps:		Follow these four easy steps:	
1.	Read the accompanying Proxy Statement and Proxy Card.	1.	Read the accompanying Proxy Statement and Proxy Card.
2.	Call the toll-free number 1-877-PRX-VOTE (1-877-779-8683).	2.	Go to the Website http://www.eproxyvote.com/azo
3.	Enter your Voter Control Number located on your Proxy Card above your name.	3.	Enter your Voter Control Number located on your Proxy Card above your name.
4.	Follow the recorded instructions.	4.	Follow the instructions provided.
Your vote is important!		Your vote is important!	
Call 1-877-PRX-VOTE anytime!		Go to http://www.eproxyvote.com/azo anytime!	

Do not return your Proxy Card if you are voting by Telephone or Internet DETACH
HERE ZAUZC1



This proxy when properly executed will be voted in the manner directed below. If no direction is made, this proxy will be voted FOR the election of the directors nominated by the Board of Directors and FOR proposals 2, 3 and 4.

1. Election of Directors.

Nominees:

(01) Charles M. Elson, (02) Marsha J. Evans, (03) Earl G. Graves, Jr., (04) N. Gerry House, (05) J.R. Hyde, III, (06) James F. Keegan, (07) Edward S. Lampert, (08) W. Andrew McKenna and (09) Steve Odland

FOR ALL NOMINEES

WITHELD FROM ALL NOMINEES

For all nominees except as noted above

For Against Abstain

2 Approval of director stock option plan.

3 Approval of director compensation plan.

4 **Approval of independent auditors.**

5 **In their discretion of the proxies named herein, upon such other matters as may properly come before the meeting.**

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT

MARK HERE IF YOU PLAN TO ATTEND THE MEETING

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Please sign this proxy exactly as name appears hereon.
When shares are held by joint tenants, both should sign.
When signing as attorney, administrator, trustee or guardian,
please give full title as such.

Signature: _____ Date: _____ Signature: _____ Date: _____