

Air Transport Services Group, Inc.
Form DEF 14A
March 31, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Air Transport Services Group, Inc.

(Name of Registrant as Specified In Its Charter)

Edgar Filing: Air Transport Services Group, Inc. - Form DEF 14A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Edgar Filing: Air Transport Services Group, Inc. - Form DEF 14A

.. 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:

Table of Contents

145 Hunter Drive, Wilmington, Ohio 45177

NOTICE OF ANNUAL MEETING

OF STOCKHOLDERS

TO BE HELD MAY 11, 2010

Notice is hereby given that the 2010 annual meeting of the stockholders of Air Transport Services Group, Inc., a Delaware corporation (the Company), has been called and will be held on May 11, 2010, at 11:00 a.m., local time, at the Boyd Cultural Arts Center/Heiland Theatre, Wilmington College, 1870 Quaker Way, Wilmington, Ohio 45177, for the following purposes:

1. To elect three directors to the Board of Directors each for a term of three years.
2. To re-approve the business criteria that may be utilized in establishing targets for the granting and vesting of performance-based awards under the Company's Amended and Restated 2005 Long-Term Incentive Plan so as to qualify the compensation attributable to those awards as performance-based under Section 162(m) of the Internal Revenue Code.
3. To ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for fiscal year 2010.
4. To attend to such other business as may properly come before the meeting and any adjournments thereof.

We are pleased to take advantage of the U.S. Securities and Exchange Commission rule that allows companies to furnish proxy materials to their stockholders over the Internet. As a result, we are mailing to most of our stockholders a Notice of Internet Availability of Proxy Materials (the Notice) instead of a paper copy of this Proxy Statement and our 2009 Annual Report. We believe that this process allows us to provide our stockholders with the necessary information while reducing our costs and lessening the environmental impact of the annual meeting. The Notice contains instructions on how to access the Proxy Statement and Annual Report over the Internet. The Notice also contains instructions on how to request a paper copy of the proxy materials.

The foregoing matters are described in more detail in the Proxy Statement that is available at <http://www.proxyvote.com>.

At the meeting, we will also report on the Company's 2009 business results and other matters of interest to stockholders.

Only holders of record, as of the close of business on March 15, 2010, of shares of common stock of the Company will be entitled to notice of and to vote at the meeting and any adjournments thereof.

By Order of the Board of Directors

Wilmington, Ohio
April 1, 2010

/s/ W. Joseph Payne
W. JOSEPH PAYNE
Secretary

YOU ARE URGED TO VOTE AS PROMPTLY AS POSSIBLE BY USING THE INTERNET OR TELEPHONE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. YOU MAY ALSO REQUEST A PAPER COPY OF THESE MATERIALS, WHICH WILL INCLUDE A PROXY CARD. THEN, YOU MAY VOTE BY FILLING IN, SIGNING AND RETURNING THE PROXY CARD IN THE PROVIDED ENVELOPE.

Table of Contents

TABLE OF CONTENTS

<u>VOTING AT THE MEETING</u>	1
<u>Voting Rights and Outstanding Shares</u>	1
<u>Voting Procedures</u>	2
<u>Vote Required</u>	2
<u>Shares Registered in the Name of a Broker</u>	2
<u>Revocability</u>	3
<u>Confidentiality</u>	3
<u>Proxy Solicitation</u>	3
<u>Proxy Tabulation</u>	3
<u>Separate Voting Materials</u>	3
<u>Principal Stockholders</u>	4
<u>PROPOSAL 1 – ELECTION OF DIRECTORS</u>	6
<u>CORPORATE GOVERNANCE AND BOARD MATTERS</u>	8
<u>Independence</u>	8
<u>Director Compensation</u>	9
<u>Cash Compensation</u>	9
<u>Long-Term Incentive Compensation</u>	9
<u>Director Compensation Table</u>	9
<u>Board Committees</u>	10
<u>Audit Committee</u>	10
<u>Audit Committee Report</u>	10
<u>Compensation Committee</u>	11
<u>Nominating and Governance Committee</u>	11
<u>Consideration of Nominees for Director</u>	12
<u>Director Qualifications</u>	12
<u>Evaluation of Stockholder Nominees</u>	12
<u>Director Nominations by Stockholders</u>	12
<u>Corporate Governance Guidelines</u>	13
<u>Code of Ethics for the CEO and CFO</u>	13
<u>Code of Conduct for Conducting Business</u>	13
<u>Related Person Transactions</u>	13
<u>Executive Sessions</u>	13
<u>Communications with the Board</u>	13
<u>Board Leadership Structure</u>	14
<u>EXECUTIVE COMPENSATION</u>	15
<u>Compensation Discussion and Analysis</u>	15
<u>Compensation Philosophy and Objectives</u>	15
<u>Chief Executive Officer’s Role in the Compensation Decision Process</u>	15
<u>Establishing Compensation Levels</u>	15
<u>Competitive Consultant</u>	15
<u>Components of Executive Compensation for 2009</u>	16
<u>Base Salary</u>	16
<u>Short-Term Incentive Compensation</u>	17
<u>Long-Term Incentive Compensation</u>	18
<u>Restricted Stock Awards</u>	19
<u>Performance-Based Stock Unit Awards</u>	20
<u>Stock Ownership Guidelines</u>	21
<u>Company-Sponsored Retirement and Benefit Plans</u>	21
<u>Retirement Plans</u>	21
<u>Benefit Plans</u>	22
<u>Change-in-Control Agreements</u>	22

Table of Contents

<u>Financial Restatements</u>	22
<u>Tax and Accounting Implications</u>	22
<u>Deductibility of Executive Compensation</u>	22
<u>Accounting for Stock-Based Compensation</u>	23
<u>Compensation Committee Report</u>	23
<u>Summary Compensation Table</u>	24
<u>Grants of Plan-Based Awards Table</u>	25
<u>Outstanding Equity Awards at Fiscal Year-End Table</u>	26
<u>Vested Equity Awards at Fiscal Year-End Table</u>	26
<u>Pension Benefits Table</u>	27
<u>Potential Payments Upon Termination or Change in Control</u>	27
<u>Payments Made Upon Termination</u>	
<u>Payments Made Upon Retirement</u>	27
<u>Payments Made Upon Disability</u>	27
<u>Payments Made Upon Death</u>	28
<u>Payments Upon Change In Control</u>	28
<u>Potential Payments Upon Termination or Change in Control Table</u>	30
<u>Compensation Committee Interlocks and Insider Participation</u>	31
<u>STOCK OWNERSHIP OF MANAGEMENT</u>	32
<u>PROPOSAL 2 RE-APPROVAL OF THE BUSINESS CRITERIA UNDER THE AIR TRANSPORT SERVICES GROUP, INC. AMENDED AND RESTATED 2005 LONG-TERM INCENTIVE COMPENSATION PLAN</u>	
<u>Summary Description of the 2005 Plan</u>	33
<u>Purpose</u>	33
<u>Administration</u>	33
<u>Eligibility</u>	34
<u>Authorized Shares and Limits on Awards</u>	34
<u>Adjustments</u>	34
<u>Awards</u>	34
<u>Options</u>	34
<u>Stock Appreciation Rights</u>	35
<u>Restricted Stock</u>	35
<u>Restricted Stock Units</u>	36
<u>Other Stock Awards</u>	36
<u>Stock Units</u>	36
<u>Performance-Based Awards</u>	36
<u>Award Agreements</u>	37
<u>Effect of Termination of Services on Awards that are not Performance-Based</u>	38
<u>Death</u>	38
<u>Disability</u>	38
<u>Retirement</u>	38
<u>Voluntary Termination of Service</u>	39
<u>Involuntary Termination of Service Without Cause</u>	39
<u>Effect of Termination of Service on Performance-Based Awards</u>	39
<u>Voluntary or Involuntary Termination of Service</u>	39
<u>Termination of Service as a result of Death, Disability or Retirement</u>	39
<u>Other Events Resulting in the Forfeiture of Awards</u>	40
<u>Buyout of Awards</u>	40
<u>Merger, Consolidation or Similar Events</u>	40
<u>Amendment, Modification and Termination of Plan</u>	41
<u>U.S. Tax Consequences</u>	41
<u>Non-Qualified Stock Options</u>	41
<u>Incentive Stock Options</u>	41

Table of Contents

<u>Sections 280G and 4999 of the Tax Code</u>	42
<u>Section 409A of the Tax Code</u>	42
<u>Specific Benefits under the 2005 Plan</u>	42
<u>Equity Compensation Plan Information</u>	43
<u>Vote Required for Re-Approval of the Performance Criteria for the 2005 Plan</u>	43
<u>PROPOSAL 3 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	44
<u>Fees of the Independent Registered Public Accounting Firm</u>	44
<u>Audit Fees</u>	44
<u>Audit-Related Fees</u>	44
<u>Tax Fees</u>	44
<u>Pre-Approval Policy</u>	44
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	45
<u>STOCKHOLDER PROPOSALS</u>	45
<u>ANNUAL REPORT ON FORM 10-K</u>	45
<u>OTHER MATTERS</u>	46

Table of Contents

PROXY STATEMENT

AIR TRANSPORT SERVICES GROUP, INC.

145 Hunter Drive, Wilmington, Ohio 45177

ANNUAL MEETING OF STOCKHOLDERS, MAY 11, 2010

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board**) of Air Transport Services Group, Inc., a Delaware corporation (the **Company** or **ATSG**), for use at the annual meeting of stockholders to be held at the Boyd Cultural Arts Center/Heiland Theatre, Wilmington College, 1870 Quaker Way, Wilmington, Ohio 45177, at 11:00 a.m., local time, on Tuesday, May 11, 2010, and at any adjournments thereof. Proxies may be solicited in person, by telephone or mail, and the costs thereof will be borne by the Company.

The proxy materials, including this Proxy Statement, proxy card and the Company's 2009 Annual Report, are being distributed and made available on or about April 1, 2010. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission (the **SEC**), the Company has elected to provide stockholders access to proxy materials over the Internet. Accordingly, a Notice of Internet Availability of Proxy Materials (the **Notice**) will be mailed on or about April 1, 2010 to stockholders who owned common stock at the close of business on March 15, 2010. Stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request a printed set of the proxy materials be sent to them by following the instructions in the Notice.

At the annual meeting, the holders of shares of common stock of the Company will (1) vote to elect three directors for terms of three years and until their successors have been elected and qualified, (2) consider and vote on a proposal to re-approve the business criteria that may be utilized in establishing targets for the granting and vesting of performance-based awards under the Company's Amended and Restated 2005 Long-Term Incentive Plan so as to qualify the compensation attributable to those awards as performance-based under Section 162(m) of the Internal Revenue Code, (3) consider and vote on a proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2010, and (4) transact such other business as may properly come before the meeting and any adjournments thereof.

On December 31, 2007, ABX Air, Inc. (**ABX Air**) reorganized its operations into a holding company structure (the **Reorganization**) whereby ABX Air became a direct, wholly-owned subsidiary of ATSG (formerly ABX Holdings, Inc.), and ATSG became the public reporting company. On that same date, ATSG acquired Cargo Holdings International, Inc. (**CHI**), which consisted of four principal operating subsidiaries, including Air Transport International, LLC (**ATI**), Capital Cargo International Airlines, Inc. (**CCIA**), Cargo Aircraft Management, Inc. (**CAM**) and LGSTX Services, Inc. (**LGSTX**). Throughout this Proxy Statement, when we refer to the Company in reference to activities that occurred prior to the Reorganization on December 31, 2007, we are referring to ABX Air, and when we refer to the Company in reference to activities that occurred after the Reorganization, we are referring to ATSG, except to the extent the context otherwise indicates. As a result of the Reorganization, the common stock of ATSG replaced the common stock of ABX Air.

VOTING AT THE MEETING

Voting Rights and Outstanding Shares

Only holders of record as of the close of business on March 15, 2010, of shares of common stock of the Company will be entitled to notice of and to vote at the meeting and any adjournments thereof. The common

Table of Contents

stock is the only class of voting securities of the Company currently outstanding. Each share of common stock is entitled to one vote at the meeting on all matters properly presented at the meeting. On March 15, 2010, there were 63,408,566 shares of common stock outstanding. At the meeting, the presence in person or by proxy of a majority of the outstanding shares is required for a quorum.

Voting Procedures

Most stockholders have a choice of voting over the Internet, by telephone or by using a traditional proxy card. Please refer to your proxy or voting instruction card to see which options are available to you and how to use them. The deadline for voting by telephone or over the Internet is 11:59 p.m. ET, on May 10, 2010. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. Street name stockholders who wish to vote at the meeting will need to obtain a signed proxy form from the institution that holds their shares.

Vote Required

Proposal 1: Election of Directors. The three nominees for director who receive the most votes of all the votes cast for directors will be elected. This means that if you do not vote for a particular nominee, or if you withhold authority to vote for a particular nominee when voting your proxy, your vote will not count for or against the nominee. If a listed nominee becomes unavailable, the persons named in the proxy may vote for any substitute designated by the Nominating and Governance Committee; however, the Board of Directors at this time has no reason to anticipate that this will occur.

Proposal 2: Re-approval of Business Criteria under Long-Term Incentive Plan. The affirmative vote of a majority of the votes represented at the annual meeting, either in person or by proxy, and entitled to vote on this proposal, is required to re-approve the business criteria utilized in establishing targets for the granting and vesting of performance-based awards under the Company's Amended and Restated 2005 Long-Term Incentive Plan so as to qualify the compensation attributable to those awards as performance-based under Section 162(m) of the Internal Revenue Code. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a vote against this proposal.

Proposal 3: Ratification of Selection of Independent Registered Public Accounting Firm. The affirmative vote of a majority of the votes represented at the annual meeting, either in person or by proxy, and entitled to vote on this proposal, is required to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for the 2010 fiscal year. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a vote against this proposal.

If you properly sign and return your proxy card or complete your proxy via the telephone or Internet, your shares will be voted as you direct. Unless a stockholder provides specific instructions to withhold votes from a nominee for director, the persons named in the proxy will be authorized to vote the shares represented thereby **FOR** the election of the Board's nominees for director. To the extent specific instructions are not given with respect to Proposals 2 and 3, the shares represented by the proxy will be voted **FOR** the proposal.

Shares Registered in the Name of a Broker

Brokerage firms holding shares in street name for customers are required to vote such shares in the manner directed by their customers. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee which is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker how to vote and are also invited to attend the meeting. Your broker or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares. However, since you are not the stockholder of record,

Table of Contents

you may not vote these shares in person at the meeting unless you obtain a signed proxy from the record holder giving you the right to vote these shares. A broker non-vote occurs when a stockholder of record, such as a broker or bank, does not vote on a proposal because it has not received voting instructions from the beneficial owner and does not have discretionary authority to vote on the proposal. The proposal for the election of directors is not a discretionary item, so you must provide instructions to your broker in order to cast a vote on Proposal 1. We do not expect broker non-votes on Proposals 2 and 3.

Revocability

You may revoke your proxy in one of the following ways: by voting in person at the annual meeting, by giving written notice of revocation to the Secretary of the Company prior to the voting, or by giving a later dated proxy (including by means of a telephone or Internet vote) at any time before the voting.

Confidentiality

It is the policy of the Company that all proxy cards, ballots and vote tabulations that identify the vote of a specific stockholder on any matter submitted for a vote of stockholders be kept secret from the Company and its directors, officers and employees, except when (a) disclosure is required by applicable law or regulation, (b) a stockholder expressly requests such disclosure, or (c) in a contested proxy solicitation.

Proxy Solicitation

Proxies may be solicited by directors, executive officers and other employees of the Company in person or by telephone, telegraph or mail only for use at the annual meeting. All solicitation costs will be borne by the Company. The Company has retained Georgeson Shareholder Communications, Inc. (Georgeson) to assist with the solicitation of proxies for a project management fee of \$14,500, plus reimbursement for out-of-pocket expenses. The Company may also engage Georgeson to solicit proxies by telephone for a reasonable additional fee determined on a per-completed-call basis. All solicitation costs will be borne by the Company.

Proxy Tabulation

Proxies and ballots will be received and tabulated by an independent firm that is not affiliated with the Company. The inspector of election will also be independent of the Company. Subject to the above exceptions to the confidential voting policy, comments on written proxy cards will be provided to the Secretary of the Company without disclosing the vote unless the vote is necessary to understand the comment.

Separate Voting Materials

If you share an address with another stockholder and we sent you a notice of an intent to send you a householded mailing, you may receive only one set of proxy materials (including our annual report to stockholders, 2009 Form 10-K, and proxy statement) unless you have provided contrary instructions. If you wish to receive a separate set of documents now or in the future, you may write or call to request a separate copy of these materials from:

Air Transport Services Group, Inc.

145 Hunter Drive

Wilmington, Ohio 45177

Attn: Patricia A. Wallace

Executive Assistant

Telephone: (937) 366-2296

Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may write or call us at the above address and phone number to request that in the future, we deliver to you a single copy of these materials.

Table of Contents**Principal Stockholders**

To the Company's knowledge, as of March 15, 2010, the following stockholders owned more than 5% of the outstanding common stock of the Company:

Common Stock Ownership of Certain Beneficial Owners

Name	Number of Shares	Percentage of Common Stock Outstanding ⁽⁴⁾
Red Mountain Capital Partners LLC	7,882,230 ⁽¹⁾	12.43 %
Prescott Group Capital Management, LLC	7,112,892 ⁽²⁾	11.22 %
The Pabrai Investment Funds	5,517,678 ⁽³⁾	08.70 %

- ⁽¹⁾ Based on the Schedule 13D, jointly filed with the SEC on November 20, 2006, as amended by Amendment No. 1 thereto jointly filed on September 24, 2007, Amendment No. 2 thereto jointly filed on February 7, 2008, Amendment No. 3 thereto jointly filed on December 3, 2008, Amendment No. 4 thereto jointly filed on January 6, 2009, Amendment No. 5 thereto jointly filed on February 3, 2009, Amendment No. 6 thereto jointly filed on May 26, 2009, and Amendment No. 7 thereto jointly filed on June 1, 2009, by (i) Red Mountain Capital Partners LLC, a Delaware limited liability company (RMCP LLC), (ii) Red Mountain Capital Partners II, L.P., a Delaware limited partnership (RMCP II), (iii) Red Mountain Capital Partners III, L.P., a Delaware limited partnership (RMCP III), (iv) RMCP GP LLC, a Delaware limited liability company (RMCP GP), (v) Red Mountain Capital Management, Inc., a Delaware corporation (RMCM), and (vi) Willem Mesdag, a natural person and citizen of the United States of America. According to this filing, the principal business of each of RMCP II and RMCP III is investment. Neither RMCP II nor RMCP III was formed for the specific purpose of investing in the securities of ATSG. RMCP GP is the general partner of each of RMCP II and RMCP III and thus may be deemed to control each of RMCP II and RMCP III. The principal business of RMCP GP is investment. RMCP LLC is the managing member of RMCP GP and thus may be deemed to control RMCP GP and each entity directly or indirectly controlled by RMCP GP. The principal business of RMCP LLC is investment. RMCM is the managing member of RMCP LLC and thus may be deemed to control RMCP LLC and each entity directly or indirectly controlled by RMCP LLC. The principal business of RMCM is investment. Mr. Mesdag is the president, sole executive officer, sole director and sole shareholder of RMCM and thus may be deemed to control RMCM and each entity directly or indirectly controlled by RMCM (including Red Mountain). RMCP LLC, RMCP II, RMCP III and RMCP GP are sometimes collectively referred to herein as Red Mountain. Red Mountain, RMCM and Mr. Mesdag are sometimes collectively referred to herein as the Reporting Persons. The principal occupation of Mr. Mesdag is Managing Partner of Red Mountain. J. Christopher Teets (and his principal occupation) is Partner of Red Mountain. Mr. Teets, a director of the Company, does not control any Reporting Person. RMCP II beneficially owns, in the aggregate, 4,706,082 shares of common stock. RMCP II has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition, of all such 4,706,082 shares of common stock. RMCP III beneficially owns, in the aggregate, 3,176,148 shares of common stock. RMCP III has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition, of all such 3,176,148 shares. The common stock beneficially owned by RMCP II and RMCP III, when aggregated together, total 7,882,230 shares. Because each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to control RMCP II and RMCP III, each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to beneficially own, and to have the power to vote or direct the vote, or dispose or direct the disposition of, all of the common stock beneficially owned by RMCP II and RMCP III. Other than shares of common stock beneficially owned by RMCP II or RMCP III, none of the Reporting Persons or Mr. Teets may be deemed to beneficially own any shares of common stock. Each of RMCP LLC, RMCP II, RMCP III and RMCP GP affirms membership in a group with each other but disclaims membership in a group with RMCM or Mr. Mesdag. Each of RMCM and Mr. Mesdag disclaims membership in a group with any person. This stock ownership information was reported as of June 1, 2009.

Table of Contents

- (2) Based on the Schedule 13G/A filed on February 12, 2010 with the SEC by Prescott Group Capital Management, LLC, an Oklahoma limited liability company (Prescott Capital), Prescott Group Aggressive Small Cap, L.P., an Oklahoma limited partnership (Prescott Small Cap), Prescott Group Aggressive Small Cap II, L.P., an Oklahoma limited partnership (Prescott Small Cap II) and, together with Prescott Small Cap, the Small Cap Funds) and Mr. Phil Frohlich, the principal of Prescott Capital. The Small Cap Funds are general partners of Prescott Group Aggressive Small Cap Master Fund, G.P., an Oklahoma general partnership (Prescott Master Fund). Prescott Capital serves as the general partner of the Small Cap Funds and may direct the Small Cap Funds, the general partners of Prescott Master Fund, to direct the vote and disposition of the 7,112,892 shares of common stock held by the Master Fund. As the principal of Prescott Capital, Mr. Frohlich may direct the vote and disposition of the 7,112,892 shares of common stock held by Prescott Master Fund. This stock ownership information was reported as of December 31, 2009.
- (3) Based on the Schedule 13G/A, filed February 17, 2009 with the Securities and Exchange Commission (SEC) by The Pabrai Investment Fund II, L.P., an Illinois limited partnership (PIF2), Pabrai Investment Fund 3, Ltd., a British Virgin Islands corporation (PIF3), The Pabrai Investment Fund IV, L.P., a Delaware limited partnership (PIF4), Dalal Street, LLC, a California limited liability company (Dalal Street), which is general partner of PIF2 and PIF4 and sole investment manager of PIF3, Harina Kapoor, and Mohnish Pabrai, sole shareholder and chief executive officer of Dalal Street and a shareholder and president of PIF3 (collectively, the Reporting Persons). According to this filing, by virtue of the relationships between and among (i) Dalal Street in its capacity as the general partner and investment manager of PIF2, PIF4 and PIF3, respectively, (ii) Mohnish Pabrai, in his capacity as sole shareholder and chief executive officer of Dalal Street and as president of PIF3 and (iii) the other Reporting Persons, each of the Reporting Persons may be deemed to be the beneficial owner of all or a portion of the Common Stock held by the other Reporting Persons. Because of the relationships described in the filing, the Reporting Persons may be deemed to constitute a group within the meaning of Rule 13d-5 under the Act, and as such, each member of the group would be deemed to beneficially own, in the aggregate, all the common stock held by members of the group. The Reporting Persons disclaim membership in a group and disclaim beneficial ownership of any of the Common Stock except as follows:

Reporting Person	Common Stock Beneficially Owned
The Pabrai Investment Fund II, L.P.	536,034
Pabrai Investment Fund 3, Ltd.	1,938,827
Pabrai Investment Fund IV, L.P.	2,840,000
Dalal Street, LLC	75,000
Harina Kapoor	4,101*
Mohnish Pabrai	5,393,962**

* Includes 1 share held by the IRA FBO Harina Kapoor.

** Includes (a) 4,100 shares held by Ms. Kapoor, (b) 1 share held by the IRA FBO Harina Kapoor, and (c) 2,400 shares held by the Dakshana Foundation, a 501(c)(3) organization controlled by Ms. Kapoor and Mr. Pabrai.

Dalal Street and Mohnish Pabrai, in his capacity as chief executive officer of Dalal Street, have the shared power to vote or to direct the vote and the shared power to dispose or to direct the disposition of the shares set forth opposite the name of each of PIF2, PIF4 and PIF3 in the table above. Dalal Street and Mohnish Pabrai disclaim beneficial ownership of any such shares except to the extent of their pecuniary interest therein, if any. Mohnish Pabrai and Harina Kapoor share the power to vote or to direct the vote and the power to dispose or to direct the disposition of 4,101 shares set forth opposite their names in the table above. Harina Kapoor, in her capacity as account holder, and Mohnish Pabrai, in his capacity as husband and advisor, have the shared power to vote or to direct the vote and the shared power to dispose or to direct the disposition of the shares held by the IRA FBO Harina Kapoor. Mohnish Pabrai disclaims beneficial ownership of any such Common Stock held by the IRA FBO Harina Kapoor except to the extent of his pecuniary interest therein, if any. This stock ownership information was reported as of December 31, 2008.

- (4) Based on 63,408,566 shares outstanding.

Table of Contents

PROPOSAL 1

ELECTION OF DIRECTORS

The Company's Certificate of Incorporation provides for no fewer than three and no more than nine directors, as determined from time to time by the Board. The Company's Board currently consists of eight members, divided into three classes as follows:

Class I (three positions with terms expiring in 2013):

James E. Bushman

Randy D. Rademacher

Jeffrey A. Dominick

Class II (three positions with terms expiring in 2011):

James H. Carey

John D. Geary

J. Christopher Teets

Class III (two positions with terms expiring in 2012):

Jeffrey J. Vorholt

Joseph C. Hete

At the annual meeting, three persons will be elected to fill the Class I positions, to hold office until the annual meeting of stockholders in 2013 and until their respective successors have been elected and qualified as provided under the Company's Bylaws (the "Bylaws"). Messrs. Bushman, Rademacher and Dominick are presently directors of the Company and have been nominated to continue as directors.

Nominees for Director Class I (Terms to Expire in 2013)

James E. Bushman, age 65, Chairman and Chief Executive Officer of Cast-Fab Technologies, Inc., and the Chairman and Chief Executive Officer of Security Systems Equipment Corporation. He has served since 2005 as the Chairman and Chief Executive Officer of Cast-Fab Technologies, Inc., a privately held manufacturer of castings and precision sheet and plate metal fabrications, and previously from 1988 to 2005 as the President and Chief Executive Officer. He has also served as the Chairman and Chief Executive Officer of Security Systems Equipment Corporation, a privately held manufacturer of equipment for the banking and financial services industry, since 1999. Mr. Bushman is also a Director of the Ohio National Fund, Inc. and The Dow Target Variable Fund, LLC, and was until recently a director of the Midland Company. He was the President of Carlisle Crane & Excavation, Inc., and the Executive Vice President of Carlisle Enterprises, from 1983 to 1988. Prior to that, Mr. Bushman was a CPA for Arthur Andersen & Co., where he served as a partner from 1977 to 1983, and as a manager from 1972 to 1977. He has been a Director of the Company since May 2004 and is the Chairman of the Compensation Committee and a member of the Audit Committee. Mr. Bushman offers the Board of Directors considerable business leadership experience and has a strong financial background which aids the Board and both of the committees on which he serves.

Randy D. Rademacher, age 53, Senior Vice President, Chief Financial Officer, of Reading Rock, Inc. He has served as the Senior Vice President, Chief Financial Officer, of Reading Rock, Inc., a privately owned manufacturer and distributor of concrete products, since May 2008. Mr. Rademacher was formerly the Chief Financial Officer for The Armor Group, a privately owned manufacturer of industrial and commercial products, from July 2006 to May 2008, and the President of Dynus Corporation, a privately owned telecommunications company, from June 2005 to October 2005. He also served as the President of Comair Holdings LLC, from 1999 to 2005. During his career at Comair Holdings LLC, Mr. Rademacher also held a number of other positions, including Senior Vice President and Chief Financial Officer from 1993 to 1999, Vice President of Finance from 1989 to 1993, Controller from 1986 to 1989, and Director of Corporate Finance from 1985 to 1986. Prior to that,

Table of Contents

Mr. Rademacher was a CPA for Arthur Andersen & Co. from 1979 to 1985. He has been a director of the Company since December 2006 and is the Chairman of the Nominating and Governance Committee and a member of the Audit Committee. Mr. Rademacher has substantial experience and expertise in the transportation industry from his service at Comair Holdings LLC. He is able to offer valuable insight on financial matters because of his work experience and accounting background.

Jeffrey A. Dominick, age 45, Partner of MassMutual Capital Partners. He has been a partner with MassMutual Capital Partners, a private equity investment subsidiary of MassMutual Financial Group, since its founding in 2006. Mr. Dominick formerly worked in debt and equity financing for Babson Capital Management, the asset management subsidiary for MassMutual Financial Group. Before joining MassMutual Financial Group in 2002, he spent 13 years in leveraged and corporate finance for Deutsche Bank Securities and The Chase Manhattan Bank N.A. While at Babson, Mr. Dominick specialized in investing in airline and aircraft related transactions, with a focus as well in the transportation and logistics industries. In conjunction with the acquisition of Cargo Holdings International, Inc. (CHI) on December 31, 2007, the Company agreed to nominate for election to the Board a candidate selected by the significant shareholders of CHI. Per this agreement, Mr. Dominick would have been nominated for election at the Company's 2008 annual meeting of stockholders; however, due to an existing vacancy, the Board chose to appoint Mr. Dominick prior to the meeting. He has been a director of the Company since February 2008 and is a member of the Nominating and Governance Committee and the Audit Committee. Mr. Dominick possesses specialized knowledge about the transportation industry and experience with financing and credit arrangements involving the airline industry.

Continuing Directors Not Standing for Election This Year

Class II (Terms to Expire in 2011)

James H. Carey, age 77, Executive Vice President (Retired) of the Chase Manhattan Bank. Mr. Carey served as Managing Director of Briarcliff Financial Associates, a private financial advisory firm, from 1991 to 2002. He served as Chief Executive Officer of National Capital Benefits Corporation, a viatical settlement company, from March 1994 to December 1995. Mr. Carey was until recently a Director, the Chair of the Audit Committee, and a member of the Compensation Committee and the Nominating Committee of The Midland Company, a provider of specialty insurance products. He was a director of Airborne, Inc. from 1978 to August 2003, and was a member of its Compensation Committee and Finance Committee. Mr. Carey has been the Chairman of the Board of the Company since May 2004, and has been a Director since August 2003. He is also a member of the Compensation Committee and the Nominating and Governance Committee. Mr. Carey has played a critical role in the oversight of the work of management in the conduct of the Company's business since his appointment as Chairman of the Board. This experience, coupled with his considerable financial acumen, provides him with an enhanced understanding of the challenges and opportunities facing the Company.

John D. Geary, age 83, President and Chief Executive Officer (Retired) of Midland Enterprises, Inc. Mr. Geary served as President and Chief Executive Officer, and also as a Director, of Midland Enterprises, Inc., an inland marine transportation company, comprised of barge lines, shipyards and cargo loading terminals, from 1974 to 1988. He also served for 20 years on the Board of Directors of Fifth Third Bank, in Cincinnati, Ohio. Mr. Geary has been a Director of the Company since January 2004, and is a member of the Nominating and Governance Committee and the Compensation Committee. Mr. Geary's extensive experience in the shipping industry has greatly assisted the Board of Directors in its oversight of management's operation of the Company.

J. Christopher Teets, age 37, Partner of Red Mountain Capital Partners LLC, an investment advisor, since February 2005. Before joining Red Mountain Capital Partners LLC, Mr. Teets was an investment banker at Goldman Sachs & Co. Mr. Teets joined Goldman Sachs & Co. in 2000 and was made a Vice President in 2004. Prior to Goldman Sachs & Co., Mr. Teets worked in the investment banking division of Citigroup. He holds a bachelor's degree from Occidental College and an MSc degree from the London School of Economics. Mr. Teets has also served as a director of Encore Capital Group, Inc., since May 2007 and as a director of Affirmative

Table of Contents

Insurance Holdings, Inc., since August 2008. Red Mountain owns approximately 6.3 million common shares of the Company, or approximately 10% of the Company's 63.2 million shares outstanding. Red Mountain has been advising the management of the Company on strategic direction since February 2008, subject to a confidentiality and standstill agreement under which Red Mountain was granted access to proprietary information of the Company in exchange for its commitment to adhere to certain conditions, including a limit on its investment in the Company. That agreement expired at the end of 2008. The Company and Red Mountain have signed a new agreement that will remain in effect during Mr. Teets' tenure as a board member of the Company. He has been a Director of the Company since February 19, 2009 and is a member of the Compensation Committee and the Nominating and Governance Committee. Mr. Teets' strong educational foundation and significant business experience help the Board of Directors better understand the financial needs and challenges facing the Company.

Class III (Terms to Expire in 2012)

Jeffrey J. Vorholt, age 57, is an independent consultant and private investor. He was formerly a full-time faculty member at Miami University (Ohio) and concurrently an Adjunct Professor of Accountancy at Xavier University (Ohio), from 2001 to 2006. Mr. Vorholt, a CPA and attorney, was the Chief Financial Officer of Structural Dynamics Research Corporation from 1994 until its acquisition by EDS in 2001. Previously, he served as the Senior Vice President of Accounting and Information Systems for Cincinnati Bell Telephone Company and the Senior Vice President, Chief Financial Officer and Director for Cincinnati Bell Information Systems, which is now Convergys Corporation. Mr. Vorholt served as Director and Chairman of the Audit Committee for Softbrands, Inc., a global provider of enterprise-wide application software, from 2002 until its acquisition by Infor Global Solutions of Alpharetta, Georgia in 2009. Mr. Vorholt has been a Director of the Company since January 2004. He is the Chairman of the Audit Committee and is a member of the Compensation Committee. Mr. Vorholt has over thirty years of experience in accounting and financial management, and his knowledge and experience in that field make him a valuable asset to the Board of Directors, particularly through his service on the Audit Committee.

Joseph C. Hete, age 55, President and Chief Executive Officer of ATSG since October 2007 and Chief Executive Officer of ABX Air, Inc. since August 2003. He was the President of ABX Air, Inc. from January 2000 to February 2008 and the Chief Operating Officer of ABX Air, Inc. from January 2000 to August 2003. From 1997 until January 2000, he held the position of Senior Vice President and Chief Operating Officer of ABX Air, Inc. Mr. Hete served as Senior Vice President, Administration, of ABX Air, Inc. from 1991 to 1997, and Vice President, Administration, of ABX Air, Inc. from 1986 to 1991. He joined ABX Air, Inc. in 1980. Mr. Hete has detailed knowledge of the day-to-day operations of the Company through his role as Chief Executive Officer. He is able to keep the Board of Directors informed on the current state of the Company by serving as a director.

CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors held 11 meetings during 2009 and each director attended at least 91% of the meetings of the Board and 80% of the meetings of the committees on which he was a member. Directors are expected to attend board meetings, meetings of the committees on which they serve and the annual meeting of stockholders. All of the directors then in office attended the Company's 2009 annual meeting, except for Mr. Carey, who was unable to travel for health reasons.

Independence

The Board has determined that each of the current directors, except Joseph C. Hete (by virtue of his employment as President and Chief Executive Officer of the Company), has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) and is independent within the meaning of the independence standards of the SEC, NASDAQ and the

Table of Contents

Certificate of Incorporation, as currently in effect. In considering the independence of Mr. Teets, the Board considered the fact that he is a partner of Red Mountain Capital Partners, LLC, the owner of 12.43% of the Company's outstanding shares, and concluded that his relationship with Red Mountain Capital Partners, LLC does not impact his independence as a director of the Company.

Director Compensation

The Company uses a combination of cash and long-term incentive compensation to attract and retain qualified candidates to serve on the Board. The Compensation Committee recommends to the Board of Directors for its approval the form and amount of compensation paid to the non-employee directors. The Committee reviews the compensation arrangements of the directors on annual basis, which review includes an evaluation prepared on an annual or bi-annual basis by Towers Watson, a national compensation consulting firm. The evaluation considers the compensation arrangements for the directors of similar companies. Like the executive officers, the directors are also subject to minimum stock ownership requirements. Each director is required to own stock and/or restricted stock units equal to a multiple of his annual retainer within a specified time period after his election to the Board.

Cash Compensation

During 2009, non-employee directors received an annual fee of \$30,000, plus \$1,500 for each board and committee meeting attended. In addition, the Chairman of the Board received an annual fee of \$60,000, the Chairman of the Audit Committee received an annual fee of \$15,000, and the respective Chairman of the Compensation Committee and the Nominating and Governance Committee each received an annual fee of \$4,000.

Long-Term Incentive Compensation

The long-term incentive compensation awards for the non-employee directors are comprised solely of restricted stock units. Since the approval of the Company's Long-Term Incentive Plan at the Annual Stockholders' Meeting in 2005, the Board has granted restricted stock unit awards to the Company's non-employee directors on an annual basis under the terms of the Plan. The size of the grants are determined by the Board and are based on the Company's performance during the prior year and a periodic evaluation of the compensation arrangements of other companies prepared by Towers Watson, a national compensation consulting firm, retained by the Compensation Committee.

Director Compensation Table

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended 2009.

Name⁽¹⁾