Air Transport Services Group, Inc.
Form DEF 14A
March 28, 2013

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 x Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

145 Hunter Drive, Wilmington, Ohio 45177

NOTICE OF ANNUAL MEETING
OF STOCKHOLDERS
TO BE HELD MAY 10, 2013

Notice is hereby given that the 2013 Annual Meeting of Stockholders of Air Transport Services Group, Inc., a Delaware corporation (the "Company"), has been called and will be held on May 10, 2013, at 11:00 a.m., local time, at the Roberts Centre, 123 Gano Road, Wilmington, Ohio 45177, for the following purposes:

1. To elect two directors to the Board of Directors each for a term of three years;
2. To amend the Certificate of Incorporation to declassify the Board of Directors and provide for the annual election of directors;
3. To ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for fiscal year 2013;
4. To hold an advisory vote on executive compensation; and
5. 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 sending to our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of this Proxy Statement and our 2012 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 2012 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 business results for 2012 and the first quarter of 2013 as well as other matters of interest to stockholders.

Only holders of record, as of the close of business on March 13, 2013, 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

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

Wilmington, Ohio
March 28, 2013

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.

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PROXY STATEMENT
AIR TRANSPORT SERVICES GROUP, INC.
145 Hunter Drive, Wilmington, Ohio 45177
ANNUAL MEETING OF STOCKHOLDERS, MAY 10, 2013

This Proxy Statement is provided 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 Roberts Centre, 123 Gano Road, Wilmington, Ohio 45177, at 11:00 a.m., local time, on Friday, May 10, 2013, 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 2012 Annual Report, are being distributed and made available on or about March 28, 2013. 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 March 28, 2013 to stockholders of record who owned common stock at the close of business on March 13, 2013. Stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request that 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 two directors for terms of three years and until their successors have been elected and qualified, (2) vote on a proposal to amend the Company's Certificate of Incorporation to declassify the Board and provide for the annual election of directors; (3) vote on a proposal to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2013, (4) hold an advisory vote on executive compensation, and (5) transact such other business as may properly come before the meeting and any adjournments thereof.

VOTING AT THE MEETING

Voting Rights and Outstanding Shares

Only holders of record of shares of common stock of the Company as of the close of business on March 13, 2013, will be entitled to notice of and to vote at the meeting and any adjournments thereof. The common 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 13, 2013, there were 64,585,208 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. Broker non-votes and abstentions will be counted for purposes of determining whether a quorum is present.

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 9, 2013. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. Stockholders whose shares are held in the name of a broker or other nominee and who wish to vote in person 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 two nominees for director must each receive the affirmative vote of a majority of the votes cast at the Annual Meeting, either in person or by proxy, and entitled to vote on this proposal, in

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order to be elected. A “majority of the votes cast” means that the number of votes “For” a nominee's election must exceed the number of votes “Against” that nominee's election. Abstentions and broker non-votes will have no effect on the outcome of the vote. The majority voting standard is discussed further under the section entitled "Majority Voting.”
Proposal 2: Amendment of Certificate of Incorporation to Declassify the Board and Provide for the Annual Election of Directors. The affirmative vote of at least two-thirds of the issued and outstanding shares entitled to vote at the Annual Meeting is required to approve the amendment of the Certificate of Incorporation to declassify the Board and provide for the annual election of directors. This means that if you abstain from voting on this proposal, it will count as a vote against the amendment.
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 2013 fiscal year. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a vote against this proposal.
Proposal 4: Advisory Vote on Executive Compensation. 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 this proposal. 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 with respect to Proposal 1, 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, 3 and 4, 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, 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 (Proposal 1) and Proposals 2 and 4 are not discretionary items, so you must provide instructions to your broker in order to cast a vote on those proposals. Broker non-votes will have no effect on the outcome of the vote on Proposals 1, 3 or 4, but with respect to Proposal 2 (declassification of the Board and the annual election of directors), such votes will have the same effect as if the shares were voted against such proposal.

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 deadline, which is 11:59 PM ET, on May 9, 2013.

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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 or any adjournment thereof. The Company has retained Georgeson, Inc. ("Georgeson") to assist with the solicitation of proxies for a project management fee of $16,500, 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, and the inspector of election will be from, an independent firm that is not affiliated with 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 multiple proxy cards but only one set of proxy materials (including our 2012 Annual Report 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: 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.

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Principal Stockholders

To the Company's knowledge, as of March 13, 2013, only 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 10100 Santa Monica Boulevard, Suite 925 Los Angeles, California 90067	11,152,425	(1)	17.3	%
Prescott Group Capital Management, LLC 1924 South Utica, Suite 1120 Tulsa, Oklahoma 74104-6529	5,786,687	(2)	9.0	%
BlackRock, Inc. 40 East 52nd Street New York, New York 10022	3,274,210	(3)	5.1	%

(1) Based on information provided to the Company by Red mountain Capital Partners LLC, a Delaware limited liability company ("RMCP LLC"), (i) Red Mountain Partners, L.P., a Delaware limited partnership ("RMP"), beneficially owns, in the aggregate, 11,152,425 shares of ATSG common stock and has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition, of all such shares; and (ii) because each of RMCP GP LLC, a Delaware limited liability company ("RMCP GP"), RMCP LLC, Red Mountain Capital Management, Inc., a Delaware corporation ("RMCM"), and Willem Mesdag, a natural person and citizen of the United States of America, may be deemed to control RMP, 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 ATSG common stock beneficially owned by RMP. The foregoing number of shares excludes 59,748 restricted stock units held by J. Christopher Teets in connection with his service on the Board.

(2) Based solely on an Amendment No. 5 to Schedule 13G jointly filed with the SEC on February 14, 2013, 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. According to the filing, (i) the Amendment relates to shares of ATSG common stock purchased by the Small Cap Funds through the account of Prescott Group Aggressive Small Cap Master Fund, G.P., an Oklahoma general partnership ("Prescott Master Fund"), of which the Small Cap Funds are general partners; (ii) Prescott Capital serves as the general partner of the Small Cap Funds and may direct the Small Cap Funds, the general partners of the Prescott Master Fund, to direct the vote and disposition of the 5,786,687 shares of ATSG common stock held by the Prescott Master Fund; and (iii) as the principal of Prescott Capital, Mr. Frohlich may direct the vote and disposition of the 5,786,687 shares of ATSG common stock held by the Prescott Master Fund. This stock ownership information was reported as of December 31, 2012.

(3) Based solely on a Schedule 13G filed with the SEC on February 4, 2013, BlackRock, Inc. reported aggregate beneficial ownership and sole voting and dispositive power of approximately 5.1% or 3,274,210 shares of ATSG common stock as of December 31, 2012.

(4) Based on 64,585,208 shares outstanding as of March 13, 2013.

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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 nine members, divided into three classes as follows:
Class I (three positions with terms expiring in 2013):
James E. Bushman
Richard M. Baudouin
Randy D. Rademacher
Class II (three positions with terms expiring in 2014):
James H. Carey
John D. Geary
J. Christopher Teets
Class III (three positions with terms expiring in 2015):
Jeffrey J. Vorholt
Joseph C. Hete
Arthur J. Lichte

On February 11, 2013, Mr. Bushman informed the Board that he will not stand for re-election at the Annual Meeting and intends to retire from the Board upon the completion of his current term at the Annual Meeting. The Board and management express their sincere gratitude to Mr. Bushman for his service to the Company and his contributions to the Board. In connection with Mr. Bushman's retirement, the Board, in accordance with the Company's Amended and Restated Bylaws (the “Bylaws”), acted by resolution to reduce its size from nine to eight members, effective immediately prior to the Annual Meeting. This reduction will have the effect of reducing the number of directors in Class I of the Board from three to two members.
As a result, at the Annual Meeting, two directors will be elected to fill positions in Class I. Messrs. Baudouin and Rademacher are presently directors of the Company and have been nominated to continue as directors. The nomination of these directors to stand for election at the Annual Meeting has been recommended by the Nominating and Governance Committee and approved by the Board. Each of the nominees for Class I, if elected, will serve for a three-year term expiring at the Annual Meeting of Stockholders in 2016 and until their respective successors have been elected and qualified as provided under the Bylaws. Messrs. Baudouin and Rademacher have each consented to being named in this Proxy Statement and to serve as a director, if elected. If either of them becomes unavailable, the persons named in the proxy may vote for any substitute designated by the Nominating and Governance Committee; however, the Board has no reason at this time to anticipate that this will occur. In an uncontested election, our Bylaws provide that a director nominee will be elected only if he or she receives a majority of the votes cast with respect to his or her election (that is, the number of shares voted “For” a director nominee must exceed the number of shares voted “Against” that nominee). Abstentions and broker non-votes have no effect on the vote. The process that will be followed by the Board in the event that a nominee does not receive a majority of the votes cast is described below under the section entitled “Majority Voting.”
Set forth below is biographical information concerning each of the nominees for director at the Annual Meeting as well as the Company's other continuing directors who are not standing for re-election this year:
Nominees for Director—Class I (Terms to Expire in 2016)

Richard M. Baudouin, age 61, principal of Infinity Aviation Capital, LLC ("IAC"), an investment firm involved in aircraft leasing, since March 2011. Prior to his current role at IAC, Mr. Baudouin was a co-founder and former managing director of Aviation Capital Group ("ACG"), a commercial aircraft leasing company, from December 1989 to June 2010, where he oversaw the marketing and capital markets units of the firm. He worked in the aircraft finance unit of

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General Electric Capital Corporation from September 1977 to September 1983. Mr. Baudouin is a former board member of the Magellan Group, an engine leasing and aviation parts company, as well as a former board member of ACG and the International Society of Transport Air Trading Board of Governors. He has been a director of the Company since January 2013. Mr. Baudouin possesses many years of experience in commercial aircraft leasing and financing and extensive contacts in the global leasing marketplace that will greatly assist the Company in further developing and expanding its aircraft leasing business.

Randy D. Rademacher, age 56, 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, 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. Among other qualifications, Mr. Rademacher has substantial senior business leadership experience and expertise in the transportation industry from his service at Comair Holdings LLC. He also offers valuable insight on financial matters because of his work experience and accounting background.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF RICHARD M. BAUDOUIN AND RANDY D. RADEMACHER AS DIRECTORS OF THE COMPANY

Continuing Directors—Not Standing for Election This Year

Class II (Terms to Expire in 2014)

James H. Carey, age 80, 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 a director of The Midland Company, a provider of specialty insurance products, from April 1971 to April 2008, and was the Chair of the Audit Committee and a member of the Compensation Committee and the Nominating Committee. He was also 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, the Nominating and Governance Committee and the Executive 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. Among other qualifications, Mr. Carey brings to the Board senior executive leadership and public company board experience, including considerable financial expertise.

John D. Geary, age 86, 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. Among other qualifications, Mr. Geary brings to the Board public company board experience and extensive senior executive leadership experience in the shipping industry, which greatly assists the Board of Directors in its oversight of management’s operation of the Company.

J. Christopher Teets, age 40, Partner of Red Mountain Capital Partners LLC ("Red Mountain"), a private investment fund manager, since February 2005. Before joining Red Mountain, 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

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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 Marlin Business Services Corp., since May 2010. Mr. Teets also previously served as a director of Affirmative Insurance Holdings, Inc., from August 2008 until September 2011. Red Mountain beneficially owns approximately 11,152,425 common shares of the Company, or approximately 17.3% of the Company's 64.6 million shares outstanding. The Company and Red Mountain are parties to a confidentiality and standstill agreement that will remain in effect during Mr. Teets' tenure as a board member of the Company, which agreement is more particularly described below under the heading "Corporate Governance and Board Matters." Mr. Teets 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. Among other qualifications, Mr. Teets brings to the Board significant business and investment banking experience as well as public company board experience, which helps the Board of Directors better understand the financial needs and challenges facing the Company.

Class III (Terms to Expire in 2015)

Joseph C. Hete, age 58, 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 serves as a member of the Executive Committee. Among other qualifications, Mr. Hete brings to the Board a deep and extensive knowledge of the air cargo industry and the day-to-day operations of the Company through his years in various senior business leadership roles with the Company, including 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.

Arthur J. Lichte, age 63, General USAF (Retired). Mr. Lichte was the Commander of the Air Mobility Command ("AMC") at Scott Air Force Base in Illinois when he retired from U.S. Air Force in January 2010, as a four-star general after 38 years of service. He also served as Assistant Vice Chief of Staff and Director, Air Force Staff, Headquarters U.S. Air Force, Washington, D.C., where he was responsible for Air Staff organization and administration, served as Deputy Chairman of the Air Force Council, and was the U.S. Air Force accreditation official for the Corps of Air Attachés. During his U.S. Air Force career, Gen. Lichte held command positions at squadron, group and wing levels and is a command pilot with more than 5,000 flying hours in various aircraft. In addition to his command experience, General Lichte also held headquarter-level assignments at Strategic Air Command, AMC, U.S. Air Force and U.S. Transportation Command. General Lichte has been a member of the Board since February 2013. General Lichte's leadership of the AMC, along with his understanding of the many commercial air carriers and aircraft that supplement the U.S. Military's air transport operations around the world, are invaluable to the Company in further developing and expanding its air cargo and related businesses.

Jeffrey J. Vorholt, age 60, 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. Among other qualifications, Mr. Vorholt has over 30 years of experience in accounting and financial management, and his knowledge and experience in that field make him an invaluable asset to the Board, particularly through his service on the Audit Committee.

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CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors held six meetings during 2012 and each director participated in at least 85% of the board meetings and meetings of the committees of the Board on which he served during the year. 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 2012 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 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, the beneficial owner of approximately 17.3% of the Company's outstanding shares, and concluded that his relationship with Red Mountain does not impact his independence as a director of the Company. In reaching this conclusion, the Board took into account the fact that the Company and Red Mountain are parties to a confidentiality and standstill agreement that will remain in effect during Mr. Teets' tenure as a board member of the Company. The agreement provides for the Company to disclose certain proprietary information to Red Mountain, and imposes confidentiality obligations on Red Mountain with respect to such information and restrictions on its ability to (i) acquire or agree to acquire, directly or indirectly, more than 17.49% of the issued and outstanding common stock of the Company or any assets of the Company or subsidiary or division thereof; (ii) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" to vote, as such terms are used in the rules of the SEC, or seek to advise or influence any person with respect to the voting of any securities of the Company; (iii) nominate or seek to nominate, directly or indirectly, any person to the Board of Directors; (iv) make any public announcement with respect to, or submit a proposal for, or offer of, any extraordinary transaction involving the Company or any of its securities or assets, (v) form, join or in any way participate in a "group" as defined in Section 13(d)(3) of the Exchange Act in connection with any of the foregoing; (vi) otherwise act or seek to control or influence the Board of Directors or the management or policies of the Company, (vii) take any action that could reasonably be expected to require the Company to make a public announcement regarding the possibility of any of the events described in (i) through (v) above; or (viii) request for the Company, directly or indirectly, to amend or waive any of the foregoing provisions. In addition, the agreement provides that, for so long as (i) the standstill provisions are in effect and (ii) Red Mountain beneficially owns, directly or indirectly, in excess of 14.9% of the issued and outstanding common stock of the Company, Red Mountain shall, except with the prior written consent of the Company or the Board, cause such shares of common stock of the Company representing the portion of Red Mountain's beneficial ownership in excess of 14.9% to be voted in accordance with the Board's publicly stated recommendations for voting on such matters.

Majority Voting

In March 2013, the Board amended the Bylaws to implement a majority voting standard for the uncontested election of directors. The Bylaws, as amended, provide that, in an uncontested election, each director will be elected by a majority of the votes cast. A "majority of the votes cast" means that the number of shares voted "For" a nominee exceeds the number of shares voted "Against" that nominee. The Bylaws include a director resignation policy providing that, in any uncontested election, in order for any person to become a nominee for the Board, that person must submit an irrevocable resignation from the Board, which will become effective if that nominee does not receive a majority of the votes cast and the Board determines to accept such resignation. In such circumstances, the Board, acting on the recommendation of the Nominating and Governance Committee (which is composed entirely of independent directors), shall, within 90 days of receiving the certified vote pertaining to such election, determine whether to accept the resignation of such unsuccessful nominee and, in making that determination, may consider any factors or other information that it deems appropriate or relevant. The Nominating and Governance Committee and the Board expect an unsuccessful incumbent to voluntarily recuse himself or herself from participation in such deliberations. The

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Company will promptly publicly disclose the Board's decision and, if applicable, the reasons for rejecting the tendered resignation, in a Report on Form 8-K filed with the SEC.

The majority voting standard does not apply, however, in a contested election of directors. An election is deemed to be a contested election if the number of nominees for election as directors at the meeting in question nominated by (i) the Board, (ii) any stockholder, or (iii) a combination thereof exceeds the number of directors to be elected. In such circumstances, directors are instead elected by a plurality of the votes cast, meaning that the nominees receiving the most votes are elected. The determination as to whether an election is a contested election shall be made as of the record date for the meeting in question. Once an election is determined to be a contested election, the plurality standard shall remain in effect through the completion of the meeting, regardless whether the election ceases to be a contested election after the record date but prior to the meeting.

Because the number of director nominees timely nominated for election at the 2013 Annual Meeting does not exceed the number of directors to be elected at the meeting, the election of directors at the Annual Meeting will not be contested. As a result, each of the directors will be elected by a majority of the votes cast at the Annual Meeting.

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 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 an annual basis, which review includes an evaluation prepared on an annual or bi-annual basis by Towers Watson, a national compensation consulting firm, retained by the Compensation Committee. 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 2012, the non-employee directors received an annual fee of $30,000, plus $1,500 for each board and committee meeting attended. The Chairman of the Board and the Chair of each of the standing committees of the Board also received an additional annual fee. In 2012, (i) the annual fee for the Chairman of the Board was $65,000; (ii) the annual fee for the Chair of the Audit Committee was $17,000; and (iii) the annual fee for the respective Chairs of the Compensation Committee, Nominating and Governance Committee, and the Executive Committee was $5,000. Directors also are reimbursed during the year for out-of-pocket expenses incurred in the performance of their duties as directors, such as travel, meal and lodging expenses.

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 Amended and Restated 2005 Long-Term Incentive Plan (the "LTI Plan"), the Board has granted restricted stock unit awards to the Company's non-employee directors on an annual basis under the terms of the LTI 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.

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Director Compensation Table

The table below summarizes the compensation paid by the Company to its non-employee directors for the fiscal year ended December 31, 2012.

Name(1)	Fees Earned or Paid in Cash ($)	Stock Awards ($)(4)	Total ($)
James H. Carey	113,000	74,997	187,997
Richard M. Baudouin(2)	—	—	—
James E. Bushman	59,500	74,997	134,497
Jeffrey A. Dominick(3)	46,500	74,997	121,497
John D. Geary	48,000	74,997	122,997
Arthur J. Lichte(2)	—	—	—
Randy D. Rademacher	54,500	74,997	129,497
J. Christopher Teets	48,000	74,997	122,997
Jeffrey J. Vorholt	66,500	74,997	141,497

(1) Joseph C. Hete, the Company's President and Chief Executive Officer, is not included in this table since he is an employee of the Company and, therefore, receives no compensation for his services as a director.

(2) Richard M. Baudouin and Arthur J. Lichte did not receive any compensation from the Company in 2012 because neither of them served as directors of the Company in 2012. Messrs. Baudouin and Lichte were elected to the Board on January 2, 2013 and February 12, 2013, respectively.

(3) Mr. Dominick resigned from the Board on December 31, 2012, after accepting a new position with an aviation investment unit of Blackrock, Inc., that may have conflicted with his responsibilities to ATSG.

(4) Each director was awarded 13,321 restricted stock units. The restricted stock units are being reported in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 718 Compensation—Stock Compensation. The grant date fair value of the awards is based on information included in Note L to the Company's audited financial statements for the fiscal year ended December 31, 2012, included in the Company's Annual Report on Form 10-K filed with the SEC on March 4, 2013.

Long-Term Incentive Compensation Grants for 2013

The Compensation Committee authorized the grant of awards to the non-employee directors under the LTI Plan for 2013 at the close of the market on the third full trading day after the issuance of the Company's earnings for the fourth quarter and year-ended December 31, 2012. On that date, which was March 4, 2013, the non-employee directors were each granted 13,736 restricted stock units. The closing market price of our common stock on that date was $5.46 per share.

Board Committees

The Board has a standing Audit Committee, Compensation Committee, Nominating and Governance Committee and Executive Committee. The Audit Committee, Compensation Committee and Nominating and Governance Committee each consists exclusively of non-employee directors, and all of the committees, including the Executive Committee, are chaired by a non-employee director.

Audit Committee

The Company has a separately designated standing Audit Committee. The Audit Committee is currently composed of Jeffrey J. Vorholt, Chair, James E. Bushman and Randy D. Rademacher. Jeffrey J. Vorholt has been the Chair of the Audit Committee since January 29, 2004. The Board has determined that Jeffrey J. Vorholt is an "audit committee

financial expert” as defined in the rules under the Securities Exchange Act of 1934, as amended, and that he is independent.

The Audit Committee is generally charged with the appointment, compensation, retention, evaluation, and oversight of the work of the independent registered public accounting firm; reviewing and discussing with management and the independent registered public accounting firm the Company’s annual audited and quarterly consolidated financial statements; reviewing the internal audit function; overseeing the integrity, adequacy and effectiveness of the Company and its subsidiaries’ internal accounting and financial controls; and approving and monitoring the Company and its subsidiaries’ compliance with their codes of conduct. Also, in the performance of its oversight function, the Audit Committee reviews the Company and its subsidiaries’ compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee works closely with management as well as the Company’s independent registered public accounting firm. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from the Company for, outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties. The Committee held four meetings during 2012.

The Audit Committee performs its work under the guidance of a written charter that was initially approved by the Audit Committee and the Board in August 2003 and was most recently amended in February 2009. The charter of the Audit Committee is available through our Internet website at http://www.atsginc.com.

The Audit Committee has furnished the following report.

Audit Committee Report

This report will not be deemed to be incorporated by reference by any general statement incorporating this Proxy Statement into any filing of the Company with the SEC under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this information by reference and will not be deemed soliciting material or deemed filed under those Acts.

In the performance of its oversight function, the Audit Committee has reviewed and discussed the Company's audited consolidated financial statements for the year ended December 31, 2012, with management and the Company’s independent registered public accounting firm, Deloitte & Touche LLP. The Audit Committee has also discussed with the independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 114, as currently amended. The Audit Committee also discussed with Deloitte & Touche LLP matters relating to its independence and has received the written disclosures and the letter from the independent registered public accounting firm required by PCAOB Ethics and Independence Rule 3526, "Communication with Audit Committees Concerning Independence," as currently in effect.

Based upon the review and discussions described in this report, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission.

Respectfully submitted,
The Audit Committee
Jeffrey J. Vorholt, Chair
James E. Bushman
Randy D. Rademacher

Compensation Committee

The Compensation Committee is currently composed of James E. Bushman, Chair, James H. Carey, John D. Geary, J. Christopher Teets and Jeffrey J. Vorholt. The Compensation Committee is responsible for reviewing, evaluating and making recommendations to the full Board regarding the Company and its subsidiaries’ overall compensation policies and establishing performance-based incentives that support long-term strategic goals, organizational objectives and stockholder interests. The Committee is also responsible for determining the compensation of the Chief Executive Officer based upon the achievement of goals and objectives that are approved by the Committee, and considering and

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approving the compensation arrangements for the other executive officers of the Company and its subsidiaries. This includes base salaries, short-term and long-term incentive awards, equity-related awards, participation in any deferred compensation or retirement plans or arrangements, benefits and perquisites. The Committee also evaluates the target performance goals for the non-executive senior officers and employees of the Company and its subsidiaries. In addition, the Committee oversees the administration of the Company and its subsidiaries' executive compensation plans, programs and arrangements, makes recommendations to the full Board with respect to succession planning for the Chief Executive Officer and other officers of the Company and its subsidiaries, and sets and reviews the compensation for the Board and committee members. The Committee held three meetings during 2012.

The Compensation Committee performs its work under the guidance of a written charter that was initially approved by the Compensation Committee and the Board in August 2003. The charter was most recently amended in February 2011. The Committee’s charter is available through our Internet website at http://www.atsginc.com.

Nominating and Governance Committee

The Nominating and Governance Committee is currently composed of Randy D. Rademacher, Chair, James H. Carey, John D. Geary and J. Christopher Teets. The Committee is generally charged with identifying individuals qualified to become members of the Board in accordance with the criteria approved by the Board; making recommendations to the full Board with respect to director nominees for each annual meeting of the stockholders; developing and recommending to the Board a set of corporate governance principles applicable to the Company; and overseeing the evaluation of the Board and management. The Committee held three meetings during 2012.

The Nominating and Governance Committee performs its work under the guidance of a written charter that was initially approved by the Nominating and Governance Committee and the Board in March 2004 and was most recently amended in February 2010. The Committee’s charter is available through our Internet website at http://www.atsginc.com.

Executive Committee

The Executive Committee is currently composed of James E. Bushman, Chair, James H. Carey and Joseph C. Hete. The Committee serves primarily as a means for taking action requiring Board approval between regularly scheduled meetings of the Board. The Committee is authorized to act for the full Board, subject to those limitations imposed by law, the Certificate of Incorporation and the Bylaws of the Company or the Board. The Committee's actions are generally limited to matters such as the authorization of transactions. The Committee did not meet in 2012.

The Executive Committee performs its work under the guidance of a written charter that was initially approved by the Nominating and Governance Committee and the Board in May 2008. The Committee’s charter is available through our Internet website at http://www.atsginc.com.

Consideration of Nominees for Director

Director Qualifications

The Nominating and Governance Committee is responsible for reviewing and developing the Board’s criteria for evaluating and selecting new directors based on the needs of the Company from time to time. The criteria used in connection with evaluating and selecting new directors includes the criteria set forth in the Company’s Corporate Governance Guidelines and Certificate of Incorporation. While these materials do not contain a formal diversity policy, the Corporate Governance Guidelines seek to ensure that candidates can work constructively with people holding diverse viewpoints and can tolerate opposing views. The Corporate Governance Guidelines are available through our Internet website at http://www.atsginc.com.

In addition to the criteria set forth in the Corporate Governance Guidelines, the Committee will consider whether the director candidate meets the definition of independence set forth under NASDAQ Marketplace rules, applicable law and the Certificate of Incorporation, as well as the candidate's skills, occupation and experience in the context of the needs of the Board. The Board will nominate new directors only from candidates identified, screened and approved

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by the Nominating and Governance Committee. The Nominating and Governance Committee and the Board will take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendation to the Company's stockholders. Service on boards of other organizations must be consistent with the Company's conflict of interest policies applicable to directors as set forth in the "Core Requirements" of the "Code of Conduct for Conducting Business."

Evaluation of Stockholder Nominees

The policy of the Nominating and Governance Committee is to consider for nomination by the Board, properly submitted stockholder recommendations of potential nominees for membership on the Board. In evaluating such nominees, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth above under "Director Qualifications." There are no differences in the manner in which the Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder, except to the extent provided as follows: (1) such candidates must be able to meet with one or more members of the Committee and/or the Board upon request, and (2) the stockholder must provide: (a) all written materials that would be necessary for a stockholder to make a nomination pursuant to the Bylaws, which materials must be submitted no later than the time permitted for a stockholder to make a director nomination pursuant to the Bylaws; and (b) other information requested by the Company reasonably related to the recommended individual's qualifications as a nominee.

Director Nominations by Stockholders

The Bylaws permit stockholders to nominate directors for election at an annual stockholders' meeting without the prior recommendation of the Nominating and Governance Committee or the nomination of the Board, subject to compliance with applicable notice requirements in the Bylaws. Stockholder nominations to the Board of Directors for the 2014 Annual Meeting of Stockholders must be forwarded to the Chairman of the Nominating and Governance Committee c/o Secretary, Air Transport Services Group, Inc., 145 Hunter Drive, Wilmington, Ohio 45177, so as to be received not less than 90 days nor more than 120 days prior to the first anniversary of the 2013 Annual Meeting of Stockholders (May 10, 2013); provided, however, that in the event the date of the 2014 Annual Meeting of Stockholders is advanced or delayed by more than 30 days from such first anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Any nominations received after such date will be considered untimely. The written notice must satisfy certain requirements specified in the Bylaws. A copy of the Bylaws will be sent to any stockholder upon written request to the Secretary of the Company.

Corporate Governance Guidelines

The Company adopted a set of Corporate Governance Guidelines in February 2005 to help the Board fulfill its responsibility to stockholders to oversee the work of management in the conduct of the Company's business and to seek to serve the long-term interests of stockholders. The Guidelines are intended to ensure that the Board has the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions that are independent of the Company's management. The Guidelines address such topics as the composition of the Board, the selection of Board members, Board independence, the procedures relating to, and the conduct of, Board and committee meetings, the compensation of directors and the Chief Executive Officer, periodic self-evaluations of the Board and committees, and other practices. The Corporate Governance Guidelines are available through our Internet website at http://www.atsginc.com.

Code of Ethics for the CEO and CFO

The Company has adopted a Code of Ethics that sets forth the policies and business practices that apply to the Company's Chief Executive Officer and Chief Financial Officer. The Code of Ethics is in compliance with SEC rules and addresses such topics as compliance with laws; full, fair, accurate and timely disclosure of financial results;

professional, honest and ethical conduct; conflicts of interest; and reporting procedures and accountability. The Code of Ethics is available through our Internet website at http://www.atsginc.com.

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Code of Conduct for Conducting Business

The Company has adopted a Code of Conduct for Conducting Business that sets forth the policies and business practices that apply to all of the Company's employees and directors. The Code of Conduct addresses such topics as compliance with laws; moral and ethical conduct; equal employment opportunity; promoting a work environment free from harassment or discrimination; and the protection of intellectual property and proprietary information. The Code of Conduct for Conducting Business is available through our Internet website at http://www.atsginc.com.

Related Person Transactions

The Company does not have any related person transactions as defined by Regulation S-K Item 404(a). If any related person transactions arise, the Audit Committee will review and approve such transactions as it deems appropriate. This policy is set forth in the charter of the Audit Committee.

Executive Sessions

The independent directors of the Company meet in executive session (with no management directors or management present) on a regular basis and upon the request of one or more independent directors. The sessions are scheduled and chaired by the Chairman of the Board, who is an independent director. The executive sessions include whatever topics the independent directors deem appropriate.

Communications with the Board

Stockholders and other parties interested in communicating directly with the Company's directors or with the non-management directors as a group may do so by writing to the Secretary of the Company at Air Transport Services Group, Inc., 145 Hunter Drive, Wilmington, Ohio 45177. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the Company's internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

Board Leadership Structure

James H. Carey has served as Chairman of the Board of Directors since May 2004. The Board is aware that one of its responsibilities is to oversee Company management and make performance, risk and compensation related decisions regarding management. In order to appropriately balance the Board's focus on strategic development with its management oversight responsibilities, the Board of Directors requires that the Chairman of the Board be a non-management, independent director. The Chairman of the Board manages the Board's affairs, including organization, functional effectiveness, and fulfilling the Board's responsibilities. The Chief Executive Officer is involved in this process by updating the Chairman of the Board and the Board in its entirety regarding the day-to-day management of the Company. While the Company has established separate roles for the Chairman of the Board and Chief Executive Officer, they both play a vital role in the management of the Company and must work closely in order to maximize the Company's potential.

Our Corporate Governance Guidelines provide that (i) a majority of the directors of the Company shall be "independent directors" as that term is defined in the Corporate Governance Rules of the NASDAQ Global Market, Inc., (ii) the Chief Executive Officer will be the only employee of the Company who also serves as a director of the Company, and (iii) the Chairman of the Board should be a non-management, independent director.

As described above under "Independence," eight of our nine directors are independent. In addition, all of the directors on each of the Audit Committee, Compensation Committee, and Nominating and Governance Committee are independent directors and all of the committees, including the Executive Committee, is led by an independent chair. The independent directors meet in executive session (with no management directors or management present) on a regular basis (typically at the time of each quarterly board meeting) and upon the request of one or more independent directors.

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We have employed this leadership structure since becoming publicly traded in August 2003. We believe that (i) having a separate Chairman and Chief Executive Officer, (ii) a board with a majority of independent directors who regularly meet in executive session, (iii) an Audit Committee, Compensation Committee and Nominating and Governance Committee composed entirely of independent directors, and (iv) independent chairs for the Board’s Audit Committee, Compensation Committee, Nominating and Governance Committee, and Executive Committee, provides the Board with the best form of leadership for ensuring that the Board has the necessary authority and practices in place to review and evaluate the Company’s business operations as needed and to make decisions that are independent of the Company’s management.

Board Role in Risk Oversight

The Board recognizes that it has the primary responsibility for risk oversight, with the Board's standing committees supporting the Board by addressing the risks inherent in their respective areas of oversight. In meeting its responsibilities, the Board seeks to (i) concentrate on the broader implications of a strategic direction, while allowing the committees to focus on specific areas of risk, (ii) ensure that management has implemented appropriate systems to manage risk, and (iii) ensure that it is providing effective risk oversight through its committee structure and oversight processes.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

The Compensation Committee believes that the compensation paid to its executive officers should assist the Company in attracting and retaining talented leaders and encouraging a high level of effective and ethical management in the best interests of the Company and its stockholders, while at the same time avoiding the encouragement of unnecessary or excessive risk taking. To this end, the Compensation Committee strives to ensure that the Company’s executive compensation program is competitive with that of similarly situated companies and rewards the achievement of short and long-term goals that align the interests of its executives and stockholders in seeking to increase stockholder value. Throughout this Proxy Statement, the individuals who served as the Company’s Chief Executive Officer and Chief Financial Officer during fiscal year 2012, as well as the other individuals included in the “Summary Compensation Table” below, are referred to as the “named executive officers.”

Chief Executive Officer’s Role in the Compensation Decision Process

The Compensation Committee considers recommendations from the Chief Executive Officer with respect to the named executive officers’ base salaries and the performance measures to be utilized under the Company's short-term incentive compensation plan. In making his recommendations, the Chief Executive Officer utilizes the materials prepared by Towers Watson described below, including the peer group analysis, and completes an objective and subjective review of each executive’s responsibilities and performance over the prior year. The Chief Executive Officer plays no role in the compensation process with respect to his own compensation.

Establishing Compensation Levels

The Compensation Committee ordinarily meets during the first half of each year to establish the base salaries for each of the executive officers and to approve incentive awards for the previous year based upon previously established performance goals. All changes to base salaries are typically effective on July 1 for the year in which they are set. The Compensation Committee typically authorizes the grant of awards at the close of the market on the third full trading day after the issuance of the Company’s earnings for the fourth quarter and year-end.

During the first half of the year, the Compensation Committee also typically establishes incentive goals for the current year based upon the Chief Executive Officer’s recommendations.

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Compensation Consultant

The Compensation Committee is authorized to retain the services of independent advisors to assist it in carrying out its responsibilities. In 2012, the Compensation Committee engaged Towers Watson, a national compensation consulting firm, to prepare a general update concerning executive and director compensation trends. The general update included trends with respect to (i) pay for executives serving in the positions of chief executive officer and chief financial officer, (ii) the alignment of pay versus performance, (iii) annual and long-term incentive plan design, (iv) severance and employment contract practices, and (v) perquisites and benefits. The sample data utilized in the general update included (i) 225 Fortune 1000 companies that had filed proxies by late March 2012, (ii) 171 individuals serving in the position of chief executive officer during the past three years, and (iii) 148 continuous incumbents serving in the position of chief financial officer.
The general update was intended to complement a competitive assessment of certain executive positions within the Company and its subsidiaries, including those positions held by the named executive officers, that had been prepared by Towers Watson at the request of the Compensation Committee in 2011. The assessment prepared by Towers Watson in 2011 included a proxy analysis of 14 publicly-traded transportation industry competitors and regional airlines for the Company's named executive officers ("peer group analysis"). The companies utilized in the peer group analysis were:

- AirTran Holdings, Inc.
- Alaska Air Group, Inc.
- Atlas Air Worldwide Holdings, Inc.
- Forward Air Corp.
- Hawaiian Holdings, Inc.
- Hub Group, Inc. • JetBlue Airways Corp.
- Pacer International, Inc.
- Park Ohio Holdings Corp.
- Pinnacle Airlines Corp.
- Republic Airways Holdings, Inc.
- Sky West, Inc.
- US Airways Group, Inc.
- UTi Worldwide, Inc.

The assessment also included transportation/services and general industry survey data published by Towers Watson, which was adjusted to reflect ATSG's revenue size. The services industry data was used when transportation data was not available. Neither ATSG nor Towers Watson created any specific peer groups from the survey data for benchmarking purposes. In addition to the peer group analysis and survey data, the assessment also included information regarding general executive compensation trends.
The assessment established compensation guidelines for the named executive officers, providing data on the 25th, 50th (median) and 75th percentile pay levels in the competitive market. The Compensation Committee has identified the 50th (median) percentile as the targeted pay level.
The Compensation Committee, in consultation with the Chief Executive Officer, utilized the general update and competitive assessment, in evaluating the ongoing competitiveness of the Company's compensation arrangements for 2012. In this regard, the peer group analysis contained in the competitive assessment constituted a material component of the Compensation Committee's evaluation of the Company's compensation arrangements for 2012 with respect to the named executive officers.

To minimize the potential for conflicts of interest, our policy is to limit the use of Towers Watson to only executive compensation and benefits matters. Further, the Compensation Committee has the sole authority to retain or terminate Towers Watson as the Committee's executive compensation consultant and to approve its fees and other terms of engagement. In connection with its engagement of Towers Watson, the Compensation Committee considered various factors bearing upon Towers Watson's independence, including, but not limited to, the amount of fees received by Towers Watson from the Company as a percentage of Towers Watson's total revenues, Towers Watson's policies and procedures designed to prevent and mitigate conflicts of interest, and the existence of any business or personal relationships that could impact Towers Watson's independence. After reviewing these and other factors, the Compensation Committee determined that Towers Watson was independent and that its engagement did not present any conflicts of interest. Towers Watson also provided the Company with a written statement in which it indicated its belief that it serves as an independent advisor to, and has no conflicts of interest involving, the Company.

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Compensation and Risk

The Board of Directors, in consultation with the Compensation Committee and management, believes that the Company's compensation policies and practices, including the Company's executive compensation program, do not create risks that are reasonably likely to have a material adverse effect on the Company. The Board believes that the following characteristics of the Company's compensation policies and practices are effective in reducing the possibility of the executive officers, individually or as a group, making excessively-risky business decisions that could maximize short-term results at the expense of long-term value:

- The base salaries the Company pays to its executive officers are generally consistent with salaries paid for comparable positions in the Company's industry, and provides the Company's executive officers with a steady income while reducing the incentive to take risks in pursuit of short-term benefits.

- The Company's short-term and long-term incentive compensation plans are well-defined and based on non-discretionary formulas that respectively cap the maximum bonus and shares that may be earned, thereby reducing the incentive for excessive risk taking.

- The Company's executive compensation program is designed to include a significant level of long-term incentive compensation, which discourages short-term risk taking.

- The performance period and vesting schedule for long-term incentives overlap, which reduces the motivation to maximize performance in any one period.

- The Compensation Committee retains an external executive compensation consultant at least every two years to advise it on market practices and the suitability of its compensation actions and decisions.

- The Company has adopted a Code of Ethics for the Chief Executive Officer and Chief Financial Officer, a Code of Conduct for Conducting Business and a Corporate Compliance Plan that are designed to reinforce the balanced compensation objectives established by the Committee.

- The Company has adopted stock ownership guidelines for its executive officers, which the Board believes helps to align the interests of the executive officers with the interests of stockholders, and thereby discourages excessive risk taking.

- With the exception of change-in-control agreements, the Company does not maintain employment or severance agreements with any of the named executive officers. Each of the named executive officers is employed at will and is expected to perform in order to continue serving as a member of the executive team.

Advisory Votes on Executive Compensation

At the Annual Meeting in 2011, the Company held an advisory vote on the executive compensation reported in its proxy statement for that year as well as an advisory vote on the frequency of future advisory votes on executive compensation. At that meeting, the Company's stockholders approved the advisory resolution on the Company's executive compensation as reported in its proxy statement for 2011 and also voted to conduct future advisory votes on executive compensation every year. Similarly, at the Annual Meeting in 2012, the Company held, and the Company's stockholders approved, an advisory resolution on the Company's executive compensation as reported in its proxy statement for 2012. While the advisory resolutions are non-binding, the Compensation Committee and the Board of Directors intends to review and consider the voting results with respect to advisory votes on executive compensation when making future decisions regarding the Company's executive compensation program and to hold future advisory votes on executive compensation every year.

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Components of Executive Compensation for 2012

The Company's executive compensation and benefits package consists of direct compensation (base salary, short-term cash incentives and long-term equity-based incentives) and Company-sponsored retirement and benefit plans. The components of the named executive officers' compensation packages are designed to contribute to a total package that is competitive, appropriately performance-based, and valued by the Company's executive. The Compensation Committee strives to align the mix of executive officer compensation between cash and non-cash or short-term and long-term incentive compensation with the competitive benchmarking described above.

At the Annual Meetings in 2011 and 2012, the Company's stockholders overwhelmingly approved an advisory resolution on the Company's executive compensation as reported in its proxy statement for those years.

Base Salary

The Company provides the named executive officers with a base salary to compensate them for services rendered during the fiscal year. The Compensation Committee determines the base salary for the Chief Executive Officer and the other named executive officers, although the latter are determined in consultation with the Chief Executive Officer. The Compensation Committee typically reviews the base salaries of the named executive officers sometime during the first half of the year as part of the Company's performance review process, as well as in the event of a promotion or other change in job responsibilities. This review primarily takes into account a compensation analysis, such as the Towers Watson analysis described above; an internal review of the executive's compensation, both on an individual basis and relative to other executives; and the individual performance of the executive, as evaluated by the Chief Executive Officer. The Compensation Committee intends to review the base salaries of the Company's named executive officers during the first half of 2013.

The base salaries paid to the named executive officers in 2012 are set forth in the "Salary" column of the "Summary Compensation Table" below.

Short-Term Incentive Compensation

During 2012, the Company's executives, including the named executive officers, had the potential to earn incentive compensation under the Company's Executive Incentive Compensation Plan (the "EIC Plan"). The purpose of the EIC Plan is to incentivize executive management to achieve short-term corporate goals. Under the EIC Plan, participants are eligible to receive a cash bonus utilizing a non-discretionary formula that establishes a bonus amount, expressed as a percentage of base salary, based upon the extent of achievement of performance measures that are prescribed under the EIC Plan. The performance measures selected, and the relevant weight given to each such performance measure, may vary by participant, provided that (i) unless otherwise determined by the Compensation Committee, bonuses will be based on at least two performance measures, and (ii) one of the performance measures will be earnings before interest and taxes. The cash-incentive bonus opportunity for each participant varies depending upon the position held and ranges from 4% to 130% of the participant's base salary earned during the year. The threshold, target and maximum bonus potentials for the named executive officers in 2012, included the following:

Named Executive Officer	Threshold	Target	Maximum
Joseph C. Hete	4% of base salary	78% of base salary	130% of base salary
Quint O. Turner	4% of base salary	60% of base salary	100% of base salary
W. Joseph Payne	4% of base salary	60% of base salary	100% of base salary
Richard F. Corrado	4% of base salary	60% of base salary	100% of base salary

The Compensation Committee determines the performance measures, and the extent of the achievement thereof, for the Chief Executive Officer. The Chief Executive Officer, in consultation with the Compensation Committee, determines the performance measures, and the extent of the achievement thereof, for the other named executive officers.

The performance measures pertaining to Messrs. Hete, Turner, Payne and Corrado for 2012 were based upon the Company's earnings before interest and taxes ("ATSG EBIT") and the achievement of goals associated with the other matters described in the following table (the "Other Performance Measures"). The Compensation Committee determined that Messrs. Hete, Turner, Payne and Corrado (i) had achieved 81% of the performance measure based on

ATSG EBIT,

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and (ii) had respectively achieved 85%, 100%, 95% and 80% of the goals associated with the Other Performance Measures. The following table shows for each of the named executive officers (i) the performance measures utilized; (ii) the relevant weight given to the performance measures based on ATSG EBIT and in the aggregate for the Other Performance Measures; (iii) the potential bonus amounts, at threshold, target and maximum, for the achievement of the performance measures based on ATSG EBIT, and in total for the Other Performance Measures; and (iv) the actual cash incentive bonus achieved for the performance measures under the EIC Plan for 2012:

	Component of 2012 Bonus		Potential Bonus Attainment			Actual 2012 Bonus
			Minimum	Target	Maximum	
Joseph C. Hete						
ATSG Earnings Before Interest and Taxes	75.0	%	$15,600	$304,200	$507,000	$15,600
Other Performance Measures	25.0	%	5,200	101,400	169,000	143,650
Broaden Base of Interest/Investment in Company						
Strategic Sales and Marketing Initiatives						
Corporate Governance Matters						
Financial Reporting Matters						
Credit Facility and Financing Matters						
Strategic Business Matters						
Cost Reduction Matters						
Total						$159,250
Quint O. Turner						
ATSG Earnings Before Interest and Taxes	75.0	%	$8,550	$128,250	$213,750	$8,550
Other Performance Measures	25.0	%	2,850	42,750	71,250	71,250
Broaden Base of Interest/Investment in Company						
Corporate Governance Matters						
Financial Reporting Matters						
Credit Facility and Financing Matters						
Strategic Business Matters						
Cost Reduction Matters						
Total						$79,800
W. Joseph Payne						
ATSG Earnings Before Interest and Taxes	75.0	%	$7,995	$119,925	$199,875	$7,995
Other Performance Measures	25.0	%	2,665	39,975	66,625	63,294
Corporate Governance Matters						
Credit Facility and Financing Matters						
Strategic Business Matters						
Cost Reduction Matters						
Total						$71,289
Richard F. Corrado						
ATSG Earnings Before Interest and Taxes	75.0	%	$7,380	$110,700	$184,500	$7,380
Other Performance Measures	25.0	%	2,460	36,900	61,500	49,200
Strategic Sales and Marketing Initiatives						
Cost Reduction Matters						
Total						$56,580