Air Transport Services Group, Inc.
Form DEF 14A
March 23, 2017
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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:
(5) Total fee paid:

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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:

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145 Hunter Drive, Wilmington, Ohio 45177

NOTICE OF ANNUAL MEETING
OF STOCKHOLDERS
TO BE HELD MAY 5, 2017

Notice is hereby given that the 2017 Annual Meeting of Stockholders of Air Transport Services Group, Inc., a Delaware corporation (the "Company"), has been called and will be held on Friday, May 5, 2017, at 11:00 a.m., local time, at The Roberts Centre, 123 Gano Road, Wilmington, Ohio 45177, for the following purposes:

1. To elect five directors to the Board of Directors, each for a term of one year;
2. To ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for fiscal year 2017;
3. To hold an advisory vote on executive compensation;
4. To hold an advisory vote on the frequency of the 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 2016 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 2016 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.

Only holders of record, as of the close of business on March 10, 2017, 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
Wilmington, Ohio	W. JOSEPH PAYNE
March 23, 2017	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.

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PROXY STATEMENT
AIR TRANSPORT SERVICES GROUP, INC.
145 Hunter Drive, Wilmington, Ohio 45177
ANNUAL MEETING OF STOCKHOLDERS, MAY 5, 2017

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 5, 2017, 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 2016 Annual Report, are being distributed and made available on or about March 23, 2017. 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 23, 2017 to stockholders of record who owned common stock at the close of business on March 10, 2017. 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 five directors for a term of one year and until their successors have been elected and qualified; (2) vote on a proposal to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for fiscal year 2017; (3) hold an advisory vote on executive compensation; (4) hold an advisory vote on the frequency of the 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 10, 2017, 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 10, 2017, there were 59,587,549 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 4, 2017. 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.

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Vote Required

Proposal 1: Election of Directors. The five 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 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: 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 at the meeting, is required to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for the 2017 fiscal year. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a vote against this proposal. Broker non-votes are not expected on the proposal.

Proposal 3: 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 at the meeting, is required to approve this proposal. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a vote against this proposal. Broker non-votes will have no effect on the outcome of the vote.

Proposal 4: Frequency of Advisory Vote on Executive Compensation. The option of one, two or three years that receives a plurality of the votes cast on this proposal will be deemed the preferred option of our stockholders. Abstentions and broker non-votes will be counted for purposes of establishing a quorum, but will not be counted in evaluating the results of the vote.

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 vote against 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 and 3, the shares represented by the proxy will be voted “For” the proposal. To the extent specific instructions are not given with respect to Proposal 4, the shares represented by the proxy will be voted for a frequency of every "1 Year".

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. Proposals 1, 3 and 4 are not discretionary items, so you must provide instructions to your broker in order to cast a vote on those proposals.

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 4, 2017.

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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 or mail only for use at the Annual Meeting or any adjournment thereof. The Company has retained Georgeson LLC ("Georgeson") to assist with the solicitation of proxies for a project management fee of $11,500, 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 intent to send you a householded mailing, you may receive only one Notice of Internet Availability of Proxy Materials (the "Notice") unless you have provided contrary instructions. If you wish to receive a separate Notice now or in the future, you may write or call to request a separate copy 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 the Notice, 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 the Notice.

Directions
To obtain directions to attend the Annual Meeting and vote in person, you may call the Executive Assistant at (937) 366-2296 or visit atsginc.com/Annual_Meeting.html.

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Principal Stockholders

To the Company's knowledge, as of March 10, 2017, only the following stockholders owned more than 5% of the outstanding common stock of the Company, which ownership is set forth in the footnotes below as of the dates indicated therein:

Common Stock Ownership of Certain Beneficial Owners

Name	Number of Shares		Percentage of Common Stock Outstanding(7)	
Red Mountain Capital Partners LLC 10100 Santa Monica Boulevard, Suite 925 Los Angeles, California 90067	6,703,438	(1)	11.2	%
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, Texas, 78746	4,996,383	(2)	8.4	%
Amazon.com, Inc. 410 Terry Avenue North Seattle, Washington 98109	4,899,749	(3)	7.6	%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	3,839,430	(4)	6.4	%
Prescott Group Capital Management, LLC 1924 South Utica, Suite 1120 Tulsa, Oklahoma 74104-6529	3,179,540	(5)	5.3	%
Blackrock Inc. 55 East 52nd Street New York, New York 10055	3,017,755	(6)	5.1	%

(1) Based on information provided to the Company by Red Mountain Capital Partners LLC, a Delaware limited liability company ("RMCP LLC") and a Form 4 filed with the SEC on March 14, 2017, (i) Red Mountain Partners, L.P., a Delaware limited partnership ("RMP"), beneficially owns, in the aggregate, 6,703,438 shares of 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 common stock beneficially owned by RMP. The foregoing number of shares excludes 87,626 restricted stock units issued to J. Christopher Teets, a Partner of RMCP LLC, in connection with his service on the Board.

(2) Based solely on a Schedule 13G filed with the SEC on February 9, 2017, Dimensional Fund Advisors LP reported sole voting power of 4,791,421 shares, and sole dispositive power of 4,996,383 shares, of common stock as of December 31, 2016. According to the filing, (i) Dimensional Fund Advisors LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager or sub-adviser to certain other commingled funds, group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the "Funds"); (ii) in certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds; (iii) in its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, "Dimensional") may possess voting and/or investment power over the common stock that is owned by the Funds, and may be deemed to be the beneficial owner of the shares of common stock held by the Funds, but all of the shares of common stock reported in the filing are owned by the Funds; and (iv) Dimensional disclaims beneficial ownership of such common stock reported therein.

(3) Based on an Amendment No. 1 to Schedule 13G filed with the SEC on January 27, 2017, Amazon.com, Inc. reported sole voting and dispositive power of 4,899,749 shares of common stock as of December 31, 2016, which shares are subject to an exercisable warrant. According to the filing, (i) on March 8, 2016, pursuant to an Investment Agreement, dated as of March 8, 2016 (the "Investment Agreement"), by and between Amazon.com, Inc. ("Amazon") and the Company, the Company issued Amazon a warrant (the "Warrant") to acquire up to 12,810,629 shares of common stock (which includes the 4,899,749 shares referenced above), a portion of which became exercisable upon the occurrence of the Company's Annual Stockholders' Meeting on May 12, 2016; (ii) the remaining shares of common stock subject to the Warrant will vest and become exercisable upon the achievement of certain commercial milestones, subject to certain regulatory approvals and the terms outlined in the Warrant; (iii) the number of shares of common stock that are currently exercisable is calculated with reference to applicable notification and clearance thresholds in the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and is reported with reference to the market price of the common stock (as calculated pursuant to the HSR Act) and the applicable HSR Act thresholds as of December 31, 2016; (iv) to the extent the market price of the common stock increases or the applicable HSR Act threshold decreases, the number of shares of common stock beneficially owned by Amazon would decrease; and (v) to the extent the market price of the common stock decreases or the applicable HSR Act threshold increases, the number of shares of common stock beneficially owned by Amazon would increase.

(4) Based solely on an Amendment No. 2 to Schedule 13G filed with the SEC on February 9, 2017, The Vanguard Group, Inc. reported sole voting power of 61,576 shares, shared voting power of 1,500 shares, sole dispositive power of 3,777,226 shares and shared dispositive power of 62,204 shares, of common stock as of December 31, 2016. According to the filing, (i) Vanguard Fiduciary Trust Company (“VFTC”), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 60,704 shares or 0.10% of the outstanding common stock as a result of its serving as investment manager of collective trust accounts; and (ii)Vanguard Investments Australia, Ltd. (“VIA”), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 2,372 shares or .00% of the outstanding common stock as a result of its serving as investment manager of Australian investment offerings.

(5) Based solely on an Amendment No. 8 to Schedule 13G jointly filed with the SEC on February 10, 2017, 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 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 3,179,540 shares of 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 3,179,540 shares of common stock held by the Prescott Master Fund. This stock ownership information was reported as of December 31, 2016.

(6) Based solely on a Schedule 13G filed with the SEC on January 30, 2017, Blackrock Inc. reported aggregate beneficial ownership and sole dispositive power of 3,017,755 shares and sole voting power of 2,940,300 shares of common stock as of December 31, 2016.

(7) For each stockholder, other than Amazon.com, Inc., based on 59,587,549 shares of common stock outstanding as of March 10, 2017. For Amazon.com, Inc., based on 59,587,549 shares of common stock outstanding as of March 10, 2017, plus 4,899,749 shares of common stock issuable upon the exercise of the Warrant as of December 31, 2016.

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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 the following five members:

Richard M. Baudouin
Joseph C. Hete
Randy D. Rademacher
J. Christopher Teets
Jeffrey J. Vorholt

All five of the current directors of the Company have been nominated for reelection to the Board at the Annual Meeting. 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, if elected, will serve for a one-year term expiring at the Annual Meeting of Stockholders in 2018 and until his respective successor has been elected and qualified as provided under the Company's Bylaws. Each of the nominees has consented to being named in this Proxy Statement and to serve as a director, if elected. If any 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:

Nominees for Director
For Terms Expiring in 2018

Richard M. Baudouin, age 65, Senior Advisor for Infinity Transportation, a company owned by Global Atlantic Financial Corp., since November 2016. Prior to his current role at Infinity Transportation, Mr. Baudouin was a principal of Infinity Aviation Capital, LLC ("IAC"), an investment firm involved in aircraft leasing, from March 2011 to November 2016, and 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 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, and is the Chair of the Nominating and Governance Committee and a member of both the Audit Committee and Compensation Committee. Mr. Baudouin possesses many years of experience in commercial aircraft leasing and financing and extensive contacts in the global leasing marketplace that assists the Company in further developing and expanding its aircraft leasing business.

Joseph C. Hete, age 62, 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. 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.

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Randy D. Rademacher, age 60, 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 and other building materials, since 2008. Mr. Rademacher was formerly the Chief Financial Officer for The Armor Group, a privately owned manufacturer of industrial and commercial products, from 2006 to 2008. 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 Chairman of the Company’s Board since May 2015 and a director of the Company since December 2006. He also serves as a member of the Nominating and Governance Committee and 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.

J. Christopher Teets, age 44, Partner of Red Mountain Capital Partners LLC ("Red Mountain"), an investment management firm, 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 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 Marlin Business Services Corp., since May 2010, as a director of Nature’s Sunshine Products, Inc., since December 2015, and as a director of Yuma Energy, Inc., since October 2016. Mr. Teets also previously served as a director of Encore Capital Group, Inc. from May 2007 until June 2015, and Affirmative Insurance Holdings, Inc., from August 2008 until September 2011. Red Mountain beneficially owns 6,703,438 shares of common stock of the Company, or approximately 11.2% of the Company’s 59.6 million shares outstanding, as described on page 4 of this Proxy Statement. The Company and Red Mountain are parties to a confidentiality and standstill agreement that will remain in effect during Mr. Teets’ tenure as a director 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 2009, and is the Chairman of the Compensation Committee and a member of 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.

Jeffrey J. Vorholt, age 64, 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 40 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.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE REELECTION OF EACH NOMINEE AS A DIRECTOR OF THE COMPANY

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CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors held 11 meetings during 2016 and each director participated in at least 95% 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 2016 Annual Meeting.

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), is independent within the meaning of the independence standards of the NASDAQ and the Certificate of Incorporation, as currently in effect.

In considering the independence of J. Christopher Teets, the Board considered the fact that he is a Partner of Red Mountain, the beneficial owner of approximately 11.2% of the Company’s outstanding shares, as described on page 4 of this Proxy Statement, as well as the Company's repurchase of 3,825,554 shares of the common stock of the Company from a fund that is affiliated with Red Mountain, for an aggregate purchase price of $50,000,000, as described under "Related Person Transactions" on page 14 of this Proxy Statement, and concluded that his relationship with Red Mountain and such transaction does not impact his independence as a director of the Company. In reaching this conclusion, the Board took into account that Mr. Teets had recused himself from the meetings and deliberations of the Audit Committee and the Board concerning, and abstained from voting on, the stock repurchase as well as 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 director of the Company. The agreement imposes confidentiality obligations on Red Mountain 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 a 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 were to beneficially own, directly or indirectly, in excess of 14.9% of the issued and outstanding common stock of the Company, Red Mountain will, except with the prior written consent of the Company or the Board, cause such shares of common stock 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

The Company’s Bylaws 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 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.

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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 is 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 of 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 Annual Meeting does not exceed the number of directors to be elected, 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 Willis Towers Watson, an executive 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 non-employee directors are also subject to minimum stock ownership requirements. The non-employee directors are required to own and retain the minimum number of shares (including restricted stock units) totaling in value as of the date of grant or purchase, at least three times their annual retainer. Each director is expected to be in compliance with the ownership guidelines on or about the third anniversary of the date on which he or she was elected to the Board. All of the non-employee directors are in compliance with the stock ownership guidelines.

Cash Compensation

During 2016, the non-employee directors were each paid an annual retainer of $50,000 for serving on the Board and an annual retainer of $5,000 for serving on a standing committee of the Board. In addition, each non-employee director was entitled to be paid a $1,500 fee for each Board and committee meeting (of which the non-employee director is a member) attended that was in excess of a total aggregate amount of 18 Board and committee meetings during the fiscal year.

The Chairman of the Board and the chairman of each of the standing committees of the Board also received an additional annual chairman fee. During 2016, (i) the Chairman of the Board was paid an annual chairman fee of $60,000; (ii) the Chairman of the Audit Committee was paid an annual chairman fee of $17,000; and (iii) the Chairman of the Compensation Committee and Chairman of the Nominating and Governance Committee were each paid an annual chairman fee of $10,000.

In addition to compensation for their Board and committee service, the directors 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 “2005 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 2005 LTI Plan. With the adoption of the Company’s 2015 Long Term Incentive Plan (the “2015 LTI Plan”), non-employee directors have continued to receive restricted stock unit awards on an annual basis. Under the 2015 LTI Plan, the restricted stock units will vest and settle on the first anniversary of the date of the grant, unless the non-employee director elects (no later than December 31st of the year immediately preceding the year of grant) to defer the settlement to either a specific date after the first anniversary of the date of the grant or the date upon

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which the non-employee director's board service ends. The size of the grants are determined by the Board and are based on the Company's periodic evaluation of the compensation arrangements of other companies prepared by Willis Towers Watson, an executive compensation consulting firm. Awards granted to the non-employee directors in March 2017 had a grant value of $75,000.

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, 2016.

Name(1)	Fees Earned or Paid in Cash ($)	Stock Awards ($)(3)	Total ($)
Randy D. Rademacher	123,000	75,001	198,001
Richard M. Baudouin	73,000	75,001	148,001
Arthur J. Lichte(2)	63,000	75,001	138,001
J. Christopher Teets	70,000	75,001	145,001
Jeffrey J. Vorholt	80,000	75,001	155,001

(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) Mr. Lichte resigned from the Board on February 17, 2017.

(3) Each director was awarded 5,212 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, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2017.

Board Committees

The Board has a standing Audit Committee, Compensation Committee and Nominating and Governance Committee. The Audit Committee, Compensation Committee and Nominating and Governance Committee each consists exclusively of non-employee directors.

Audit Committee

The Audit Committee is currently composed of Jeffrey J. Vorholt, Chairman, Richard M. Baudouin and Randy D. Rademacher. Mr. Vorholt has been the Chairman of the Audit Committee since January 29, 2004. The Board has determined that Mr. Vorholt is an "audit committee financial expert" as defined in the rules under the Exchange Act, and that he is independent under the NASDAQ Marketplace Rules.

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 five meetings during 2016.

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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 November 2015. 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 with management and the Company's independent registered public accounting firm, Deloitte & Touche LLP (both alone and with management present), the Company's audited consolidated financial statements for the year ended December 31, 2016. The Audit Committee discussed with Deloitte & Touche LLP the matters required to be discussed with the independent registered public accounting firm pursuant to AS1301 Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board (“PCAOB”). In addition, the Audit Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by PCAOB Ethics and Independence Rule 3526, “Communication with Audit Committees Concerning Independence,” as currently in effect, and has discussed with Deloitte & Touche LLP their independence.
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, 2016, as filed with the Securities and Exchange Commission.
Respectfully submitted,
The Audit Committee
Jeffrey J. Vorholt, Chairman
Richard M. Baudouin
Randy D. Rademacher

Compensation Committee
The Compensation Committee is currently composed of J. Christopher Teets, Chairman, Richard M. Baudouin 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 approving the compensation arrangements for the other executive officers of the Company. 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 four meetings during 2016.
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 2016. The Committee’s charter is available through our Internet website at http://www.atsginc.com.

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Nominating and Governance Committee

The Nominating and Governance Committee is currently composed of Richard M. Baudouin, Chairman, Randy D. Rademacher 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 four meetings during 2016.

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.

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 include those 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 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 Company's "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.

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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 2018 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 2017 Annual Meeting of Stockholders (May 5, 2017); provided, however, that in the event the date of the 2018 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.

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 and 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.

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Related Person Transactions

The charter of the Audit Committee requires for the Audit Committee to review and consider whether to approve all related party transactions, as that term is defined in the applicable regulations of the SEC.

On July 5, 2016, the Company purchased 3,825,554 shares of the common stock of the Company from its largest stockholder, Red Mountain Partners, L.P., a fund that is affiliated with Red Mountain, pursuant to a privately negotiated transaction for an aggregate purchase price of $50,000,000. Red Mountain Partners, L.P. has been a shareholder of the Company since 2006 and is the owner of approximately 11.2% of the Company's outstanding shares, as described on page 4 of this Proxy Statement. J. Christopher Teets, a partner of Red Mountain, has been a director of the Company since February 2009 and is the Chairman of the Compensation Committee and a member of the Nominating and Governance Committee. Red Mountain and the Company are parties to a Confidentiality and Standstill Agreement, which is described under "Independence" on page 8 of this Proxy Statement. The Company's repurchase of shares from Red Mountain Partners, L.P. was approved by the Audit Committee in accordance with its policy concerning related party transactions and was also approved by the Board. Mr. Teets recused himself from the meetings and the deliberations of the Audit Committee and the Board concerning the share repurchase and abstained from voting on the share repurchase.

The Company has not had any other related person transactions, as defined by Regulation S-K Item 404(a), since January 1, 2016, nor are there any transactions currently proposed. If any related person transactions arise, the Audit Committee will review and approve such transactions as it deems appropriate.

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

The Company's Bylaws and Corporate Governance Guidelines provide the Board of Directors with the discretion to separate or combine the positions of Chairman of the Board and Chief Executive Officer, provided that in the event the positions are combined, an independent lead director position is established.

In deciding whether to separate the offices of Chairman of the Board and Chief Executive Officer or to combine those offices and appoint an independent lead director, the Board considers what is in the best interests of the Company and its stockholders, taking into consideration the skills and experience of the individual or individuals filling those positions and other relevant factors. The Board has determined that a leadership structure with separate positions of Chairman and Chief Executive Officer continues to be in the best interests of the Company and its stockholders at this time. This structure enables the Chairman to focus on managing the Board's affairs, including organizational and functional effectiveness, and fulfilling the Board's responsibilities. The Chief Executive Officer remains involved in this process by updating the Chairman 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 together 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 NASDAQ Marketplace Rules; and (ii) the Chief Executive Officer

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will be the only employee of the Company who also serves as a director of the Company. As described above under "Independence," four of our five 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. 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.

Our Board conducts an annual evaluation to determine whether it and its committees are functioning effectively. As a part of the annual self-evaluation, the Board considers whether the current leadership structure continues to be appropriate for the Company and its stockholders. In addition, the Board reviews the structure of Board and Company leadership as part of the succession planning process.

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 2016, 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 base salaries of the named executive officers (other than himself) 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 materials prepared by Willis Towers Watson, as further described below, including a 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, and is not present during voting or deliberations, with respect to his own compensation.

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Establishing Compensation Levels

The Compensation Committee ordinarily meets during the first half of each year to review the base salaries for each of the executive officers and to approve incentive awards for the previous year based upon previously established performance measures. All changes to base salaries are typically effective on July 1st for the year in which they are set. The Compensation Committee has traditionally authorized the grant of equity awards under the Company's long-term term incentive plan no earlier than the close of the market on the second or 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.

Compensation Consultant

The Compensation Committee is authorized to retain the services of independent advisers to assist it in carrying out its responsibilities. In 2016, the Compensation Committee engaged Willis Towers Watson, an executive compensation consulting firm, to prepare a general update with respect to current trends and issues in executive and director compensation. The general update included an analysis of the most recent proxy statements that had been filed through mid-March 2016 by 522 S&P 1500 companies (supplemented by survey data that Willis Towers Watson had collected from 180 publicly traded companies in North America) in comparison with each component of the compensation arrangements that the Corporation has with the named executive officers. The general update was intended to complement a competitive compensation review which had been prepared by Willis Towers Watson at the request of the Compensation Committee in 2015, with respect to the positions held by certain of the Company's executives, including the named executive officers. The assessment included: (i) a comparison of the executives' compensation relative to general industry compensation survey market data; (ii) a comparison of the executives' compensation relative to proxy peer group data; (iii) a review of annual and long-term incentive plan design among the Company's industry peer group; and (iv) possible future modifications to the Company's annual incentive plan and long-term incentive plan. The review prepared by Willis Towers Watson in 2015 included a proxy analysis of 16 publicly-traded transportation industry competitors, logistics companies and regional airlines (the “proxy peer group”). Due to the unique nature of the Company's business model, it was necessary to include some larger and some smaller companies in the proxy peer group in order to obtain a representative sample of companies with similar operations. The proxy peer group consisted of the following companies:

- Aircastle Limited
- Air Methods Corp.
- Allegiant Travel Company
- Atlas Air Worldwide Holdings, Inc.
- Echo Global Logistics, Inc.
- Era Group Inc.
- Forward Air Corp.
- Hawaiian Holdings, Inc.
- Hub Group, Inc.
- Park Ohio Holdings Corp.
- PHI Inc.
- Republic Airways Holdings Inc.
- Sky West, Inc.
- Radiant Logistics, Inc.
- Willis Lease Finance Corp.
- XPO Logistics, Inc.

The compensation paid to the named executive officers was compared to the proxy peer group on a position-specific basis. In addition, the design of the Company’s short-term cash incentive plan and long-term equity incentive plan was compared with similar plans maintained by the proxy peer group. The review also included general industry compensation survey data published by Willis Towers Watson, which was adjusted to reflect ATSG's revenue size. Neither ATSG nor Willis Towers Watson created any specific peer groups from the survey data for benchmarking purposes. Finally, the review provided information concerning broader executive compensation trends.

The review 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 compensation review in evaluating the ongoing competitiveness of the Company’s compensation arrangements for 2016. In this regard, the peer group analysis and general survey data contained in the competitive

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compensation review constituted a material component of the Compensation Committee’s evaluation of the Company’s compensation arrangements for 2016 with respect to the named executive officers.

To minimize the potential for conflicts of interest, our policy is to limit the use of Willis Towers Watson to only executive and director compensation and benefits matters. Further, the Compensation Committee has the sole authority to retain or terminate Willis 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 Willis Towers Watson, the Compensation Committee considered various factors bearing upon Willis Towers Watson's independence, including, but not limited to, the amount of fees received by Willis Towers Watson from the Company as a percentage of Willis Towers Watson's total revenues, Willis 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 Willis Towers Watson's independence. After reviewing these and other factors, the Compensation Committee determined that Willis Towers Watson was independent and that its engagement did not present any conflicts of interest. Willis 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.

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 provide 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 (i) a Code of Ethics for the Chief Executive Officer and Chief Financial Officer that provides for the forfeiture of bonuses and equity compensation under certain situations; (ii) a Code of Conduct for Conducting Business; and (iii) a Corporate Compliance Plan, each of which are designed to reinforce the balanced compensation objectives established by the Compensation Committee. The Code of Ethics for the Chief Executive Officer and Chief Financial Officer, Code of Conduct for Conducting Business and Corporate Compliance Plan are available through our Internet website at http://www.atsginc.com.

- 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.

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- 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 our 2016, 2015 and 2014 Annual Meetings, 98%, 95% and 98% of the shares cast were respectively voted in favor of the advisory vote on the executive compensation reported in Company's proxy statement for those years. While the advisory vote is non-binding, the Compensation Committee and the Board of Directors reviews and considers the voting results with respect to advisory votes on executive compensation when making future decisions regarding the Company's executive compensation program and intends to hold future advisory votes on executive compensation every year.

At our 2013 Annual Meeting, the stockholders approved the advisory vote on executive compensation by a lower margin than in prior years. The Compensation Committee and the Board determined that the lower approval margin was primarily attributable to stockholder concerns with respect to the presence of tax gross-up provisions contained in the change-in-control agreements that the Company has with its named executive officers. In response to this concern, the Board, upon the recommendation of the Compensation Committee, adopted a policy in March 2014 that the Company will no longer include tax gross-up payments in any change-in-control agreements that it enters into in the future with its executive officers, including the named executive officers. The Compensation Committee also undertook a review of the existing change-in-control agreements that it has with its executive officers, including the named executive officers, with the intent of securing amendments to those agreements that eliminated the tax gross-up provisions contained therein. The Compensation Committee engaged Willis Towers Watson to provide market perspective, make recommendations and otherwise provide assistance in evaluating this matter. Upon review and after consulting with management, the Compensation Committee determined instead to terminate the existing change-in-control agreements that the Company has with each of its named executive officers and, in conjunction therewith, offer to enter into a new change-in-control agreements that do not contain tax gross up provisions. Since the existing change-in-control agreements each provide that they will expire four years from the named executive officer's receipt of notice of termination, the new change-in-control agreements will become effective in March 2019.

Components of Executive Compensation for 2016

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.

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 base salaries for 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 Willis 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.

In May 2016, the Compensation Committee met in executive session, outside of the presence of the Chief Executive Officer, to discuss his compensation arrangements for 2016. The Committee reviewed and discussed the components of Mr. Hete's current compensation utilizing the materials prepared by Willis Towers Watson that are described above, but at Mr. Hete's request, did not increase his base salary. Further, the Compensation Committee, in consultation with the Chief Executive Officer and utilizing the materials prepared by Willis Towers Watson, increased

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the base salaries paid to Messrs. Turner, Payne and Corrado. The increases in the base salaries paid to Messrs. Turner, Payne and Corrado became effective on July 1, 2016, and were made in order to cause their respective target total compensation to be more in alignment with the market median/50th percentile being targeted by the Company. The base salaries paid to the named executive officers in 2016 are set forth in the "Salary" column of the "Summary Compensation Table" below.

Short-Term Incentive Compensation

During 2016, 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, unless otherwise determined by the Compensation Committee, bonuses will be based on at least two performance measures, one of which will be net income from continuing operations. The other performance measures that may be utilized under the EIC Plan include revenue growth, return on capital, earnings per share, shipment growth, increase in stock price, return on assets, service or personal goals. The cash-incentive bonus opportunity for each participant varies depending upon the position held and ranges from 4.8% to 160% of the participant's base salary earned during the year. The threshold, target and maximum bonus potentials for the named executive officers in 2016 included the following:

Named Executive Officer	Threshold	Target	Maximum
Joseph C. Hete	11.5% of base salary	115% of base salary	160% of base salary
Quint O. Turner	6% of base salary	60% of base salary	100% of base salary
W. Joseph Payne	6% of base salary	60% of base salary	100% of base salary
Richard F. Corrado	6% of base salary	60% of base salary	100% of base salary

The Compensation Committee determines: (i) the threshold, target and maximum bonus percentages and, based thereon, the potential cash bonus amounts; (ii) the performance measures and the weight to be given to each performance measure; and (iii) the extent of the achievement thereof, for the Chief Executive Officer. Similarly, the Compensation Committee makes the same determinations with respect to the other named executive officers in consultation with the Chief Executive Officer. In July 2016, the Compensation Committee increased the Chief Executive Officer's threshold, target and maximum bonus percentages from 4%, 100% and 150% to 11.5%, 115% and 160% of his base salary, respectively, and, in consultation with the Chief Executive Officer, increased the threshold bonus percentage for the other named executive officers from 4% to 6% of their respective base salaries. The increase in the bonus percentages for the Chief Executive Officer was further to an executive session that the Compensation Committee held in May 2016, outside of the presence of the Chief Executive Officer, during which they reviewed and discussed the components of his compensation utilizing the above described materials prepared by, and after further consultation with, Willis Towers Watson. The increase in the Chief Executive Officer's and the other named executive officers' bonus percentages were made in order to cause their total compensation to be more in alignment with the market median/50th percentile being targeted by the Company. The Chief Executive Officer received a larger increase in his bonus percentages because his total compensation was further below the market median/50th percentile than that of the other named executive officers.

For 2016, 80% of the named executive officers' bonus opportunity was based upon the level of achievement of net income from continuing operations and 20% of their bonus opportunity was based upon the level of achievement of personal goals (the "Strategic Objectives"). The Compensation Committee determined that (i) Mr. Hete had achieved 83% of the bonus potential for the performance measure associated with net income from continuing operations and 50% of the bonus potential associated with the Strategic Objectives, and (ii) Messrs. Turner, Payne and Corrado had each achieved 76% of the bonus potential for the performance measure associated with net income from continuing operations and 90% of the bonus potential associated with the Strategic Objectives. 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 net income from continuing operations and in the aggregate for the Strategic Objectives; (iii) the potential bonus amounts at threshold, target and maximum, for the achievement of the performance measures

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based on net income from continuing operations, and in total for the Strategic Objectives; and (iv) the actual cash incentive bonus achieved for the performance measures under the EIC Plan for 2016:

	Component of 2016 Bonus		Potential Bonus Attainment Minimum	Target	Maximum	Actual 2016 Bonus
Joseph C. Hete						
Net Earnings From Continuing Operations	80.0	%	$59,800	$598,000	$ 832,000	$691,600
Strategic Objectives	20.0	%	14,950	149,500	208,000	104,000
Shareholder Relations Matters						
Customer Relations Matters						
Strategic Sales and Marketing Initiatives						
Financing Matters						
Strategic Business Initiatives						
Share Repurchase Program						
Total						$795,600
Quint O. Turner						
Net Earnings From Continuing Operations	80.0	%	$18,120	$181,200	$ 302,000	$229,520
Strategic Objectives	20.0	%	4,530	45,300	75,500	67,950
Shareholder Relations Matters						
Customer Relations Matters						
Financing Matters						
Strategic Business Initiatives						
Share Repurchase Program						
Total						$297,470
W. Joseph Payne						
Net Earnings From Continuing Operations	80.0	%	$15,600	$156,000	$ 260,000	$197,600
Strategic Objectives	20.0	%	3,900	39,000	65,000	58,500
Customer Relations Matters						
Strategic Business Initiatives						
Total						$256,100
Richard F. Corrado						
Net Earnings from Continuing Operations	80.0	%	$15,000	$150,000	$ 250,000	$190,000
Strategic Objectives	20.0	%	3,750	37,500	62,500	56,250
Customer Relations Matters						
Strategic Sales and Marketing Initiatives						
Strategic Business Initiatives						
Total						$246,250

The Compensation Committee believes that the Company's overall incentive program, including the EIC Plan, is meaningfully performance based. In this regard, the Chief Executive Officer and other named executive officers were awarded an annual cash bonus under the EIC Plan attributable to the performance measure associated with net operating income from continuing operations based on the Company's performance in 2016, 2015 and 2014.
The amounts paid to the named executive officers under the EIC Plan for 2016 are also set forth in the "Non-Equity Incentive Plan Compensation" column of the "Summary Compensation Table" below.

Long-Term Incentive Compensation

The Company's executives, including the named executive officers, and senior management are eligible to participate in the Company's 2015 LTI Plan. Similarly, the Company's executives, including the named executive officers, and senior management were formerly eligible to participate in the Company's 2005 LTI Plan, which expired on May 5, 2015. The purpose of the 2015 LTI Plan (and the former 2005 LTI Plan) is to foster and promote the long-term financial success of the Company, to reward performance and to increase stockholder value by providing participants appropriate incentives and awards, to enable the Company to attract and retain the services of outstanding individuals, to encourage stock ownership in the Company, and to align the interests of management and directors with that of stockholders. The 2015 LTI Plan (and the former 2005 LTI Plan) authorizes a wide range of equity awards, including stock options, restricted stock awards, restricted stock units, stock awards, stock appreciation rights and performance-based awards payable in shares or cash and other forms of equity compensation. The long-term incentive awards granted in 2016 were the first grants made under the 2015 LTI Plan. No new awards may be granted under the expired 2005 LTI Plan.

Since the approval of the 2005 LTI Plan and continuing under the 2015 LTI Plan, the Compensation Committee has granted restricted stock awards and performance-based stock unit awards to the Company’s named executive officers and other executives and members of the senior management group on an annual basis. The amount of the total long-term incentive grants to be received by each named executive officer is typically determined by multiplying the officer's base salary by a percentage, the latter of which depends on the position held. The percentage is 100% in the case of each of the named executive officers. The restricted stock awards and performance-based stock unit awards are divided evenly, so that half of the long-term incentive compensation value is delivered in restricted stock and half is delivered in performance-based stock units. The number of shares of restricted stock and performance-based stock units to be received is determined by dividing the value derived above by the closing stock price on the date of grant. The Compensation Committee has traditionally authorized the grant of awards no earlier than at the close of the market on the second or third full trading day after the issuance of the Company’s earnings for the fourth quarter and year-end.

The Compensation Committee granted restricted stock awards and performance-based stock awards to the Company’s named executives and other executives and members of the senior management group in the first quarter of 2016 under the Company’s 2015 LTI Plan. The 2016 awards granted under the 2015 LTI Plan were consistent with awards made previously under the 2005 LTI Plan, except as discussed below with respect to the performance-based stock unit awards. In addition, the Compensation Committee awarded additional shares of restricted stock to Messrs. Hete, Turner, Payne and Corrado over and above the amount that would otherwise have ordinarily been awarded under the 2015 LTI Plan, in recognition of their efforts in securing a new business arrangement with Amazon Fulfillment Services, Inc. Messrs. Hete and Turner were each awarded an additional 7,500 shares and Messrs. Payne and Corrado were each awarded an additional 10,000 shares. The additional shares were awarded under the same terms as other restricted stock awards, except that they were subject to a vesting period of 12 months from the date of grant.

Restricted Stock Awards

Under the restricted stock award agreements, shares of stock are issued in the name of each of the participant employees, but are held in escrow until they fully vest. Ordinarily, the vesting period is approximately 34 months from the date of grant. The employees may exercise any voting rights associated with the restricted stock while in escrow, and any dividends paid on the restricted stock are also held in escrow and paid once they are fully vested. The restrictions will be removed and the stock distributed to the employees if they are actively employed at the end of the vesting period, but may be settled earlier or forfeited in certain limited circumstances under the terms of the award agreements.

The number of shares of restricted stock that were granted to each of the named executive officers during fiscal year 2016, all of which will vest at the end of the restriction period, are set forth in the “All Other Stock Awards: Number of Shares of Stock or Units” column of the “Grants of Plan-Based Awards Table” below.

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Performance-Based Stock Unit Awards

Under the performance-based stock unit award agreements, the performance units are converted to an equal number of shares of common stock and paid out or forfeited, depending upon whether and the extent to which certain performance criteria are met during the performance period. The performance period is ordinarily 36 months. The performance-based stock units consist of two types - stock performance units and return-on-invested-capital (“ROIC”) units. The agreements contain an equal number of stock performance units and ROIC units, based on their respective target award potential.

The performance criteria for the stock performance units are based upon the extent to which the appreciation in the Company’s stock during the performance period equals or exceeds the total stockholder return performance of the NASDAQ Transportation Index during the same period. Under the 2015 LTI Plan and the former 2005 LTI Plan (the "LTI Plans"), each award agreement specifies the 40th, 50th and 75th stock performance unit percentile level as the threshold, target and maximum percentile level, respectively, indicating when the stock performance awards are earned or forfeited. For performance outcomes between the threshold and maximum percentile levels, the actual awards are interpolated.

The performance criteria for the ROIC units under the LTI Plans are based upon how the Company’s average return on invested capital during the performance period compares to the levels specified under the award agreements. Each award agreement specifies a threshold, target and maximum ROIC unit percentile level, indicating when the ROIC awards are earned or forfeited. The Compensation Committee seeks to establish a threshold percentile level that is perceived by management as being reasonably achievable and a target and maximum percentile level that rewards superior performance. For performance outcomes between the threshold and maximum percentile levels, the actual awards are interpolated.

Under the LTI Plans, the performance-based stock units (both stock performance units and ROIC units) may be settled earlier or forfeited in certain limited circumstances under the terms of the award agreements.

The number of performance-based stock units that were granted to each of the named executive officers during fiscal year 2016, all or a portion of which may vest at the end of the performance period, depending upon and the extent to which the performance criteria are met during the performance period, are set forth in the “Estimated Future Payouts Under Equity Incentive Plan Awards" columns of the “Grants of Plan-Based Awards Table” below.

Equity Compensation Plan Information

The following table sets forth the number of shares of common stock subject to outstanding performance-based stock units as granted under the LTI Plans and the number of shares remaining available for future award grants under the 2015 LTI Plan, in each case, as of March 10, 2017.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by stockholders	1,373,599	N/A	4,066,810
Total	1,373,599	N/A	4,066,810

Stock Ownership Guidelines

To better align the interests of the Company's executives, including the named executive officers, with the interests of stockholders, the Committee requires that certain executives, including the named executive officers, maintain a minimum ownership interest in the Company. The amount of stock required to be owned and retained is based on the minimum number of shares totaling in value as of the date of grant or purchase (including any restricted stock grants) and a multiple of the executive's annual base salary, which multiple depends upon the position held. The Chief

Executive

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Officer (Mr. Hete) is required to own and retain the minimum number of shares totaling in value as of the date of grant or purchase at least three times his annual base salary. The Chief Financial Officer (Mr. Turner); Chief Legal Officer and Secretary (Mr. Payne); and Chief Commercial Officer (Mr. Corrado) are each required to own and retain the minimum number of shares totaling in value as of the date of grant or purchase at least two times their respective annual base salaries. The Company's executives, including the named executive officers, are expected to be in compliance with the ownership guidelines on or about the third anniversary of the date on which the executive was first elected to the position held. All of the named executive officers are in compliance with the stock ownership guidelines.

Company-Sponsored Retirement and Benefit Plans

Retirement Plans

ATSG and its subsidiaries have several retirement plans for their executives, including the named executive officers, and other employees that are not covered by a collective bargaining agreement. However, as described below, all but two of the retirement plans have been frozen or are no longer the subject of contributions. The named executive officers participate in one or more of the following plans: (i) the ABX Air Capital Accumulation Plan, which is both a defined contribution 401(k) plan (the "CAP 401(k) 5%") and a voluntary 401(k) salary deferral plan (the "CAP 401(k)"); (ii) the ABX Air Retirement Income Plan (the "RIP"), which is a defined benefit pension plan; (iii) the ABX Air Profit Sharing Plan (the "PSP"), which is a defined contribution plan; (iv) the ABX Supplemental Executive Retirement Plan (the "SERP"), a non-qualified and unfunded plan that provides for benefits in excess of statutory limits; and (v) the Air Transport Services Group, Inc. Nonqualified Deferred Compensation Plan (the "DCP"), a non-qualified plan that provides deferred compensation in excess of statutory limits.

All eligible full and part-time non-union employees of ATSG and certain of its subsidiaries, including the named executive officers, who complete one year of service and work at least 1,000 hours during the year receive a company contribution to the CAP 401(k) 5%. Under the CAP 401(k) 5%, employees that have completed three continuous years of employment with the Company and worked at least 1,000 hours each year, earn the right to receive benefits upon termination. Contributions are calculated as the product of 5% of eligible annual pay for each year of service, and the contributions are deposited in the CAP 401(k) 5%. Similarly, all eligible full and part-time non-union employees of ATSG and certain of its subsidiaries, including the named executive officers, may elect to participate in the CAP 401(k), which is a 401(k) plan that allows voluntary deferrals of up to 75% of an employee's pay, subject to IRS income limits.

Messrs. Hete, Turner and Payne are eligible to receive benefits under the RIP. The RIP is a floor offset pension plan that works in step with the PSP (no contributions have been made to the PSP for non-union employees since December 31, 1999 or for union employees since December 31, 2009.). Under the RIP, all eligible full and part-time non-union employees of ATSG that have completed five continuous years of employment with the Company, earn the right to receive benefits upon termination at the normal retirement age of 65 or reduced benefits upon early retirement on or after age 55, with 10 or more years of service. Retirement benefits are calculated as the product of 2% times the final average annual eligible pay for the first 25 years of service and 0.5% times the final average annual eligible pay for each year after the first 25 years of service, less the actuarial equivalent of the PSP balance. The RIP was frozen on January 14, 2010, and, as such, no years of service or average monthly compensation have been credited to the participants since that date in determining the benefit available under the RIP.

Messrs. Hete, Turner and Payne are eligible to receive benefits under the SERP. The SERP provides an age 62 targeted benefit of 50% of a participant's Final Average Earnings (FAEs) for 25 or more years of service, which benefit is reduced by 4% a year for each year of service less than 25 years. In addition, a participant may elect early retirement as early as age 55 provided he or she has at least 10 years of service with the Company. The benefit is reduced by 6% a year for early retirement before age 62. Participants become vested in the SERP after completing 5 years of service with the Company. Prior to the date upon which the SERP was frozen, benefits earned through the formula were offset by benefits from Social Security, the RIP, the PSP and the CAP 401(k) 5%. The SERP was frozen on April 14, 2009. Accordingly, years of service used to calculate the targeted benefit as well as FAEs were frozen as of that date.

Messrs. Turner, Payne and Corrado are eligible to receive benefits under the DCP. The DCP provides deferred compensation to a select group of management and highly compensated employees (except for any person so employed under the terms of a collective bargaining agreement) in an amount equal to the retirement contributions that cannot

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be made to the qualified plan in which the eligible employee participates due to IRS compensation limits. The annual contributions made on behalf of the named executive officers participating under the DCP are dependent upon a number of factors, including the salary and bonus paid to the named executive officer during the year, the terms of the qualified plan in which he participates, and the annual IRS compensation limit (The annual contributions made on behalf of the named executive officers under the DCP for 2016 are set forth in footnote 4 to the "Summary Compensation Table" below.).

Benefit Plans

The core benefit package for the named executive officers and all other employees of the Company includes health, dental, vision, short and long-term disability, group term life insurance, accidental death and dismemberment ("AD&D") insurance, and certain post-retirement benefits. The core benefit package is designed to assist the Company in retaining and attracting employees for key positions. The core benefit package for all of the employees of ATSG, including the named executive officers, also includes business travel accident insurance. The named executive officers participate in the Company's benefit plans on the same basis as all other Company employees, except to the extent described under the heading "Retirement Plans" and "Potential Payments upon Termination or Change in Control."

Change-in-Control Agreements

The Company has entered into change-in-control agreements with certain of its executives, including the named executive officers. Information regarding applicable payments under such agreements for the named executive officers is set forth under "Potential Payments Upon Termination or Change in Control" below.

Financial Restatements

Certain bonuses and equity compensation received by the Chief Executive Officer and Chief Financial Officer must be forfeited as required by applicable law, if the Company is required to prepare an accounting restatement due to material non-compliance by the Company as a result of misconduct with any financial reporting requirements under the securities laws.

Tax and Accounting Implications

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code generally prohibits a company from deducting compensation paid to certain "covered employees" (its principal executive officer and three other most highly compensated executive officers (other than the principal financial officer)) in excess of $1 million per person in any year. Compensation that qualifies as "performance-based" is excluded for purposes of calculating the amount of compensation subject to the $1 million limit. The Compensation Committee considers the deductibility of our executive compensation under Section 162(m) and structures the performance-based stock unit awards under the LTI Plans with the goal of qualifying any compensation paid thereunder as "performance-based" compensation excluded from the $1 million cap.

The Compensation Committee reviews and considers the impact that tax laws and accounting regulations may have on executive compensation, including the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code. In certain cases, the Compensation Committee may award compensation that does not meet the requirements of Section 162(m) if, in its judgment, such compensation is necessary to ensure competitive levels of total compensation for our executives or to otherwise further our executive compensation philosophy and objectives. We believe that substantially all compensation paid to our named executive officers for 2016 will be fully deductible for federal income tax purposes.

Accounting for Stock-Based Compensation

The Company began accounting for stock-based payments in accordance with the requirements of FASB ASC Topic 718, beginning with the initial grant of awards under the Company's 2005 LTI Plan and continuing with grants made under the 2015 LTI Plan.

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Compensation 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.

The Compensation Committee of the Board of Directors has reviewed and discussed the Company's Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's definitive proxy statement on Schedule 14A for its 2017 Annual Meeting, which is incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, each as filed with the Securities and Exchange Commission.

Respectfully submitted,
The Compensation Committee
J. Christopher Teets, Chairman
Richard M Baudouin
Jeffrey J. Vorholt

Summary Compensation Table

The following table sets forth the total compensation earned by, including the stock awards granted to, each of the named executive officers for the fiscal years ended December 31, 2016, December 31, 2015, and December 31, 2014.

Name and Principal Position	Year	Salary ($)	Stock Awards(1)	Non-Equity Incentive Plan Compensation(2)	Change in Pension Value and Non-qualified Deferred Compensation Earnings(3)	All Other Compensation(4)	Total
Joseph C. Hete	2016	$650,000	$817,791	$ 795,600	$ (24,885)	$ 18,740	$2,257,246
President & Chief Executive	2015	600,000	575,885	687,000	(32,083)	18,520	1,849,322
Officer	2014	550,000	557,775	683,100	964,003	18,051	2,772,929
Quint O. Turner	2016	377,500	513,114	297,470	67,820	60,923	1,316,827
Chief Financial Officer	2015	345,000	332,390	273,240	(43,918)	52,090	958,802
	2014	314,000	251,753	303,324	317,226	31,102	1,217,405
W. Joseph Payne	2016	325,000	486,269	256,100	26,586	54,321	1,148,276
Chief Legal Officer &	2015	305,500	311,133	241,956	(19,989)	47,714	886,314
Secretary	2014	291,500	232,155	284,504	129,516	29,331	967,006
Richard F. Corrado	2016	312,500	470,564	246,250	—	52,045	1,081,359
Chief Commercial Officer	2015	294,000	301,470	232,848	—	45,361	873,679
	2014	284,000	227,633	274,344	—	27,751	813,728

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(1) The amounts shown reflect the aggregate grant date fair value, in accordance with FASB ASC Topic 718, of restricted stock and performance-based stock units under the 2005 LTI Plan and the 2015 LTI Plan. The amounts shown for the performance-based stock units were computed based on the probable outcome of the performance conditions as of the grant date. Assuming the highest level of outcome, the maximum value of the performance-based stock units in 2016 would have been: Hete ($1,091,421), Turner ($669,301), Payne ($618,241) and Corrado ($596,482). Assuming the highest level of outcome, the maximum value of the performance-based stock units in 2015 would have been: Hete ($726,450), Turner ($419,293), Payne ($392,478) and Corrado ($380,289). Assuming the highest level of outcome, the maximum value of the performance-based stock units in 2014 would have been: Hete ($699,023), Turner ($315,505), Payne ($290,945) and Corrado ($285,277). Assumptions used in the calculation of these amounts are included in Note L to the Company's audited financial statements for the fiscal year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2017. The 2005 LTI Plan and 2015 LTI Plan are described in further detail above under the heading "Long-Term Incentive Compensation."

(2) The amounts shown reflect the award of cash incentive compensation on March 15, 2017, March 14, 2016 and March 20, 2015, under the EIC Plan. The EIC Plan is described in further detail above under the heading "Short-Term Incentive Compensation."

(3) The amounts shown reflect the respective actuarial increases (decreases) in the present value of the named executive officers' benefits under the RIP and the SERP, determined using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements. The SERP provides an age 62 targeted benefit of 50% of a participant's Final Average Earnings (FAEs) at 25 years of service. For each year of service below 25 years, a 4% per year reduction factor is applied. If a participant retires between ages 55 and 62, an additional 6% per year reduction factor is applied. The targeted 50% benefit is offset by the RIP (before the PSP offset) or the actuarial equivalent of the employer contribution under the CAP 401(k) 5% and an estimated Social Security benefit based on the maximum amount. If a participant terminates prior to age 55, the SERP benefit will be payable at age 55. If a participant does not have 5 years of service at termination, they are not eligible for a SERP benefit. The SERP benefit will be paid as a lump sum based on RP 2000 annuitant mortality projected to 2018 and 5.55% interest. Mr. Corrado does not participate in the RIP or the SERP.

(4) The amounts shown reflect the value of contributions made by the Company to each of the named executive officers pursuant to the CAP 401(k) 5%, the value of contributions made by the Company to each of the named executive under the DCP, and the dollar value of life insurance premiums paid by the Company for the benefit of each of the named executive officers, as follows:

(a) The amounts for Mr. Hete include contributions made by the Company pursuant to the CAP 401(k) 5% ($13,250, $13,250 and $13,000 for 2016, 2015 and 2014, respectively) and the dollar value of life insurance premiums paid by the Company ($5,490, $5,270 and $5,051 for 2016, 2015 and 2014, respectively).

(b) The amounts for Mr. Turner include contributions made by the Company pursuant to the CAP 401(k) 5% ($13,250, $13,250 and $13,000 for 2016, 2015 and 2014, respectively) and the DCP ($44,270, $35,675 and $15,210 for 2016, 2015 and 2014, respectively), and the value of life insurance premiums paid by the Company ($3,404, $3,166 and $2,891 for 2016, 2015 and 2014, respectively).

(c) The amounts for Mr. Payne include contributions made by the Company pursuant to the CAP 401(k) 5% ($13,250, $13,250 and $13,000 for 2016, 2015 and 2014, respectively) and the DCP ($38,180, $31,664 and $13,659 for 2016, 2015 and 2014, respectively), and the value of life insurance premiums paid by the Company ($2,891, $2,800 and $2,672 for 2016, 2015 and 2014, respectively).

(d) The amounts for Mr. Corrado include contributions made by the Company pursuant to the CAP 401(k) 5% ($13,250, $13,250 and $13,000 for 2016, 2015 and 2014, respectively) and the DCP ($36,050, $29,421 and $12,153 for 2016, 2015 and 2014, respectively), and the value of life insurance premiums paid by the Company ($2,745, $2,690 and $2,599 for 2016, 2015 and 2014, respectively).

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Grants of Plan-Based Awards Table

The following table summarizes the grants of plan-based awards made to each of the named executive officers during the fiscal year ended December 31, 2016.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]			All Other Stock Awards: Number of Shares of Stock or Units (#) [3]	Grant Date Fair Value of Stock and Option Awards($) (4)
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)		
Joseph C. Hete	3/10/2016*				7,910	11,300	16,950		