

ABX AIR INC
Form DEF 14A
March 31, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

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

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ABX Air, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

(3) Filing Party:

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Table of Contents

ABX AIR, INC.

145 Hunter Drive, Wilmington, Ohio 45177

NOTICE OF ANNUAL MEETING

OF STOCKHOLDERS

TO BE HELD MAY 5, 2005

Notice is hereby given that the 2005 annual meeting of the stockholders of ABX Air, Inc., a Delaware corporation (the Company), has been called and will be held on May 5, 2005, at 11:00 a.m., local time, at the Roberts Convention Centre, 188 Roberts Road, Wilmington, Ohio, for the following purposes:

1. To elect two directors to the Board of Directors for a term of three years.
2. To amend the Amended and Restated Certificate of Incorporation to remove the limitation on the maximum number of directors that can serve on the Board.
3. To consider and vote on a proposal to adopt the ABX Air, Inc. 2005 Long-Term Incentive Plan.
4. To consider and vote on a proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for fiscal year 2005.
5. To consider and vote on a shareholder proposal.
6. To attend to such other business as may properly come before the meeting and any adjournments thereof.

The foregoing matters are described in more detail in the Proxy Statement that is attached to this notice.

At the meeting, we will also report on the Company's 2004 business results and other matters of interest to stockholders.

Only holders of record, as of the close of business on March 15, 2005, of shares of common stock of the Company will be entitled to notice of and to vote at the meeting and any adjournments thereof.

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By Order of the Board of Directors

/s/ W. Joseph Payne _____

W. JOSEPH PAYNE

Secretary

STOCKHOLDERS ARE URGED TO FILL IN, SIGN AND RETURN THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE WHETHER OR NOT THEY PLAN TO ATTEND THE MEETING.

Table of Contents

TABLE OF CONTENTS

<u>VOTING AT THE MEETING</u>	1
<u>Voting Rights and Outstanding Shares</u>	1
<u>Vote Required</u>	1
<u>Shares Registered in the Name of a Broker</u>	2
<u>Revocability</u>	2
<u>Confidentiality</u>	2
<u>Proxy Solicitation</u>	2
<u>Proxy Tabulation</u>	2
<u>Separate Voting Materials</u>	3
<u>Principal Stockholders</u>	4
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	6
<u>CORPORATE GOVERNANCE AND BOARD MATTERS</u>	7
<u>Independence</u>	7
<u>Director Compensation</u>	7
<u>Board Committees</u>	7
<u>Audit Committee</u>	8
<u>Audit Committee Report</u>	8
<u>Compensation Committee</u>	8
<u>Compensation Committee Report on Executive Compensation</u>	9
<u>Compensation Committee Interlocks and Insider Participation</u>	10
<u>Nominating and Governance Committee</u>	10
<u>Consideration of Nominees for Director</u>	11
<u>Director Qualifications</u>	11
<u>Stockholder Nominees</u>	11
<u>Evaluation of Stockholder Nominees</u>	11
<u>Corporate Governance Guidelines</u>	12
<u>Code of Ethics for CEO and CFO</u>	12
<u>Code of Conduct for Conducting Business</u>	12
<u>Executive Sessions</u>	12
<u>Communications with the Board</u>	12
<u>STOCK OWNERSHIP OF MANAGEMENT</u>	13
<u>EXECUTIVE COMPENSATION</u>	14
<u>Summary Compensation Table</u>	14
<u>Retention Agreements</u>	15
<u>Change of Control Agreements</u>	16
<u>Retirement Plans</u>	16
<u>Comparative Performance Graph</u>	18
<u>PROPOSAL 2 AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO REMOVE LIMITATION ON THE MAXIMUM NUMBER OF DIRECTORS THAT CAN SERVE ON THE BOARD</u>	19
<u>PROPOSAL 3 ADOPTION OF ABX AIR, INC. 2005 LONG-TERM INCENTIVE COMPENSATION PLAN</u>	20
<u>PROPOSAL 4 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	32
Fees of the Independent Registered Public Accounting Firm	
<u>Audit Fees</u>	32
<u>Audit Related Fees</u>	32
<u>Tax Fees</u>	32
<u>Pre-Approval Policy</u>	32

Table of Contents

<u>PROPOSAL 5 STOCKHOLDER PROPOSAL TO ELECT EACH DIRECTOR ANNUALLY</u>	33
<u>BOARD OF DIRECTORS RECOMMENDATION IN RESPONSE TO STOCKHOLDER PROPOSAL</u>	35
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	37
<u>STOCKHOLDER PROPOSALS</u>	37
<u>ANNUAL REPORT ON FORM 10-K</u>	37
<u>OTHER MATTERS</u>	38
<u>Appendix A Audit Committee Charter</u>	A - 1
<u>Appendix B Compensation Committee Charter</u>	B - 1
<u>Appendix C Nominating and Governance Committee Charter</u>	C - 1
<u>Appendix D Corporate Governance Guidelines</u>	D - 1
<u>Appendix E Code of Ethics for CEO and CFO</u>	E - 1
<u>Appendix F Code of Conduct for Conducting Business</u>	F - 1
<u>Appendix G Proposed ABX Air, Inc. 2005 Long-Term Incentive Plan</u>	G - 1

Table of Contents

PROXY STATEMENT

ABX AIR, INC.

145 Hunter Drive, Wilmington, Ohio 45177

ANNUAL MEETING OF STOCKHOLDERS, MAY 5, 2005

Date of Mailing: On or about April 5, 2005

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of ABX Air, Inc., a Delaware corporation (the Company), for use at the annual meeting of stockholders to be held at the Roberts Convention Centre, 188 Roberts Road, Wilmington, Ohio, at 11:00 a.m., local time, on Thursday, May 5, 2005, 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.

At the annual meeting, the holders of shares of common stock of the Company will (1) elect two directors for terms of three years and until their successors have been elected and qualified, (2) consider and vote on a proposal to amend the Company's Amended and Restated Certificate of Incorporation (the Certificate of Incorporation) to permit the Board to remove the limitation on the maximum number of directors that can serve on the Board, (3) consider and vote on a proposal to adopt a long-term incentive plan for the directors, officers and senior management of the Company, (4) consider and vote on a proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for 2005, (5) consider and vote on a stockholder proposal, and (6) 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 as of the close of business on March 15, 2005, of shares of common stock of the Company will be entitled to notice of and to vote at the meeting and any adjournments thereof. The common stock is the only class of voting securities of the Company currently outstanding. On March 15, 2005, there were 58,270,400 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.

Vote Required

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

Proposal 2: Amendment of Certificate of Incorporation. The affirmative vote of two-thirds of the shares entitled to vote at the annual meeting is required to approve the amendment of the Certificate of Incorporation. This means that if you abstain from voting on this proposal, it will count as a vote against the amendment.

Proposal 3: Adoption of the Company's 2005 Long-Term Incentive Plan. The affirmative vote of a majority of the votes represented at the annual meeting, either in person or by proxy, and entitled to vote on this proposal, is required to adopt the 2005 Long-Term Incentive Plan. An abstention will be treated as a vote against this proposal.

Table of Contents

Proposal 4: Ratification of Selection of Independent Registered Public Accounting Firm. The affirmative vote of a majority of the votes represented at the annual meeting, either in person or by proxy, and entitled to vote on this proposal, is required to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm for fiscal year 2005. This means that if you abstain from voting on this proposal, it will have the same effect as if you voted against it.

Proposal 5: Stockholder Proposal. The affirmative vote of a majority of the votes represented at the annual meeting, either in person or by proxy, and entitled to vote on the proposal, is required for adoption of the stockholder proposal. If you abstain from voting on the stockholder proposal, it will have the same effect as if you voted against the proposal.

Unless a stockholder provides specific instructions to withhold votes from one or both nominees for director, the persons named in the proxy will be authorized to vote the shares represented thereby **FOR** the election of the nominees for director. To the extent specific instructions are not given with respect to the Company's Proposals 2, 3 or 4, the shares represented by the proxy will be voted **FOR** such proposal(s). To the extent specific instructions are not given with respect to the stockholder proposal, the shares represented by the proxy will be voted **AGAINST** the proposal.

Shares Registered in the Name of a Broker

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

Revocability

You may revoke your proxy at any time before it has been voted by voting in person at the meeting, by giving written notice of revocation to the Secretary of the Company, or by giving a later dated proxy at any time before the voting.

Confidentiality

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

Proxy Solicitation

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Proxies may be solicited by directors, executive officers and other employees of the Company in person or by telephone, telegraph or mail only for use at the annual meeting. The Company has retained InvestorCom, Inc., 110 Wall Street, Suite 2400, New York, New York 10005, to assist in the solicitation of proxies and will pay that firm a fee estimated not to exceed \$6,000, plus out-of-pocket expenses.

Proxy Tabulation

Proxies and ballots will be received and tabulated by an independent entity that is not affiliated with the Company. The inspectors of election will also be independent of the Company. Subject to the above exceptions

Table of Contents

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, you may receive only one set of proxy materials (including our annual report to stockholders, 2004 Form 10-K, and proxy statement) unless you have provided contrary instructions. Each shareholder of record will continue to receive a separate proxy card. If you wish to receive a separate set of documents now or in the future, you may write or call to request a separate copy of these materials from:

ABX Air, Inc.

145 Hunter Drive

Wilmington, Ohio 45177

Attn: Patricia A. Wallace

Executive Assistant

Telephone: (937) 382-5591, Ext. 2296

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

Table of Contents**Principal Stockholders**

To the Company's knowledge, as of March 15, 2005, the following stockholders owned more than 5% of the outstanding common stock of the Company:

Common Stock Ownership of Certain Beneficial Owners

<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percentage of Common Stock Outstanding</u>
Luxor Capital Partners, LP	3,452,600 ¹	5.9%
Luxor Capital Group, LP		
Luxor Management, LLC		
LCG Holdings, LLC		
Christian Leone		
599 Lexington, Ave., 35 th Floor		
New York, NY 10022		
Luxor Capital Partners Offshore, Ltd.		
c/o M&C Corporate Services Limited		
P.O. Box 309 GT		
Ugland House		
South Church Street		
George Town		
Grand Cayman Islands		
Federated Investors, Inc.	6,631,780 ²	11.38%
Federated Investors Tower		
5800 Corporate Drive		
Pittsburgh, PA 15222-3779		

1

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Based on the Schedule 13G, dated February 23, 2005, filed with the SEC by Luxor Capital Partners, LP, a Delaware limited partnership (Luxor Capital Partners), Luxor Capital Partners Offshore, Ltd., a Cayman Island exempted company (Offshore Fund), Luxor Capital Group, LP, a Delaware limited partnership (Luxor Capital Group), Luxor Management, LLC, a Delaware limited liability company (Luxor Management), LCG Holdings, LLC, a Delaware limited liability company (LCG Holdings), and Christian Leone, a U.S. citizen. According to this filing, Luxor Capital Group is the investment manager of Luxor Capital Partners and the Offshore Fund, and is also the manager of other separate accounts. Luxor Management is the general partner of Luxor Capital Group. Mr. Leone is the manager of Luxor Management. LCG Holdings is the general partner of Luxor Capital Partners. Mr. Leone is the manager of LCG Holdings. Luxor Capital Group, Luxor Management and Mr. Leone may each be deemed to have voting and dispositive power with respect to the shares of common stock held by Luxor Capital Partners and the Offshore Fund. LCG Holdings and Mr. Leone may be deemed to have voting and dispositive power with respect to the shares of common stock held by Luxor Capital Partners. Luxor Capital Partners, Luxor Capital Group, LCG Holdings, Luxor Management and Mr. Leone have shared power to dispose or direct the disposition of the 1,216,982 shares of common stock beneficially held by Luxor Capital Partners. The Offshore Fund, Luxor Capital Group, Luxor Management and Mr. Leone have shared power to dispose or direct the disposition of the 1,424,118 shares of common stock held by the Offshore Fund. Luxor Capital Group, Luxor Management and Mr. Leone have shared power to dispose or direct the disposition of the 811,500 shares of common stock beneficially owned by Luxor Capital Group through the separate accounts it manages. This stock ownership information was reported as of February 14, 2005.

² Based on the Schedule 13G/A, dated February 14, 2005, filed with the SEC by Federated Investors, Inc., Voting Shares Irrevocable Trust (the Trust), John F. Donahue, Rhodora J. Donahue, and J. Christopher Donahue. According to this filing, Federated Investors, Inc. (the Parent) is the parent holding company of Federated Equity Management Company of Pennsylvania and Federated Global Investment Management Corp. (the Investment Advisers), which act as investment advisers to registered investment companies and

Table of Contents

separate accounts that own shares of common stock in ABX Air, Inc. (the Reported Securities). The Investment Advisers are wholly owned subsidiaries of FII Holdings, Inc., which is a wholly owned subsidiary of Federated Investors, Inc., the Parent. All of the Parent s outstanding voting stock is held in the Trust for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees (collectively, the Trustees). The Trustees exercise collective voting control over the Parent. This stock ownership information was reported as of December 31, 2004.

Table of Contents

PROPOSAL 1

ELECTION OF DIRECTORS

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

Class I (one position with term expiring in 2007):

James E. Bushman

Class II (two positions with terms expiring in 2005):

James H. Carey

John D. Geary

Class III (two positions with terms expiring in 2006):

Jeffrey J. Vorholt

Joseph C. Hete

At the annual meeting, two persons will be elected to fill the Class II positions, to hold office until the annual meeting of stockholders in 2008 and until their respective successors have been elected and qualified as provided under the Company's Amended and Restated Bylaws (the Bylaws). Messrs. Carey and Geary are present directors of the Company and have been nominated to continue as directors.

Nominees for Director - Class II (Terms to Expire in 2008)

James H. Carey, age 72, Executive Vice President (Retired) of the Chase Manhattan Bank. Mr. Carey served as Managing Director of Briarcliff Financial Associates, a private financial advisory firm, from 1991 to 2002. He served as Chief Executive Officer of National Capital Benefits Corporation, a viatical settlement company, from March 1994 to December 1995. Mr. Carey is a director, the Chair of the Audit Committee, and a member of the Compensation Committee and Nominating Committee of The Midland Company, a provider of specialty insurance products. He was a director of Airborne, Inc. from 1978 to August 2003, and was a member of its Compensation Committee and Finance Committee. Mr. Carey has been the Chairman of the Board of the Company since May 6, 2004, and has been a Director since August 2003. He is also the Chairman of the Compensation Committee and is a member of the Audit Committee.

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John D. Geary, age 78, President and Chief Executive Officer (Retired) of Midland Enterprises, Inc. Mr. Geary served as President and Chief Executive Officer, and as a director, of Midland Enterprises, Inc., an inland marine transportation company, from 1974 to 1988. He recently completed 20 years of service on the Board of Directors of Fifth Third Bank, in Cincinnati, Ohio. Mr. Geary has been a Director of the Company since January 2004, and is a member of the Compensation Committee and the Nominating and Governance Committee.

Continuing Directors Not Standing for Election This Year

Class I (Term to Expire in 2007)

James E. Bushman, age 60, President and Chief Executive Officer of Cast-Fab Technologies, Inc., and the Chairman and Chief Executive Officer of Security Systems Equipment Corporation. He has served as the President and Chief Executive Officer of Cast-Fab Technologies, Inc., a privately held manufacturer of castings and precision sheet and plate metal fabrications, since 1988, and as the Chairman and Chief Executive Officer of Security Systems Equipment Corporation, a privately held manufacturer of equipment for the banking and financial services industry, since 1999. Mr. Bushman is also a director of The Midland Company, the Ohio National Fund, Inc. and The Dow Target Variable Fund, LLC. He was the President of Carlisle Crane &

Table of Contents

Excavation, Inc., and the Executive Vice President of Carlisle Enterprises, from 1983 to 1988. Prior to that, Mr. Bushman was a CPA for Arthur Andersen & Co., where he served as a partner from 1977 to 1983, and as a manager from 1972 to 1977. He has been a director of the Company since May 2004 and is the Chairman of the Nominating and Governance Committee and is a member of the Audit Committee.

Class III (Terms to Expire in 2006)

Jeffrey J. Vorholt, age 52, is a full-time Visiting Instructor of Accountancy at Miami University (Ohio), and an Adjunct Professor of Accounting at Xavier University, in Cincinnati, Ohio. Mr. Vorholt, a CPA and attorney, was the Chief Financial Officer of Structural Dynamics Research Corporation from 1994 through 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 is currently a Director for Softbrands, Inc., a global provider of enterprise-wide application software. 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 and Nominating and Governance Committee.

Joseph C. Hete, age 50, President and Chief Executive Officer since August 2003. Mr. Hete was President and Chief Operating Officer from January 2000 to August 2003. From 1997 until January 2000, Mr. Hete held the position of Senior Vice President and Chief Operating Officer of the Company. Mr. Hete served as Senior Vice President, Administration of the Company, from 1991 to 1997, and Vice President, Administration of the Company, from 1986 to 1991. Mr. Hete joined the Company in 1980. Mr. Hete does not serve on any of the committees of the Board.

CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors held ten meetings during 2004 and each director attended at least 90% of the meetings of the Board and attended 100% of the meetings of the committees on which he was a member.

Independence

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

Director Compensation

During 2004, non-employee directors received an annual fee of \$25,000, plus \$1,500 for each Board and committee meeting attended. The Chairman of the Audit Committee also received an annual fee of \$15,000. On July 30, 2004, the Compensation Committee approved an annual fee of \$20,000 for the Chairman of the Board, which was paid in 2004 on a prorated basis. However, in 2005, the Compensation Committee

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retained a national compensation consulting firm to conduct an evaluation of the compensation arrangements for the Company's directors in comparison to those of similar companies. Based upon the results of that evaluation, the Compensation Committee increased the annual fee for the Chairman of the Board to \$60,000 and established an annual fee of \$4,000 for both the Chairman of the Compensation Committee and the Chairman of the Nominating and Governance Committee, all of which were effective beginning in 2005.

Board Committees

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

Table of Contents

Audit Committee

The Company has a separately designated standing Audit Committee. The Audit Committee is currently composed of Jeffrey J. Vorholt, Chair, James H. Carey, and James E. Bushman. Jeffrey J. Vorholt has been the Chair of the Audit Committee since January 29, 2004. The Board has determined that Jeffrey J. Vorholt is an audit committee financial expert as defined in the rules under the Securities Exchange Act of 1934, as amended.

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 financial statements; reviewing the internal audit function; overseeing the integrity, adequacy and effectiveness of the Company's internal accounting and financial controls; and approving and monitoring the Company's compliance with its codes of conduct. Also, in the performance of its oversight function, the Audit Committee reviews the Company's 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 Chair of the Audit Committee receives communications directed to non-management directors as described below under Communications with the Board. The Committee met thirteen times during 2004 and all of the members were present for every meeting.

The Audit Committee performs its work under the guidance of a written charter that was initially approved by the Audit Committee and the Board in August 2003 and was most recently amended in February 2005. The charter of the Audit Committee is available at <http://www.abxair.com> and is also included herein as Appendix A.

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 under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this information by reference and will not be deemed soliciting material or deemed filed under those Acts.

In the performance of its oversight function, the Audit Committee has reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2004 with management and the Company's independent registered public accounting firm, Deloitte & Touche LLP. The Audit Committee has also discussed with the independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. The Audit Committee has also discussed with Deloitte & Touche LLP matters relating to its independence and has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect.

Based upon the review and discussions described in this report, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with

the Securities and Exchange Commission.

Jeffrey J. Vorholt, Chair

James H. Carey

James E. Bushman

Compensation Committee

The Compensation Committee is currently composed of James H. Carey, Chair, Jeffrey J. Vorholt and John D. Geary. The Compensation Committee is responsible for reviewing, evaluating and making recommendations

Table of Contents

to the full Board regarding the Company's 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 CEO based upon the achievement of goals and objectives that are approved by the Committee, and reviewing, evaluating and determining the compensation for the other executive officers. This includes base salaries, incentive compensation, and any other forms of remuneration. The Committee also evaluates the performance target goals for the non-executive senior officers and employees. In addition, the Committee oversees the administration of the Company's incentive compensation plans, makes recommendations to the full Board with respect to succession planning for the CEO and other officers, and sets and reviews the compensation for the Board and Committee members. The Committee met five times during 2004 and all of the members were present for every meeting.

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 and was most recently amended in February 2005. The Committee's charter is available at <http://www.abxair.com> and is also included herein as Appendix B.

The Compensation Committee has furnished the following report on executive compensation.

Compensation Committee Report on Executive Compensation

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 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.

General Compensation Policies for Executive Officers

Each year, the Compensation Committee reviews and approves the total compensation of the Chief Executive Officer and the other executive officers. The Compensation Committee also monitors the general compensation practices for all other non-executive officers and employees of the Company and its subsidiaries.

The Company currently compensates its Chief Executive Officer and other executive officers through a combination of base pay and annual incentive awards. The Committee reviewed the base pay levels of the executive officers during 2004 and their base salaries were increased for 2004. These pay increases were based on a peer group analysis prepared by a national compensation consulting firm, which looked at industry surveys, proprietary airline surveys, and proxy analyses of similar companies. The Summary Compensation Table contained in this Proxy Statement details the salaries paid to the named executive officers for 2004.

During 2004, the Chief Executive Officer and the other executive officers also had the potential to earn incentive compensation under the ABX Air Executive Incentive Compensation Plan (the Executive Incentive Plan). Bonus opportunities under the Executive Incentive Plan are based on the achievement of incremental markup under the ACMI and Hub and Line-Haul Services Agreements with DHL Express, Inc. (formerly, Airborne, Inc.). In addition, 25% of the incentive compensation that an executive would otherwise receive under the Executive Incentive Plan is tied to the accomplishment of individual goals. Since DHL Express, Inc. is the Company's largest customer, currently accounting for 98% of the Company's revenues, the Committee believes that at this time, it is in the Company's best interest to create a strong link between executive compensation and the Company's performance under its commercial agreements with DHL Express, Inc. The Summary Compensation Table

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contained in the Proxy Statement details the incentive compensation paid to the named executive officers under the Executive Incentive Plan for 2004 and Airborne, Inc.'s executive incentive compensation plans for 2003 and 2002, during the period the Company was a wholly owned subsidiary of Airborne, Inc.

In early 2005, the Board engaged a national compensation consulting firm to evaluate the overall compensation structure and policies applicable to the Company's executive officers and other members of the senior management group. The consulting firm recommended that the Company supplement its executive compensation program, which now consists of base pay and annual incentive awards under the Executive

Table of Contents

Incentive Plan, with a long-term incentive program that utilizes equity and equity-based awards. Based upon the consulting firm's recommendation, the Board is submitting to the stockholders for approval at this year's annual meeting an omnibus long-term incentive plan. See Proposal 3 Adoption of ABX Air, Inc. 2005 Long-Term Incentive Compensation Plan .

Under Federal income tax rules, the deduction for certain types of compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers of publicly held companies is limited to \$1 million per employee on an annual basis. In certain circumstances, performance based compensation is exempt from the \$1 million limit. The Committee believes that substantially all of the compensation earned by Joseph C. Hete in 2004 will be deductible and that all of the compensation earned by the Company's other executive officers in 2004 will be deductible.

2004 Chief Executive Officer Compensation

The Compensation Committee annually reviews and approves the compensation of Joseph Hete, the Chief Executive Officer of the Company.

The Compensation Committee approved an increase in Mr. Hete's base salary in 2004 of 22%. In setting Mr. Hete's base salary for 2004, the Compensation Committee considered the following factors: the salaries of other CEOs in a comparison group compiled by a national compensation consulting firm, as discussed above, and Mr. Hete's past individual performance and contributions to the continuing success of the Company.

As also discussed above, the Chief Executive Officer's annual cash bonus opportunity under the Executive Incentive Plan, like that of the other executive officers, is based upon the successful attainment of specific performance measures (i.e., the achievement of incremental markups under the Company's ACMI and Hub and Line-Haul Services Agreements with DHL Express, Inc.) and the accomplishment of individual goals. 100% of the CEO's bonus opportunity is based on the achievement of incremental markup under such Agreements. In addition, 25% of the amount that the CEO would otherwise be eligible to receive is also tied to the accomplishment of individual goals. During 2004, the Company met the incremental markup goals established by the Compensation Committee at the beginning of 2004. In addition, the Compensation Committee concluded that Mr. Hete exceeded his individual goals for 2004. These achievements resulted in Mr. Hete receiving, under the terms of the Executive Incentive Plan, a bonus for 2004 that was approximately 118% of his base salary for 2004.

James H. Carey, Chair

John D. Geary

James E. Bushman

Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between the members of the Board or Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. None of the members of the Compensation Committee are officers or employees, or former officers or employees, of the Company or any of its subsidiaries.

Nominating and Governance Committee

The Nominating and Governance Committee is currently composed of James E. Bushman, Chair, John D. Geary, and Jeffrey J. Vorholt. 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 met four times during 2004 and all of the members were present for every meeting.

Table of Contents

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 2005. The Committee's Charter is available at <http://www.abxair.com> and is also included herein as Appendix C.

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 that will be used in connection with evaluating and selecting new directors will include the criteria set forth in the Company's Corporate Governance Guidelines (The Corporate Governance Guidelines are included herein as Appendix D). In addition to the criteria set forth in the Company's Corporate Governance Guidelines, the Nominating and Governance Committee will consider whether the director candidate meets the definition of independence set forth under NASDAQ rules, applicable law and the Company's 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 Code of Conduct for Conducting Business of ABX Air, Inc.

Stockholder Nominees

The Bylaws permit stockholders to nominate directors for consideration at an annual stockholders' meeting. Stockholder nominations to the Board of Directors for the Annual Stockholders' Meeting for 2006 must be forwarded to the Chairman of the Nominating and Governance Committee c/o Company Secretary, ABX Air, 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 anniversary of the annual stockholders' meeting for 2005 (May 5, 2005); provided, however, that in the event the date of the annual stockholders' meeting for 2006 is advanced or delayed by more than 30 days from such 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.

Evaluation of Stockholder Nominees

The policy of the Nominating and Governance Committee is to consider 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 of Directors 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

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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.

Table of Contents

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 CEO, periodic self-evaluations of the Board and committees, and other practices.

The Corporate Governance Guidelines are available at <http://www.abxair.com> and are also included herein as Appendix D.

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 at <http://www.abxair.com> and is also included herein as Appendix E.

Code of Conduct for Conducting Business

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

The Code of Conduct for Conducting Business is available at <http://www.abxair.com> and is also included herein as Appendix F.

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 ABX Air, Inc., 145 Hunter Drive, Wilmington, Ohio 45177. All letters received by the Company and addressed to non-management members of the Board will be logged in by the Secretary of the Company and regularly forwarded to the Chair of the Audit Committee. The Chair of the Audit Committee will deliver a summary of such correspondence to the full Board if he deems it appropriate at its next regularly scheduled meeting. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. 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.

Table of Contents**STOCK OWNERSHIP OF MANAGEMENT**

The following table sets forth information as to the shares of common stock beneficially owned (or deemed to be beneficially owned pursuant to the rules of the SEC) by each director of the Company, by the Chief Executive Officer, and the four other most highly compensated executive officers of the Company at March 15, 2005 (the named executive officers) and by all directors and executive officers as a group:

Name	Common Stock of the Company Beneficially Owned as of 03/15/05	Percentage of Common Stock Outstanding
Directors		
James H. Carey	17,413	*
Jeffrey J. Vorholt	3,500	*
John D. Geary	3,000	*
James E. Bushman	15,000	*
Named Executive Officers		
Joseph C. Hete, President and Chief Executive Officer ¹	136,300	*
Dennis A. Manibusan, Senior Vice President, Maintenance & Engineering	30,604	*
Robert J. Morgenfeld, Senior Vice President, Flight Operations	34,142	*
Thomas W. Poynter, Senior Vice President, Ground Operations	17,506	*
John A. Jessup, Vice President, Materials Management & Contracts	7,223	*
All Directors and Executive Officers as a Group (14 Persons)	342,134	*

* Less than 1% of common stock outstanding.