Anyone who has read about the financial situations in this economy knows that the shipping community is in the doldrums. There isn’t a shipping company who isn’t barely hanging on or worse, close to bankruptcy. For instance Overseas Shipholding Group’s (“OSG”) stock was at $33 per share last April and has been as low as $8 per share. Many other shipping companies are in the same situation. They barely have enough working capital and many of them overcommitted to building more assets than they can now utilize. Trailerbridge, Derecktor, US Shipping Partners, TBS, Genmar and dozens of others have filed for bankruptcy protection or gone under. All of this really goes to show how volatile a business shipping can be.

The first half of a typical recession generally doesn’t affect our business. However, the later part of a typical recession ultimately hits the maritime industry. That is our predicament now. In my experience and from historical knowledge it hasn’t been this bad since the Great Depression of the 1930s. A contributing factor is not just the overbuilding of tugs and barges but also the unanticipated natural gas boom. The use of fossil fuels, which traditionally supports the oil barge industry, has historically increased 2-3% annually. During the last 10 years, that same barging industry increased far in excess of these historical numbers. However, due to the natural gas boom the power plants that burned coal and No. 6 oil have converted to natural gas. Because of this we have seen a collapse in jobs for the tug and barge industry. One such company, K-Sea Transportation, grew too fast and was overcome by debts. Last July, Kirby Corporation bought K-Sea at 50 cents on the dollar. Seaboats also recently sold to Kirby. Others may follow. Kirby was able to acquire these companies because they are primarily a Mississippi River company that wasn’t affected by the downturn of coastal barging.

Due to many of these factors, it has been difficult to negotiate rates with our struggling customers. As difficult as it has been, we have succeeded in keeping our heads above water. Because

(Story continues on next page)
we did not participate in the building frenzy, our debt is lower than many in our market.

There has been a great focus in the media lately on the candidates for the upcoming presidential election. Both Republicans and Democrats envisage that they will succeed in fixing the financial catastrophe facing the nation. However, no matter who wins the election, trying to predict when we will get out of this maelstrom is anyone's guess. But having low debt puts us in an enviable position to ride out this financial storm.

Even through all of this, we’ve continued to move forward with our goals of providing unsurpassed service to our customers. We are in negotiations to acquire one to three Z-drive tractor tugs to augment and strengthen our fleet. We continue to retire some of our older tugs and replace them with high horsepower tugs, specifically those built for shipdocking. I am extremely proud of our efforts as a company during these difficult times. Not only do we want to meet our customer's needs, we also want to recognize you, our dedicated and talented employees, for all of your hard work during these difficult times.

At the end of 2011, we moved our 401 (k) plan to Vanguard. We did so with the intention of increasing your retirement assets through this well regarded program and company. At the end of 2011 in addition to our normal dollar for dollar match (up to $1,000), we provided an additional 45% match from the company. This is one of the largest discretionary matches we have ever made. This is a token of our thanks to you for your efforts in these tough times, and a reflection of our outlook for the future. Thank you all for your continued efforts as we strive to lead the way!

Captain Brian A. McAllister
President

This graph, dated March 23, 2012, clearly shows how the abundance of natural gas has driven its price to historically low levels. In turn the cost of oil has skyrocketed because of its lack of demand.
Ladies, he’s off the market!

We are proud to announce that Vice President and General Manager of McAllister Towing of Charleston, Captain Steve Kicklighter recently tied the knot in Mexico. We’d like to wish Steve and his new bride Terrie a very happy and prosperous future!

For more information on Captain Kicklighter and the Port of Charleston operation please turn to page 10 and read our “Spotlight On” section.

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Photo Contest Winners

Last fall, McAllister had a contest where we asked all of our employees to submit photos for the official 2012 McAllister calendar. We are proud to announce that the following individuals’ photos were chosen for inclusion in this year’s calendar: Deckhand Peter Rodriguez-Portland, Captain Mike Reagoso-Baltimore, Mate Trainee Ken Williamson-Virginia, Captain Glenn Turbeville-Wilmington, Mate James Pontal-Jacksonville, Captain Chuck Runnion-Port Everglades and Administrative Assistant Geraldo Maldonado-San Juan.

Thank you to all who submitted photos and congratulations to the winners. Get a head start on next year’s contest by sending your pictures to Craig Rising at crising@mcallistertowing.com
At the 2010 General Managers Management Review, it was decided to start a competition for the Environmental Stewardship Initiative Award to recognize the individual or group that develops the best environmental initiative. The award was first given collectively to the Baltimore operation, who promptly fabricated a “Clean as a Whistle” trophy using a recycled steam whistle. Baltimore challenged the other ports to try to take their trophy away.

This year, McAllister Towing of Port Everglades, Inc. took home the “Clean as a Whistle” trophy for its numerous efforts in support of the Company’s policy on the environment:

“McAllister is committed to protecting the environment through efficiency, adherence to high standards and responsible stewardship.”

In 2011, Port Everglades excelled on a number of fronts. To begin, Port Everglades scored the highest average score in the 2011 Internal Audit. While the overall average was an 84, Port Everglades blew the competition away with a 96!

While some observers crowed that Port Everglades has the advantage of two relatively new tractor tugs, they did more to earn the award. Port Everglades achieved a number of environmental initiatives in the course of the year including implementing a recycling program for plastics, glass, aluminum and batteries. The crews installed shore power for cold ironing moored tugs. Also, Port Everglades began using ultra low sulfur fuel in all its tugs. This ultra low sulfur fuel costs only 7.6% of revenue. The emissions per tug move from this fuel are the lowest in the company.

Congratulations to the entire Port Everglades crew on a job well done. However, victory may not be theirs for too long; the competition for 2012 is already underway. Can Port Everglades retain the title as champions? Will Baltimore fight to get back on top or will a new winner emerge from the group? Mike Reagoso of Baltimore was very gracious but warns, “Chuck Runnion and his crew had a great list of environmental achievements but he is going to have to do better than that to keep Baltimore from winning the trophy back next year.” Good luck to all in the competition for bragging rights over the Environmental Stewardship Initiative Award for 2012.
In this election year, there is plenty of debate shaping the future of America. Politicians are reaching out to voters across the country to hear their concerns in preparation for November 2012. It is up Americans to help shape this dialog. Email from constituents is an increasingly important aspect of this process. The American Waterways Operators (AWO), the trade association for the tug and barge industry, has adopted a great way to help for you to connect with lawmakers over email to let them know about the issues faced by our industry and how the law affects your job. It is called the BARGE Tool. It is a website that can be found at http://www.capwiz.com/americanwaterways/home/

In the last election, almost 100 new Representatives were elected to the 435 member House. In other words, around 20% of House Members are new to their job. A number of seats also changed hands in the Senate. Many lawmakers are unfamiliar with issues like TWIC Cards, vessel discharge regulation, the Jones Act, or the importance of port infrastructure to trade.

Nothing educates elected officials like hearing about issues from their constituents. So the AWO has launched the BARGE Tool, an automated online tool, to enable people in the maritime industry to easily email elected officials or local media and let them know how you feel about current and proposed laws. The BARGE Tool portion of the AWO web site tracks candidate positions and legislation that would affect the maritime industry, and the AWO’s response. The website also automatically drafts emails on subjects you find to be of interest, addresses it to the elected officials for your jurisdiction, sends off the email, and tracks lawmaker communications for follow up.

(Story continues on page 6)
For instance, right now there is an AWO Action Alert about H.R. 3173 and S. 1966. These proposed bills would eliminate a second trip to a TWIC enrollment center to pick up a TWIC Card. Using the BARGE Tool, you can let all of the elected officials in your area know that you would like to eliminate a second trip to a TWIC Enrollment Center to pick up your TWIC card. As the AWO advocates on this issue, they will be able to bring up the fact that you want these bills to be enacted into law. Congressmen listen to constituents like you because you are a wage-earning, tax-paying voter and this is an election year.

We encourage you to check out the AWO BARGE Tool website and get involved by sending an email to your elected officials. The website is as follows:
http://www.capwiz.com/americanwaterways/home/

**“THE LUCKY BAG”**

By Wayne Stiles

Now that winter is over, unless you are in Portland, I hope a few of you had a "schooner on the rocks" this season. No, it's not a drink. In the old Navy, this is what seamen called a roast of beef surrounded by baked potatoes.

Sometimes there are unpleasant tasks that we must perform, or the "devil to pay". This term has a maritime origin. The "devil" was the longest seam on a wooden ship and caulking was done with "pay" or pitch. This grueling task of "paying the devil" was despised by every seaman and the expression came to denote any unpleasant task.

In the United States, we have a tradition of dropping, or raising, a large object exactly at midnight to ring in the new year. This custom of dropping a ball has a maritime origin as time signals were given to ships in harbor starting in 1859. At exactly noon each day, a large ball was dropped so sailors could check their chronometers.
The following individuals celebrated landmark anniversaries in the second half of 2010 or in 2011. We would like to congratulate and thank them all for their many years of service. Listed below are the individual’s names, years of service and the port/location where they work at McAllister.

<table>
<thead>
<tr>
<th>Years</th>
<th>Names</th>
<th>Port/Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Years</td>
<td>Wayne Stiles, RobRoy MacGregor, Lubomyr Kusznir</td>
<td>17 Battery, Providence, Philadelphia</td>
</tr>
<tr>
<td>25 Years</td>
<td>Brian Fournier, Larry Southerland, Carol Connolly, Harold Jacobsen, Frank Moore, Michael Purce, Mark Soderstrom</td>
<td>Portland, Wilmington, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry</td>
</tr>
<tr>
<td></td>
<td>Michael Williams, Simon Zorovich, Joseph Benton, Matthew Register, William Covert, James Davis, Jr., William Porter</td>
<td>New York, New York, Pennsylvania, Virginia/Wilmington, Charleston, Charleston, Charleston</td>
</tr>
<tr>
<td>20 Years</td>
<td>Thomas Harris, Dean Kinnier, Patrick Kinnier, Gerald Lomonaco, Charles Sheridan, William Wong, Mark Ubil, James Burk, Michael Ring, Ricardo Ramos, Robert Baird, Jr., Kenneth Dixon, Frank Marino, Robin Marino, Thomas Pittagno</td>
<td>New York, New York, New York, New York, New York, New York, Philadelphia, Charleston, Jacksonville, San Juan, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry</td>
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<td></td>
<td>Gary White, Jr., Charles Bishop, Arthur Lavigne, Jr., Danny Still, Matt Kicklighter, Miguel Gonzalez, Pedro Marrero, Richard Becker, Albert Berarducci, Daniel Lage, Maureen McGinn, Justin Mulea, Peter Mulea, Jr., Bryan Powers, Joan Radner, Christopher Tosi, George Werfelman</td>
<td>New York, Jacksonville, Jacksonville, Jacksonville, Port Everglades, San Juan, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry</td>
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<tr>
<td></td>
<td></td>
<td>BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry, BPPJ Ferry</td>
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<tr>
<td>10 Years</td>
<td>Farah Jean, Craig Rising, Tawanna Wooten, Peter Rodriguez, Christopher Baker, Jackie Benton, Dave Brotherson, Sheldon Davis</td>
<td>17 Battery, 17 Battery, Portland, New York, New York, New York, New York, New York</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New York, New York, New York, New York, New York, New York</td>
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In August, 2011, McAllister brought Lieutenant Sara Ellis-Sanborn of the U.S. Coast Guard aboard as part of the Coast Guard’s Industry Training Program. Under this program, the Coast Guard Office of Shore Forces assigns active duty officers to be interns with maritime industry organizations. The program was intended to broaden participants’ perspective by having them observe and work with maritime companies in an operational or technical position. The employer benefits from the intern’s participation in decision making and problem solving relating to business operations and regulations. The intern benefits from better knowledge of current vessel operating practices and perspectives.

Lieutenant Ellis-Sanborn is originally from Kernersville, North Carolina. She has a Bachelors Degree in Geology from UNC-Wilmington and is working on a Masters Degree in Emergency and Disaster Management at the American Military University. She got interested in the Coast Guard while interning at the New Hanover County Department of Emergency Management in Wilmington, North Carolina. Her previous assignments included Coast Guard Headquarters’ Office of Response; Sector New Orleans as a marine inspector; and Marine Safety Unit Cleveland as Chief, Inspections & Investigations Division. This summer, she will return to the Coast Guard, working at the LANTAREA Office of Domestic Planning.

Her time at McAllister of Virginia has been spent serving as a compliance liaison, important work in conjunction with McAllister’s Quality and Safety Management System, the UTV Towing Vessel Bridging Program, and the anticipated requirements of Subchapter M. She researched and provided input on a variety of items, from licensing issues to technical vessel questions. She has helped personnel navigate many credentialing requirements to determine what they actually needed to upgrade their license. In one instance, she solved the mystery of why the National Maritime Center told a mariner to start all over again with his application package, and helped find a solution. She has also assisted with inspecting the Virginia fleet in advance of McAllister’s internal audits, as well as in preparation for Coast Guard exams. As the focus of her training is Investigations, she assumed responsibility for the Virginia fleet’s Root Cause Analysis and Corrective and Preventive Actions effort. Additionally, she created Quick Reference Checklists for local use in the event of a marine casualty or security threat. As someone with Suspension & Revocation experience, she also provided clarification regarding the consequences of failed drug tests. More recently, she has been working with the American Waterways Operators in the application of manning standards on international voyages and Standards of Training, Certification and Watchstanding (STCW) compliance, which is complex to say the least.

During her time at McAllister, Lieutenant Ellis-Sanborn noticed a change in her perspective. When the proposed Subchapter M regulations came out, she assumed that industry would immediately commence efforts to get in compliance. After spending time working on keeping vessels in compliance under existing law, she now sympathizes more with those in the field trying to cope with increased standards. Among those working in the industry, there still is not that much familiarity with the upcoming requirements of the new tugboat inspection regime to be codified in the new Subchapter M. Granted the 75 pages of sometimes repetitive information set forth in the Notice of Proposed

(Story continues on next page)
Rulemaking are not easy to digest, but these regulations will heavily impact the towing industry. Her advice to her new colleagues at McAllister is: “Read them!”

Aside from the NPRM, she also devoted a significant amount of time to researching regulations, policy letters, and Navigation and Inspection Circulars (NVICs) in order to help McAllister resolve operational issues. In this role, she gained an appreciation for how regulations can be complex and contradictory. She now has a much better idea of what it must be like for members of the industry to interpret regulatory requirements on their own. She offers another piece of advice: “If you’re having trouble making sense of what you read, call up a marine inspector or towing vessel examiner whose judgment you trust and ask for clarification. The Coast Guard has a number of people who make the time to sit down with you and go through it.” Good teamwork with the Coast Guard will make sure our operations are as safe, secure and environmentally responsible as possible.

The company thanks Lieutenant Ellis-Sanborn for all her help and wishes her fair winds and following seas in all her future travels.
In continuing our “Spotlight On” section, we are proud to share with you our Charleston, SC operations, McAllister Towing of Charleston, Inc. We hope you enjoy becoming a little more familiar with this port and the outstanding individuals who work there.

Who are the key personnel in Charleston?

<table>
<thead>
<tr>
<th>Name &amp; Position</th>
<th>Date of Hire</th>
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<tbody>
<tr>
<td>Captain Steve Kicklighter – Vice President and General Manager</td>
<td>04/28/1988</td>
</tr>
<tr>
<td>Doug Farthing – Port Engineer</td>
<td>02/05/1988–97</td>
</tr>
<tr>
<td>Captain Russell Mitchum – Senior Docking Pilot</td>
<td>08/27/1987</td>
</tr>
<tr>
<td>Joseph Buckheister – Vice President of Sales (former VP/GM)</td>
<td>10/01/1973</td>
</tr>
<tr>
<td>Karen Kuhn – Office Manager</td>
<td>11/08/2004</td>
</tr>
<tr>
<td>Allen Aden – Health, Safety, Security, Environmental Manager</td>
<td>08/18/1993</td>
</tr>
<tr>
<td>Captain John Bollinger – Captain (Former VP/GM)</td>
<td>02/06/1973</td>
</tr>
</tbody>
</table>

How many employees work at McAllister Towing of Charleston?

There are 3 office people, 4 dispatchers, 2 part-time semi-retired people, 3 “people on the hill” (Doug, Jimmy Lee and Josh Barna), and on the tugs we have 17 crew members and 4 docking pilots. Allen Aden, who works for corporate in the Compliance Department also has his office here.

How long has the company been a part of McAllister?

Joe Buckheister, VP of Sales, recalls that “Brian McAllister completed the acquisition with my late father-in-law, Lewis Seabrook, in early 1988. Marine Contracting and Towing Company (a family owned tug business owned by Lewis and Whitemarsh Seabrook) was one of the two tug companies in Charleston at the time (White Stack Towing being the other). McAllister took Marine Contracting over in February 1988. I was named General Manager at that time. I remained the VP/GM of the Charleston operation until my semi-retirement at the end of 2006. I was replaced by Captain Steve Kicklighter and stayed on with McAllister as the VP of Sales for the South Atlantic Ports. I have no plans of “hanging it up for good” and would like to continue with the company as long as the McAllister family will have me.”

How many tugs are currently in Charleston?

We currently have four tugs. We have two Z-drive tractors, the 5,150 hp PATRICK MCALLISTER, and the 4,000 hp DOROTHY MCALLISTER. Rounding out our fleet are the 3,600 hp twin-screw MCALLISTER BOYS and the recently acquired 3,000 hp single-screw, kort-nozzled, flanking rudder JAMES MCALLISTER.

Any interesting facts about the Port of Charleston?

The history of South Carolina’s ports began with the establishment of an English colony in 1670 at Charles Towne on the Ashley River. While this site offered a high ground for spotting enemies approaching by sea, the shallow creek could accommodate only a few ships at a time. To enhance trade, Charles Towne was moved in 1680 to Oyster Point on the peninsula between the Ashley and Cooper Rivers. The new site was able to accommodate a larger number of ships, and trade, particularly rice and indigo, and soon marked the port as a prosperous locale. Among those that noticed the prosperity were pirates. The most notable, Edward Teach, aka Blackbeard, frequented our waterways.
The Civil War started in Charleston on April 12, 1861. During the war, Charleston's port served as a lifeline to the Confederacy. In order to block the shipments of food, medicine, and other supplies coming in, the Union Navy blockaded the harbor by sinking several large ships in the harbor. The Confederate submarine H.L. Hunley retaliated by sinking the Union ship Housatonic. The Hunley sank during the battle. It was raised in 2000 and McAllister tugs towed the submarine to its current home at the former Navy base.

**What's the best attribute of the port?**
The Port of Charleston is a natural deep-water port, the deepest in the southeast region. It provides quick turnaround times for ships. The transit time to terminals is short and there are very few restrictions.

**What's the worst?**
The worst part is the pop-up thunder squalls and strong currents. Also, summer boat traffic is heavy and poses risks for the commercial ship traffic.

**What changes have you recently seen in the Port of Charleston?**
As far as the port is concerned, there are several projects currently underway. There has been $23 million in upgrades to the Columbus Street terminal. There is a new terminal being built to accommodate the growth of the port at the former Navy base. The harbor deepening project is getting underway so the port can accommodate the larger ships that will be using the Panama Canal once the expansion there is complete. The passenger terminal is being upgraded with a new facility in response to the increase of the cruise industry. All these new projects show Charleston's efforts to meet the needs of customers in the future and the growth of the port.

**What makes Charleston different than other McAllister ports?**
We aren't different in our services but we do offer all of our visitors good old fashioned Southern hospitality. Joe Buckheister is our “Gullah Gourmet” and he often cooks not only for our guests but also our crews. His specialties are shrimp and grits, okra pilau (pronounced per-low) and of course boiled peanuts. Cooking like a true “Southerner” Joe never skimps on his secret ingredient, grease! Not long after Karen Kuhn started working at McAllister, she thought she would impress everyone by making porketta (pork with a secret blend of spices). After the pork cooked all night, Joe was in the galley and saw that Karen was about to throw away the grease from the roast. Joe threw a fit and he had a look on his face like Karen was throwing out gold! He said, “Don't throw that away, with all the seasonings and grease you've got to make greasy rice!” Trust us once you have greasy rice, you'll never want to boil rice in water again! Cooking is one of the ways we enjoy extending our personal Southern touch to everyone that visits or works at McAllister Towing of Charleston.

Charleston has annually been named as one of the Most Polite Cities in America, taking the #1 title on numerous occasions.

**Anything else or anyone else you would like to mention about Charleston and McAllister?**
Of our 33 employees, 13 have been with McAllister for over 20 years and 11 have over 10 years with the company. That is more than 2/3 of our crew and staff. Our crews are professional and take pride in their work and tugs. We work together like a well oiled machine and as a true team!
McAllister Towing
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New York, NY 10004

McAllister Towing’s
“At the Helm”
- Volume 16

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Buckley McAllister, Michael Reagoso,
Peter Rodriguez, Trish Rollins, Capt.
Chuck Runnion, Capt. Jerry Skelton,
Jacqui Warner, Capt. Elliott Westall
and Wayne Stiles.

Just a reminder to keep your stories, photos and
submissions coming. Please send them to Craig Rising
at the 17 Battery Office.