

[For use in Transactions involving U.S.-flag vessels]

COMMITMENT TO GUARANTEE OBLIGATION

by

THE UNITED STATES OF AMERICA

Accepted by

Shipowner

(Under Title XI, Merchant Marine Act, 1936,
as amended, and in effect on the
date of this Guarantee Commitment)

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COMMITMENT TO GUARANTEE OBLIGATION

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THE UNITED STATES OF AMERICA

Accepted by

Shipowner

THIS COMMITMENT TO GUARANTEE Obligation, dated _____ (the "Guarantee Commitment"), made and entered into by the UNITED STATES OF AMERICA (the "United States"), represented by the SECRETARY OF TRANSPORTATION, acting by and through the MARITIME ADMINISTRATOR (the "Secretary"), and accepted on said date by _____, a _____ (the "Shipowner").

RECITALS:

A. The Shipowner is the sole owner of _____ and _____, Vessels built pursuant to the Construction Contract with the Shipyard, _____.

B. To aid in financing the Construction of the Vessels, the Shipowner will borrow an aggregate principal amount equal to, ___% of the Depreciated Actual Cost or Actual Cost of the Vessels, as the case may be, as of the Closing Date. To accomplish such financing, the Shipowner has accepted this Guarantee Commitment subject to the terms and conditions set forth herein.

C. On the Closing Date, the Shipowner shall execute and deliver the Loan Agreement, between it and _____, as Lender, in connection with the issuance of the Obligation relating to the Vessels in the principal amount of \$ _____.

D. As security for the Guarantee, the Shipowner will execute and deliver the Security Agreement, Contract MA-___, the Secretary's Note, the Mortgage, Contract MA-___, the Financial Agreement, Contract MA-___, and the Depository Agreement, Contract MA-___.

WITNESSETH:

That under the provisions of Title XI of the Merchant Marine Act, 1936, as amended and in consideration of (i) the covenants of the Shipowner contained herein and (ii) other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Secretary hereby commits itself as herein provided.

ARTICLE I
Findings and Determinations of Secretary

Pursuant to Section 1104A(b)(1) of Title XI, the Secretary has approved the Shipowner as responsible and possessing the ability, experience, financial resources and other qualifications necessary to the adequate operation and maintenance of the Vessels.

Pursuant to Section 1104A(b)(2) of Title XI, the Secretary has determined that the aggregate of the Depreciated Actual Cost or Actual Cost of the Vessels, as the case may, be is _____. Prior to the Closing Date, the Secretary, in its discretion, may redetermine the Depreciated Actual Cost or Actual Cost of one or more of the Vessels. On the Closing Date, the aggregate principal amount of the Obligation will not exceed ___% of the Depreciated Actual Cost or the Actual Cost, as the case may be.

Pursuant to Sections 1104A(b)(3), 1104A(b)(4) and 1104A(b)(5) of Title XI, the Secretary has determined that: (1) the maturity date of the Obligation is satisfactory, (2) payments of principal required by the Obligation are satisfactory and (3) the interest rate to be borne by the Obligation to be issued on the Closing Date is reasonable.

Pursuant to Section 1104A(d) of Title XI, the Secretary has found that the Shipowner's proposed use of the Vessels will be economically sound.

ARTICLE II
Commitment to Guarantee Obligation

The United States, represented by the Secretary, HEREBY COMMITS ITSELF TO GUARANTEE the payment of the unpaid interest on, and the unpaid balance of the principal of, the Obligation, including interest accruing between the date of default under the Obligation and the payment in full of the Guarantee, and, to effect this Guarantee Commitment, hereby commits itself to execute and deliver the Security Agreement, Financial Agreement, Depository Agreement and the Mortgage on the Closing Date pursuant to the terms of the Guarantee Commitment.

ARTICLE III
The Obligation

The Obligation shall be as provided in the Loan Agreement and in the form of the Obligation annexed as Exhibit 1 to the Loan Agreement. The Obligation shall be subject to all of the terms and conditions set forth in the Loan Agreement.

ARTICLE IV
Conditions to Execution and Delivery of the Guarantee

The obligation of the Secretary to execute and deliver the Guarantee on the Closing Date shall be subject to the following conditions unless waived in writing by the Secretary:

- (a) the Closing Date shall occur on or prior to _____;
- (b) the Shipowner and the Shipyard shall have executed and delivered to the Secretary a copy of the Construction Contract and the Shipyard shall have executed the Consent of Shipyard.
- (c) the Shipowner shall have executed and delivered the following documents in the form attached hereto: the Security Agreement, Mortgage, Financial Agreement, Loan Agreement, Secretary's Note, Depository Agreement and Obligation;
- (d) the Lender shall have executed, in the form attached hereto, the Loan Agreement and the Depository shall have executed the Depository Agreement;
- (e) the following documents shall have been delivered to the Secretary: (i) two executed counterparts of the Loan Agreement, (ii) two specimen copies of the Obligation; (iii) two executed originals of the legal opinion issued under section (k) of this Article; (iii) two originals of all other documents delivered by the Shipowner, Lender or the Depository in connection with this Closing.
- (f) if the Shipowner intends to operate any of the Vessels in the U.S. domestic trade, the Shipowner and any bareboat charterers of such Vessels shall have furnished to the Secretary on the Closing Date an affidavit complying with the requirements of 46 CFR 355, demonstrating U.S. citizenship;
- (g) the Shipowner shall have executed an Officer's Certificate representing and warranting the truth of the following statements as of the Closing Date:
- (i) each of the representations and warranties set out at Section 2.01 of the General Provisions of the Security Agreement in Appendix III; and
- (ii) the Shipowner is not in violation of any Federal laws having a substantial adverse effect on the interests of the United States of America and that the consummation of the Commitment complies with non-Title XI Federal law.
- (h) the Secretary shall have received the Guarantee Fee payable under Section 1104A (e) of Title XI and the Investigation Fee, due under Section 1104A (f) of Title XI.
- (i) the Shipowner shall have complied in all material respects with its agreements under this Guarantee Commitment;
- (j) there shall not have occurred any event which constitutes (or after any period of time or any notice, or both, would constitute) a "Default" under the Security Agreement;
- (k) there shall have been delivered to the Secretary by the Shipowner an opinion of counsel acceptable to the Secretary, in the form annexed hereto as Schedule 1 which shall include, among other things, an opinion to the effect that: (i) by the terms of the Security Agreement, the Shipowner has granted to the Secretary a fully perfected, first priority security interest in each of the

assets which constitutes the Security; and (ii) all filings, recordings, notices and other actions required to perfect the Secretary's interests in the Security and to render such security interests valid and enforceable under applicable State law have been duly effected;

(l) the Secretary shall have received a letter agreement from the Shipowner to provide the Secretary within a reasonable time after the Closing Date, with eight conformed copies of the Guarantee Commitment and each of the Appendices and Exhibits thereto executed on or prior to such date;

(m) on the Closing Date, the qualifying requirements set forth in Section 11 of the Financial Agreement shall have been complied with and certified to as required therein;

(n) at least ten days prior to the Closing Date, there shall have been delivered to the Secretary, pro forma balance sheets for the Shipowner as of the Closing Date, certified by an officer of the Shipowner showing, among other things, all non-Title XI debt of the Shipowner;

(o) on the Closing Date, the Shipowner shall certify that all non-Title XI loans to the Shipowner relating to the Vessels have been discharged or subordinated satisfactorily to the Secretary, and

(p) at least ten days prior to the Closing Date, the Shipowner shall have provided the Secretary with satisfactory evidence of marine insurance as required by the Security Agreement.

ARTICLE V

Variation of Guarantee Commitment

No variation from the terms and conditions hereof shall be permitted except pursuant to an amendment executed by the Secretary and the Shipowner.

ARTICLE VI

Termination or Assignment of Guarantee Commitment

This Guarantee Commitment may be terminated and the parties hereto shall have no further rights or obligations hereunder, upon written notice by the Secretary of the termination of the obligations of the United States pursuant to the Shipowner's failure to satisfy one or more conditions set forth in Article V hereof or upon the Secretary's determination, at or before the Closing Date, that (i) the Shipowner is in violation of Federal law and such violation would have a substantial, adverse affect on the interests of the United States of America or (ii) the consummation of the Commitment would violate non-Title XI Federal law. The Shipowner's warranties and representations shall survive the termination of this Agreement and the Secretary's issuance of the Guarantees. This Guarantee Commitment may not be assigned by the Shipowner without the prior written approval of the Secretary and any attempt to do so shall be null and void ab initio.

ARTICLE VII
Miscellaneous

(a) The table of contents and the titles of the Articles are inserted as a matter of convenient reference and shall not be construed as a part of this Guarantee Commitment. This Guarantee Commitment may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

(b) For all purposes of this Guarantee Commitment, unless otherwise expressly provided or unless the context shall otherwise require, capitalized terms used herein shall have the meaning given in Schedule X to the Security Agreement.

IN WITNESS WHEREOF, this Commitment to Guarantee Obligation has been executed by the United States and accepted by the Shipowner, all as of the day and year first above written.

UNITED STATES OF AMERICA,
SECRETARY OF TRANSPORTATION

BY: MARITIME ADMINISTRATION

(SEAL)

BY: _____
Secretary
Maritime Administration

Attest:

Assistant Secretary
Maritime Administration

ACCEPTED BY:

as Shipowner

(SEAL)

BY: _____

Attest:

BY: _____

Secretary of Transportation
Maritime Administration
U.S. Dept. of Transportation
400 Seventh Street, S.W.
Washington, D.C., 20590

Dear Sir:

We have acted as special counsel to _____, a _____ (the "Shipowner"), in connection with the acceptance by the Shipowner of a Commitment to Guarantee Obligation dated _____ (hereinafter called the "Commitment") made by the United States of America (hereinafter called the "United States") and the issuance and sale on the date hereof an aggregate of _____ principal amount of its United States Government Guaranteed Ship Financing Obligation, _____ (hereinafter called the "Obligation") pursuant _____ to the Loan Agreement of even date herewith between it and _____ (the "Lender"), a _____, which Obligation are guaranteed by the execution of the Guarantee of the United States on the Obligation pursuant to Title XI of the Merchant Marine Act, 1936, as amended. Terms used herein in capitalized form not otherwise defined herein are used with the same the meanings as in Schedule X to the Security Agreement entered into on _____ between the Shipowner and Secretary.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the Commitment and the other documents described in paragraph 6 hereof. We have made such independent inquiry into the law and the facts as we have deemed necessary or appropriate for the purposes of this opinion. When in our professional opinion we deemed it appropriate, we have relied upon affidavits and certificates of corporate officers and government officials as to the existence of underlying facts, including, in particular, the Shipowner's affidavit of citizenship dated the date hereof and the certificate of no liens on the Vessel of the Shipowner dated the date hereof.

In expressing this opinion, please note that we are admitted to practice only in the _____, and we do not purport to be experts on the law of any jurisdiction other than the _____, the corporate law of the _____, and the Federal laws of the United States.

This opinion is also limited in the following respects:

(a) Any opinion concerning the legality, validity and binding effect of any agreement or instrument with respect to the Shipowner is based on the assumption that such agreement constitutes or will constitute a legal, valid and binding agreement of the other parties thereto; (b) With respect to any opinion pertaining to the enforceability of an agreement or instrument, no opinion is expressed as to the availability of any specific remedy in an action of an equitable nature that any court, other governmental authority or arbitrator may grant, impose or render; (c) We have assumed the genuineness of all signatures and the authenticity of all instruments submitted to us as originals and the conformity with the originals of all instruments submitted to us as copies; (d) This opinion is limited, as to the enforceability of any agreement or instrument, by applicable bankruptcy,

reorganization, insolvency, moratorium or other similar laws of general application relating to or affecting the enforceability of creditors' rights from time to time in effect.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Shipowner is a corporation duly organized, validly existing and in good standing under the laws of the _____, and is "a citizen of the United States" within the meaning of Section 2 of the Shipping Act 1916, as amended, for the purpose of operating the _____ official No. _____ ("Vessel") in the coastwise trade of the United States;

2. The Shipowner has legal power and authority to own and operate the Vessel in the trade in which it is proposed to be operated;

3. The Shipowner is the sole owner of the whole of the Vessel, free and clear of all claims, liens, charges, rights in rem, mortgages, security interests or other encumbrances except the Mortgage dated _____, and except for such claims, liens, charges, rights in rem, mortgages, security interests or other encumbrances created or expressly permitted by the Security Agreement. To the extent that this opinion relates to freedom and clearances of claims, liens, mortgages, or other encumbrances of any character on the Vessel, we have reasonably relied on the certificates as to such matters, dated the date hereof, from the Shipowner and the United States Coast Guard;

4. The Security as defined in the Special Provisions of the Security Agreement, to the extent stated in the Security Agreement and the security interests granted by to the Financial Agreement have each been duly and validly granted, and assigned by the Shipowner to the Secretary under the Security Agreement and the Financial Agreement;

5. The Vessel has been duly documented in the name of the Shipowner under the laws of the United States of America, and the Mortgage as amended has been duly recorded in the appropriate office of the United States Coast Guard at _____, _____ (the only office in which such recording is necessary) and the Mortgage constitutes a first "Preferred Ship Mortgage" as to the Vessel under Chapter 313 of Title 46 of the United States Code having the effect and with the priority provided therein and no re-recording is presently required to maintain the preferred status of the Mortgage;

6. The Shipowner has full corporate power and authority and full power and authority under any applicable statute, law or governmental regulation to sell the Obligation issued on the date hereof and to enter into and carry out the terms of the Commitment, Obligation, Loan Agreement, Security Agreement, Secretary's Note, Mortgage, Financial Agreement, and the Depository Agreement;

7. The execution and delivery by the Shipowner, as the case may be, of the agreements referred to in paragraph 6 hereof, consummation by the Shipowner of the transactions contemplated thereby and compliance by it with all the provisions of each of the agreements to which it is a party

referred to in paragraph 6 will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, or (except as contemplated thereby) result in the creation or imposition of any lien, charge or encumbrance upon any of the property or assets of the Shipowner pursuant to the terms of, any indenture, mortgage, deed or trust, loan agreement or other agreement or instrument known to us to which either is a party or by which either is bound or to which any of their property or assets is subject (except as intended by the agreements executed in connection with the within transaction), nor will such action result in a violation of the provisions of the Certificate of Incorporation or By-laws of the Shipowner or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Shipowner or any of its respective properties;

8. Each and all of the agreements and instruments referred to in paragraph 6 to which the Shipowner is a party have been duly authorized by the Shipowner and said agreements and instruments have been duly executed and delivered and constitute legal, valid and binding obligations of the Shipowner enforceable against the Shipowner according to their terms;

9. The Obligation (including the Guarantee) is the subject of a private placement, and, accordingly, it is not necessary to register the Obligation (or the Guarantee) under the Securities Act of 1933, as amended;

10. No consent, approval, authorization, order, registration or qualification of or with, or notice to, any court or any governmental agency or body, of which we have knowledge, is required for the issue and sale of the Obligation or the consummation by the Shipowner of the other transactions contemplated by any of the agreements or instruments referred to in paragraph 6 hereof, except such as have been duly obtained, effected, or given and such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Obligation;

11. All filings and recordings (including, without being limited to, all filings of financing statements under the Uniform Commercial Code) under the laws of the state of _____ (AUCC@) have been duly effected to perfect the collateral security interests granted by the Granting Clauses of the Security Agreement in the Security described in said clauses to make such collateral security interests valid and enforceable under the laws of the state of _____ and such security interests constitute first perfected security interests under the _____ UCC entitled to the benefits thereunder and having the effect and with the priority provided therein. No periodic re-filing or periodic re-recording is required to protect and preserve such security interests, except that continuation statements must be filed within six (6) months prior to the expiration of the effective periods following the respective dates of filing of the financing statements originally filed in the state of _____ and subsequent continuation statements must be filed within six (6) months prior to the expiration of such subsequent effective period;

12. In addition, the Depository Agreement together with the Financial Agreement provides sufficient control to the Depository acting as a securities intermediary, as that term is defined under Section 8-102(a)(14) of the UCC, to perfect the Secretary's security interest in the Securities

Accounts and the Financial Assets credited thereto. Upon the delivery of any Financial Assets to the Depository, the Secretary will thereafter have security interests in said Securities Accounts and the Financial Assets credited thereto which will constitute first, perfected security interests under those laws. No filing is required to protect and preserve such security interest.

The opinions expressed in paragraphs 11 and 12 are qualified to the extent that:

a) We have reasonably relied on the searches of _____ copies of which are attached, as to the fact that there had been no prior filings, except in favor of the Secretary; b) The Secretary's remedies under the Depository Agreement and the Security Agreement are exercised in a commercially reasonable manner; and c) Our opinion that the Secretary's security interests are first is rendered in reliance on the aforesaid searches and on the assumption that all funds or other property deposited by the Shipowner in the Securities Accounts are free of any prior lien or security interest.

13. To the best of our knowledge, after due inquiry, there is no action, suit, proceeding or investigation pending or threatened before any court, administrative agency, arbitrator or governmental body against, or which directly relates to, the Shipowner which concerns the documents referred to in paragraph 6 or which, if adversely determined, could adversely effect the compliance by the Shipowner with any of the foregoing documents, agreements and instruments to which it is a party.

Very truly yours,

By:_____

LOAN AGREEMENT

This Loan Agreement dated _____ between _____ a _____ (the “Shipowner”) and _____, a _____ (the “Lender”).

RECITALS:

A. The Shipowner is the sole owner of the Vessels built pursuant to certain construction contracts with _____.

B. To aid in financing the construction of the Vessels, the Shipowner desires to borrow hereunder a principal amount equal to, ___% of the depreciated actual cost or actual cost of the Vessels, as the case may be, on the Closing Date.

C. Subject to the conditions and limitations set forth herein, the Lender desires to make a loan (the “Loan”) to the Shipowner in the principal amount of _____ (the “Loan Amount”).

D. The Secretary has agreed to execute and deliver to the Lender the Guarantee under Title XI of the Act to guarantee the principal and interest payable on the Obligation.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

**ARTICLE I
PRELIMINARY**

SECTION 1.01. Definitions. For the purposes of this Loan Agreement, capitalized terms shall have the meanings specified in Schedule A to this Loan Agreement.

SECTION 1.02. Representations. The Shipowner and the Lender hereby represent and warrant that they have each duly authorized the execution and delivery of this Loan Agreement and that it is a legal, valid, and binding agreement enforceable against each of them in accordance with its terms.

**ARTICLE II
THE LOAN AGREEMENT**

SECTION 2.01. The Loan. Subject to the terms and conditions of this Loan Agreement, the Lender agrees to make the Loan to the Shipowner in the Loan Amount, which shall be disbursed by the Lender directly to the Escrow Fund on the Closing Date.

SECTION 2.02. The Obligation. The duty of the Shipowner to the Lender to repay the Loan Amount and to pay interest thereon at the rate provided for in this Loan Agreement is evidenced by the Obligation. A form of Obligation to be executed by the Shipowner and to bear the Guarantee of the Secretary as indicated thereon is attached hereto as Exhibit A.

SECTION 2.03. Secretary's Guarantee. The principal and interest due under the Obligation shall be guaranteed by the Secretary pursuant to the Act in the manner and to the extent shown on the Guarantee affixed to the Obligation. The Guarantee of the United States extends only to the outstanding principal of the Loan Amount and the accrued but unpaid interest thereon calculated in the manner set forth in Section 3.03.

SECTION 2.04. Maturity Date. The Shipowner shall pay the principal sum of the Loan Amount on the earlier of the ___th anniversary of [a fixed date] or the ___th anniversary of the Delivery Date of the last Vessel.

SECTION 2.05. Fee Agreement. The Shipowner and the Lender have entered into a separate agreement setting forth all charges and costs of the Shipowner in connection with this Loan (the "Fee Agreement"). A true and correct copy of the Fee Agreement executed by the Shipowner and the Lender is attached hereto as Exhibit B. The Fee Agreement may be amended only pursuant to Section 5.05. None of the charges and costs contained in the Fee Agreement or any agreement between the Shipowner and the Lender (other than the Obligation) are guaranteed by the Secretary.

ARTICLE III PAYMENTS

SECTION 3.01. Punctual Payment. The Shipowner shall duly and punctually pay or cause to be paid the principal and interest on the Loan Amount in accordance with the terms of this Loan Agreement and the Obligation.

SECTION 3.02. Principal. Installment payments of the principal amount due under the Obligation in the amount of \$ _____ each, with a final payment of \$ _____ on the Maturity Date shall be payable in lawful money of the United States of America, semiannually commencing six months after the earlier of _____ or the Delivery Date of the last Vessel.

SECTION 3.03. Interest. Interest on the Loan Amount (calculated on the basis of a 360-day year of twelve 30-day months) shall be payable semiannually at the rate specified in the Obligation and shall be payable in arrears, commencing six months after the issuance of the Obligation with a final payment on the Maturity Date.

SECTION 3.04. Place of Payment. All payments of principal and interest on the Loan Amount shall be made by the Shipowner to the Lender in immediately available funds at the Lenders _____ office at the address set forth in Section 5.01 hereof.

SECTION 3.05. Application of Payments. The Lender shall apply any payments received by it with respect to the Obligations from whatever source in the following order of priority: (i) interest due under the Obligations; (ii) installments of principal due under the Obligations; and (iii) to premiums due under the Obligation..

SECTION 3.06. Payments During Default. Upon the occurrence of a Default, the Lender shall hold any payments it receives from or on behalf of the Shipowner with respect to this Agreement , the Fee Agreement, and any related agreement (excluding principal and interest payments applied to reduce the Obligation) and shall promptly deliver such payments to the Secretary if the Secretary assumes the Obligations pursuant to Section 4.05 or has been or is subsequently required to honor its Guarantee as a result of said Default. All such amounts received during a Default and delivered to the Secretary in accordance with the preceding sentence shall be applied first to pay, satisfy and discharge all amounts owed by the Shipowner to the Secretary, then to pay, satisfy and discharge any and all amounts owed to the Lender, and then, if any excess remains, to the Shipowner.

SECTION 3.07. Payments Without Premium. There shall be no premium or other charge paid in connection with the following optional and mandatory payments under the Obligations: (a) The mandatory installment payments of principal required by Section 3.02 plus interest accrued thereon as specified in Section 3.03 shall not be subject to any premium; provided, however, that in the event of any special payment pursuant to subsections (c), (d), and (e) below, the principal amount of the Obligation to be paid on each subsequent mandatory installment date shall be reduced by an amount equal to the principal amount of the Obligation retired by reason of such special payments divided by the number of remaining mandatory installment payments scheduled thereafter on the Obligation.

(b) At its option, the Shipowner may pay, on any mandatory installment date, an additional principal amount of the Obligations equal to the amount of the mandatory payments due on that date and before any reduction pursuant to the provision of subsection (a) above. The right to make such optional payment shall not be cumulative. If the Shipowner shall elect to make any such optional payment, the Shipowner shall, at least 30 days but not more than 60 days prior to the date for the mandatory installment payment, deliver to the Lender a notice stating that the Shipowner intends to exercise its rights under this section and specifying the additional amount that will be paid.

(c) The Shipowner and the Secretary may pay, on notice of at least 30 days but not more than 60 days from the Lenders receipt of a notice stating that there will be a payment, on the date specified in the notice, of all or part of the Outstanding Obligation in excess of the amount eligible for guarantee by the United States under Section 1104A(b)(2) of the Act. Upon receipt, the Lender shall apply such payment to reduce the principal amount of the Obligation specified in the notice together with the interest accrued thereon.

(d) The Shipowner and the Secretary may pay, on notice of at least 30 days but not more than

60 days from the Lenders receipt of a notice stating that there will be a payment, on the date specified in the notice, of all or part of the Outstanding Obligation, as a result of (i) an actual, constructive, agreed or compromised total loss of a Vessel, (ii) requisition of title to, or seizure or forfeiture of a Vessel or (iii) termination of a primary Construction Contract. Upon receipt, the Lender shall apply such payment to reduce the principal amount of the Obligation together with the interest accrued thereon.

(e) At any time after the Secretary has assumed the Obligation under Section 4.05 hereof, the Secretary may pay, on notice of at least 30 days but not more than 60 days from the Lenders receipt of a notice stating that there will be a payment, on the date specified in the notice, of all or part of the Outstanding Obligation. Upon receipt, the Lender shall apply such payment to reduce the principal amount of the Obligation together with the interest accrued thereon.

SECTION 3.08. Optional Payments of the Obligation at Premium. At its option, the Shipowner may make payments to reduce the principal of the Obligation, in whole or in part, at any time, together with the interest accrued thereon and the amount of premium specified in the Obligation; provided that, no such payment shall be made prior to ___ years from the date hereof, directly or indirectly with the proceeds of, or in anticipation of, borrowing by or for the account of the Shipowner if such borrowing has an effective interest cost (calculated in accordance with generally accepted financial practice) of less than the rate of interest borne by the Obligation. The Shipowner may make payments to reduce the principal of such Obligation on a date at least 30 days but not more than 60 days from the Lenders receipt of a notice to make such an optional payment and specifying the payment date and the principal amount of the Obligation which the Shipowner intends to pay. If this notice proposes a payment prior to the date specified in this Section, the Shipowner shall include with the notice an officer's certificate, in form and substance satisfactory to the Secretary, stating that the payment complies with the proviso relating to early payments.

SECTION 3.09. Deposit of Payment Moneys. Prior to the opening of business on any date on which a payment is due, the Shipowner shall cause to be deposited with the Lender an amount sufficient for such payment with irrevocable directions to it to so apply the same.

SECTION 3.10. No Set-Off. Each payment or prepayment of principal, interest or other amount payable by the Shipowner under this Loan Agreement and the other Loan documents shall, to the extent permitted by applicable law, be made without set-off, counterclaim or defense of any kind and free and clear of, exempt from, and without deduction for withholding for or on account of, any present or future taxes levied, imposed, collected, withheld or assessed by any governmental entity or any political subdivision or taxing authority thereof.

SECTION 3.11. Adjustments of Payments. If there is an adjustment in principal payments on the Obligation as a result of reductions in the Loan Amount under any provision of the Loan Agreement, the Shipowner shall recompute the remaining mandatory payments pursuant to such provisions and shall, at least 60 days prior to the next mandatory installment date, submit to the Secretary for his review of such recomputation to ascertain compliance with the provisions of this

Loan Agreement, a table of revised mandatory payments on the Obligation reflecting the adjustments made pursuant to such provisions as a result of such payment. Upon advice by the Secretary that he finds such recomputation to comply with such provisions, the Shipowner shall submit said table to the Lender.

SECTION 3.12. Retired or Paid. Whenever the Obligation shall be paid in full, the Lender shall forthwith deliver to the Shipowner and the Secretary a duly executed instrument, in the form submitted to it by the Shipowner and reasonably satisfactory to the Secretary, confirming that the Obligation has been Retired or Paid in full and that the Guarantee is of no further force and effect.

SECTION 3.13. Notice of Payment to the Secretary. On the date of each payment, the Shipowner shall notify the Secretary of the amounts paid, segregated as to principal, interest and premium, if any, together with a copy of the check or appropriate confirmations if the funds have been wired to the Lender. The Lender shall fill out the grid on the Obligation to indicate that payment from the Shipowner was received and the date upon which it was received and the Lender shall forthwith send a copy of the amended grid to the Secretary. The failure of the Lender to fill out the grid, send it to the Secretary, or to fill out the grid accurately shall not be any evidence of whether payment has been received.

ARTICLE IV DEFAULTS

SECTION 4.01. Events of Default. Each of the following events shall constitute a "Default" on the Obligation: (a) a default in the payment of the whole or any part of the principal or interest on the Obligation when the same shall become due and payable whether by reason of maturity, acceleration or otherwise, or any default referred to in Section 4.04 hereof and continuation of any such default for a period of 30 days (a "Payment Default"); or

(b) the Secretary's delivery to the Lender and the Shipowner of a Secretary's Notice.

SECTION 4.02. Remedies. So long as the Guarantee has not terminated under Section 4.06(2) or (4), upon the occurrence of any Default, the Lenders sole remedy under the Obligation shall be to make demand upon the Secretary to pay under the Guarantee pursuant to Section 4.03 hereof. The Lender shall give to the Secretary notice in writing of any event that, with the giving of notice or the lapse of time, or both, would become a Payment Default (unless such default shall have been remedied prior to the giving of such notice).

SECTION 4.03. Demand for Payment of Guaranty. If any Default shall have occurred and be continuing, the Lender may, not later than 60 days from the date of such Default, demand payment by the Secretary of the unpaid interest payable with respect to the Obligation to the date of such payment and the unpaid principal balance of the Obligation, whereupon the entire unpaid principal amount of the Obligation and all unpaid interest thereon shall become due and payable by the Secretary; provided, however, that upon the request of the Secretary, the Holder shall submit the Obligation for cancellation prior to being entitled to receive a payment under the Guarantee; and

provided further that in the case of (i) an assumption under Section 4.05 by the Secretary of the Outstanding Obligations, such demand and the Default under this Loan Agreement shall be of no legal effect or consequence, and (ii) a demand made as a result of a Payment Default, if, prior to the expiration of 30 days from the date of such demand and prior to any payment of the Guarantees by the Secretary, the Secretary shall find, and give written notice to the Shipowner and the Lender to the effect that there was no Payment Default or that such Payment Default was remedied prior to such demand, such demand and the Indenture Default shall be of no legal effect or consequence. In each such case, the Guarantees shall remain in full force and effect.

SECTION 4.04. Rescission of Payments. Notwithstanding any other provision of this Loan Agreement or of the Obligation, in the event that any payment to or on behalf of the Lender of the principal of or interest due under the Obligation, or any portion of any such payment, shall at any time be repaid by the Lender in compliance with a final order of a court of competent jurisdiction pursuant to any provision of the Bankruptcy Code or any Federal Law replacing or superseding such Code, or applicable state law, and regardless of whether there has been any previous Default under this Loan Agreement and any payment pursuant thereto, or whether an instrument satisfying and discharging this Loan Agreement shall have been executed and delivered, (1) such Obligation shall not be deemed to have been Retired or Paid and shall be deemed to be Outstanding, (2) the return of such payment in whole or in part in compliance with the order of such court shall constitute a default in payment of such Obligation within the meaning of Section 4.01(a), which default shall be deemed to have occurred on the date of such repayment and which default, if continued for 30 days, will constitute a Payment Default, (3) the Guarantee of such Obligation and (to the extent necessary to enforce such Obligation and Guarantee) this Loan Agreement shall be in full force and effect, and (4) the Person required to return such payment or portion thereof shall be deemed for all purposes to be a Holder of such Obligation and entitled to enforce such Obligation and Guarantee to the extent of such repayment; provided that, in the event the Guarantee of any Obligation shall have terminated for reasons set forth in Sections 4.06(a)(2) or (a)(4) of this Loan Agreement prior to the aforesaid date of repayment, the provisions of this Section shall not apply to such Obligation.

SECTION 4.05. Assumption of Obligations by Secretary. (a) Notwithstanding anything contained herein, (i) in the event of a Default under this Loan Agreement, the Secretary shall have the right to and may, in his sole discretion assume the rights and obligations of the Shipowner under this Loan Agreement and the Obligations by (i) giving to the Lender on or before the 5th day after the date of the Default under this Loan Agreement, a signed notice stating that it has assumed the Obligation and the Loan Agreement (but not the Fee Agreement or any other agreement between the Shipowner and Lender), and (ii) making any payment of principal or interest which is due under the Obligation.

(b) The Lender and the Shipowner hereby agree that, upon the Lenders receipt of the notice and payments referred to in paragraph (a) of this section, the Secretary's assumption shall, as of the date of the Secretary's execution of the notice, be effective and binding upon the Lender and the Shipowner and their respective successors or assigns without further act or deed. Upon an assumption by the Secretary, the Secretary shall succeed to and be substituted for and may exercise

every right and power of the Shipowner under this Loan Agreement and the Obligation with the same force and effect as if the Secretary has been named as the Shipowner herein and therein. The Secretary may exercise its rights under this section as often as it deems appropriate in its sole discretion.

SECTION 4.06. Termination and Payment of the Guarantees. Except as otherwise provided in Section 4.05, the Guarantee with respect to any Obligation shall only terminate in case of the occurrence of one or more of the following events: (1) Such Obligation shall have been Retired or Paid; (2) The Lender shall have elected by Notice to the Secretary to terminate the Guarantees; (3) Such Guarantee shall have been paid in full in cash by the Secretary; or (4) The Lender shall have failed to demand payment of such Guarantee as provided herein or in such Guarantee or in the Act.

ARTICLE V MISCELLANEOUS

SECTION 5.01. Notices. Except as otherwise expressly provided herein, all notices or other communications to each party hereto shall be in writing addressed to such party at its address indicated below or at such other address as such party may hereafter designate by written notice to the other, and shall be deemed to have been given (a) if sent by hand or courier, when delivered, or (b) if mailed, when deposited in the United States mails, certified and return receipt requested, postage and charges prepaid, or (c) if sent by facsimile, when sent.

Lender:

Shipowner:

Secretary: SECRETARY OF TRANSPORTATION
 c/o Maritime Administrator
 U.S. Department of Transportation
 400 Seventh Street, S.W.
 Washington, D.C. 20590

SECTION 5.02. Successors and Assigns. Subject to Section 5.03 below, this Loan Agreement shall be binding upon and inure to the benefit of the Shipowner and the Lender and their respective successors and assigns; provided, however, that the Shipowner may not transfer or assign its right to borrow or delegate its duties under this Loan Agreement, without the prior written consent of the Lender and the Secretary.

SECTION 5.03. One Holder; Participations. Except as set forth in this section, the Obligation and this Loan Agreement may only be assigned in its entirety and no fractional interests may be sold. There may be no assignment of the rights of the Shipowner without the prior written consent of the Secretary. The right to claim under the Secretary's Guarantee of the Obligation is restricted to the Holder and there shall be only one Holder. The Holder may sell participations in the

Obligation, but only the Holder and not the participants shall have the right to make demand under the Guarantee. The Lender may, at any time, furnish or disclose any financial or other information provided by the Shipowner with respect to the Obligation to any potential or actual purchaser of a participation or other interest in the Obligation.

SECTION 5.04. No Third Parties Benefited Except the Secretary. This Loan Agreement is made and entered into for the sole protection and benefit of the Lender, the Shipowner, the Secretary and their successors and assigns. No other Persons will have any right of action under this Loan Agreement or any right to the Obligation or funds from the Secretary or the Shipowner.

SECTION 5.05. Amendments. This Loan Agreement, the Fee Agreement and the Obligation may not be modified or amended except by a written agreement signed by the parties with the prior written consent of the Secretary.

SECTION 5.06. Approval of Lender. The consent of the Lender shall not be needed for the Secretary and the Shipowner to enter into or amend any agreement issued in connection with this transaction, save for this Loan Agreement, the Obligation and the Guarantee endorsed thereon.

SECTION 5.07. Access to Records and Information. The Lender agrees to: (a) Permit the Secretary, at all reasonable times upon request, to make such reasonable, material and pertinent examinations and audits of its records and books of account and take such information as the Secretary deems reasonable pertaining to the Loan Agreement, the Obligation, and the Guarantees, and all matters related thereto; and

(b) Furnish to the Secretary, promptly upon request, such reasonable, material and pertinent reports, evidence, proof or information, in addition to that furnished under other provisions hereof, bearing on matters pertaining to the Loan Agreement, the Obligations, and the Guarantees, and acts performed by the Lender and Shipowner with respect thereto, as the Secretary may reasonably deem necessary or appropriate.

SECTION 5.08. Counterparts. This Loan Agreement and any attached consents or exhibits requiring signatures may be executed in counterparts, but all counterparts shall constitute one and the same document.

SECTION 5.09. All Exhibits Incorporated by Reference. All exhibits referenced herein are incorporated herein by such reference as is set forth in full.

SECTION 5.10. Changes in Name and Location. The Shipowner and the Bank shall promptly notify each other and the Secretary of any change in their respective names or the location of their respective chief executive offices.

IN WITNESS WHEREOF, the parties hereto have executed this Loan Agreement the day and year first above written.

LENDER:

By: _____

Name: _____

Title: _____

SHIOWNER:

By: _____

Name: _____

Title: _____

Definitions

“**Act**” means the Merchant Marine Act, 1936, as amended.

"**Default**" when used in this Loan Agreement has the meaning attributed in Article IV hereof.

"**Delivery Date**" means the date on which a Vessel is delivered to and accepted by the Shipowner.

“**Escrow Fund**” means the account held by the Secretary, established under Section 1108 of the Act and administered pursuant to Article V of the Security Agreement.

"**Guarantee**" means each, and the "**Guarantees**" means every, guarantee of an Obligation by the United States pursuant to Title XI of the Act.

“**Holder**” means the Lender or its assignee of its rights under the Obligation pursuant to this Loan Agreement.

“**Lender**” means _____

“**Loan**” means the Loan made to the Shipowner by the Lender pursuant to the Guaranteed Loan Agreement between the Shipowner and the Lender.

“**Loan Agreement**” means the Guaranteed Loan Agreement, dated as of the Closing Date, executed by the Shipowner and the Lender and consented to by the Secretary, as originally executed or as modified, amended or supplemented.

“**Loan Amount**” means the principal amount set forth in Recital C of the Loan Agreement.

“**Maturity Date**” means the date by which the principal or the Loan Amount of the Loan Agreement shall be paid in full.

“**Obligation**” means the indebtedness owed by the Shipowner to the Lender bearing a Guarantee.

"**Outstanding**" when used with reference to the Obligation, shall mean the Obligation issued under the Loan Agreement, except: (1) a Retired or Paid Obligation; and (2) an Obligation in lieu of which another Obligation has been issued under the Loan Agreement. An Obligation which is not Outstanding shall not be entitled to any rights or benefits provided in the Loan Agreement.

"**Payment Default**" has the meaning specified in Section 4.01 of the Loan Agreement.

"**Person**" or "**Persons**" means any individual, corporation, partnership, joint venture, association, limited liability company, joint-stock company, trust, unincorporated organization, government, or any agency or political subdivision thereof.

"Retired or Paid," as applied to the Obligation and the indebtedness evidenced thereby, means that the Obligation shall be deemed to have been so retired or paid and shall no longer be entitled to any rights or benefits provided in the Loan Agreement if the Obligation (1) shall have been paid in full or (2) has been cancelled by the Lender; provided that, the foregoing definition is subject to Section 4.04 of the Loan Agreement.

"Secretary" means the Secretary of Transportation or any official or official body from time to time duly authorized to perform the duties and functions of the Secretary of Transportation under Title XI of the Act.

"Secretary's Notice" means a notice from the Secretary to the Lender that a Default, within the meaning of Section 6.01(b) of the Security Agreement has occurred.

"Shipowner" means _____ a _____ corporation, and shall include its successors and assigns.

"Vessel" means each vessel and **"Vessels"** means the vessels, with respect to the (Vessel name), Official Number _____, and (____), Official Number _____, financed with the Obligations.

SPECIMEN OBLIGATION

No.____

\$_____

UNITED STATES GOVERNMENT GUARANTEED SHIP FINANCING OBLIGATION

DUE _____

Issued by

For value received, _____, a _____ (the "Shipowner"), promises to pay _____, a _____ (the "Lender"), at the office of the Lender stated in the Loan Agreement dated _____ between the Shipowner and the Lender, in lawful money of the United States of America, the principal amount of \$ _____ on or before _____, together with interest thereon from the date hereof at the rate of ___% per annum (calculated on the basis of a 360-day year of twelve 30-day months) to be paid semi-annually on _____ and _____ of each year commencing on _____ until such principal sum has been paid. Installment payments of the principal amount due under this Obligation each in the amount of \$ _____ shall be paid on the semi-annual dates specified for the payment of interest with a final payment of \$ _____ on _____. This Obligation is also subject to mandatory and optional prepayment of principal on the terms and conditions specified in Article III of the Loan Agreement. In the event of any prepayments, a new payment schedule shall be prepared in accordance with Section 3.11 of the Loan Agreement.

The Shipowner has issued this Obligation in consideration of the Lenders loan of the Loan Amount set out above. The Lender has made the Loan in consideration of the Secretary's issuance, pursuant to the provisions of Title XI of the Act, of Guarantees of payment of the unpaid interest on and the unpaid balance of the principal amount of this Obligation.

This Obligation is issued pursuant to the provisions of the Loan Agreement and is subject to all the terms of the Loan Agreement to the same extent as if it were set out herein in full. The capitalized terms used in this Obligation have the meaning given to them by Schedule A of the Loan Agreement. Reference is hereby made to the Loan Agreement for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Secretary and the Holder of this Obligation.

After payment of the Guarantee by the Secretary to the Lender, this Obligation shall (1) no longer constitute or represent an obligation of the Shipowner to the Lender, even if it has not been surrendered for cancellation or have been canceled, and (2) not be entitled to any other rights or benefits provided in the Loan Agreement or the Guarantee, save for the provisions of Section 4.04 of the Loan Agreement. So long as the Guarantee is in effect, the Lender shall have no recourse

against the Shipowner, and the Lender shall have no right, title or interest in any collateral or security given by the Shipowner to the Secretary.

No recourse shall be had for the payment of principal of, or the interest or premium (if any) on, this Obligation, or for any claim based hereon or on the Loan Agreement, against any incorporator or any past, present or future subscriber to the capital stock, stockholder, limited partner, member, officer or director of the Shipowner or of any successor company, either directly or indirectly, and all such liability being expressly waived and released by the acceptance of this Obligation and by the terms of the Loan Agreement.

In addition to any other right to prepay this Obligation, the Shipowner may, at its option and subject to the restrictions and limitations of Section 3.08 of the Loan Agreement, make payments to reduce the principal of the Obligation, in whole or in part, at any time, at a price equal to _____% of the principal amount hereof, if redeemed on or prior to _____, and thereafter at the following prices (expressed in percentages of the principal amount), together with the interest accrued thereon to the date fixed for payment:

If Paid During the 12-Months Period Ending on or Prior to: _____	<u>Percentage</u>
--	-------------------

and thereafter to maturity at 100%, provided that, no such payment shall be made prior to _____, directly or indirectly, with the proceeds of, or in anticipation of, borrowing by or for the account of the Shipowner if such borrowing has an effective interest cost (calculated in accordance with generally accepted financial practice) of less than the rate borne by the Obligation.

The Holder may transfer its interests in this Obligation, but only in the manner provided in Section 5.03 of the Loan Agreement. Neither this Obligation nor the Guarantee shall be valid or become obligatory for any purpose until the Secretary shall have fully signed the Guarantee certificate endorsed hereon.

IN WITNESS THEREOF, the Shipowner has caused this Obligation to be signed on this _____ day of _____.

as Shipowner

(SEAL)

BY: _____

Attest:

BY: _____

PAYMENTS ON ACCOUNT OF PRINCIPAL

<u>Payment Date</u>	<u>Amount of Principal Paid</u>	<u>Balance of Principal Unpaid</u>	<u>Authorized Signature</u>
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GUARANTEE OF THE UNITED STATES OF AMERICA

The United States of America, represented by the Secretary of Transportation, acting by and through the Maritime Administrator, pursuant to Title XI of the Merchant Marine Act, 1936, as amended, hereby guarantees to the holder of the Obligation annexed hereto, upon demand of the holder or his agent, payment of the unpaid interest on, and the unpaid balance of the principal of, such Obligation, including interest accruing between the date of default under such Obligation, and the payment in full of the Obligation under this Guarantee. The full faith and credit of the United States of America is pledged to the payment of this Guarantee. The validity of this Guarantee is incontestable in the hands of any holder of such Obligation. Payment of this Guarantee will be made in accordance with the provisions of such Obligation.

UNITED STATES OF AMERICA
SECRETARY OF TRANSPORTATION

(SEAL OF THE DEPARTMENT
OF TRANSPORTATION)

BY: _____
Maritime Administrator

**SECURITY AGREEMENT
SPECIAL PROVISIONS**

THIS SECURITY AGREEMENT, dated _____ (the "Security Agreement"), between _____, a _____ corporation (the "Shipowner") and THE UNITED STATES OF AMERICA (the "United States"), represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary"), pursuant to Title XI of the Act.

RECITALS:

A. The Shipowner is the sole owner of the Vessels (when used collectively and "Vessel" when used singularly) built pursuant to the Construction Contracts with _____ (the "Shipyard") for the [Depreciated] Actual Cost set out in Table A.

B. To aid in financing the Construction of the Vessels, the Shipowner has borrowed an aggregate principal amount equal to ___% of the Depreciated Actual Cost or Actual Cost of the Vessels, as the case may be, as of the Closing Date.

C. To accomplish such financing, the Shipowner has accepted the Secretary's Guarantee Commitment subject to the terms and conditions set forth therein.

D. The Shipowner has entered into the Loan Agreement providing for a loan in the loan amount of \$_____ to be designated "United States Government Guaranteed Ship Financing Obligation" (the "Obligation") having the maturity date and interest rate set forth in the Loan Agreement and the Obligation.

E. On this date, the Secretary has issued a Guarantee of the payment in full of all the unpaid interest to the date of payment, and all the unpaid principal, of such Obligation.

F. In consideration of the Secretary's Guarantee, the Shipowner has executed the Secretary's Note in the amount of the Obligation on the date hereof.

G. As collateral security for the Guarantee and the Secretary's Note, on this date, the Shipowner has executed and delivered the Security Agreement, Contract MA-_____ and the Mortgage, Contract MA-_____ granting the Secretary a security interest in, among other things, the Construction Contracts, the Vessels and certain other property, tangible and intangible, which the Shipowner now has or hereafter will acquire, and all of the proceeds thereof.

H. In connection with the execution and delivery of the Security Agreement, the Shipyard

has executed on this date, the Consent of Shipyard agreeing to the assignment of the Construction Contracts to the Secretary.

I. As further security to the Secretary, the Shipowner has executed on this date the Title XI Reserve Fund and Financial Agreement, Contract MA-_____.

J. In order to implement certain aspects of the transactions contemplated by the Security Agreement and the Financial Agreement, the Secretary, the Shipowner and _____ (the "Depository") have entered into the Depository Agreement, Contract MA-____ on the date hereof.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and in order to provide security to the Secretary for the Secretary's Note provided for herein, the parties hereto hereby agree as follows:

1. Concerning these Special and General Provisions. This Security Agreement shall consist of two parts: the Special Provisions and the General Provisions attached hereto as Exhibit 1 of the Security Agreement and incorporated herein by reference. In the event of any conflict, or inconsistency between the Special Provisions of this Security Agreement and Exhibit 1, said Special Provisions shall control.

2. The following additions, deletions and amendments are hereby made to the Security Agreement:

(a) Concerning Section 2.05

(1) In connection with Section 2.05(b)(3) and the last paragraph of Section 2.05 (e) the maximum amount of self-insurance permitted to the Shipowner under the last paragraph thereof shall be \$_____ on an annual aggregate basis after application of the \$_____ per accident deductible; and

(2) In connection with clause (ii) of the initial paragraph of Section 2.05(c), the Secretary shall permit payment of losses up to the amount of \$_____ to be made directly to the Shipowner under the circumstances specified therein.

(b) Concerning Section 9.01. Subject to Section 9.01 of the Security Agreement, any notice, request, demand, direction, consent, waiver, approval or other communication, when given to a party hereto, shall be addressed to:

Secretary as: SECRETARY OF TRANSPORTATION
c/o Maritime Administrator
U.S. Department of Transportation

400 Seventh Street, S.W.

Washington, D.C. 20590

Shipowner as: _____

(c) Governing Law. This Security Agreement and the rights and obligations of the parties hereto shall be governed by and construed in accordance with U.S. maritime laws, to the extent applicable, and otherwise in accordance with the laws of the State of _____.

IN WITNESS WHEREOF, this Security Agreement has been executed by the parties as of the day and year first written.

SHIPOWNER

(SEAL)
Attest:

BY: _____

UNITED STATES OF AMERICA
SECRETARY OF TRANSPORTATION
MARITIME ADMINISTRATOR

(SEAL)
Attest:

BY: _____

Assistant Secretary
Maritime Administration

EXHIBITS TO THE SECURITY AGREEMENT

- Exhibit 1--General Provisions Incorporated into the Security Agreement by Reference
- Table A of (Depreciated) Actual Cost
- Schedule X - Schedule of Definitions
- Exhibit 2 -- Form of Secretary's Note
- Exhibit 3 -- Form of First Preferred Fleet Mortgage
- Exhibit 4 -- Form of Financial Agreement
- Exhibit 5 -- Form of Consent of Shipyard
- Exhibit 6 -- Form of Construction Contracts
- Exhibit 7 -- Form of Depository Agreement

TABLE A

The aggregate Actual Cost of the Vessels as of the date hereof as determined by the Secretary, namely, (i) the amounts paid by or for the account of the Shipowner as of the date hereof for the Construction of the Vessels, plus (ii) the amount which the Shipowner was on said date obligated under the Construction Contract or otherwise to pay from time to time thereafter for the Construction of the Vessels less the Depreciation of the Vessels as of the date hereof as determined by the Secretary is \$_____, both calculated and itemized for each Vessel as follows:

	<u>Amount Paid</u>	<u>Amount Obligated To be Paid</u>	<u>Total</u>
Contract Price			
Changes and Extras			
Owner Furnished Items			
Engineering & Inspection			
Net Interest During Construction			
Estimated Escalation			
Estimated Guarantee Fee			
Total Actual Cost			
Depreciation from Vessel Delivery date to _____:			
Total Depreciated Actual Cost			

Schedule of Definitions

“**Act**” means the Merchant Marine Act, 1936, as amended and in effect on the Closing Date.

“**Actual Cost**” means the actual cost of a Vessel, as set forth in Table A hereof or as subsequently redetermined by the Secretary pursuant to the Security Agreement and the Act.

“**Audited Financial Statements**” mean the annual audit of Shipowner’s accounts in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants, certified or licensed by a regulatory authority of a state or other political subdivision of the United States, who may be the Shipowner’s regular auditors.

“**Authorized Newspaper**” means The Wall Street Journal or if it ceases to exist, then in such other newspaper as the Secretary may designate.

“**Business Day**” means a day which is not a Saturday, Sunday or a bank holiday under the laws of the United States or the State of _____.

“**Chapter 313**” means the provisions of 46 United States Code Chapter 313, as amended.

“**Classification Society**” means the American Bureau of Shipping or as specified in the Special Provisions hereof, either a member of the International Association of Classification Societies (“IACS”) that has been ISO 9000 series registered or an IACS member that meets the requirements of the International Maritime Organization, is qualified under a Quality Systems Certificate Scheme and recognized by the United States Coast Guard and the Secretary as meeting acceptable standards.

“**Closing Date**” or “**Closing**” means the date when the Security Agreement and Secretary's Note are executed and delivered by the Shipowner.

“**Consent of Shipyard**” means each, and "Consents of Shipyards" means every, document evidencing such Shipyard’s consent to the assignment of a Construction Contract to the Secretary under the Security Agreement as originally executed, modified, amended or supplemented.

“**Construction**” means construction of the Vessels, including designing, inspecting, outfitting and equipping thereof.

"**Construction Contract**" means each, and "**Construction Contracts**" means every, contract relating to the Construction of the Vessels between the Shipowner and the Shipyard, as originally executed or as modified or supplemented pursuant to the applicable provisions thereof.

“**Construction Fund**” has the meaning specified in Article IV of the Security Agreement.

"**Default**" when used in the Security Agreement has the meaning attributed to in Article VI thereof.

"**Delivery Date**" means the date on which a Vessel is delivered to and accepted by the Shipowner.

"**Depository**" shall mean the institution designated in the Depository Agreement or any successor.

"**Depository Agreement**" shall mean the Depository Agreement, Contract No. MA-_____ among the Shipowner, the Secretary and the Depository, as originally executed or as modified or supplemented in accordance with the applicable provisions thereof.

"**Depreciated Actual Cost**" means, with respect to any Vessel, the depreciated actual cost of such Vessel, as redetermined by the Secretary pursuant to the Security Agreement and the Act.

"**Eligible Investment**" has the meaning given by Section 5 of the Financial Agreement.

"**Escrow Fund**" means the account held by the Secretary, established under Section 1108 of the Act and administered pursuant to Article V of the Security Agreement.

"**Financial Agreement**" means the Title XI Reserve Fund and Financial Agreement, Contract No. MA-_____, executed by the Shipowner and the Secretary, as originally executed or as modified, amended or supplemented.

"**Financial Asset**" has the meaning given by Article 8-102(a)(9) of the UCC.

"**Government Use**" means the use of a Vessel or requisition of its title required by any government or governmental body.

"**Guarantee**" means the guarantee of an Obligation by the United States pursuant to Title XI of the Act, as provided in the Loan Agreement and the Obligation.

"**Guarantee Commitment**" means the Commitment to Guarantee Obligations, Contract No. MA-_____, dated as of _____, executed by the Secretary and accepted by the Shipowner relating to the Obligation, as originally executed or as modified, amended or supplemented.

"**Increased Security**" means the Secretary's Note, the Security Agreement, the Vessels, the Security, the Escrow Fund, the Title XI Reserve Fund, the Construction Fund, and the proceeds received by the Secretary pursuant to Section 6.05 of any other security agreement between the Secretary and the Shipowner relating to any vessels financed under the Act, and the Policies of Insurance, and the proceeds of the foregoing.

"**Long Term Debt**" means, as of any date, the total notes, bonds, debentures, equipment obligations and other evidence of indebtedness that would be included in long term debt in accordance with

generally accepted accounting principles. There shall also be included any guarantee or other liability for the debt of any other Person not otherwise included on the balance sheet.

"**Maturity**" when used with respect to any Obligation, means the date on which the principal of such Obligation becomes due and payable as therein provided, whether by payment or declaration of acceleration or otherwise.

"**Maturity Date**" means the date by which the principal or the Loan Amount of the Loan Agreement shall be paid in full.

"**Moneys Due with Respect to Construction of the Vessels**" has the meaning specified in Section 1.03 of the Security Agreement.

"**Mortgage**" means the first preferred fleet mortgage on the Vessels, Contract No. MA-____, by the Shipowner to the Secretary, as originally executed, modified, amended or supplemented.

"**Mortgagee**" means the Secretary, as mortgagee under the Mortgage.

"**Mortgagor**" means the Shipowner, as mortgagor under the Mortgage.

"**Net Worth**" means, as of any date, the total of paid-in capital stock, paid-in surplus, earned surplus and appropriated surplus, and all other amounts that would be included in net worth in accordance with generally accepted accounting principles, but exclusive of (1) any receivables from any stockholder, director, Officer or employee of the Company or from any Related Party (other than current receivables arising out of the ordinary course of business and not outstanding for more than 60 days) and (2) any increment resulting from the reappraisal of assets.

"**Obligation**" means the obligation of the Shipowner bearing a Guarantee executed by the Secretary.

"**Officer's Certificate**" means a certificate conforming to Section 1.02 of the Security Agreement or the Indenture** as the context may require.

"**Outstanding**" when used with reference to the Obligation, shall mean the Obligation theretofore issued under the Loan Agreement, except when the Obligation is Retired or Paid.

"**Payment Default**" has the meaning specified in Section 6.01 of the Security Agreement.

"**Person**" or "**Persons**" means any individual, corporation, partnership, joint venture, association, limited liability company, joint-stock company, trust, unincorporated organization, government, or any agency or political subdivision thereof.

"Policies of Insurance" and **"policies"** means all cover notes, binders, policies of insurance and certificates of entry in a protection and indemnity association, club or syndicate with respect to the Vessel, (including all endorsements and riders thereto), including but not limited to all insurance required under Section 2.05 of the Security Agreement.

"Proportionate Part" means with respect to the item in question, the portion of the item in question, as of the date of any calculation, which bears the same proportion to the entire amount of the item in question as: (x) the Depreciated Actual Cost of the Vessel as of the date of such calculation as it bears to (y) the Depreciated Actual Cost of all the Vessels as of such date (excluding the Depreciated Actual Cost of any Vessel upon which its Obligation has been assumed pursuant to Section 4.05 of the Loan Agreement), all as determined by the Secretary.

"Related Party" means one that can exercise control or significant influence over the management and/or operating policies of another party, to the extent that one of the parties may be prevented from fully pursuing its own separate interests. Related parties consist of all affiliates of an enterprise, including (1) its management and their immediate families, (2) its principal owners and their immediate families, (3) its investments accounted for by the equity method, (4) beneficial employee trusts that are managed by the management of the enterprise, and (5) any party that may, or does, deal with the enterprise and has ownership of, control over, or can significantly influence the management or operating policies of another party to the extent that an arms-length transaction may not be achieved.

"Request" means a written request to a Person for the action therein specified, signed by a Responsible Officer of the Person making such request.

"Responsible Officer" means (1) in the case of any business corporation, the chairman of the board of directors, the president, any vice president, the secretary or assistant secretary, the treasurer or assistant treasurer, and (2) in the case of any commercial bank, the chairman or vice-chairman of the executive committee of the board of directors or trustees, the president, any vice president, the secretary, the treasurer, any trust officer, any executive or senior or second or assistant vice president.

"Retired or Paid," as applied to the Obligation and the indebtedness evidenced thereby, means that the Obligation shall be deemed to have been so retired or paid and shall no longer be entitled to any rights or benefits provided in the Loan Agreement if the Obligation (1) shall have been paid in full or (2) has been cancelled by the Lender; provided that, the foregoing definition is subject to Section 4.04 of the Loan Agreement.

"Rights Under the Construction Contracts and Related Contracts" shall have the meaning specified in Section 1.03 of the Security Agreement.

"**Secretary**" means the Secretary of Transportation or any official or official body from time to time duly authorized to perform the duties and functions of the Secretary of Transportation under Title XI of the Act.

"**Secretary's Note**" means a promissory note or promissory notes issued and delivered by the Shipowner to the Secretary substantially in the form of Exhibit 2 hereof, including any promissory note issued in substitution for, or any endorsement or supplement thereof.

"**Secretary's Notice**" means a notice from the Secretary to the Lender that a Default, within the meaning of Section 6.01(b) of the Security Agreement has occurred.

"**Security**" has the meaning specified in Section 1.03 of the Security Agreement.

"**Securities Account**" has the meaning given by Article 8-501 of the UCC.

"**Securities Intermediary**" has the meaning given by Article 8-102(a)(14) of the UCC and also means the Depository.

"**Security Agreement**" means the security agreement, Contract No. MA-_____, dated as of the Closing Date, consisting of the special provisions, the general provisions and this schedule X, executed by the Shipowner as security for the Secretary, as originally executed or as modified, amended or supplemented.

"**Security Default**" has the meaning specified in Section 6.01 of the Security Agreement.

"**Shipowner**" means _____ a _____ corporation, and shall include its successors and assigns.

"**Shipyard**" means each, and "**Shipyards**" means every, Shipyard identified in Recital A to the Guarantee Commitment.

"**Successor**" means a Person formed by or surviving a consolidation or merger with the Shipowner or to which the Vessels have been sold.

"**Title XI**" means Title XI of the Act.

"**Title XI Reserve Fund**" has the meaning specified in the Financial Agreement.

"**Title XI Reserve Fund and Financial Agreement**" means the Financial Agreement.

"**UCC**" means the Uniform Commercial Code as enacted in the State of _____.

"Vessel" means each vessel and "Vessels" means the vessels, with respect to the (Vessel name), Official Number _____, and (_____), Official Number _____, completed in accordance with the Construction Contract(s), including all work and material heretofore or hereafter performed upon or installed in or placed on board such Vessel(s), together with related appurtenances, additions, improvements, and replacements.

"Working Capital" shall mean the excess of current assets over current liabilities, both determined in accordance with generally accepted accounting principles and adjusted as follows:

(1) In determining current assets, there shall also be deducted: (A) Any securities, obligations or evidence of indebtedness of a Related Party or of any stockholder, director Officer or employee (or any member of his family) of the Company or of such Related Party, except advances to agents required for the normal current operation of the Company's vessels and current receivables arising out of the ordinary course of business and not outstanding for more than 60 days; and (B) An amount equal to any excess of unterminated voyage revenue over unterminated voyage expenses;

(2) In determining current liabilities, there shall be deducted any excess of unterminated voyage expenses over unterminated voyage revenue; and

(3) In determining current liabilities, there shall be added one half of all annual charter hire and other lease obligations (having a term of more than six months) due and payable within the succeeding fiscal year, other than charter hire and such other lease obligations already included and reported as a current liability on the Company's balance sheet.

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ARTICLE I
DEFINITIONS; OFFICER'S CERTIFICATES; GRANTING CLAUSE

SECTION 1.01. Definitions. All capitalized terms used, but not defined herein, shall have the meaning ascribed in Schedule X.

SECTION 1.02. Officer's Certificates. To satisfy a covenant or condition provided for in this Security Agreement, the Responsible Officer of the Person making such Officers Certificate shall certify that the officer (a) has read such covenant or condition; (b) has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to such covenant or condition; and (c) believes to the best of his knowledge that such condition or covenant has been met. An Officer's Certificate shall set forth the pertinent supporting information and shall be subject to the Secretary's review of its adequacy and accuracy.

SECTION 1.03. Granting Clause. (a) In order to create a present security interest in the Secretary, the Shipowner does hereby grant, sell, convey, assign, transfer, mortgage, pledge, set over and confirm unto the Secretary continuing security interests in all of the right, title and interest of the Shipowner in and to all of the following, whether now owned or existing or hereafter arising or acquired:

(1) Each Construction Contract (insofar as it relates to the Construction of a Vessel under its related Construction Contract), together with all other contracts, whether now in existence or hereafter entered into, relating to the Construction of each Vessel. True copies of each Construction Contract have been delivered to the Secretary and said Construction Contracts and a true copy of the form of Consent of Shipyard are incorporated herein by reference. Said right, title and interest in and to the Construction Contracts, and the other contracts conveyed to the Secretary by this subsection are hereinafter referred to collectively as the "Rights Under the Construction and Related Contracts."

(2) The Shipowner's rights to receive all moneys which from time to time may become due to the Shipowner with respect to the Construction of each Vessel regardless of the legal theory by which moneys are recovered. Said right, title and interest in and to the moneys, cash, bonds, claims, and securities conveyed by this subsection are herein referred to collectively as the "Moneys Due with Respect to the Construction of the Vessels." The Secretary acknowledges and agrees that the Moneys Due with Respect to the Construction of the Vessels will be paid directly to the Depository for application in accordance with this Security Agreement and the Loan Agreement.

(3) All goods, whether equipment or inventory appertaining to or relating to each Vessel, whether or not on board or ashore and not covered by the Mortgage, and any charter hire relating to each Vessel.

(4) The Title Reserve Fund and all moneys, instruments, negotiable documents, chattel paper, and proceeds thereof currently on deposit or hereafter deposited in the Title XI Reserve Fund.

(5) The Construction Fund and all moneys, instruments, negotiable documents, chattel paper and proceeds, etc.

(6) All moneys, instruments, negotiable documents, chattel paper and proceeds thereof held by the Depository under the Depository Agreement.

(7) Proceeds of Policies of Insurance relating to each Vessel and, whether or not insured, any general average claims or loss of hire claims Shipowner may have with respect to each Vessel.

(8) All proceeds of the collateral described in paragraphs (1) through (7) of this section.

The Secretary shall have, upon execution and delivery thereof, as further security, certain right, title and interest in and to the following:

(9) The Mortgage, to be executed and delivered by the Shipowner to the Secretary, as mortgagee, on the date hereof, covering each Vessel.

(b) The right, title and interest of the Secretary pursuant to Section 1.03(a) is herein, collectively, called the "Security." The Secretary shall hold the Security as collateral security for all of the obligations and liabilities of the Shipowner under the Secretary's Note and as collateral security for and with respect to the Guarantee whether now made or hereafter entered into.

(c) Notwithstanding paragraphs (a) and (b) of this section, (1) the Shipowner shall remain liable to perform its obligations under each Construction Contract and the above-mentioned other contracts; (2) the Secretary shall not, by virtue of this Security Agreement, have any obligations under any of the documents referred to in clause (1) or be required to make any payment owing by the Shipowner thereunder; and (3) if there is no existing Default, the Shipowner shall (subject to the rights of the Secretary hereunder) be entitled to exercise all of its rights under each of the documents referred to in this section and shall be entitled to receive all of the benefits accruing to it thereunder as if paragraphs (a) and (b) of this section were not applicable.

(d) The Shipowner hereby agrees with the Secretary that the Security is to be held by the Secretary subject to the further agreements and conditions set forth herein.

ARTICLE II
SHIPOWNER'S REPRESENTATIONS AND AGREEMENTS

The Shipowner hereby represents and agrees, so long as this Security Agreement shall not have been discharged, as follows:

SECTION 2.01. Shipowner's Representations, Agreements, Organization and Existence.

(a) General Representations. The Shipowner hereby represents and warrants that the following are true statements as of the date hereof and further warrants that they shall remain true thereafter:

(1) The Shipowner is duly organized, validly existing and in good standing under the laws of the jurisdiction designated in the initial paragraph of the Special Provisions hereof and shall maintain such corporate existence. The Shipowner has not failed to qualify to do business in any jurisdiction in the United States in which its business or properties require such qualification, and had and has full legal right, corporate power and authority to own its own properties and assets and conduct its business as it is presently conducted;

(2) the Shipowner had and has legal power and authority to enter into and carry out the terms of the Guarantee Commitment, the Construction Contract, the Obligation, Loan

Agreement, Security Agreement, Secretary's Note, Mortgage, Financial Agreement, and Depository Agreement (the "Documents");

(3) each of the Documents has been duly authorized, executed and delivered by the Shipowner and constitutes, in accordance with its respective terms, legal, valid and binding instruments enforceable against the Shipowner, except to the extent limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws of general application relating to or affecting the enforcement of creditors rights as from time to time in effect;

(4) the consummation of the transactions contemplated by and compliance by the Shipowner of all the terms and provisions of the Documents will not violate any provisions of the formation documents of the Shipowner and will not result in a breach of the terms and provisions of, or constitute a default under any other agreement or undertaking by the Shipowner or by which the Shipowner is bound or any order of any court or administrative agency entered into in any proceedings to which the Shipowner is or has been a party; and

(5) there is no litigation, proceeding or investigation pending or, to the best of the Shipowner's knowledge, threatened, involving the Shipowner or any of its property which could prevent or jeopardize the performance by the Shipowner of its obligations under the Documents;

(b) Shipowner's United States Citizenship. The Shipowner is a citizen of the United States within the meaning of Section 2 of the Shipping Act, 1916, as amended, and shall remain such a citizen for operation in the trades in which the Shipowner proposes to operate the Vessels and in the

event the Shipowner shall cease to be such a citizen, the Shipowner shall notify the Secretary immediately of such fact.

(c) Taxes. The Shipowner has paid or caused to be paid all taxes assessed against it, unless the same are being contested in good faith or an authorized extension of time has been granted.

SECTION 2.02. Covenants Concerning the Vessel. (a) Title to and Possession of the Vessels. On the date of this Security Agreement, the Shipowner represents and warrants that it lawfully owns each Vessel free from any liens, encumbrances, security interests, charges, or rights in rem (subject only to (1) the equity of the Shipyard under the Construction Contract, if any, (2) liens on any undelivered Vessel which the Shipyard is obligated to discharge under the Construction Contract, (3) any security interest subordinated to the Secretary's security interest permitted under the Special Provisions hereof, (4) the Secretary's rights hereunder and (5) the liens permitted by paragraph (d)(3) of this section. The Shipowner shall, for the Secretary's benefit, warrant and defend the title to, and possession of, each Vessel and every part thereof against the claims and demands of all Persons whomsoever.

(b) Sale, Mortgage, Transfer or Charter of the Vessels. (1) The Shipowner shall not, without the Secretary's prior written consent, sell, mortgage, demise charter or transfer any Vessel to any Person (or charter the Vessel to a Related Party under any form of charter).

(2) The Shipowner hereby covenants that: (A) it will not enter into any time charter of the Vessels in excess of six months unless the time charter contains the following provision, At This time charter is subject to each of the rights and remedies of the Secretary of Transportation and has been assigned to the Secretary under a Security Agreement and Mortgage, each executed by the Shipowner in favor of the Secretary with respect to the Vessels being chartered. and (B) it shall, within 10 calendar days of entering into any time charter in excess of six months, transmit a copy of the time charter to the Secretary.

(c) Taxes and Governmental Charges. The Shipowner shall pay and discharge, or cause to be paid and discharged, on or before the same shall become delinquent, all taxes, assessments, government charges, fines and penalties lawfully imposed upon each Vessel, unless the same are being contested in good faith.

(d) Liens. (1) As a condition precedent to each payment by the Shipowner under the Construction Contract, the Shipowner shall require an Officer's Certificate from the Shipyard stating that once the Shipyard receives said payment, there will be no liens or rights in rem against the respective Vessel. At the Delivery Date of each Vessel, the Shipowner and the Shipyard shall provide an Officer's Certificate stating that there are no liens or rights in rem against the respective Vessel except for the Mortgage.

(2) After the Delivery Date of each Vessel, the Shipowner shall satisfy, or cause to be satisfied, within 30 days of its knowledge thereof, any lien or encumbrance or right in rem which shall be filed against such Vessel unless the same is being contested in good faith; and

(3) Neither the Shipowner, any charterer, the master of any Vessel, nor any other Person has or shall have any right, power or authority, without the Secretary's prior written consent, to create, incur or permit to be placed or imposed on any Vessel any lien, encumbrance, security interest, charge, or rights in rem, and statutory liens incident to current operations unless such statutory liens are subordinate to the Mortgage.

(e) Compliance with Applicable Laws. The Shipowner shall be in compliance with all applicable U.S. laws, including but not limited to U.S. maritime law. In addition, each Vessel (1) is designed to meet, and on the Delivery Date thereof and at all times thereafter shall meet all requirements of applicable laws, treaties and conventions, and of applicable rules and regulations thereunder, and (2) shall have on board valid certificates showing compliance therewith; provided that the foregoing shall not apply if (A) the Vessel is in Government Use; (B) there has been an actual or constructive total loss or an agreed or compromised total loss of such Vessel; or (C) there has been any other loss with respect to such Vessel and the Shipowner shall not have had a reasonable time to repair the same.

(f) Vessels Operation. Except when the Vessel is in Government Use, the Shipowner shall not (1) cause or permit the Vessels to be operated in any manner contrary to law or to any lawful rules or regulations of the Maritime Administration, (2) remove or attempt to remove the Vessels beyond the limits of the United States without the Secretary's prior written consent except on voyages with the intention of returning to the United States, or (3) abandon such Vessels in any foreign port unless there has been an actual or constructive total loss or an agreed or compromised total loss of any of the Vessels.

(g) Vessels Condition and Maintenance. (1) Each Vessel shall be constructed, maintained and operated so as to meet, at all times, the highest classification, certification, rating and inspection standards for Vessels of the same age and type as may be imposed by the Classification Society; provided that, the foregoing shall not apply if the Vessel has been (i) under Government Use, (ii) an actual or constructive total loss or an agreed or compromised total loss of such Vessel, or (iii) any other loss with respect to such Vessel and the Shipowner shall not have had a reasonable time to repair the same;

(2) On the Delivery Date of each Vessel, the Shipowner shall furnish to the Secretary an Interim Class Certificate issued for each such Vessel by the Classification Society and promptly after the Delivery Date of each Vessel, furnish to the Secretary a Certificate of Class with respect to such Vessel issued by the Classification Society. Subsequently, the Shipowner shall annually (A) furnish to the Secretary a Certificate of Confirmation of Class issued by the Classification Society showing that the above-mentioned classification and rating have been retained for each Vessel and (B) furnish to the Secretary copies of all Classification Society reports, including periodic and damage

surveys for each Vessel; provided that, the foregoing shall not apply if the Vessel is in Government Use and the governmental body does not permit classification and rating of the Vessel.

(3) Notwithstanding paragraph (2) of this subsection, if the Vessel is a barge which is not classed, then the Shipowner shall, at all times, at its own cost and expense maintain and preserve each Vessel, so far as may be practicable, in at least as good order and condition, ordinary wear and tear excepted, as at the Delivery Date of such Vessel, and shall perform or cause to be performed at least once every five years and at any other time reasonably required by the Secretary, a survey and inspection of the Vessels by an independent marine surveyor approved by the Secretary; and provided that, no such surveys will be required within the last three years prior to the Maturity Date of the Obligation. The Shipowner shall furnish two copies of the report of such independent marine surveyor to the Secretary within 15 days of such survey and inspection. The Shipowner shall deliver to the Secretary annually an Officer's Certificate stating the condition and maintenance of each Vessel; provided further, that none of this Section shall apply when the Vessel is in Government Use.

(h) Material Changes in the Vessels. After the Delivery Date of any undelivered Vessel or the Closing Date of any already delivered Vessel, the Shipowner shall not make, or permit to be made, any material change in the structure, means of propulsion, type or speed of such Vessel or in its rig, without the Secretary's prior written consent.

(i) Documentation of the Vessels. Upon the Delivery Date and thereafter, each Vessel shall be and shall remain documented under the laws of the United States of America.

SECTION 2.03. Maintenance of Construction Contract. (a) The Construction Contract shall be maintained in full force and effect insofar as it relates to the due performance by the Shipowner and the Shipyard of all their respective obligations thereunder and the Shipowner shall not, without the Secretary's prior written consent, amend, modify or terminate the Construction Contract or consent to any change in the Construction Contract which releases the Shipyard from its obligations to comply with the provisions of the Construction Contract or any applicable laws, treaties, conventions, rules and regulations; provided that, the Secretary's prior written consent shall not be necessary, but prompt written notice to the Secretary shall be given for (1) any mandatory or regulatory change to the Construction Contract as a result of any requirements of any governmental agency, or (2) any non-mandatory changes that Shipyard and Shipowner desire to make which do not exceed, with respect to any item of the Vessels construction, one (1%) percent of the Vessels Contract Price and which do not, in the aggregate, cause the Vessels Contract Price to be increased more than five (5%) percent or the delivery and completion date of the Vessel to be extended more than ten (10) days. Notwithstanding the foregoing, no change shall be made in the general dimensions and/or characteristics of the Vessels which changes the capacity of the Vessels to perform as originally intended by the Construction Contract without the Secretary's prior written consent. The Secretary will nonetheless retain its authority to review work done under a change order to ascertain whether the work should be included in Actual Cost and whether the price charged is fair and reasonable.

(b) Notwithstanding anything to the contrary contained in the Construction Contract or herein, no changes to the payment milestones and disbursement schedules shall be made without the Secretary's prior written consent, except to the extent reasonably required to reflect the change orders under paragraph (a) of this section.

SECTION 2.04. Delivery Requirements. At or prior to the Delivery Date, the Shipowner shall have:

(a) documented the Vessel under the laws of the United States with the United States Coast Guard;

(b) executed and delivered to the Secretary the Mortgage (or Mortgage Supplement) substantially in the form of Exhibit 3 annexed hereto;

(c) recorded the Mortgage (or, if appropriate, a Mortgage Supplement) in the National Vessel Documentation Center of the United States Coast Guard, or its successor;

(d) delivered to the Secretary an Officer's Certificate (1) from the Shipowner and the Shipyard certifying that the Vessel is free of any claim, lien, charge, mortgage, or other encumbrance of any character except as permitted under Section 2.02(d); (2) certifying that there has not occurred and is not then continuing any event which constitutes (or after any period of time or any notice, or both, would constitute) a default under the Security Agreement; (3) that the marine insurance as required under Section 2.05 will be in full force and effect at the time of Vessel delivery; (4) certifying that the Vessel was constructed substantially in accordance with the plans and specifications of the Construction Contract; (5) certifying that there have been no unusual occurrences (or a full description of such occurrences, if any) which would adversely affect the condition of the delivered Vessel.

(e) delivered to the Secretary (1) an opinion of counsel substantially in the form of Exhibit A to the form of Mortgage; and (2) a certificate of delivery and acceptance from the Shipowner and the Shipyard to the Secretary with respect to the delivered Vessel;

SECTION 2.05. Insurance. (a) Prior to the Delivery Date of each Vessel, the Shipowner shall, without cost to the Secretary or, with respect to war risk builder's risk insurance mentioned below, without cost to the Shipyard, cause each Vessel to be insured as provided in the Construction Contract and as contemplated by the Consent of Shipyard; provided that, the insurance required by this section shall be approved by the Secretary.

(b) Upon the Delivery Date of each Vessel and at all times thereafter, the Shipowner shall, without cost to the Secretary, keep such Vessel insured as indicated below and with such additional insurance as may be specified by the Secretary in an amount in U.S. dollars equal to 110% of the unpaid principal amount of the Proportionate Part** of the Secretary's Note, or such greater sum, up to and including the full commercial value of such Vessel as may be required by the Secretary.

The Shipowner shall provide 30 days prior written notice to the Secretary of all insurance renewals.

(1) Marine and war risk hull insurance under the latest (at the time of issue of the policies in question) forms of American Institute of Marine Underwriters' policies approved by the Secretary and/or policies issued by or for the Maritime Administration (or under such other forms of policies as the Secretary may approve in writing) insuring such Vessel against the usual risks covered by such forms (including, at the Shipowner's option, such amounts of increased value and other forms of "total loss only" insurance as are permitted by said hull insurance policies); and

(2) While any Vessel is laid up, at the Shipowner's option and in lieu of the above-mentioned marine and war risk hull insurance or marine and war risk hull and increased value insurance, port risk insurance under the latest (at the time of issue of the policies in question) forms of American Institute of Marine Underwriters' policies approved by the Secretary and/or policies issued by or for the Maritime Administration (or under such other forms of policies as the Secretary may approve in writing) insuring such Vessel against the usual risks covered by such forms.

(3) Notwithstanding the foregoing, the Shipowner, with the Secretary's prior written consent, shall have the right to self-insure up to the amount specified in the Special Provisions hereof for any loss resulting from any one accident or occurrence (other than an actual or constructive total loss of any Vessel).

(c) All policies of insurance under this section shall provide, so long as this Security Agreement has not been discharged, that payment of all losses shall be made payable to the Secretary for distribution by him to himself, the Shipowner and (in the case of the insurance required by paragraph (a) of this section) the Shipyard, except that (i) under the policies required by paragraph (b) of this section and (ii) as provided in paragraph (e) of this section, payment of all losses up to the amount specified in the Special Provisions hereof by all insurance underwriters with respect to any one accident, occurrence or event may be made directly to the Shipowner unless there is an existing Default, or if the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation and made any payments in default under the terms of Section 4.05 of the Loan Agreement, in which event payment of all losses shall be made payable to the Secretary as aforesaid.

Any such insurance recoveries to which the Secretary shall be so entitled shall be applied as follows:

(1) In the event that insurance becomes payable under said policies on account of an accident, occurrence or event not resulting in an actual or constructive total loss or an agreed or compromised total loss of any Vessel, the Secretary shall (A) if there is no existing Default and if none of the events described in Section 2.07 has occurred, in accordance with a Shipowner's Request, pay, or consent that the underwriters pay, direct for repairs, liabilities, salvage claims or other charges and expenses (including sue and labor charges due or paid by the Shipowner) covered by the policies, or (to the extent that, as stated in an Officer's Certificate delivered to the Secretary, accompanied by

written confirmation by the underwriter or a surveyor or adjuster, the damage shall have been repaired and the cost thereof paid of such liabilities, salvage claims, or other charges and expenses discharged or paid) reimburse, or consent that the underwriters reimburse, the Shipowner therefor and (after all known damage with respect to the particular loss shall have been repaired, except to the extent the Shipowner, with the Secretary's written consent, deems the said repair inadvisable, and all known costs, liabilities, salvage claims, charges and expenses, covered by the policies, with respect to such loss shall have been discharged or paid, as stated in an Officer's Certificate delivered to the Secretary, accompanied by written confirmation by the underwriters or a surveyor or adjuster) pay, or consent that the underwriters pay, any balance to the Shipowner; or (B) if there is an existing Default, in accordance with a Request of Shipowner, pay, or consent that the underwriters pay, direct for the Shipowner's proportion of such repairs, liabilities, salvage claims or other charges and expenses (including sue and labor charges due or paid by the Shipowner) covered by the policies and hold any balance until the same may be paid or applied under clause (A),(C) or (D) of this subsection, whichever is applicable; or (C) if the Guarantee shall have terminated pursuant to Section 3.02(c) or if the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation and made any payments in default under the terms of Section 4.05 of the Loan Agreement and none of the events described in Section 2.07 has occurred, apply the insurance as provided in Section 6.05; or (D) if the Guarantee shall have terminated pursuant to Section 3.02(b) or (d), pay the insurance to the Shipowner;

(2) In the event of an accident, occurrence or event resulting in an actual or constructive total loss of any Vessel prior to the Delivery Date of such Vessel, the Shipowner shall forthwith deposit with the Secretary any insurance moneys which the Shipowner receives on account thereof under policies of insurance required by paragraph (a) of this section, and any such insurance moneys shall be held by the Secretary for 10 days (or such lesser or further time as the Shipowner and the Secretary may agree upon). Upon the expiration of said period of time, (A) if there is no existing Default and if the Shipowner, the Shipyard and the Secretary shall have elected not to construct such Vessel under the Construction Contract, then said insurance moneys shall be applied, to the extent necessary and required pursuant to Section 2.07; or (B) if there is no existing Default and if the Shipowner, the Shipyard and the Secretary shall not have made the election contemplated by the foregoing clause (A) of this subsection, then said insurance moneys (together with the Shipowner's funds to the extent, if any, required by the Secretary for deposit on account of interest under clause (ii) below) shall be deposited in the Escrow Fund, in such amount and to the extent available, so that the moneys in the Escrow Fund after such deposit shall be equal to (i) the principal amount of the Proportionate Part of the Obligation relating to such Vessel at the time of such deposit and (ii) such interest on said deposit, if any, as may be required by the Secretary (said moneys to be subject to withdrawal in the same manner as moneys originally deposited in said Escrow Fund); and the balance, if any, of such insurance moneys held by the Secretary shall be paid to the Shipowner; and

(3) In the event of an accident, occurrence or event resulting in an actual or constructive total loss or an agreed or compromised total loss of any Vessel, whether prior to or after the Delivery Date of such Vessel, and the insurance moneys have not been applied as provided in paragraph (c)(2) of this section, the Shipowner shall forthwith deposit with the Secretary any

insurance moneys which the Shipowner receives on account thereof under policies of insurance required by this Section, and any such insurance moneys received by the Secretary, whether from the Shipowner or otherwise, or held by the Secretary pursuant to paragraph (c)(2) of this section, shall (A) if there is no existing Default, be applied, to the extent necessary, pursuant to Section 2.07; (B) if there is an existing Security Default, be held until the same may be applied under clauses (A), (C) or (D) of this subsection, whichever is applicable; (C) if the Guarantee shall have terminated pursuant to Section 3.02(c) or if the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation and made any payments in default under the terms of Section 4.05 of the Loan Agreement, be applied as provided in Section 6.05; provided that, notwithstanding the foregoing clauses (A), (B), and (C) of this subsection, the Shipowner shall not be required to so deposit with the Secretary insurance moneys in an amount which, together with funds otherwise available for the payment of the Obligation is in excess of that required for the payment of the Proportionate Part of the Obligation pursuant to Section 3.08 of the Loan Agreement and for the payment to the Secretary of a Proportionate Part of all other sums that may be secured by this Security Agreement and the Mortgage; or (D) if the Guarantee shall have terminated pursuant to Section 3.02(b) or 3.02(d), be paid to the Shipowner.

(d) In the event of an accident, occurrence or event resulting in a constructive total loss of any Vessel, the Secretary shall have the right (with the prior written consent of the Shipowner, unless there is an existing Default, and at any time prior to the Delivery Date of such Vessel also with the prior written consent of the Shipyard) to claim for a constructive total loss of such Vessel. If (1) such claim is accepted by all underwriters under all policies then in force as to such Vessel under which payment is due for total loss and (2) payment in full is made in cash under such policies to the Secretary, then the Secretary shall have the right to abandon such Vessel to the underwriters of such policies, free from the lien of this Security Agreement and the Mortgage.

(e) Commencing on the Delivery Date of each Vessel, the Shipowner shall, without cost to the Secretary, keep each such Vessel insured against marine and war risk protection and indemnity risks and liabilities by policies of insurance approved by the Secretary as to form and amount; provided that, (1) the Shipowner shall, as soon as possible after such Delivery Date, present any such policy to the Secretary (who shall promptly approve or disapprove the same), (2) any approval of a policy under this subsection shall be effective until the end of the policy period or until 60 days after the Secretary shall notify the Shipowner of a desired change in the form and/or amount thereof, whichever shall first occur, and (3) war protection and indemnity insurance shall be required unless the Secretary gives written notice to the Shipowner stating that such insurance is not required.

Such policies may provide that (1) if the Shipowner shall not have incurred the loss, damage, or expense in question, any loss under such insurance may be paid directly to the Person to whom any liability covered by such policies has been incurred (whether or not a Default then exists), and (2) if the Shipowner shall have incurred the loss, damage or expense in question, any such loss shall be paid to the Shipowner in reimbursement if there is no existing Default of which the underwriter has written notice from the Shipowner or the Secretary, or, if there is such an existing Default, to the Secretary to be held and applied as follows: (A) applied as provided in Section 6.05 in the event the Guarantee

shall have terminated pursuant to Section 3.02(c) or if the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation and made any payments in default under the terms of Section 4.05 of the Loan Agreement, or (B) to the extent not theretofore applied pursuant to Section 6.05, paid forthwith to the Shipowner upon its Request in the event there is no existing Default or the Guarantee shall have terminated pursuant to Section 3.02(b) or (d) at the date of delivery of such Request; provided that, irrespective of the foregoing, with the Secretary's prior written consent, the Shipowner shall have the right to self-insure in an amount up to the limit specified in the Special Provisions hereof with respect to each accident, occurrence or event, except that, with respect to cargo or property carried, the Shipowner, with the Secretary's prior written consent, shall have the right to self-insure in an amount up to the limit specified in the Special Provisions hereof with respect to each cargo or property carried.

(f) All insurance required under this Section shall be placed and kept with the United States Government or with American and/or British (and/or other foreign, if permitted by the Secretary in writing) insurance companies, underwriters' association or underwriting funds approved by the Secretary. All insurance required under this section shall be arranged through marine insurance brokers and/or underwriting agents as chosen by the Shipowner and approved by the Secretary.

(g) The Secretary shall not have the right to enter into an agreement or compromise providing for an agreed or compromised total loss of any Vessel without prior written consent of (i) the Shipyard (prior to the Delivery Date of such Vessel) and (ii) (unless there is an existing Default) the Shipowner. If (1) the Shipowner shall have given prior consent thereto or (2) there is an existing Default, the Secretary shall have the right in his discretion, and with the prior written consent of the Shipyard prior to the Delivery Date of such Vessel, to enter into an agreement or compromise providing for an agreed or compromised total loss of such Vessel; provided that, if the aggregate amount payable to the Shipowner and/or the Secretary under such agreement or compromise, together with funds held by the Secretary and available for the payment of the Obligation, is not sufficient to pay the Proportionate Part of the Obligation pursuant to Section 2.07, the Secretary shall not enter into such agreement or compromise without the Shipowner's prior written consent.

(h) During the continuance of (1) a taking or requisition of the use of any Vessel by any government or governmental body, or (2) a charter, with the Secretary's prior written consent, of the use of any Vessel by the United States Government or by any governmental body of the United States, or by any other government or governmental body, the provisions of this Section shall be deemed to have been complied with in all respects if such government or governmental body shall have agreed to reimburse, in a manner approved by the Secretary in writing, the Shipowner for loss or damage covered by the insurance required hereunder or resulting from the risks under paragraphs (a), (b) and (e) of this section or if the Shipowner shall be entitled to just compensation therefor. In addition, the provisions of this Section shall be deemed to have been complied with in all respects during any period after (A) title to any Vessel shall have been taken or requisitioned by any government or governmental body or (B) there shall have been an actual or constructive total loss or an agreed or compromised total loss of any Vessel. In the event of any taking, requisition, charter or loss contemplated by this paragraph, the Shipowner shall promptly furnish to the Secretary an

Officer's Certificate stating that such taking, requisition, charter or loss has occurred and, if there shall have been a taking, requisition or charter of the use of any Vessel, that the government or governmental body in question has agreed to reimburse the Shipowner, in a manner approved by the Secretary, for loss or damage resulting from the risks under paragraphs (a), (b) and (e) of this Section or that the Shipowner is entitled to just compensation therefor.

(i) All insurance required (A) under paragraph (a) of this section shall be taken out in the names of the Shipowner, the United States and the Shipyard as assureds, and (B) under paragraphs (b) and (e) of this section shall be taken out in the names of the Shipowner and the United States as assureds. All policies for such insurance so taken out shall, unless otherwise consented to by the Secretary, provide that (1) there shall be no recourse against the United States for the payment of premiums or commissions, (2) if such policies provide for the payment of club calls, assessments or advances, there shall be no recourse against the United States for the payment thereof, and (3) at least 10 days' prior written notice of any cancellation for the nonpayment of premiums, commissions, club calls, assessments or advances shall be given to the Secretary by the insurance underwriters.

(j) The Shipowner shall not, without the Secretary's prior written consent, (1) do any act, nor voluntarily suffer or permit any act to be done, whereby any insurance required by this Section shall or may be suspended, impaired or defeated or (2) suffer or permit any Vessel to engage in any voyage or to carry any cargo not permitted under the policies of insurance then in effect without first covering such Vessel with insurance satisfactory in all respects for such voyage or the carriage of such cargo; provided that, this paragraph shall be subject to the requirements of any military authority of the United States and shall not apply in the case of such Vessel if and so long as the title or use of such Vessel shall have been taken, requisitioned or chartered by any government or governmental body as contemplated by Section 2.07.

(k) In the event that any claim or lien is asserted against any Vessel for loss, damage or expense which is covered by insurance hereunder and it is necessary for the Shipowner to obtain a bond or supply other security to prevent arrest of such Vessel or to release such Vessel from arrest on account of said claim or lien, the Secretary, on the Shipowner's Request, may, at the Secretary's sole option, assign to any Person executing a surety or guaranty bond or other agreement to save or release such Vessel from such arrest, all right, title and interest of the Secretary in and to said insurance covering such loss, damage or expense as collateral security to indemnify against liability under said bond or other agreement.

(l) Except as the Secretary shall otherwise direct by notice in writing to the Shipowner, the Shipowner shall deliver to the Secretary the original policies evidencing insurance maintained under this Section; provided that, if any such original policy shall have been delivered previously to the Secretary or to a mortgagee by the Shipowner under another ship mortgage of the Shipowner, the Shipowner shall deliver a duplicate or pro forma copy of such policy to the Secretary. The Secretary or any agent thereof (who may also be an agent of the issuer) shall at all times hold the policies delivered as aforesaid; provided that, if one or more of said policies are held by an agent of the Secretary, the Shipowner shall, upon the Secretary's request, deliver a duplicate or pro forma copy

thereof to the Secretary, and provided further, that if the Shipowner shall deliver to the Secretary a Request (1) stating that delivery of such policy to the insurer is necessary in connection with the collection, enforcement or settlement of any claim thereunder (including claims for return premiums and any other amounts payable by the insurer) and (2) setting forth the name and address of the Person to whom such policy is to be delivered or mailed for such purpose, and if the Secretary approves such Request, the Secretary shall, at the Shipowner's expense, deliver or mail (by registered or certified mail, postage prepaid) such policy in accordance with such Request, accompanied by a written direction to the recipient to redeliver such policy directly to the Secretary or an agent thereof when it has served the purpose for which so delivered. The Shipowner agrees that, in case it shall at any time so cause the delivery or mailing of any policy to any Person as aforesaid, the Shipowner will cause such policy to be promptly redelivered to the Secretary or an agent thereof as aforesaid. The Secretary shall have no duty to see to the redelivery of such policy, but shall have the duty to request the redelivery thereof at intervals of 60 days thereafter.

(m) Nothing in this section shall limit the insurance coverage which the Secretary may require under any contract or agreement to which the Secretary and the Shipowner are parties.

The requirements of this section are expressly subject to the Special Provisions of this Security Agreement.

SECTION 2.06. Inspection of the Vessels; Examination of Shipowner's Records. The Shipowner will: (a) afford the Secretary, upon reasonable notice, access to the Vessels, their cargoes and papers for the purpose of inspecting the same; (b) maintain records of all amounts paid or obligated to be paid by or for the account of the Shipowner for each Vessels Construction; and (c) at reasonable times permit the Secretary, upon request, to make reasonable, material and pertinent examination and audit of books, records and accounts maintained by the Shipowner, and to take information therefrom and make transcripts or copies thereof.

SECTION 2.07. Requisition of Title, Termination of Construction Contract or Total Loss of a Vessel. In the event of requisition of title to or seizure or forfeiture of such Vessel, termination of the Construction Contract relating to such Vessel, or the occurrence of the circumstances referred to in Section 2.05(c)(3), then all of the following shall apply:

(a) The Shipowner shall promptly give written notice thereof to the Secretary.

(b) The Shipowner shall promptly pay all amounts it receives by reason of such requisition, seizure, forfeiture, termination or total loss ("Loss Event") to the Secretary.

(c) After the Secretary has received sufficient funds to retire a Proportionate Part of the Obligation affected by the Loss Event:

(1) if there is no existing Default, (A) the Secretary and the Shipowner shall give notice to the Lender for a payment of the Proportionate Part of the Obligation pursuant to Section

3.08 of the Loan Agreement, (B) such amount, if any, held by the Secretary, shall be paid by the Secretary to the Lender not earlier than 10 days prior to, nor later than the opening of business on, the payment date required by Section 3.08 of the Loan Agreement, (C) the remainder shall next be applied by the Secretary for the payment of a Proportionate Part of all other sums that may be secured hereby, and (D) the balance shall be paid to the Shipowner including any interest earned on the proceeds which are in excess of the amount required to pay-off the Obligation;

(2) if there is an existing Default and the Guarantee shall not have terminated pursuant to Section 3.02, such amounts shall be held until the same may be applied or paid under paragraphs (1), (3), or (4) of this subsection, whichever is applicable;

(3) if the Guarantee shall have terminated pursuant to Section 3.02(c) or if the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation and made any payments in default under the terms of Section 4.05 of the Loan Agreement, such amounts shall be applied as provided in Section 6.05; or

(4) if the Guarantee shall have terminated pursuant to Section 3.02(b) or 3.02(d) such amounts shall be paid by the Secretary to the Shipowner.

Provided that, notwithstanding the foregoing, the Shipowner shall not be required to pay the Secretary any amount which the Secretary agrees is in excess of the amount needed for the payment of the Proportionate Part of the Obligation affected by the Loss Event.

SECTION 2.08. Notice of Mortgage. (a) A properly certified copy of the Mortgage shall be carried on board each self-propelled Vessel with that Vessel's documents and shall be exhibited on demand to any Person having business with such Vessel or to any Secretary's representative.

(b) A notice printed in plain type of such size that the paragraph of reading matter shall cover a space not less than six inches wide by nine inches high, and framed, shall be placed and kept prominently exhibited in the chart room and in the master's cabin of a self-propelled Vessel.

(c) The notice referred to in paragraph (b) of this section shall read as follows:

"NOTICE OF FLEET MORTGAGE

This Vessel is owned by (Insert name of Shipowner), a (Insert jurisdiction) corporation ("Shipowner"), and is covered by a First Preferred Ship Mortgage in favor of the United States of America, under authority of Chapter 313, Title 46 of the United States Code. Under the terms of said Mortgage neither the Shipowner, any charterer, the master or agent of this Vessel nor any other person has any right, power or authority to create, incur or permit to be placed or imposed upon this Vessel any lien other than statutory liens incident to current operations that are subordinate to the Mortgage."

SECTION 2.09. Compliance with 46 U.S.C. Chapter 313. The Shipowner shall comply with and satisfy all of the provisions of Chapter 313, in order to establish and thereafter to maintain the Mortgage as a preferred mortgage upon each Vessel.

SECTION 2.10. Performance of Shipowner's Agreements by the Secretary. If the Shipowner shall fail to perform any of its agreements hereunder or under the Mortgage, the Secretary may, in his discretion, at any time during the continuance of an event which by itself, with the passage of time, or the giving of notice, would constitute a Default, perform all acts and make all necessary expenditures to remedy such failure. Notwithstanding the foregoing, the Secretary shall not be obligated to (and shall not be liable for his failure to) perform such acts and make such expenditures. All funds advanced and expenses and damages incurred by the Secretary relating to such compliance shall constitute a debt due from the Shipowner to the Secretary and shall be secured hereunder and under the Mortgage prior to the Secretary's Note and shall be repaid by the Shipowner upon demand, together with interest at the rate that would have been paid by the Department of Treasury on the expended funds plus 1%.

SECTION 2.11. Uniform Commercial Code Filings; Further Assurances. The Shipowner shall (a) furnish evidence satisfactory to the Secretary that financing statements under the Uniform Commercial Code shall have been filed against the Shipowner and/or the Shipyard in all offices in which it may be necessary or advisable in the opinion of the Secretary to perfect the Secretary's security interests, and (b) from time to time execute and deliver such further instruments and take such action as may reasonably be required to more effectively subject the Security to the lien of this Security Agreement and the Mortgage as contemplated thereby, including but not limited to, legal opinions from an independent counsel for the Shipowner to the effect that all Uniform Commercial Code Financing Statements have been filed to perfect the Secretary's interests in the Security as valid and enforceable first priority perfected security interests.

SECTION 2.12. Modification of Formation Agreements. (a) If the Shipowner is organized as a general partnership, limited partnership, limited liability company or joint venture, then for so long as there is Outstanding any indebtedness to the United States of America pursuant to the Act, the partnership agreement, operating agreement, limited liability agreement, joint venture agreement (or any agreement constituting such an entity) shall not be amended, modified or voluntarily terminated without the Secretary's prior written consent.

(b) In the event where any action by the Shipowner, any member of the Shipowner or the management of the Shipowner results or would result in dissolution of the Shipowner pursuant to its limited liability company agreement or governing law, each member of the Shipowner shall forthwith take all steps necessary to reform and reestablish the Shipowner.

SECTION 2.13. Members of Limited Liability Companies. All existing and future members of a Shipowner which is a limited liability company (each being a "Member"), upon becoming a Member, shall forthwith enter into an agreement with the Secretary, in form and substance satisfactory to the Secretary, whereby each Member agrees: (1) that any amounts owed by the Shipowner to a Member with respect to its interest (as that or the equivalent term is used in the Shipowner's limited liability company agreement) (the "Distributions") shall be subordinated to the Shipowner's payment of the Secretary's Note and debts under the Security Agreement, provided that such Distributions may be paid to the extent the Shipowner is permitted to pay dividends under the Financial Agreement; (2) that in the event of default by the Shipowner under the Security Agreement, the Member shall be subordinated in its rights to receive any Distribution or to be paid any sums whatsoever by the Shipowner until the Secretary has made a full recovery of any and all amounts owed under the Secretary's Note and the Security Agreement.

SECTION 2.14. Concerning the Performance and Payment Bonds. During the Construction, the Shipowner shall cause to be maintained Performance Bonds and Payment Bonds naming the Shipowner and the Secretary as co-obligees (the "Surety Bonds") in form and substance satisfactory to the Secretary, to be obtained by the Shipyard in the amount of the Construction Contract, issued by such surety company or companies as shall be satisfactory to the Secretary (the "Surety"). In the event that the price for the work to be performed under the Construction Contract is increased, then the Surety Bonds shall be increased simultaneously in a corresponding amount. The Shipowner hereby agrees that the Secretary shall be the sole loss payee under the Surety Bonds and the Surety shall pay such amounts directly to the Secretary for distribution to the co-obligees as their interests may appear. The Shipowner hereby agrees that its interest as a co-obligee under each of the Surety Bonds is and shall be, upon the occurrence of a Default under the Security Agreement, fully subject and subordinate to the rights and interests of the Secretary therein. In the event of a default under the Security Agreement, which default results in a payment under any of the Surety Bonds, then the Surety Bonds proceeds shall be distributed by the Secretary in accordance with the provisions of Section 6.05 hereof. The Shipowner hereby irrevocably appoints the Secretary, the true and lawful attorney of the Shipowner, in its name and stead, to execute all consents, approvals, settlements and agreements on behalf of the Shipowner with respect to any rights related to the Surety Bonds.

SECTION 2.15. Concerning Payment of Lenders Fees. The Shipowner shall pay all fees and expenses due and payable to the Lender pursuant to the terms of the Loan Agreement and Fee Agreement within 45 days after the Shipowner shall have been invoiced for said fees and expenses unless the same are disputed in good faith in the Secretary's sole discretion.

ARTICLE III THE SECRETARY'S NOTE

SECTION 3.01. Secretary's Note. On this date, the Shipowner has duly executed and delivered and the Secretary has accepted the Secretary's Note payable in an amount equal to the principal amount of the Obligation. The Secretary's Note shall terminate according to its terms.

SECTION 3.02. Termination of the Guarantee. Except as provided in Section 4.04 of the Loan Agreement, the Guarantee with respect to the Obligation, shall terminate only when, one or more of the following events shall occur:

(a) Such Obligation shall have been Retired or Paid;

(b) The Holder of the Obligation shall have elected to terminate the Guarantee, and the Secretary has been so notified by the Holder in writing; provided that, such termination shall not prejudice any rights accruing hereunder prior to such termination;

(c) Such Guarantee shall have been paid in full in cash by the Secretary; or

(d) The Holder shall have failed to demand payment of the Guarantee as provided in the Loan Agreement.

SECTION 3.03. Execution of Additional Secretary's Note Upon Subsequent Issue of Obligation. (a) In the event and when each new issue of an Obligation is executed and delivered on a date or dates subsequent to the date hereof, as contemplated by, and pursuant to the Loan Agreement:

(1) the Shipowner shall, at the time of the issuance of such Obligation, execute and deliver to the Secretary an additional Secretary's Note or, at the Secretary's discretion, an endorsement to the Secretary's Note in an amount equal to the principal amount of, and at the interest rate borne by, such issue of Obligation, on the terms stated in the Secretary's Note; and

(2) the Shipowner and the Secretary shall execute an instrument amending or supplementing the Mortgage if then in effect (or the form of the Mortgage, if not in effect) to the extent necessary to evidence such additional Secretary's Note or endorsement.

(b) Each Secretary's Note or endorsement executed and delivered in accordance with Section 3.03 shall together with the Secretary's Note be secured by this Security Agreement and the Mortgage.

ARTICLE IV CONSTRUCTION FUND; MONEYS DUE WITH RESPECT TO CONSTRUCTION OF THE VESSELS

SECTION 4.01. Construction Fund. (a) The Shipowner has deposited in the Construction Fund with the Depository the amount, if any, indicated in the Depository Agreement from the proceeds of the Obligation to be held by the Depository in a Securities Account in accordance with the terms of the Depository Agreement. This Securities Account together with any future deposits

and the proceeds from the investment of the amounts on deposit shall be called the “Construction Fund.”

(b) The Shipowner may withdraw money from the Construction Fund under the same procedures and conditions as the Shipowner may withdraw money from the Escrow Fund under Section 5.03, except that the Shipowner’s Request for withdrawal will not be subject to Section 5.03(a)(2)(A) or 5.03(h). The administration of the Construction Fund shall also be subject to the terms and conditions of Sections 5.04 and 5.05.

SECTION 4.02. Moneys Due with Respect to Construction of the Vessels. (a) In the event that the Shipowner shall receive any moneys from any Person in connection with the Construction of any Vessel, the Shipowner shall give written notice thereof to the Secretary and shall promptly pay the same over to the Depository to be held in the Title XI Reserve Fund.

(b) Upon and after a final determination of Actual Cost in accordance with Section 5.01, in the absence of a Default, any moneys held by the Depository which are not to be applied for the payment of the Obligation under Section 3.12 of the Loan Agreement shall be paid to the Shipowner.

(c) In the event there is an existing Default, the money shall be held by the Depository.

(d) In the event the Secretary assumes the Shipowner's rights and duties under Section 4.05 of the Loan Agreement or pays the Guarantee, the Depository shall promptly pay all moneys including all Moneys Due with Respect to Construction of the Vessels to the Secretary, who will apply it in accordance with Section 6.05.

ARTICLE V ACTUAL COST; THE ESCROW FUND

SECTION 5.01. Actual Cost Determinations. (a) The Actual Cost of each Vessel (and the aggregate Actual Cost of all of the Vessels), determined as of the date of this Security Agreement, is as set forth in Table A hereof.

(b) The Secretary agrees to: (1) make a final determination of the Actual Cost of each Vessel, limited to amounts paid by or for the account of the Shipowner on account of the items set forth in Table A hereof and, to the extent approved by the Secretary, any other items or any increase in the amounts of such items, such determination to be made as of the time of payment by or for the account of the Shipowner of the full amount of said Actual Cost of such Vessel, excluding any amounts which are not to become due and payable, and (2) promptly give written notice to the Shipowner, of the results of said final determination; provided that, the Shipowner shall have requested such determination not less than 60 days in advance and shall have furnished to the Secretary not less than 30 days in advance of such determination along with a Shipowner’s Officer’s Certificate and a statement by an independent certified (or, with the Secretary’s prior written consent, an independent) public accountant or firm of accountants of the total amounts paid or obligated to

be paid by or for the account of the Shipowner for the Construction of such Vessel, together with a breakdown of such totals according to the items for which paid or obligated to be paid.

SECTION 5.02. Escrow Fund Deposits. At the time of the sale of the Obligation, the Shipowner shall deposit with the Secretary in the Escrow Fund all of the proceeds of that sale unless the Shipowner is entitled to withdraw funds under Section 5.03. If the Obligation is issued before the delivery of all of the Vessels, then the Shipowner shall also deposit into the Escrow Fund on the Closing Date an amount equal to six months interest at the rate borne by the Obligation.

SECTION 5.03. Escrow Fund Withdrawals. (a) The Secretary shall within a reasonable time after written Request from the Shipowner, disburse from the Escrow Fund directly to the Lender, the Shipyard, or any other Person entitled thereto, any amount which the Shipowner is obligated to pay, or to the Shipowner for any amounts it has paid, on account of the items and amounts or any other items set forth in Table A annexed hereto or subsequently approved by the Secretary, provided that, the Secretary is satisfied with the accuracy and completeness of the information contained in the following submissions:

(1) A Responsible Officer of the Shipowner shall deliver an Officer's Certificate, in form and substance satisfactory to the Secretary, stating that (A) there is neither a Default under the Construction Contract nor the Security Agreement; (B) there have been no occurrences which have or would adversely and materially affect the condition of the Vessel, its hull or any of its component parts; (C) the amounts of the Request is in accordance with the Construction Contract including the approved disbursement schedule and each item in these amounts is properly included in the Secretary's approved estimate of Actual Cost; (D) with respect to the Request, once the Contractor is paid there will be no liens or encumbrances on the applicable Vessel, its hull or component parts for which the withdrawal is being requested except for those already approved by the Secretary; and (E) if the Vessel has already been delivered, it is in class and is being maintained in the highest and best condition. The Shipowner shall also attach an Officer's Certificate of the Shipyard, in form and substance satisfactory to the Secretary, stating that there are no liens or encumbrances as provided in clause (D) of this subsection and attaching the invoices and receipts supporting each proposed withdrawal to the satisfaction of the Secretary.

(2) No payment or reimbursement under this section shall be made (A) to any Person until the Construction Fund, if any, has been exhausted, (B) to any Person until the total amount paid by or for the account of the Shipowner for said items and amounts from sources other than the proceeds of such Obligation equals at least 12-1/2% of the Actual Cost of the related Vessel is made; (C) to the Shipowner which would have the effect of reducing the total amounts paid by the Shipowner pursuant to clause (B) of this subsection; or (D) to any Person on account of items, amounts or increases representing changes and extras or owner furnished equipment, if any, set forth in Table A annexed hereto, unless such items, amounts and increases shall have been previously approved by the Secretary; provided, however, that when the amount guaranteed by the Secretary equals 75% or less of the Actual Cost, then after the initial 12 1/2% of Actual Cost has been paid by or on behalf of the Shipowner for such Vessel and up to 37 1/2% of Actual Cost has been withdrawn

from the Escrow Fund for such Vessel, the Shipowner shall pay the remaining Shipowner's equity of at least 12 1/2% (as determined by the Secretary) before additional monies can be withdrawn from the Escrow Fund relating to such Vessel.

(b) The excess, as determined by the Secretary, of any amount on deposit in the Escrow Fund which represents interest on the principal amount deposited, over and above the amount of interest due on the next Payment Date under the Loan Agreement on the principal amount, as determined by the Secretary, remaining on deposit on such Payment Date, may, unless there is an existing Default, be disbursed by the Secretary upon the Shipowner's Request made not more than 10 Business Days prior to such Payment Date or made within at least 60 days after such Payment Date.

(c) The Secretary shall not be required to make any disbursement pursuant to this section except out of the cash available in the Escrow Fund. If sufficient cash is not available to make the requested disbursement, additional cash shall be provided by the maturity or sale of securities in accordance with instructions pursuant to Section 5.04. If any sale or payment on maturity shall result in a loss in the principal amount of the Escrow Fund invested in securities so sold or matured, the requested disbursement from the Escrow Fund shall be reduced by an amount equal to such loss, and the Shipowner shall, no later than the time for such disbursement, pay to the Lender, the Shipyard, or any other Person entitled thereto, the balance of the requested disbursement from the Shipowner's funds other than the proceeds of such Obligation.

(d) If the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation, and made any payments in default under the terms of Section 4.05 of the Loan Agreement, or the Guarantee shall become payable by the Secretary as to the Obligation, all amounts in the Escrow Fund at the time such Guarantee become payable (including realized income which has not yet been paid to the Shipowner), shall be paid into the Federal Ship Financing Fund created by Section 1102 of the Act, and be credited against any amounts due or to become due to the Secretary from the Shipowner with respect to the Obligation guaranteed by the Secretary to which this Security Agreement relates. To the extent payment of the Escrow Fund into said Federal Ship Financing Fund is not required, said amounts or any balance thereof, shall be paid to the Shipowner.

(e) At any time the Secretary shall have determined that there has been, for any reason, a disbursement from the Escrow Fund contrary to this section, he shall give written notice to the Shipowner of the amount improperly disbursed, the amount to be deposited or redeposited into the Escrow Fund on account thereof, and the reasons for such determination. The Shipowner shall thereafter promptly deposit or redeposit, as appropriate, such amount (with interest, if any) required by the Secretary into the Escrow Fund.

(f) Notwithstanding any other provision of this section, the Shipowner shall not seek or receive reimbursement for any amount paid to the Shipyard or any Person by the Secretary.

(g) In the event that one of the events described in Section 2.07 has occurred with respect to one or more of the Vessels or the Secretary shall have paid the Guarantee or shall have assumed the Shipowner's rights and duties under Section 4.05 of the Loan Agreement, the Secretary may direct that moneys remaining on deposit in the Escrow Fund may be withdrawn in whole or in part for one of the following purposes: (1) application as provided in Section 3.08 of the Loan Agreement (but in no event shall any such disbursement for such purpose be in an amount greater than the related Proportionate Part of the Obligation); (2) payment to the Shipowner, or its order, in the event the Obligation is Retired or Paid, other than by payment of the Guarantee; or (3) application as provided in Section 6.05, if the Secretary shall have paid the Guarantee or shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation.

(h) Any amounts remaining in the Escrow Fund on the Termination Date of the Escrow Fund which are in excess of 87 1/2% or 75% of Actual Cost, as the case may be, shall be applied pursuant to Section 3.12 of the Loan Agreement to retire a Proportionate Part of the Obligation.

SECTION 5.04. Investment and Liquidation of the Escrow Fund. The Secretary may invest the Escrow Fund in obligations of the United States with such maturities that the Escrow Fund will be available as required for the purposes hereof. The Secretary shall deposit the Escrow Fund into an account with the Treasury Department and deliver to the Treasury Department instructions, after agreement thereto by the Secretary and the Shipowner, except in the case of instructions in connection with payment into the Federal Ship Financing Fund pursuant to Section 5.02(e), for the investment, reinvestment and liquidation of the Escrow Fund. The Secretary shall have no liability to the Shipowner for acting in accordance with such instructions.

SECTION 5.05. Income on the Escrow Fund. Except as provided in Section 5.03, any income realized on the Escrow Fund shall, unless there is an existing Default, be paid to the Shipowner upon receipt by the Secretary of such income. For the purpose of this section, (a) the term "income realized on the Escrow Fund," shall mean with respect to the Escrow Fund (1) the excess of the cash received from the sale of securities or the payment of securities at maturity (less any losses from sale not made up by payments by the Shipowner pursuant to the last sentence of Section 5.02(c)) over and above the cost of the sale, and (2) cash received from the payment of interest on securities, and (b) the term "upon receipt by the Secretary," shall mean the time when the Secretary receives advice from the Treasury Department of the payment of such income into the account in which the Escrow Fund has been deposited.

SECTION 5.06. Termination Date of the Escrow Fund; Extension of the Termination Date. The Escrow Fund will terminate 90 days after the Delivery Date of the last Vessel covered by this Security Agreement (herein called the "Termination Date of the Escrow Fund"). In the event that on such date the payment by or for the account of the Shipowner of the full amount of the aggregate Actual Cost of all of the Vessels set forth in Table A hereof has not been made or the amounts with respect to such Actual Cost are not then due and payable, then the Shipowner and the Secretary by written agreement shall extend the Termination Date of the Escrow Fund for such period as shall be determined by the Shipowner and the Secretary as sufficient to allow for such contingencies. If the

Secretary shall have earlier made a final determination of the aggregate Actual Cost of all of the Vessels in accordance with Section 5.01, the Termination Date of the Escrow Fund shall be deemed to be the date of such final determination.

ARTICLE VI DEFAULTS AND REMEDIES

SECTION 6.01. What Constitutes "Defaults;" Continuance of Defaults. Each of the following events shall constitute a "Default" within the meaning of Section 6.01:

(a) A default in the payment of the whole or any part of the interest on the Obligation when the same shall become due and payable; or default in the payment of the whole or any part of the principal of the Obligation when the same shall become due and payable, whether by reason of Maturity, payment, acceleration, or otherwise, or any default referred to in Section 4.04 of the Loan Agreement; and continuation of such default for a period of 30 days shall constitute and is herein called a "Payment Default." For the purposes of the Security Agreement and Mortgage, any corresponding default with respect to the interest on, or the principal of, the Secretary's Note is also deemed to be a Payment Default;

(b) The following shall constitute and each is herein called a "Security Default:"

(1) Default by the Shipowner in the due and punctual observance and performance of any provision in Sections 2.01(b), 2.02(b) and (i), 2.03, 2.04, 2.09, 2.11, 2.12, 2.14, 8.01 and 8.02;

(2) Default by the Shipowner continued after written notice specifying such failure by certified or registered mail to the Shipowner from the Secretary in the due and punctual observance and performance of any provision in Sections 2.02(a), (d), (e), (f), and (g), 2.05 (except (g) and (k) thereof), 2.07, and 2.13.

(3) Default by the Shipowner continued for 30 days after written notice by certified or registered mail to the Shipowner from the Secretary in the due and punctual observance of any other agreement in this Security Agreement or in the Mortgage;

(4) The Shipowner shall become insolvent or bankrupt or shall cease paying or providing for the payment of its debts generally, or the Shipowner shall be dissolved or shall, by a court of competent jurisdiction, be adjudged a bankrupt, or shall make a general assignment for the benefit of its creditors, or shall lose its charter by forfeiture or otherwise; or a petition for reorganization of the Shipowner under the Bankruptcy Code shall be filed by the Shipowner, or such petition be filed by creditors and the same shall be approved by such a court of competent jurisdiction; or a reorganization of the Shipowner under said Code shall be approved by a court, whether proposed by a creditor, a stockholder or any other Person whomsoever; or a receiver or receivers of any kind whatsoever, whether appointed in admiralty, bankruptcy, common law or equity proceedings, shall be appointed, by a decree of a court of competent jurisdiction, with respect to any Vessel, or all or

substantially all of the Shipowner's property, and such decree shall have continued unstayed, on appeal or otherwise, and in effect for a period of 60 days;

(5) Any default in the due and punctual observance and performance of any provision in the Financial Agreement or the Construction Contract;

(6) Any representation or warranty made relating to the execution and delivery of this Security Agreement, the Mortgage, the Commitment to Guarantee Obligation or the Financial Agreement, or in any certificate required to be furnished pursuant thereto, shall prove to be incorrect in any material respect;

(7) Any event constituting a Default under any security agreement or preferred mortgage under Chapter 313, relating to any other vessel or vessels owned by the Shipowner and financed under the Act;

(8) Any additional Security Default prescribed in the Special Provisions hereof; and

(9) Any event constituting a default under any bareboat or time charter or contract of affreightment of the Vessel.

At any time following the occurrence of a Security Default, the Secretary may give the Lender a Secretary's Notice with respect to such Security Default, after which the Lender shall have the right to make demand for payment of the Guarantee in accordance with the Loan Agreement, unless the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation, and made any payments in default under Section 4.05 of the Loan Agreement.

SECTION 6.02. Acceleration of Maturity of the Secretary's Note. The Secretary may, by giving written notice to the Shipowner, declare the principal of the Secretary's Note and interest accrued thereon to be immediately due and payable, at any time after (a) the Secretary shall have been obligated to pay the Guarantee pursuant to the terms of the Loan Agreement, or (b) the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation, and made any payments in default under the terms of Section 4.05 of the Loan Agreement. Thereupon, the principal of and interest on the Secretary's Note shall become immediately due and payable, together with interest at the same rates specified in the Secretary's Note.

SECTION 6.03. Waivers of Default. (a) If the Secretary shall not have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation, and made any payments in default under the terms of Section 4.05 of the Loan Agreement, and if the Secretary determines that an event which, with the passage of time, would become a Payment Default, has been remedied within 30 days after the occurrence of such event, upon a Request by the Shipowner, the Secretary shall waive the consequences of such event.

(b) If the Secretary shall not have assumed the Shipowner's rights and duties under the Loan

Agreement and the Obligation, and made any payments in default under the terms of Section 4.05 of the Loan Agreement, and if the Secretary shall have determined prior to payment of the Guarantee that a Payment Default has been remedied after the expiration of the aforesaid 30-day period, but prior to the date of demand by the Lender for payment under the Guarantee, upon a Request by the Shipowner, the Secretary shall waive such Default.

(c) If the Secretary shall have determined prior to the expiration of the period required for payment of the Guarantee that a Payment Default had not occurred or has been subsequently remedied by the Shipowner (and if the Secretary shall not have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation, and made any payments in default under the terms of Section 4.05 of the Loan Agreement and prior to any payment of the Guarantee), the Secretary shall notify the Lender and the Shipowner of such determination, and, the Secretary shall waive such Default.

(d) The Secretary, in its sole discretion, may waive any Security Default or any event which by itself, or with the passage of time or the giving of notice, or both, would give rise to a Security Default; provided that, such Default is waived prior to the Secretary giving to the Lender a Secretary's Notice.

(e) The Secretary shall notify the Shipowner and the Lender in writing of any determinations made under paragraphs (a), (b) and (c) of this section, and the Secretary shall waive the consequences of any such Default, and annul any declaration under Section 6.02, and the consequences thereof.

(f) No waiver under this Section shall extend to or affect any subsequent or other Default, nor impair any rights or remedies consequent thereon.

(g) No waiver under this Section shall be deemed to have occurred because the Secretary shall have assumed the Shipowner's rights and duties under the Loan Agreement and the Obligation, and made any payments in default under the terms of Section 4.05 of the Loan Agreement.

SECTION 6.04. Remedies After Default. (a) In the event of a Default, and before and after the payment of the Guarantee or the assumption by the Secretary of the Shipowner's rights and duties under the Loan Agreement and the Obligation, and the making of any payments in default under the terms of Section 4.05 of the Loan Agreement, the Secretary shall have the right to take the Vessels without legal process wherever the same may be (and the Shipowner or other Person in possession shall forthwith surrender possession of the Vessels to the Secretary upon demand) and hold, lay up, lease, charter, operate, or otherwise use the Vessels for such time and upon such terms as the Secretary may reasonably deem to be in the Secretary's best interest, accounting only for the net profits, if any, arising from the use of the Vessels, and charging against all receipts from the use of the Vessels, all reasonable charges and expenses relating to such Vessels use.

(b) Upon either (i) payment of the Guarantee or (ii) the Secretary's assumption of the Shipowner's rights and duties under the Loan Agreement and the Obligation, and the making of any

payments in default under Section 4.05 of the Loan Agreement, the Secretary shall have the right to:

(1) Exercise all the rights and remedies in foreclosure and otherwise given to mortgagees by Chapter 313;

(2) Bring suit at law, in equity or in admiralty to recover judgment for any and all amounts due under the Secretary's Note, this Security Agreement and the Mortgage, collect the same out of any and all of Shipowner's property, whether or not the same is subject to the lien of the Mortgage, and in connection therewith, obtain a decree ordering the sale of any Vessel in accordance with paragraph (b)(4) of this section;

(3) Have a receiver of the Vessels appointed as a matter of right in any suit under this Section (and any such receiver may have the rights of the Secretary under paragraph (b)(4) of this section);

(4) Sell any Vessel, free from any claim of the Shipowner, by a public extrajudicial sale, held at such time and place and in such manner as the Secretary may reasonably deem advisable, after twice publishing notice of the time and place of such sale prior to the proposed sale in the Authorized Newspaper, and mailing a copy of such notice, by registered or certified mail, to the Shipowner at its last known address, the first such publication and mailing to be made at least 10 Business Days prior to the date fixed for such sale; provided that, such sale may be adjourned from time to time without further publication or notice (other than announcement at the time and

place appointed to such sale or adjourned sale). It shall not be necessary to bring any such Vessel to the place appointed for such sale or adjourned sale;

(5) Accept a conveyance of title to, and to take without legal process (and the Shipowner or other Person in possession shall forthwith surrender possession to the Secretary), the whole or any part of any Vessel and the Security wherever the same may be, and to take possession of and to hold the same;

(6) In the Secretary's discretion, take any and all action authorized by Sections 1105(c), 1105(e) and 1108(b) of the Act and any and all action provided for, or authorized, or permitted by, or with respect to the Increased Security;

(7) Receive, in the event of an actual or constructive total loss, or an agreed or compromised total loss, or a requisition of title to or use of any Vessel, all insurance or other payments therefor to which the Shipowner would otherwise be entitled, such insurance moneys to be applied by the Secretary in accordance with Section 6.05; and

(8) Pursue to final collection of all the claims arising under this Security Agreement, and to collect such claims from, the Increased Security.

(c) The Shipowner hereby irrevocably appoints the Secretary the true and lawful attorney of the Shipowner, in its name and stead, to make all necessary transfers of the whole or any part of the Increased Security in connection with a sale, use or other disposition pursuant to Section 6.04(a) or 6.04(b), and for that purpose to execute all necessary instruments of assignment and transfer. Nevertheless, the Shipowner shall, if so requested by the Secretary in writing, ratify and confirm such sale by executing and delivering to any purchaser** of the whole or any part of the Increased Security, such proper bill of sale, conveyance, instrument of transfer, or release as may be designated in such request.

(d) No remedy shall be exclusive of any other remedy, and each and every remedy shall be cumulative and in addition to any other remedy.

(e) No delay or omission to exercise any right or remedy shall impair any such right or remedy or shall be deemed to be a waiver of any Default.

(f) The exercise of any right or remedy shall not constitute an election of remedies by the Secretary.

(g) If the Secretary discontinues any proceeding, the rights and remedies of the Secretary and of the Shipowner shall be as though no such proceeding had been taken.

SECTION 6.05. Application of Proceeds. (a) The proceeds (from sale or otherwise) of the whole or any part of the Increased Security and use thereof by the Secretary under any of the foregoing powers, (b) the proceeds of any judgment collected by the Secretary for any default hereunder, (c) the proceeds of any insurance and of any claim for damages to the whole or any part of the Increased Security received by the Secretary while exercising any such power, and (d) all other amounts received by the Secretary, including amounts which are required by Sections 2.05 and 2.07 shall be applied by the Secretary as follows:

(1) to the payment of all sums of money due and unpaid and secured by the Mortgage or this Security Agreement;

(2) to the payment of all advances by the Secretary pursuant to this Security Agreement and all reasonable charges and expenses of the Secretary;

(3) to the payment of the whole amount of the interest then due and unpaid upon the Secretary's Note;

(4) to the payment of the whole amount of the principal then due and unpaid upon the Secretary's Note;

(5) to the Secretary for application to any other debt of the Shipowner due to the Secretary under any other financing guaranteed by the Secretary under to the Act;

(6) to the Lender for its reasonable fees and expenses; and

(7) any balance thereof remaining shall be paid to the Shipowner.

SECTION 6.06. General Powers of the Secretary. (a) In the event any Vessel shall be arrested or detained by a marshal or other officer of any court of law, equity or admiralty jurisdiction in any country or nation of the world or by any government or other authority, and shall not be released from arrest or detention within 15 days from the date of arrest or detention, the Shipowner hereby authorizes the Secretary, in the name of the Shipowner, to apply for and receive possession of and to take possession of such Vessel with all the rights and powers that the Shipowner might have, possess and exercise in any such event. This authorization is irrevocable.

(b) The Shipowner irrevocably authorizes the Secretary or its appointee (with full power of substitution) to appear in the name of the Shipowner in any court of any country or nation of the world where a suit is pending against the whole or any part of the Increased Security because of or on account of any alleged lien or claim against the whole or any part of the Increased Security, from which the whole or said part of the Increased Security has not been released.

(c) The following shall constitute a debt due from the Shipowner to the Secretary, and shall be repaid by the Shipowner upon demand: all reasonable expenses incurred pursuant to paragraphs (a) or (b) of this section and all reasonable expenses incurred incident to the exercise by the Secretary of any of his remedies pursuant to Section 6.04(b) or the assumption by the Secretary of the rights and duties of the Shipowner under the Loan Agreement and the Obligation, and the making of any payments in default under the terms of Section 4.05 of the Loan Agreement (including, but not limited to, fees paid to the Lender for expenses incident to said assumption of the Loan Agreement by the Secretary), together with interest at the rate that would have been paid by the Department of Treasury on the expended funds plus 1%. The Secretary shall not be obligated to (nor be liable for his failure to) take any action provided for in paragraphs (a) and (b) of this section.

**ARTICLE VII
AMENDMENTS AND SUPPLEMENTS TO
THE SECURITY AGREEMENT, MORTGAGE AND LOAN AGREEMENT**

SECTION 7.01. Amendments and Supplements to the Security Agreement and the Mortgage. This Security Agreement and the Mortgage may not be amended or supplemented orally, but may be amended or supplemented from time to time only by an instrument in writing executed by the Shipowner and the Secretary.

SECTION 7.02. Amendments and Supplements to the Loan Agreement. Notwithstanding any provisions in the Loan Agreement, the Shipowner agrees that no amendments or supplements will be made to the Loan Agreement without the Secretary's prior written consent, and any purported action contrary to this Section shall be null and void ab initio and of no force and effect.

ARTICLE VIII CONSOLIDATION, MERGER OR SALE

SECTION 8.01. Consolidation, Merger or Sale. (a) Nothing in this Security Agreement or the Mortgage shall prevent any lawful consolidation or merger of the Shipowner with or into any other Person, or any sale of a Vessel or Vessels to any other Person lawfully entitled to acquire and operate such Vessel or Vessels, or any sale by the Shipowner of all or substantially all of its assets to any other Person; provided that, the Secretary shall have given his prior written consent to such succession, merger, consolidation or sale.

(b) The Person formed by or surviving such consolidation or merger, or to which such sale of all the Vessels shall have been made (herein called the "Successor"), shall (by supplemental Loan Agreement, and by instrument amending or supplementing this Security Agreement, and the Mortgage, as may be necessary), expressly assume the payment of the principal of (and premium, if any) and interest on the Obligation in accordance with the terms of the Obligation, shall execute and deliver to the Secretary, an endorsement to the Secretary's Note in form satisfactory to the Secretary, shall expressly assume the payment of the principal of and interest on the Secretary's Note, and shall expressly assume the performance of the agreements of the Shipowner in the Loan Agreement, this Security Agreement, the Mortgage and any related document.

(c) Upon the assumption of the documents listed in paragraph (b) of this section, the Secretary shall consent to the surrender of each Vessels documents pursuant to 46 U.S.C. 12111(c)(3), as amended; provided that, concurrently with such surrender, such Vessel shall be redocumented under the laws of the United States.

(d) In the event of any sale of less than all the Vessels, unless upon the Shipowner's Request, the Secretary shall determine that there will remain adequate security for the Guarantee after discharge of any such Vessel or Vessels from the Mortgage, and the Shipowner shall either (1) pay, together with any premium and/or accrued interest thereof, the Proportionate Part of the Obligation relating to such Vessel or Vessels in accordance with the provisions of Article Third of the Loan Agreement, or (2) the Person to which such sale shall have been made (the "Transferee"), shall assume the documents listed in paragraph (b) of this section. Upon any such assumption, the Transferee shall succeed to and be substituted for the Shipowner with the same force and effect as if it had been named in the Loan Agreement, the Obligation, this Security Agreement and the Mortgage (and such other documents) to the extent the same relate to such Proportionate Part of the Obligation and to such Vessel or Vessels.

(e) With the Secretary's prior written consent, any such consolidation, merger or sale of all the Vessels may be on such terms as to release the Shipowner immediately upon the sale of all the Vessels from all its obligations under the Loan Agreement, this Security Agreement, the Mortgage and the Secretary's Note. In such event, the Secretary, if so requested by the Shipowner, and as may be necessary, shall execute and deliver such instruments as may be deemed by the Shipowner to be reasonably necessary or appropriate to give effect to and confirm such release.

SECTION 8.02. Transfer of a General Partner's Interest; Transfer of a Joint Venturer's Interest. If the Shipowner is organized as a partnership or a joint venture, a general partner or a joint venturer may lawfully transfer its respective interests under the terms of the partnership or joint venture agreement to any Person and may be released from all of their obligations thereunder and under this Security Agreement or the Mortgage; provided that, (i) the Secretary shall have given its prior written consent to the proposed transaction and (ii) the transferee shall assume in full all of the existing obligations which the transferring general partner or joint venturer has under the applicable partnership or joint venture agreement, this Security Agreement, the Mortgage and any related document.

ARTICLE IX NOTICES

SECTION 9.01. Notices. Except as otherwise provided in this Security Agreement or by the Act, all notices, requests, demands, directions, consents, waivers, approvals or other communications may be made or delivered in person or by registered or certified mail, postage prepaid, addressed to the party at the address of such party specified in the Special Provisions hereof, or at such other address as such party shall advise each other party by written notice, and shall be effective upon receipt by the addressee thereof.

SECTION 9.02. Waivers of Notice. In any case where notice by publication, mail or otherwise is provided for by this Security Agreement, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be deemed the equivalent of such notice.

SECTION 9.03. Shipowner's Name or Address Change. The Shipowner shall not change its name or its address without first providing written notice to the Secretary of the new name and/or the change in address.

ARTICLE X DISCHARGE OF SECURITY AGREEMENT AND THE MORTGAGE

SECTION 10.01. Discharge of Security Agreement and the Mortgage. (a) If the Obligation and the related Secretary's Note shall have been satisfied and discharged, and if the Shipowner shall pay or cause to be paid all other sums that may have become secured under this Security Agreement and the Mortgage, then this Security Agreement, the Mortgage and the liens, estate and rights and

interests hereby and thereby granted, shall cease, determine, and become null and void, and the Secretary, on the Shipowner's Request and at the Shipowner's cost and expense, shall forthwith cause satisfaction and discharge and duly acknowledge such satisfaction and discharge of this Security Agreement and the Mortgage to be entered upon its and other appropriate records, and shall execute and deliver to the Shipowner such instruments as may be necessary, and forthwith the estate, right, title and interest of the Secretary in and to the Security, the Increased Security, and any other securities, cash, and any other property held by it under this Security Agreement and the Mortgage, shall thereupon cease, determine and become null and void, and the Secretary shall transfer, deliver and pay the same to the Shipowner.

(b) If the Guarantee on the Obligation shall have been terminated pursuant to Sections 3.02(b) or 3.02(d), the Secretary shall assign to the Shipowner this Security Agreement, the Mortgage and the liens, estate, rights and interests hereby and thereby granted.

ARTICLE XI MISCELLANEOUS

SECTION 11.01. Successors and Assigns. All the covenants, promises, stipulations and agreements of the Secretary and Shipowner in this Security Agreement shall bind the Secretary and Shipowner and its respective successors and assigns. This Security Agreement is for the sole benefit of the Shipowner, the Secretary, and their respective successors and assigns, and no other Person shall have any right hereunder.

SECTION 11.02. Execution in Counterparts. This Security Agreement may be executed in any number of counterparts. All such counterparts shall be deemed to be originals and shall together constitute but one and the same instrument.

SECTION 11.03. Shipowner's Rights in Absence of Default. Except during the existence of a Default, the Shipowner (1) shall be permitted to retain actual possession and use of the Vessel, and (2) shall have the right, from time to time, in its discretion and without the consent of or release by the Secretary, to dispose of, free from the lien hereof and of the Mortgage, any and all engines, machinery, masts, boats, anchors, cables, chains, rigging, tackle, apparel, furniture, capstans, outfit, tools, pumps, pumping and other equipment, and all other appurtenances to the Vessels, and also any and all additions, improvements and replacements in or to the Vessels or said appurtenances, after first or simultaneously replacing the same with items of at least substantially equal value.

SECTION 11.04. Surrender of Vessels' Documents. The Secretary shall consent to the surrender of each Vessel's documents in connection with any redocumentation of such Vessel required on account of alterations to such Vessel which are not prohibited by this Security Agreement and by the Mortgage.

SECTION 11.05. Titles and Headings. The titles of the Articles and the headings of the Sections shall not be deemed to affect the meaning or construction of any of its provisions.

PROMISSORY NOTE TO UNITED STATES OF AMERICA

_____ (the "Shipowner"), for value received, promises to pay **THE UNITED STATES OF AMERICA**, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary"), at the office of the Maritime Administration, U.S. Department of Transportation, Washington, D.C., in lawful money of the United States of America, the aggregate principal amount of _____ on or before _____, together with interest thereon from the date hereof at the rate of ___% per annum (calculated on the basis of a 360-day year of twelve 30-day months) to be paid semi-annually on _____ and _____ of each year commencing on _____ until such principal sum has been paid. This Secretary's Note ("secretary's Note") is subject to mandatory prepayment on the same terms and conditions as the Obligation.

This Secretary's Note is given (1) in consideration of the Secretary's issuance, pursuant to the provisions of Title XI of the Merchant Marine Act, 1936, as amended, of the Guarantee of payment of the unpaid interest on and the unpaid balance of the principal amount of the Shipowner's United States Government Guaranteed Ship Financing Obligation (the "Obligation") issued by the Shipowner on the date hereof in order to finance a portion of the cost of construction of the Vessels, and (2) to evidence the Shipowner's obligation to pay to the Secretary any amount that the Secretary may be required to pay to the Holder of the Obligation under said Guarantee.

This Secretary's Note is issued pursuant to the provisions of the Security Agreement, Contract No. MA-_____, dated _____, between the Shipowner and the Secretary. The Security Agreement contemplates that on the date hereof, a first preferred fleet mortgage on the Vessels will be executed and delivered by the Shipowner, as mortgagor, to the Secretary, as mortgagee, covering the Shipowner's interest in such Vessels. The definitions used in, and the provisions of, the Security Agreement and the Mortgage are incorporated herein by reference.

This Secretary's Note has been negotiated and received by the Secretary, is secured by the Security Agreement and the Mortgage, and is subject to all the terms of the Security Agreement and the Mortgage, to the same extent as if said documents were set out herein in full.

To the extent that the Obligation is Outstanding and until the Guarantee on the Obligation has been terminated pursuant to Section 3.02(a), (b) or (d) of the Security Agreement, the principal of and the interest on this Secretary's Note shall remain outstanding and unpaid. Payments on the Obligation shall be deemed a payment of principal and interest on this Secretary's Note when paid in the following manner:

- (1) by payment of interest on such Obligation in accordance with the provisions thereof and of the Loan Agreement;

(2) by any payment of such Obligation in accordance with the provisions thereof and of the Loan Agreement;

(3) when such Obligation has been Retired or Paid, other than by payment of the Guarantee;

If such payment is made with moneys advanced or loaned to the Shipowner by the Secretary, such payment on the Obligation shall not, as to such amount, constitute payment of principal or interest on this Secretary's Note and the same shall not in any way be discharged as to such amount. In the event that the Secretary assumes the Shipowner's rights and duties under the Loan Agreement and the Obligation and makes any payments, such payments shall not, as to such amounts, constitute payment of principal and interest on this Secretary's Note and the same shall not in any way discharge such amounts until such time as this Secretary's Note is paid in full or otherwise discharged in an appropriate proceeding in a court of competent jurisdiction as established by the final order of a court of last resort or the final order of an inferior court which is not appealed.

The unpaid balance of the principal of this Secretary's Note and the interest hereon may be declared or may become immediately due and payable by declaration of the Secretary at any time after the Secretary (i) is required to pay the Guarantee pursuant to the terms of the Loan Agreement or (ii) assumes pursuant to the terms of the Loan Agreement, the Shipowner's rights and duties under the Loan Agreement and the Obligation. Thereupon, the unpaid balance of the principal of and the interest on this Secretary's Note shall become due and payable, together with interest thereon at the Obligation rate plus one percent.

IN WITNESS THEREOF, the Shipowner has caused this Secretary's Note to be signed on this _____ day of _____.

as Shipowner

BY: _____

(SEAL)

Attest:

BY: _____
Assistant Secretary

FIRST PREFERRED FLEET MORTGAGE

THIS FIRST PREFERRED FLEET MORTGAGE, dated _____ by _____, a _____ (the "Shipowner") located at _____, to the UNITED STATES OF AMERICA, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary" and "Mortgagee") located at the U.S. Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590.

WHEREAS, pursuant to understandings set forth in the Recitals to the Security Agreement executed this date, the Shipowner has authorized the issuance of the Obligation designated "United States Government Guaranteed Ship Financing Obligation" in an aggregate principal amount not to exceed \$ _____ to finance the construction of the following Vessels: _____ Official Number _____ and _____ Official Number _____, and the Shipowner is the sole owner of the whole of each of said Vessels;

NOW, THEREFORE, THIS MORTGAGE WITNESSETH:

That, in consideration of the premises and of the additional covenants herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and as security for the Guarantee and in order to secure the payment of the above-mentioned interest on and principal of the Secretary's Note and all other sums that may be secured by the Mortgage and the Security Agreement, and to secure the due performance and observance of all the agreements and covenants in the Secretary's Note and herein contained, the Shipowner has granted, conveyed, mortgaged, pledged, confirmed, assigned, transferred and set over, and by these presents does grant, convey, mortgage, pledge, confirm, assign, transfer and set over unto the Mortgagee a hundred percent interest in the whole of the each of said Vessels which are more fully described in their respective certificates of documentation, together with all of their boilers, engines, machinery, masts, spares, rigging, boats, anchors, cables, chains, tackle, tools, pumps and pumping equipment, apparel, furniture, fittings and equipment, spare parts and all other appurtenances to said Vessels appertaining or belonging, whether now owned or hereafter acquired whether on board or not and all additions, improvements, renewals and replacements hereafter made in or to said Vessels or said appurtenances; provided that, the term "Vessel," whenever used, shall apply with equal force to each of the Vessels.

TO HAVE AND TO HOLD, all and singular, the above mortgaged and described property unto the Mortgagee, to its own use, benefit and behoof forever;

PROVIDED, HOWEVER, and these presents are upon the condition that, if the

above-mentioned principal of and interest on the Secretary's Note are paid or satisfied in accordance with the terms thereof, the Security Agreement and this Mortgage, and all other obligations and liabilities that may be secured by the Security Agreement and this Mortgage are paid in accordance with their terms, then this Mortgage and the estate and rights hereunder shall cease, determine and be void, otherwise to remain in full force and effect.

The Shipowner hereby agrees with the Mortgagee that the Vessels now or at any time subject to the lien of this mortgage are to be held by the Mortgagee subject to the further agreements and conditions hereinafter set forth.

ARTICLE FIRST

SECTION 1. All of the Shipowner's covenants and agreements including, without limitation, those relating to: maintenance of United States citizenship; organization and existence of the Shipowner; title to and possession of each Vessel; sale, transfer or charter of each Vessel; taxes; liens; documentation of each Vessel; material changes in each Vessel; compliance with applicable laws; maintenance of marine insurance; requisition of title; and compliance with Chapter 313 of Title 46 of the United States Code, set forth in, and all of the Secretary's rights, immunities, powers and remedies provided for in the Security Agreement, except for the Granting Clause thereof, together with all other provisions of the Security Agreement, are incorporated herein by reference with the same force and effect as though set forth at length in this Mortgage, and true copies of the form of the Security Agreement are annexed hereto.

SECTION 2. A Default pursuant to the provisions of the Security Agreement shall constitute a default hereunder, and shall give the Mortgagee the rights and remedies established by Chapter 313 of Title 46 of the United States Code, and as provided in the Security Agreement.

ARTICLE SECOND

SECTION 1. This Mortgage may be executed in any number of counterparts and all such counterparts executed and delivered each as an original shall constitute but one and the same instruments.

SECTION 2. All of the Shipowner's covenants, promises, stipulations and agreements in this Mortgage shall bind the Shipowner and its successors and assigns, and shall inure to the benefit of the Mortgagee and its successors and assigns, and all of the Mortgagees covenants, promises, stipulations and agreements in this Mortgage, shall bind the Mortgagee and its successors and assigns, and shall inure to the benefit of the Shipowner and its successors and assigns, whether so expressed or not.

SECTION 3. All capitalized terms used herein shall have the meaning specified in Schedule X to the Security Agreement, unless the context otherwise requires.

SECTION 4. No provision of this Mortgage or of the Security Agreement shall be deemed to constitute a waiver by the Mortgagee of the preferred status of the Mortgage given by 46 U.S.C. '31305, and any provision of this Mortgage or of the Security Agreement which would otherwise constitute such a waiver, shall to such extent be of no force and effect.

SECTION 5. Once the Mortgage shall have become null and void, the Secretary, on request of the Shipowner and at the Shipowner's cost and expense, shall forthwith cause satisfaction and discharge of this Mortgage to be entered upon its and other appropriate records, and shall execute and deliver to the Shipowner such instruments as may be necessary, duly acknowledging the satisfaction and discharge of this Mortgage.

ARTICLE THIRD

The total principal amount of the obligations that is secured by this First Preferred Fleet Mortgage is _____ AND NO/100's (\$ _____) excluding interest, expenses, and fees. The date of discharge for each of the Vessels is as follows: _____.

IN WITNESS WHEREOF, this instrument has been executed on the date below indicated, and effective as of the day and year first above written.

SHIPOWNER

(SEAL)

BY: _____

Attest:

Date Signed: _____

CONSENTED TO:

UNITED STATES OF AMERICA
SECRETARY OF TRANSPORTATION
acting by and through the
MARITIME ADMINISTRATOR

BY: _____

Secretary
Maritime Administration

ACKNOWLEDGMENT

DISTRICT OF COLUMBIA)

) ss:

CITY OF WASHINGTON)

On this ____ day of _____, before me, _____, a Notary Public in and for the District of Columbia, personally appeared _____ duly known to me to be _____ of _____, a _____, the entity described in and that executed the instrument hereto annexed and acknowledged to me that the seal affixed to said instrument is such corporation's seal, that it was so affixed by authority set forth in the documents constituting and governing such entity, and that he/she signed his/her name thereto by like authority.

NOTARY PUBLIC

My Commission Expires:

(NOTARIAL SEAL)

CONSENT OF SHIPYARD

This Consent of Shipyard dated _____, is made by _____, a _____ corporation (the "Shipyard"), to _____ a _____ corporation (the "Shipowner") and the United States of America (the "United States") represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary") pursuant to the provisions of Title XI of the Merchant Marine Act, 1936, as amended, the purpose of which is to allow and acknowledge the assignment of all of the right, title and interest of the Shipowner in and to those certain construction contracts dated as of _____, between the Shipyard and the Shipowner (the "Construction Contracts"), in so far as they relate to the Vessels, together with all of the Shipowner's right, title and interest in and to the Vessels including their component parts and equipment, from the Shipowner to the Secretary under a security agreement (the "Security Agreement"). The Shipyard acknowledges that it has received a true copy of the form of the Security Agreement.

Now, therefore, in consideration of the premises and mutual covenants herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. The Shipyard hereby acknowledges receipt of notice of and hereby consents and agrees to the aforesaid assignment of, and grant of a security interest in the Construction Contracts and the Vessels including their component parts and equipment in favor of the Secretary pursuant to the Security Agreement;

2. The Shipyard hereby acknowledges, understands and agrees that:

(a) the Secretary shall, by virtue of the Security Agreement, have no obligation or duty under the Construction Contracts and shall not be required to make any payment due and owing by the Shipowner under the Construction Contracts;

(b) the Shipyard shall pay any amount coming due to the Shipowner under the Construction Contracts promptly to the Depository for application pursuant to the Security Agreement so long as it shall not have received written notice of the Secretary that the Guarantees shall have been terminated pursuant to Section 3.02(a), (b) or (d) of the Security Agreement and that the Security Agreement is no longer in effect; upon receipt of such notice, the Shipyard shall promptly pay any such moneys to the Shipowner;

(c) except during any period after the Shipyard shall have received written notice from the Secretary indicating the existence of a Default under the Security Agreement and until the Secretary shall have notified the Shipyard in writing that such Default has been cured or waived, the Shipowner shall be entitled to exercise all of its rights under the Construction Contracts with respect to the Vessels and to receive all of the benefits thereunder, subject to paragraph 2(b) hereof, to the same extent as if the Construction Contracts and the Vessels had not in any way been subjected to the liens of or security interests under the Security Agreement.

3. For all purposes of this Consent of Shipyard, unless otherwise expressly provided, all capitalized terms used but not defined herein shall have the meaning ascribed in Schedule X to the Security Agreement.

IN WITNESS WHEREOF, the undersigned has caused this instrument to be duly executed as of the day and year first above written.

(SEAL)

BY: _____
ITS: _____

ATTEST:

**TITLE XI RESERVE FUND
AND FINANCIAL AGREEMENT**

THIS TITLE XI RESERVE FUND AND FINANCIAL AGREEMENT dated _____ between _____, a _____ corporation ("the Company"), and THE UNITED STATES OF AMERICA, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary").

RECITALS:

Pursuant to the conditions and understandings set forth in the Recitals to the Security Agreement executed on this date, the Company has authorized the issuance of the obligation designated "United States Government Guaranteed Ship Financing Obligation" in an aggregate principal amount not to exceed \$ _____ to finance the cost of construction of _____, Official Number _____, and _____, Official Number _____ (the "Vessels").

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and of other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereby agree as follows:

SECTION 1. (a) Granting Clause. The Company hereby sells, grants, conveys, mortgages, assigns, transfers, pledges, confirms and sets over to the Secretary a continuing security interest in all of its right, title and interest in and to (1) the Title XI Reserve Fund, and (2) all sums, instruments, moneys, negotiable documents, chattel paper and proceeds thereof currently on deposit, or hereafter deposited in the Title XI Reserve Fund.

(b) Definitions. For all purposes of this Financial Agreement, unless otherwise expressly provided or unless the context otherwise requires, the capitalized terms used herein shall have the meaning specified in Schedule X to the Security Agreement entered into on this date.

SECTION 2. Title XI Reserve Fund Deposits. (a) Pursuant to the Depository Agreement, the Company shall establish with the Depository a depository account (herein called the "Title XI Reserve Fund").

(b)(1) Within 105 days after the end of each fiscal year of the Company, the Company shall compute its net income attributable to the operation of the Vessels ("Title XI Reserve Fund Net Income"). The computation utilizes a ratio expressed as a percentage, and applies this percentage

to the Company's total net income after taxes. The numerator of the ratio shall be the total original capitalized cost of all Company vessels (whether leased or owned). The denominator shall be the total original capitalized cost of all the Company's fixed assets. The net income after taxes, computed in accordance with generally accepted accounting principles, shall be adjusted as follows:

(A) The depreciation expense applicable to the accounting year shall be added back.

(B) There shall be subtracted an amount equal to the principal amount of debt required to be paid, and actually paid by the Company during the year; and the principal amount of the Obligation Retired or Paid, prepaid, in excess of the required payments which may be used by the Company as a credit against future required payments or other required payments with respect to the Obligation, but excluding payments from the Title XI Reserve Fund and the Title XI Escrow Fund.

(2) Promptly after the computation of the Title XI Reserve Fund Net Income:

(A) If the Vessel is owned by the Company, then from the Title XI Reserve Fund Net Income for the Vessel there shall be deducted, on an annual basis (or pro rated for any period less than a full fiscal year) the amount (pro rated for a period of less than a full fiscal year) specified in Attachment A, which is 10% of the Company's aggregate original equity investment related to said Vessel.

(B) The Company shall, unless otherwise approved by the Secretary in writing, deposit into the Title XI Reserve Fund an amount equal to 50 percent of the balance of the Title XI Reserve Fund Net income remaining after the above deductions.

(C) Irrespective of the Company's deposit requirements into the Title XI Reserve Fund, the Company shall not be required to make any deposits into the Title XI Reserve Fund if (i) the Obligation and the related Secretary's Note with respect to the Vessel shall have been satisfied and discharged and if the Company shall have paid or caused to be paid all other sums secured under the Security Agreement or the Mortgage, (ii) the Guarantee on the Obligation shall have been terminated pursuant to the Security Agreement, or (iii) the amount (including any securities at current market value) in the Title XI Reserve Fund is equal to, or in excess of 50% of the principal amount of the Obligation;

(D) The Company shall deliver to the Secretary (with a copy to the Depository) at the time of each deposit into the Title XI Reserve Fund pursuant to Section 2(b)(2)(B), and any deposits required under the Security Agreement, a statement of an independent certified public accountant (who may be the regular auditors for the Company) stating that such deposit has been computed in accordance with Section 2(b)(2)(B), (and the Security Agreement, if applicable) and showing the pertinent calculations.

(E) In addition, the Company shall deliver to the Secretary (with a copy to the Depository), within 105 days after the end of each fiscal year of the Company, a statement by such certified public accountant stating (i) the total amount of all deposits which were required to be so deposited into the Title XI Reserve Fund for such fiscal year (and showing the pertinent calculations), or (ii) that no such deposit was required to be made for such fiscal year (and showing the pertinent calculations) and that at the end of such fiscal year no adjustments pursuant to Section 2(b)(2)(G) were required to be made (and, if such adjustments were required to be made, stating the reasons therefor).

(F) The computation of all deposits required by this Section 2 shall be made on the basis of information available to the Company at the time of each such deposit. Each such deposit shall be subject to adjustments from time to time in the event and to the extent that the same would be required or permitted by mistakes or omissions, additional information becoming available to the Company, or judicial or administrative determinations made subsequent to the making of such deposits.

SECTION 3. Withdrawals from the Title XI Reserve Fund. (a) From time to time, moneys in the Title XI Reserve Fund shall be subject to withdrawal by delivery by the Company to the Secretary of a Request for Payment (specifying the Person or Persons to be paid and the amount of such payment) executed by the Company, together with an Officer's Certificate of the Company stating the reasons and purpose for the withdrawal.

(b) Upon approval by the Secretary of the Request for Payment evidenced by the countersignature thereon of the Secretary, the Secretary shall cause the Request for Payment to be delivered to the Depository, which shall promptly make payment to such Person or Persons in accordance with the terms of such Request for Payment.

SECTION 4. Termination of the Title XI Reserve Fund. (a) The Title XI Reserve Fund shall terminate at such time as the Secretary's Note shall have been satisfied and discharged and the Company shall have paid or caused to be paid all sums secured under the Security Agreement or the Mortgage.

(b) Upon the termination of the Title XI Reserve Fund, pursuant to Section 4(a), the moneys remaining in the Title XI Reserve Fund shall be subject to withdrawal and payment into the general funds of the Company.

(c) Upon payment by the Secretary to the Holder of the Guarantee pursuant to the Loan Agreement, the Title XI Reserve Fund shall, upon written instructions of the Secretary, be terminated and the balance remaining in the Title XI Reserve Fund shall be paid to the Secretary and the Company as determined by the Secretary.

(d) Any withdrawal from the Title XI Reserve Fund pursuant to this Section 4 shall not effect a discharge of or diminish any obligations of the Company under the Security Agreement, Mortgage or any other agreement as the case may be except to the extent that the amount withdrawn is applied to payments required to be made by the Company under the Security Agreement, Mortgage or any other agreement.

SECTION 5. Eligible Investments; Form of Deposits. (a) Moneys in the Title XI Reserve Fund shall, if so directed by a Request of the Company delivered to the Depository (with a copy to the Secretary), be invested by the Depository in the following Eligible Investments:

(1) time deposits, negotiable certificates of deposit, or similar instruments of deposit with a bank or trust company organized as a corporation under the laws of the United States or any State thereof, or of the District of Columbia, subject to supervision or examination by Federal or State authority or authority of the District of Columbia, and having a combined capital and surplus of at least \$3,000,000; provided that, the aggregate of all such time deposits and certificates of deposit with any one bank or trust company shall not exceed 10% of the combined capital and surplus of such bank or trust company;

(2) short term commercial paper having either of the two highest ratings for short term commercial paper assigned by any two nationally recognized organizations regularly engaged in rating the investment quality of such commercial paper; and

(3) securities (designated by the Company in such Request) which at the date of such investment are:

(A) direct obligations of, or obligations (other than the Obligation related to the Company) fully guaranteed or insured by, the United States or any agency of the United States or with the Secretary's prior written consent and subject to such conditions imposed by him, obligations or securities fully insured by an instrumentality of the United States;

(B) bonds, not in default as to principal or interest of any county, municipality or state of the United States and having either of the two highest ratings for bonds assigned by any two nationally recognized organizations regularly engaged in rating the investment quality of such bonds;

(C) bonds, not in default as to principal or interest, of corporations organized and existing under the laws of the United States or of the District of Columbia or of any state of the United States and having one of the three highest ratings for bonds assigned by any two nationally recognized organizations regularly engaged in rating the investment quality of such bonds; provided that, no investment this subsection 5(a)(3)(C) shall be made in any obligations of the Company or a Related Party; or

(D) capital stock, but limited at the time of acquisition to any amounts in the Title XI Reserve Fund in excess of the principal amount of the Obligation to be paid pursuant to the Loan Agreement, during the next succeeding 12 months of (i) corporations organized and existing under the laws of the United States or the District of Columbia or of any state of the United States if such stock is currently fully listed and registered upon an exchange registered with the Securities and Exchange Commission as a national securities exchange and permitted for investment by a savings bank under the laws of the State of New York without regard to the provisions therein limiting such investments to a percentage of the assets or surplus of such savings bank, (ii) banks either regulated by the Comptroller of the Currency of the United States or subject to the Banking Law of the State of New York, or (iii) insurance companies licensed to do business in such state; provided that, no investment under this subsection 5(a)(3)(D) shall be made in stock of the Company or a Related Party; provided further that, any request under this subsection 5(a)(3)(D) shall be accompanied by an opinion of counsel satisfactory to the Secretary as to the qualification of such securities under this clause and provided further, that the Company shall cause to be sold, within 90 days, or at any time if the Secretary so directs the Company in writing, any securities which cease to qualify under this subsection.

(b) In any case where the Company is required to deposit or redeposit sums into the Title XI Reserve Fund, the Company shall make the required deposit in cash or, with the Secretary's prior written approval of the Secretary may in lieu thereof deposit into the Title XI Reserve Fund, negotiable certificates of deposit, short term commercial paper or securities which are (1) Eligible Investments (2) owned by the Company and (3) of an equivalent current market value (based upon the last sales price thereof on the Business Day immediately preceding such deposit or, if there shall have been no sale thereof on such day, the average of the last known bid and asked prices). With the Secretary's prior written approval, the Company may exchange Eligible Investments in the Title XI Reserve Fund at current market value (determined as above provided) for an equivalent amount of cash.

(c) Cash held in the Title XI Reserve Fund will be held by the Depository pursuant to the Depository Agreement.

SECTION 6. Company's Rights with Respect to Securities Held in the Title XI Reserve Fund. Unless there is an existing Default under the Security Agreement, the Company shall have:

(a) the right to vote securities held in the Title XI Reserve Fund as to (1) the sale of all or any part of the assets of the issuer or obligor thereof, (2) the increase or reduction of the capital of such issuer or obligor, (3) the liquidation, dissolution, merger or consolidation of such issuer or obligor, or (4) any purpose which would not then materially impair the lien of, or the security interest granted to the Secretary; and

(b) the right to exercise any and all rights of ownership of such securities, including the right to consent or object to the extension, modification or renewal of any thereof, the right to consent or object to any plan of reorganization, or readjustment, and the right to exercise any right, privilege or option pertaining thereto.

SECTION 7. Annual Statement of Company with Respect to the Title XI Reserve Fund. Within 105 days after the close of each fiscal year of the Company at the end of which there are funds in the Title XI Reserve Fund (and at such other times as the Secretary may request in writing), the Company shall submit to the Secretary (with a copy to the Depository) (a) an opinion of counsel satisfactory to the Secretary as to the qualification, under the Section 5(a)(3)(D), of securities acquired pursuant to that subparagraph and then held in the Title XI Reserve Fund and (b) a list of the Eligible Investments held in the Title XI Reserve Fund at the close of said fiscal year (or at the time of the Secretary's request as aforesaid).

SECTION 8. Fund in Lieu of Title XI Reserve Fund. In the event the Vessel or Vessels are subject to a capital construction fund established by the Company, as provided in Section 607 of the Act, whether interim or permanent (herein called the "Capital Construction Fund"), at any time when deposits would otherwise be required to be made into the Title XI Reserve Fund, and the Company elects to deposit such funds into the Capital Construction Fund, then the Company shall enter into an agreement satisfactory in form and substance to the Secretary to the effect that (a) the Capital Construction Fund and all assets so deposited therein shall be and constitute security to the United States in lieu of the Title XI Reserve Fund and the deposit requirements of Section 2 of this Financial Agreement shall be deemed satisfied by deposits of equal amounts in the Capital Construction Fund and (b) the Company and the Secretary may execute such further agreements or documents and take such other actions as may be deemed necessary by the Secretary to perfect the pledge of the security of the Capital Construction Fund.

SECTION 9. Financial Requirements of the Company. (a) Primary Covenants. The Company shall not without the Secretary's prior written consent:

(1) Except as hereinafter provided, make any distribution of earnings, except as may be permitted by (A) or (B) below:

(A) From retained earnings in an amount specified in Section 9(a)(1)(C) below, provided that, in the fiscal year in which the distribution of earnings is made there is no operating loss to the date of such payment of such distribution of earnings, and (i) there was no operating loss in the immediately preceding three fiscal years, or (ii) there was a one-year operating loss during the immediately preceding three fiscal years, but (a) such loss was not in the immediately preceding fiscal year, and (b) there was positive net income for the three year period;

(B) If distributions of earnings may not be made under (A) above, a distribution can be made in an amount equal to the total operating net income for the immediately preceding three fiscal year period, provided that, (i) there were no two successive years of operating losses, (ii) in the fiscal year in which such distribution is made, there is no operating loss to the date of such distribution, and (iii) the distribution or earnings made would not exceed an amount specified in Section 9(a)(1)(C) below;

(C) Distributions of earnings may be made from earnings of prior years in an aggregate amount equal to (i) 40 percent of the Company's total net income after tax for each of the prior years, less any distributions that were made in such years; or (ii) the aggregate of the Company's total net income after tax for such prior years, provided that, after making such distribution, the Company's Long Term Debt does not exceed its Net Worth. In computing net income for purposes of this section, extraordinary gains, such as gains from the sale of assets, shall be excluded;

(2) Enter into any service, management or operating agreement for the operation of the Vessel (excluding husbanding type agreements), or appoint or designate a managing or operating agent for the operation of the Vessel (excluding husbanding agents) unless approved by the Secretary;

(3) (A) Sell, mortgage, transfer, or demise charter the Vessel or any assets to any non-Related Party except as permitted in subsection 9(a)(7) below; or (B) sell, mortgage, transfer, or demise charter the Vessel or any assets to a Related Party, unless such transaction is (i) at a fair market value as determined by an independent appraiser acceptable to the Secretary, and (ii) a total cash transaction or, in the case of demise charter, the charter payments are cash payments; and (C) for the purposes of this Section, the term Related Party shall also include any officer, director, or shareholder of the Company.

(4) Enter into any agreement for both (A) sale and (B) leaseback of the same assets so sold unless the proceeds from such sale are at least equal to the fair market value of the property sold;

(5) Guarantee, or otherwise become liable for the obligations of any Person, except in respect of any undertakings as to the fees and expenses of the Lender, except endorsement for deposit of checks and other negotiable instruments acquired in the ordinary course of business and except as otherwise permitted in Section 9(b);

(6) Directly or indirectly embark on any new enterprise or business activity not directly connected with the business of shipping or other activity in which the Company is actively engaged;

(7) Enter into any merger or consolidation or convey, sell, demise charter, or otherwise transfer, or dispose of any portion of its properties or assets (any and all of which acts are

encompassed within the words "sale" or "sold" as used herein), provided that, the Company shall not be deemed to have sold such properties or assets if (A) the Net Book Value (defined as the original book value of an asset less depreciation calculated on a straight line basis over its useful life) of the aggregate of all the assets sold by the Company during any period of 12 consecutive calendar months does not exceed 10% of the total Net Book Value of all of the Company's assets (the assets which are the basis for the calculation of the 10% of the Net Book Value are those indicated on the most recent audited annual financial statement required to be submitted pursuant to Section 10 hereof prior to the date of the sale); (B) the Company retains the proceeds of the sale of assets for use in accordance with the Company's regular business activities; and (C) the sale is not otherwise prohibited by subsection 9(a)(3) above. Notwithstanding any other provision of this subsection, the Company may not consummate such sale without the Secretary's prior written consent if the Company has not, prior to the time of such sale, submitted to the Secretary the financial statement in clause (A) of this subsection, and any attempt to consummate a sale absent such approval shall be null and void ab initio.

(b) Supplemental Covenants. Unless, after giving effect to such transaction or transactions, during any fiscal year of the Company, (1) the Company's Working Capital is equal to at least one dollar, (2) the Company's Long-Term Debt does not exceed two times the Company's Net Worth and (3) the Company's Net Worth is at least the amount specified in Attachment A hereto, the Company shall not, without the Secretary's prior written consent:

(A) Withdraw any capital;

(B) Pay any share capital or convert any of the same into debt;

(C) Pay any dividend (except dividends payable in capital stock of the Company);

(D) Make any loan or advance (except advances to cover current expenses of the Company), either directly or indirectly, to any stockholder, director, officer, or employee of the Company, or to any Related Party;

(E) Make any investments in the securities of any Related Party;

(F) Prepay in whole or in part any indebtedness to any stockholder, director, officer or employee of the Company, or to any Related Party, which has a Maturity Date of more than one year from such date;

(G) Increase any direct employee compensation (as hereinafter defined) paid to any employee in excess of \$100,000 per annum; nor increase any direct employee compensation which

is already in excess of \$100,000 per annum; nor initially employ or re-employ any person at a direct employee compensation rate in excess of \$100,000 per annum; provided, however, that beginning with January 1, 2000, the \$100,000 limit may be increased annually based on the previous year's closing CPI-U (Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics. For the purpose of this section the term "direct employee compensation" is the total amount of any wage, salary, bonus, commission, or other form of direct payment to any employee from all companies with guarantees under Title XI of the Act as reported to the Internal Revenue Service for any fiscal year;

(H) Acquire any fixed assets other than those required for the maintenance of the Company's existing assets, including the normal maintenance and operation of any vessel or vessels owned or chartered by the Company;

(I) Either enter into or become liable (directly or indirectly) under charters and leases (having a term of six months or more) for the payment of charter hire and rent on all such charters and leases which have annual payments aggregating in excess of \$_____;

(J) Pay any indebtedness subordinated to the Obligation or to any other Title XI obligations;

(K) Create, assume, incur, or in any manner become liable for any indebtedness, except current liabilities, or short term loans, incurred or assumed in the ordinary course of business as such business presently exists;

(L) Make any investment, whether by acquisition of stock or indebtedness, or by loan, advance, transfer of property, capital contribution, guarantee of indebtedness or otherwise, in any Person, other than obligations of the United States, bank deposits or investments in securities of the character permitted for moneys in the Title XI Reserve Fund;

(M) Create, assume, permit or suffer to exist or continue any mortgage, lien, charge or encumbrance upon, or pledge of, or subject to the prior payment of any indebtedness, any of its property or assets, real or personal, tangible or intangible, whether now owned or hereafter acquired, or own or acquire, or agree to acquire, title to any property of any kind subject to or upon a chattel mortgage or conditional sales agreement or other title retention agreement, except (i) loans, mortgages and indebtedness guaranteed by the Secretary under Title XI of the Act or related to the construction of a vessel approved for Title XI by the Secretary and (ii) liens incurred in the ordinary course of business as such business presently exists.

SECTION 10. (a) Annual Financial Statements. The Company shall furnish to the Secretary, in duplicate, (1) within 105 days after the end of the Shipowner's fiscal year commencing

with the first fiscal year ending after the date of the Security Agreement, the Company's Audited Financial Statements including balance sheet and income statement for such fiscal year along with a completed M.A. Form 172 or such other form approved by the Secretary, and (2) within 90 days after the expiration of each semi-annual period of each fiscal year commencing with the first such semi-annual period ending after the date of the Security Agreement, a completed M.A. Form 172 or such other form approved by the Secretary for such semi-annual period along with an Officer's Certificate certifying its accuracy.

(b) Annual No Default Certificates. Within 105 days after the end of the Company's fiscal year, the Company shall furnish to the Secretary, an Officer's Certificate dated as of the close of such fiscal year stating whether or not, the Company is in default in the performance of or in default in the compliance with any covenant, agreement or condition contained herein or in the Mortgage, Security Agreement or charter relating to any Vessel listed in Attachment A hereto, and if so, specifying each such default and stating the nature thereof.

SECTION 11. Qualifying Financial Requirements of the Company. Immediately upon the execution and delivery of this Agreement, the Company shall meet the requirements with respect to Working Capital, Equity and Long Term Debt specified in Section 9(b).

SECTION 12. Notices. Except as otherwise provided in this Agreement, notices, requests, directions, instructions, waivers, approvals or other communication may be made or delivered in person or by registered or certified mail, postage prepaid, addressed to the party as provided below, or to such other address as such party may hereafter specify in a written notice to the other parties named herein, and all notices or other communications shall be in writing so addressed and shall be effective upon receipt by the addressee thereof:

The Secretary as:	SECRETARY OF TRANSPORTATION c/o Maritime Administrator Maritime Administration 400 Seventh Street, S.W. Washington, D.C. 20590
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The Title XI Reserve
Fund Depository as:

The Company as:

SECTION 13. Amendments and Supplements. No agreement shall be effective to amend, supplement, or discharge in whole or in part this Financial Agreement unless such agreement is in

writing signed by the parties hereto. Any amendments, additions, deletions, substitutions or other changes not made in accordance with this provision shall be invalid and of no effect.

SECTION 14. Counterparts. This Financial Agreement may be executed in any number of counterparts. All such counterparts shall be deemed to be originals, and shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, this Title XI Reserve Fund and Financial Agreement has been executed by the parties hereto as of the day and year first above written.

(SEAL)

BY: _____

UNITED STATES OF AMERICA
SECRETARY OF TRANSPORTATION

MARITIME ADMINISTRATOR

BY: _____

Attest:

Assistant Secretary
Maritime Administration

ATTACHMENT A
TITLE XI RESERVE FUND AND FINANCIAL AGREEMENT

(Contract No. MA - _____)

1. This Financial Agreement shall apply to the following Vessels: _____, Official Number _____ and _____, Official Number _____.
2. The Company's aggregate original equity investment for use in Section 2 for Vessel _____ is \$ _____, and for Vessel _____ Is \$ _____.
3. The Company's Net Worth for use in Section 9(b) is \$ _____.

DEPOSITORY AGREEMENT

THIS DEPOSITORY AGREEMENT (the "Agreement") dated as of _____, among (i) _____, a _____ corporation (the "Shipowner"), (ii) the UNITED STATES OF AMERICA represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary"), and (iii) _____, a _____ (the "Depository" and also the "Securities Intermediary").

RECITALS

WHEREAS, Pursuant to the understandings set forth in the Recitals to the Security Agreement executed on this date, the Shipowner has issued an Obligation designated "United States Government Guaranteed Ship Financing Obligation" in an aggregate principal amount not to exceed \$ _____ to finance the construction of the Vessels;

WHEREAS, As further security for the issuance of the Secretary's Guarantee, the Shipowner has granted a security interest in (i) all of its right, title and interest in and to the Title XI Reserve Fund and the Construction Fund (also known as the Securities Accounts) and (ii) all the Financial Assets now on deposit or hereafter placed in deposit in the Securities Accounts to be held and invested in accordance with the terms and conditions of this Agreement; and

WHEREAS, It is the intention of the parties hereto that these security interests be perfected by (i) the execution and delivery of this Agreement and by the Depository's possession on behalf of the Secretary of said Financial Assets and (ii) by the filing of appropriate financing statements to record the Secretary's security interests.

NOW, THEREFORE, in consideration of the premises, the mutual covenants set forth herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, it is hereby agreed:

SECTION 1. Separate Accounts. (a) Title XI Reserve Fund. The Depository agrees when and if required by the Financial Agreement or the Security Agreement to open a separate Securities Account to hold the Title XI Reserve Fund for the benefit of the Secretary in the name of " _____ ", entirely as collateral for the United States of America, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary") and held by the Securities Intermediary solely and exclusively for the benefit of the Secretary."

(b) Construction Fund. The Depository acknowledges the receipt of a deposit in the Construction Fund in an amount of \$ _____ from the proceeds of the Obligation and agrees to hold this amount and any future deposits in a separate Securities Account for the benefit of the Secretary in the name of " _____ ", entirely as collateral for the United States of America, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the

"Secretary") and held by the Securities Intermediary solely and exclusively for the benefit of the Secretary."

(c) The Depository shall send the Secretary and the Shipowner a notice of each account when established (including the account number) and it may not change the name or the account number of either account without the prior written consent of the Secretary.

(d) Moneys from time to time remaining on deposit in the Securities Accounts shall be subject to withdrawal upon receipt by the Depository of a Request for payment (specifying the Person to be paid and the amounts of such payments) executed by the Shipowner and approved by the Secretary. The Depository shall promptly make payment in accordance with the terms of a Request approved by the Secretary. In no event, however, may the Depository make a payment to the Shipowner or any other Person without the prior written approval of the Secretary.

(e) In the event that the Secretary delivers a written notice stating that the Secretary is exercising exclusive control over a Securities Account ("Notice of Exclusive Control"), the Depository shall cease complying with any of the Shipowner's Requests (including an approved Request for payment or a Request to invest or reinvest) or any other instruction from the Shipowner or any other party that would constitute an "entitlement order" as defined by Section 8.102(a)(8) of the UCC.

(f) Coincident with the issuance of a Notice of Exclusive Control, or at any time thereafter, the Secretary may request in writing that the Depository pay all or part of the proceeds of a Securities Account to the Secretary, and the Depository shall promptly disburse to the Secretary the amount requested from the Securities Account in accordance with the Secretary's request.

SECTION 2. Contents and Investment of Accounts. (a) The Depository hereby agrees that each item of property (whether investment property, financial asset, security, instrument or cash) credited to any of the Securities Accounts shall be treated as a Financial Asset. Any cash held by the Depository pursuant to any of the provisions of this Agreement (i) shall be segregated, (ii) shall not be invested or reinvested except as provided in the following paragraph (b), and (iii) shall not bear interest, except as the Shipowner and the Depository may agree.

(b) Unless the Depository shall have received a Notice of Exclusive Control from the Secretary, the Depository shall comply with a Shipowner's Request to invest or reinvest any cash held by the Depository in Eligible Investments; provided, however, that such investments or reinvestments of the Construction Fund shall be limited to negotiable certificates of deposit and direct obligations of the United States and its agencies as permitted by sections 5(a)(1) and 5(a)(3)(A) of the Financial Agreement and shall mature not later than three months from the date of the purchase of the certificate of deposit or the investment or reinvestment.

(c) Unless the Depository shall have received a Notice of Exclusive Control from the Secretary, the Depository shall comply with a Shipowner's Request (or the Secretary's request upon delivery of a Notice of Exclusive Control) to sell all or any designated part of such Eligible

Investments. If such sale (or any payment at maturity) produces (i) a net sum less than the cost (including accrued interest paid, as such) of the Eligible Investments so sold or paid, the Depository shall give written notice to the Shipowner and the Secretary, and the Shipowner shall promptly pay the deficiency to the Depository, or (ii) a net sum greater than the cost (including accrued interest paid as such) of the Eligible Investments so sold or paid, the Depository shall promptly pay the excess to the Shipowner, unless the Depository shall have received a Notice of Exclusive Control from the Secretary.

(d) Unless the Depository shall have received a Notice of Exclusive Control from the Secretary and subject to the provisions of subsection 2(c), the Depository shall pay the Shipowner any interest or dividends paid on cash or Eligible Investments (less an amount equal to accrued interest paid upon purchase) when received by the Depository.

(e) Any and all securities or other Financial Assets credited to each of the Securities Accounts shall be registered in the name of the Depository or any nominee of the Depository, indorsed to the Depository or such nominee or in blank and in no case will any Financial Asset credited to any Securities Account be registered in the name of the Shipowner, be payable to the order of the Shipowner or specially indorsed to the Shipowner, except to the extent the foregoing have been specially indorsed to the Depository.

(f) If any money held by the Depository is invested in "certificated securities" as defined in Section 8-102(4) of the UCC, then the Depository (i) shall take delivery of such certificated securities in bearer form or registered form issued to the Depository or indorsed to the Depository, or in blank; (ii) shall maintain continuous possession of such certificated securities; (iii) shall identify, by book entry or otherwise, that such certificated securities belong to the Shipowner subject to a security interest in favor of the Secretary, and (iv) shall send to the Shipowner and the Secretary a confirmation reflecting the purchase of such certificated securities and the security interest therein in favor of the Secretary.

(g) If any money held by the Depository is invested in direct obligations of the United States Treasury which constitute "book-entry Treasury Securities" as defined in 31 C.F.R. Section 306.115(d) (the "Treasury Securities"), the Depository (i) shall determine that such Treasury Securities are issued in the form of entries on the records of the Federal Reserve Bank of (city) (the "FRB_"), and shall provide the Shipowner and the Secretary with written notice thereof; (ii) shall hold such Treasury Securities in (city) directly through a member of the FRB_; (iii) shall identify such Treasury Securities, by book entry or otherwise, as being registered in the name of the Depository, for the benefit of the Shipowner, subject to the Secretary's security interest therein; and (iv) shall send to the Shipowner and the Secretary a confirmation reflecting the purchase of such Treasury Securities and the security interest therein in favor of the Secretary.

(h) All commissions, brokerage, taxes, and expenses, if any, applicable to the acquisition or sale of Eligible Investments under this Section and payable to the Depository shall be paid by the Shipowner from its separate funds.

SECTION 3. Secretary's Security Interest in Funds. (a) All Financial Assets held by the

Depository, at whatever time, pursuant to the provisions of this Agreement, whether cash, moneys, securities, Eligible Investments, instruments, negotiable documents, chattel paper, proceeds thereof or otherwise, shall constitute and be held by the Depository solely and exclusively for the benefit of the Secretary as security for the payment and performance of any and all of the Secretary's Notes.

By its signature below, the Shipowner and the Depository hereby acknowledges the Secretary's security interest under this Agreement.

(b) The Depository confirms that it has no security interest in any of the Financial Assets in any of the Securities Accounts or any security entitlement credited thereto, and that the Financial Assets will not be subject to deduction, set-off, or bankers lien and that the Depository will take no action to encumber, set-off, recoup, or in any manner apply or retain said property for its own use or benefit or for any Person other than the Secretary.

(c) Except for the interests of the Secretary and the Shipowner in the Securities Accounts, the Depository does not know of any claim to, or interest in, and has not entered into any other agreements with respect to the Securities Accounts or in any Financial Asset credited thereto. If any Person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, warrant of attachment, execution or similar process) against any Securities Account or in any Financial Asset carried therein, the Depository will promptly notify the Secretary and the Shipowner.

(d) The Depository shall promptly send all statements and confirmations with respect to the Securities Accounts to the Secretary and the Shipowner.

SECTION 4. Depository's Responsibilities. (a) The duties of the Depository are only such as are herein specifically provided, being purely ministerial in nature, and the Depository shall incur no liability whatsoever, except for willful misconduct or gross negligence.

(b) The Depository shall be under no responsibility for the Recitals in this Agreement, the genuineness or validity of any document deposited with it, the correctness of any statement or calculation submitted to it, or any losses due to the Shipowner's investment decisions and shall be fully protected in acting in accordance with any written instructions or approval of the Secretary or Request of the Shipowner given it hereunder, and believed by it to have been signed by the proper parties.

(c) The Depository may consult with counsel and shall be fully protected in any action taken in accordance with the advice of such counsel. The Depository shall be fully indemnified by the Shipowner to its satisfaction against any loss, liability or expense which it may incur other than arising from its gross negligence or willful misconduct in acting under the Agreement, including, but not limited to, the cost and expense of defending any legal proceedings which may be instituted against it with respect to the subject matter of this Agreement. The Depository shall not be required to institute legal proceedings of any kind.

SECTION 5. Depository's Fees. The Shipowner agrees to pay or cause to be paid from its

accounts or funds separate from the Securities Accounts, the reasonable expenses (including counsel and investigatory fees) and disbursements of the Depository incurred in connection with the performance of its duties hereunder and the Depository agrees that only the Shipowner is liable for such payment.

SECTION 6. Notices. All notices or other communications may be made or delivered in person, or by nationally recognized courier service, or by fax with hard copy to follow, or by certified or registered mail, postage prepaid, addressed to the particular parties as provided below, or to such other address as such parties may hereafter specify in a written notice to the other parties hereto, and all notices or other communications shall be in writing so addressed, and shall be effective upon receipt by the addressee thereof:

Depository: _____

Shipowner: _____

Secretary: SECRETARY OF TRANSPORTATION
c/o Maritime Administrator
Maritime Administration
U.S. Department of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590
FAX: 202-366-7901

SECTION 7. Amendments and Supplements. No Agreement shall be effective to change or modify, supplement, amend or discharge in whole or in part this Agreement, unless such agreement is in writing, signed by the Parties. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto, but the Depository shall not have the right to assign this Agreement or its rights hereunder without the prior written consent of the Shipowner and the Secretary and any attempt to do so shall be null and void ab initio.

SECTION 8. Resignation, Removal and Succession of Depository. (a) The Depository may resign at any time by giving written notice to the Shipowner and the Secretary. The Depository may at any time be removed by the Shipowner with the prior written consent of the Secretary, or by the Secretary by written notice delivered to the Depository with a copy to the Shipowner.

(b) If any notice of resignation or of removal shall have been given pursuant to Section 8(a), then a successor Depository shall promptly be appointed by (i) the Shipowner with the prior written consent of the Secretary, or (ii) the Secretary if the Shipowner fails to appoint an acceptable

Depository within thirty (30) days of such resignation or removal.

(c) Any resignation or removal of the Depository shall be effective only upon the appointment by the Shipowner, with the written consent of the Secretary, of a successor Depository and acceptance by the successor Depository.

(d) Upon appointment and acceptance as Depository, each successor Depository shall forthwith, without further act or deed, succeed to all the rights and duties of its predecessor under this Depository Agreement. Such predecessor shall promptly deliver to such successor Depository all Financial Assets held in any Securities Account pursuant hereto, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Depository hereunder. Upon the written request of the successor Depository, the Secretary or the Shipowner, such predecessor shall transfer, assign, and confirm to the successor Depository all of its rights under this Agreement by executing and delivering from time to time to the successor Depository such further instruments, and by taking such other action as may reasonably be deemed by such successor Depository, the Secretary, or the Shipowner to be appropriate in connection therewith.

SECTION 9. Definitions. For all purposes of this Agreement, unless otherwise expressly provided or unless the context otherwise requires, all capitalized terms shall have the meaning given by Schedule X to the Security Agreement.

SECTION 10. Governing Law. This Agreement and the rights and obligations of the parties hereto, shall be governed by and construed in accordance with the federal laws of the United States of America, but if they are inapplicable then in accordance with the laws of the State of _____.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by their respective officers thereunto, duly authorized as of the day and year first above written.

Attest:

By: _____
Title:

Attest

BY: _____
Title:

UNITED STATES OF AMERICA
SECRETARY OF TRANSPORTATION
Maritime Administrator

Secured Party

Attest

BY: _____
Title: Secretary
Maritime Administration