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ARTICLE I
DEFINITIONS; OFFICER'S CERTIFICATES AND 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 Officer's 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 the Officer to express an informed opinion with respect to such covenant or condition; and (c) believes to the best of the Officer's 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 Company 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 Company 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 MAST Item under its related Construction Contract), together with all other contracts, whether now in existence or hereafter entered into, relating to the Construction of each MAST Item.

(2) The Company's rights to receive all moneys which from time to time may become due to the Company with respect to the Construction of each MAST Item 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 MAST Items." The Secretary acknowledges and agrees that the Moneys Due with Respect to the Construction of the MAST Items will be paid directly to the Depository for application in accordance with this Security Agreement and the Indenture.

(3) All Shipyard Assets;

(4) The Title XI 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 thereof.

(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 and Surety Bonds relating to the construction or equipping of the Shipyard and, whether or not insured, claims for any loss of rent the Company may have with respect to the Shipyard.

(8) The Company's rights to any contract for the construction of vessels which are financed under Title XI, whether now in existence or hereafter arising, together with all moneys which from time to time become due to the Company with respect to such contracts.

(9) All rights, if any, of the Company in any shipbuilding plans, designs, other naval architecture drawings with respect to ship construction contracts subject to Granting Clause 8 hereof, shipyard plans and designs, and, to the extent assignable, in any computer and software systems and programs.

(10) All proceeds of the collateral described herein.

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

(11) The Mortgage, to be executed and delivered by the Company to the Secretary, as mortgagee, on the date hereof, covering the Shipyard.

(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 Company under the Secretary's Note and as collateral security for and with respect to the Guarantees whether now made or hereafter entered into.

(c) Notwithstanding Section 1.03(a) and (b), (1) the Company 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 Company thereunder; and (3) if there is no existing Default, the Company 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 Section 1.03 and shall be entitled to receive all of the benefits accruing to it thereunder as if Section 1.03(a) and (b) were not applicable.

(d) The Company 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 COMPANY'S REPRESENTATIONS AND AGREEMENTS

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

SECTION 2.01. Company's Representations, Agreements, Organization and Existence. (a) **General Representations.** The Company 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 Company 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 its existence. The Company 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, power and authority to own its own properties and assets and conduct its business as it is presently conducted;

(2) the Company had and has legal power and authority to enter into and carry out the terms of the Guarantee Commitment, the Construction Contract, Bond Purchase Agreement, Obligations, Indenture, 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 Company and constitutes, in accordance with its respective terms, legal, valid and binding instruments enforceable against the Company, 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 Company of all the terms and provisions of the Documents will not violate any provisions of the formation documents of the Company 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 Company or by which the Company is bound or any order of any court or administrative agency entered into in any proceedings to which the Company is or has been a party; and

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

(b) **Taxes.** The Company 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 Shipyard. (a) **Title to and Possession of the Shipyard.** On the date of this Security Agreement, the Company represents and warrants that it

lawfully owns the Shipyard and that on the relevant Delivery Dates, the Company will lawfully own each MAST Item, free from any liens whatever subject only to (1) the equity, if any, of the Contractors under the Construction Contract, (2) liens on any undelivered MAST Items which any Contractor 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, and (4) the Secretary's rights hereunder. The Company shall, for the Secretary's benefit, warrant and defend the title to, and possession of the Shipyard and every part thereof against the claims and demands of all Persons whomsoever.

(b) Sale, Encumbrance, Lease or Transfer of the Shipyard. The Company shall not, without the Secretary's prior written consent, sell, encumber, lease or transfer the Shipyard or any part thereof to any Person, provided, however, that the foregoing shall not apply to condemnations of Shipyard property.

(c) Taxes and Governmental Charges. The Company 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 the Shipyard, unless the same are being contested in good faith.

(d) Liens. (1) As a condition precedent to each payment by the Company under the Construction Contract, the Company shall require an Officer's Certificate from the Contractors stating that once the Contractors receive said payment, there will be no liens or rights of any Person against the respective MAST Item. At the Delivery Date of each MAST Item, the Company and the Contractors shall provide an Officer's Certificate stating that there are no liens or rights of any Person against the respective MAST Item except for rights in favor of the Secretary.

(2) The Company may not permit the Shipyard to become subject to any lien, charge, or encumbrance. The Company shall maintain the Shipyard free from all orders, notices, and violations filed or entered by any public or quasi-public authorities. Should a lien or claim of lien be filed against the Shipyard by any Contractor, subcontractor, mechanic, laborer, materialman or any other person whomsoever retained by the Company, the Company shall within thirty (30) days after receipt of notice thereof, cause the same to be discharged of record. If a judgment on any lien, charge, encumbrance, order, notice or, violation is rendered against the Shipyard for any work performed by or for the Company or any person claiming through or under the Company and should the Company fail to discharge such judgment, the Secretary shall have the right, but not the obligation, to discharge said judgment. If the Secretary exercises that option, any amounts paid by the Secretary shall be due from the Company as a debt pursuant to the terms of Section 2.08 and a Default under Section 6.01 hereof.

(e) Compliance with Applicable Laws. The Company shall at all times be in compliance with all applicable U.S. laws. In addition, each MAST Item shall be designed to meet, and on the Delivery

Date thereof and at all times thereafter, shall meet all requirements of applicable laws, rules and regulations thereunder; provided that the foregoing shall not apply if (A) the Shipyard or any part thereof has been condemned; (B) there has been an actual or constructive total loss or an agreed or compromised total loss of such Shipyard; or (C) there has been any other loss with respect to the Shipyard or any part thereof and the Company shall not have had a reasonable time to repair the same.

(f) Condition and Maintenance of the Shipyard. (1) The Company shall maintain and preserve at its own cost and expense the Shipyard, so far as may be practicable, in at least as good order and condition, as on the date hereof, and the Company shall maintain and preserve at its own cost and expense the Mast Items, so far as may be practicable, in at least as good order and condition, as on the Delivery Date of the respective Items, ordinary wear and tear excepted; provided however, that the foregoing provisions shall not apply where required otherwise by any military authority of the United States and except during such period as (A) the Shipyard or any part thereof, has been condemned, (B) there has been an actual or constructive total loss or an agreed or compromised total loss of the Shipyard or any part thereof, or (C) there has been any other loss with respect to the Shipyard or any part thereof and the Company shall not have had a reasonable time to repair it.

(2) On the Delivery Date of the Shipyard or upon the earlier completion of any of the MAST Items, when so requested by the Secretary, the Company shall furnish to the Secretary all certificates required by law, rule, regulation, or the Construction Contracts regarding the compliance of the Shipyard with required inspections, specifications and standards.

(g) Material Changes in the MAST Items. After the Delivery Date of any MAST Item, the Company shall not make, or permit to be made, any material change in the structure of the MAST Item or the Shipyard as it pertains to such MAST Item unless it shall have received the Secretary's prior written consent thereto.

SECTION 2.03. Maintenance of Construction Contracts. (a) The Construction Contracts shall be maintained in full force and effect regarding due performance by the Company of all its obligations thereunder, and the Company shall not, without the Secretary's prior written consent, amend, modify, assign or terminate the Construction Contracts, or consent to any change in the Construction Contracts which releases the Contractors from their obligations to comply with all applicable laws, 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 MAST Items construction, one (1%) percent of the Vessels Contract Price and which do not, in the aggregate, cause the MAST Items Contract Price to be increased more than five (5%) percent or the delivery and completion date of the MAST Items 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 MAST Items which changes the capacity of the MAST Items 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. No withdrawals may be made from the Escrow Fund for work that is determined not to be includable in Actual Cost.

(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 Section 2.03(a). The Company shall not enter into a construction management agreement without the Secretary's prior written consent.

SECTION 2.04. Execution and Delivery of Evidence of Perfected Security Interests. On the Closing Date or on the Delivery Date of each MAST Item, if earlier compliance is not legally possible, the Company:

(1) shall have executed and delivered to the Secretary all documentation necessary to grant to the Secretary a security interest therein;

(2) shall have effected all recordings required by law to perfect such security interest;

(3) shall have taken all action necessary to ensure that the Secretary's security interest in such MAST Item is of first priority; and

(4) shall have delivered to the Secretary an opinion of its independent counsel, in form and substance satisfactory to the Secretary, relating to the perfection and priority of such security interests.

SECTION 2.05. Insurance. (a) The Company shall procure and maintain, at its sole cost and expense and without cost to the Secretary, insurance of the type, and in the amounts set forth below covering the Shipyard with such underwriters or companies as the Secretary, in its sole discretion, shall approve, including but not limited to the following:

(1) commencing on the Delivery Date of the last MAST Item and continuing thereafter, all risk property damage coverage including coverage for fire, flood, earthquake, windstorm, theft, malicious mischief and vandalism in an amount set forth in the Special Provisions hereof, but in no event less than the greater of 110% of the outstanding balance of the Secretary's Note (less amounts in the Escrow Fund) or the full commercial value of the Shipyard;

(2) on the date hereof and continuing thereafter, comprehensive public liability coverage insuring the Company against loss, damage or liability for injury to, or death of persons, and loss or damage to property occurring from any cause whatsoever in, upon or about the Shipyard in such amounts as are reasonably required by the Secretary, but in any event not less than the amount set forth in the Special Provisions hereof for injury or death in any one accident or occurrence, and not less than the amount set forth in the Special Provisions hereof for property damage in any one accident or occurrence;

The Company shall have the right to self-insure for property damage in an amount not to exceed the amount set forth in the Special Provisions hereof, and for comprehensive public liability in an amount not to exceed the amount set forth in the Special Provisions hereof, for any loss resulting from one accident or occurrence insured above, or such greater amount as may be approved with the Secretary's prior written consent.

(3) on the date hereof and continuing thereafter, workmen's compensation under applicable State and Federal statutes including Longshoreman's and Harbor Workers' Compensation coverage and Employer's Liability insurance with a minimum limit of \$1 million dollars.

(4) on the date hereof, Builder's Risk insurance on an "All Risks" basis with a limit of not less than the full insurable replacement cost of the Shipyard subject to deductible amounts as agreed to by the Secretary, and covering the Shipyard and all materials and equipment to be incorporated therein, including property in transit or elsewhere and insuring the interests of the Secretary and its related entities, Contractors, and subcontractors of all tiers. Such insurance shall state that it is primary, shall include coverage for physical damage resulting in any way from the performance and shall include an insurer's waiver of subrogation or right of recourse in favor of each party insured thereunder. Furthermore, such insurance shall remain in effect until the Delivery Date of all the MAST Items.

The Builder's Risk policy shall also name the United States of America as assured and provide that payment of all losses in excess of \$100,000 shall be payable to the Secretary for distribution by it to itself, and the Company as their interests may appear. The policy shall provide

no recourse against the United States of America for payment of premium and a 30-day prior written notice of cancellation or reduction in coverage to the Maritime Administration, Chief, Division of Marine Insurance, 400 7th Street, S.W., Washington, D.C. 20590. The amounts, terms and conditions, deductibles and underwriters shall at all times be satisfactory to the Maritime Administration.

(b) The property damage insurance policies maintained pursuant to Section 2.05(a)(1) shall provide that all insurance proceeds for loss of or damage to any property of the Shipyard shall be payable as follows:

(1) The property damage insurance 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 it to itself and the Company, except that 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 Company unless there is an existing Default, or if the Secretary shall have assumed the Company's rights and duties under the Indenture and the Obligations and made any payments in default under the terms of Section 6.09 of the Indenture, in which event payment of all losses shall be made payable to the Secretary.

The Comprehensive Public Liability shall provide that (i) if the Company shall not have incurred the loss, damage, or expense in question, any loss under such insurances may be paid to the person to whom any liability covered by such policies has been incurred (whether or not a Default then exists) and (ii) if the Company shall incur the loss, damage or expense in question, any such loss shall be paid to the Company in reimbursement if there is no existing Default of which the underwriter has written notice from the Company or the Secretary, or, if there is such an existing Default, to the Secretary to be held and applied as provided in Section 6.05 hereof.

(2) if there is an existing Default of which the underwriter has actual knowledge or written notice from the Company or the Secretary, such proceeds shall be payable to the Secretary for distribution as follows:

(A) if the Secretary consents to the repair or replacement of the lost or damaged Shipyard property, then payment shall be made directly to the Person who repairs or replaces, and the remainder, if any, shall be applied to the outstanding principal of and interest on the Obligations (with an attendant reduction of the principal of and interest on the Secretary's Note);

(B) if the Secretary either pays the Guarantee or assumes the Obligations, then payment shall be made in accordance with Section 6.05 hereof; or

(C) if the Guarantees have terminated by agreement of the Obligees, then the payment shall be made to the Company.

(c) The Company agrees that all proceeds for any event involving loss of and/or damage to its property shall be applied first to either the repair and/or replacement of the lost or damaged Shipyard property, or to the repayment of the Obligations (and Secretary's Note) as aforesaid, to the extent of the full repair or replacement cost thereof. Only after the proceeds have been used to fully repair and/or replace all such lost or damaged Shipyard property, may the remainder, if any, be applied to repair or replace other lost or damaged property.

(d)(1) The Property Damage and Comprehensive Public Liability policies required by this section shall name the United States of America as a named assured.

(2) Unless otherwise consented to by the Secretary, all insurance required under paragraph (a) of this Section shall provide:

(A) that there shall be no recourse against the United States for the payment of any premiums, commissions, calls, assessments, advances, or any other charges; and

(B) at least 30 days prior written notice of any cancellation for the non-payment of premiums, commissions, calls, assessments or advances shall be given to the Secretary by the underwriters.

(3) All policies required by this Section which have foreign underwriters shall contain the New York Suable Clause or Service of Suit (USA) Clause.

(e) Without the Secretary's prior written consent, the Company shall not take any action or voluntarily suffer or permit any action to be taken whereby any insurance required by this Section is suspended, impaired or defeated.

(f) On or before the Closing Date, the Company shall deliver to the Secretary copies, and, whenever so requested by the Secretary, the originals of all cover notes, binders, evidences of insurance and policies, and all endorsements and riders amendatory thereof relating to the insurance required hereunder, for the purpose of inspection and/or safekeeping. Alternatively, the Secretary may require submission of letters of undertaking from the broker holding them. On each anniversary of the Closing Date so long as this Security Agreement remains effective, the Company shall deliver to the Secretary a certificate from the Company's insurance broker with confirmation of insurance in a form approved by the Secretary stating that the insurance required by this Section is in full force and effect.

(g) In the event of an accident, occurrence or event resulting in a constructive total loss of any Shipyard property, the Secretary shall have the right (with the Company's prior written consent, unless there is an existing Default, and at any time prior to the Delivery Date with respect to a MAST Item not yet delivered by a Contractor, then also with the prior written consent of that Contractor), to claim for a constructive total loss of any Shipyard property, and, if both (1) such claim is accepted

by all underwriters under all policies then in force as to the Shipyard under which payment is due for total loss and (2) payment in full is made in cash under such policies, then the Secretary shall have the right to abandon the Shipyard property to the underwriters under such policies, free from the lien of this Security Agreement and the Mortgage.

(h) The Secretary shall not have the right to enter into an agreement or compromise providing for an agreed or compromised total loss of Shipyard property without prior written consent of (i) the Contractor (prior to the Delivery Date with respect to MAST Items not yet delivered by a Contractor) and (ii) (unless there is an existing Default) the Company. If (1) the Company shall have given prior consent thereto or (2) there is an existing Default, the Secretary shall have the right in its discretion, and with the prior written consent of the Contractor prior to the Delivery Date with respect to MAST Items not yet delivered by a Contractor, to enter into an agreement or compromise providing for an agreed or compromised total loss of the Shipyard property; provided that, if the aggregate amount payable to the Company and/or the Secretary under such agreement or compromise, together with funds held by the Secretary and available for the redemption of Obligations, is not sufficient to redeem or pay the Proportionate Part of the Outstanding Obligations pursuant to Section 2.07, the Secretary shall not enter into such agreement or compromise without the Company's prior written consent.

SECTION 2.06. Inspection of the Shipyard; Examination of Company's Records. Upon reasonable notice, the Company shall (a) afford the Secretary access to its entire facility for the purpose of inspection; (b) maintain records of all amounts paid or obligated to be paid by or for the account of the Company for each MAST Item; 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 Company, and to take information therefrom and make transcripts or copies thereof.

SECTION 2.07. Condemnation, Requisition or Total Loss. In the event the Shipyard or any part thereof is condemned, forfeited, or if there shall have been an accident, occurrence or event resulting in the actual or constructive total loss or an agreed or compromised total loss of the Shipyard or any part thereof, then all of the following shall apply:

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

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

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

(1) if there is no existing Default, (A) the Secretary and the Company shall give notice to the Indenture Trustee of a redemption of Proportionate Part of the Outstanding Obligations

pursuant to Section 3.05 of the Indenture, (B) such amount, if any, held by the Secretary, shall be paid by the Secretary to the Indenture Trustee not earlier than 10 days prior to, nor later than the opening of business on, the Redemption Date required by Section 3.05 of the Indenture, (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 Company including any interest earned on the proceeds which are in excess of the amount required to redeem the Obligations;

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

(3) if the Guarantees shall have terminated pursuant to Section 3.02(c) or if the Secretary shall have assumed the Company's rights and duties under the Indenture and the Obligations and made any payments in default under Section 6.09 of the Indenture, such amounts shall be applied as provided in Section 6.05; or

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

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

SECTION 2.08. Performance of Company's Agreements by the Secretary. If the Company shall fail to perform any of its agreements hereunder or under the Mortgage, the Secretary may, in its 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 the 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 Company to the Secretary and shall be secured hereunder and under the Mortgage prior to the Secretary's Note and shall be repaid by the Company 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 2.09. Filings and Recordings; Further Assurances. The Company shall (a) furnish evidence satisfactory to the Secretary that all real estate recordations and all financing statements filed under the U.C.C., and all filings, recordings, or notices required by law have been filed against the Company and/or the Contractors in all offices in which it may be necessary or advisable in the opinion of the Secretary to perfect its 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 Company to the effect that all U.C.C. Financing Statements, or other filings and recordings, including any real estate recordations, have been filed to perfect the Secretary's interests in the Security as valid and enforceable first priority perfected security interests.

SECTION 2.10. Modification of Formation Agreements. (a) If the Company 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 Company, any member of the Company or the management of the Company results or would result in dissolution of the Company pursuant to its limited liability company agreement or governing law, each member of the Company shall forthwith take all steps necessary to reform and reestablish the Company.

SECTION 2.11. Members of Limited Liability Companies. All existing and future members of a Company 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 Company to a Member with respect to its interest (as that or the equivalent term is used in the Company's limited liability company agreement) (the "Distributions") shall be subordinated to the Company's payment of the Secretary's Note and debts under the Security Agreement, provided that such Distributions may be paid to the extent the Company is permitted to pay dividends under the Financial Agreement; (2) that in the event of default by the Company 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 Company until the Secretary has made a full recovery of any and all amounts owed under the Secretary's Note and the Security Agreement.

SECTION 2.12. Concerning the Performance and Payment Bonds. During the Construction, the Company shall cause to be maintained Performance Bonds and Payment Bonds naming the Company and the Secretary as co-obligees (the "Surety Bonds") in form and substance satisfactory to the Secretary, to be obtained by the Contractors identified by the Secretary in the amount of those Construction Contracts, 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 those Construction Contracts are increased, then the Surety Bonds shall be increased simultaneously in a corresponding amount. The Company 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 Company 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 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 Company hereby irrevocably appoints the Secretary, the true and lawful attorney of the Company, in its name and stead, to execute all consents, approvals, settlements and agreements on behalf of the Company with respect to any rights related to the Surety Bonds.

ARTICLE III THE SECRETARY'S NOTE

SECTION 3.01. Secretary's Note. On this date, the Company 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 Obligations.

SECTION 3.02. Termination of the Guarantees. Except as provided in Section 6.08 of the Indenture, the Guarantee with respect to a particular 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 Obligees of all the Obligations then Outstanding shall have elected to terminate the Guarantees, and the Secretary has been so notified by the Indenture Trustee or all Obligees 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 Indenture Trustee and each Obligee shall have failed to demand payment of such Guarantee as provided in the Indenture, Guarantee, or the Act.

SECTION 3.03. Execution of Additional Secretary's Note. (a) In the event and when each new issue of Obligations is executed, authenticated and delivered on a date or dates subsequent to the date hereof, as contemplated by, and pursuant to the Indenture the Company shall, at the time of the issuance of such Obligations, 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 Obligations, on the terms stated in the Secretary's Note.

(b) Each Secretary's Note or endorsement executed and delivered in accordance with this Section 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 MAST ITEMS

SECTION 4.01. Construction Fund. (a) The Company 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 Company may withdraw money from the Construction Fund under the same procedures and conditions as the Company may withdraw money from the Escrow Fund under Section 5.03, except that the Company’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 MAST Items. (a) In the event that the Company shall receive any moneys from any Person in connection with the Construction of any MAST Item, the Company 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 redemption of Obligations under the Indenture shall be paid to the Company.

(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 Company's rights and duties under Section 6.09 of the Indenture or pays the Guarantees, the Depository shall promptly pay all moneys including all Moneys Due with Respect to Construction of the MAST Items 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 MAST Item (and the aggregate Actual Cost of all of the MAST Items), 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 MAST Item, limited to amounts paid by or for the account of the Company 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 Company of the full amount of said Actual Cost of such MAST Item, excluding any amounts which are not to become due and payable, and (2) promptly give written notice to the Company, of the results of said final determination; provided that, the Company 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 Company'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 Company for the Construction of such MAST Item, together with a breakdown of such totals according to the items which have been paid or are obligated to be paid.

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

SECTION 5.03. Escrow Fund Withdrawals. (a) The Secretary shall within a reasonable time after written Request from the Company, disburse from the Escrow Fund directly to the Indenture Trustee, any Paying Agent for such Obligations, the Contractors, or any other Person entitled thereto, any amount which the Company is obligated to pay, or to the Company 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 Company 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 Shipyard; (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 Contractors are paid there will be no liens or encumbrances on the applicable MAST Items for which the withdrawal is being requested except for those already approved by the Secretary; and (E) if the MAST Item has already been Delivered, it is being maintained in the highest and best condition. The Company shall also attach an Officer's Certificate of the Contractors, in form and substance satisfactory to the Secretary, stating that there are no liens or encumbrances as provided in clause (D) of this Section 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 Company from sources other than the proceeds of such Obligations equals at least 12-1/2% of the Actual Cost of the MAST Items are made; (C) to the Company which would have the effect of reducing the total amounts paid by the Company 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 Company for the MAST Items and up to 37 1/2% of Actual Cost has been withdrawn from the Escrow Fund for the MAST Items, the Company shall pay the remaining Company'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 the MAST Items.

(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 Interest Payment Date on the principal amount, as determined by the Secretary, remaining on deposit on such Interest Payment Date, may, unless there is an existing Default, be disbursed by the Secretary upon the Company's Request made not more than 10 Business Days prior to such Interest Payment Date or made within at least 60 days after such Interest 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 Company shall, no later than the time for such disbursement, pay to the Indenture Trustee, any Paying Agent, the Contractors, or any other Person entitled thereto, the balance of the requested disbursement from the Company's funds other than the proceeds of such Obligations.

(d) If the Secretary assumes the Company's rights and duties under the Indenture and the Obligations, and makes any payments in default under the Indenture, or the Secretary pays the Guarantees, all amounts in the Escrow Fund (including realized income which has not yet been paid to the Company), shall be paid to the Secretary and be credited against any amounts due or to become due to the Secretary under the Security Agreement and the Secretary's Note. To the extent payment of the Escrow Fund to the Secretary is not required, said amounts or any balance thereof, shall be paid to the Company.

(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, the Secretary shall give written notice

to the Company 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 Company 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 Company shall not seek or receive reimbursement for any amount paid to the Contractors 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 MAST Items or the Secretary shall have paid the Guarantees or shall have assumed the Company's rights and duties under Section 6.09 of the Indenture, 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 3.05 of the Indenture (but in no event shall any such disbursement for such purpose be in an amount greater than the related Proportionate Part of the Outstanding Obligations); (2) payment to the Company, or its order, in the event all Outstanding Obligations are Retired or Paid, other than by payment of the Guarantees; or (3) application as provided in Section 6.05, if the Secretary shall have paid the Guarantees or shall have assumed the Company's rights and duties under the Indenture and the Obligations.

(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 3.04 of the Indenture to retire a Proportionate Part of the Outstanding Obligations.

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 upon agreement with the Company, shall deliver to the Treasury Department instructions for the investment, reinvestment and liquidation of the Escrow Fund. The Secretary shall have no liability to the Company 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 Company upon receipt by the Secretary of such income. For the purpose of this Section, 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 over their cost (less any losses from sale not already paid pursuant to Section 5.03(c)) and (2) cash received from the payment of principal and interest on securities.

SECTION 5.06. Termination Date of the Escrow Fund. The Escrow Fund will terminate 90 days after the Delivery Date of the last MAST Item 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 Company of the full amount of the aggregate Actual Cost of all MAST

Items 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 Company and the Secretary by written agreement shall extend the Termination Date of the Escrow Fund for such period as shall be determined by the Company 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 MAST Items in accordance with Section 5.01, the Termination Date of the Escrow Fund shall be deemed to be the date of such final determination; provided that, if as a result of such final determination, a redemption of Obligations is required pursuant to Section 3.04 of the Indenture, the Termination Date shall be the date specified as the Redemption Date in the notice of redemption given pursuant to Section 3.08 of the Indenture.

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 any of the Outstanding Obligations when the same shall become due and payable; or default in the payment of the whole or any part of the principal of any of the Outstanding Obligations when the same shall become due and payable, whether by reason of Maturity, redemption, acceleration, or otherwise, or any default referred to in Section 6.08 of the Indenture; and continuation of such default for a period of 30 days shall constitute and is herein called a "Payment Default." 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 Company in the due and punctual observance and performance of any provision in Sections 2.02(b), 2.03, 2.04, 2.09, 2.12, 8.01 and 8.02;

(2) Default by the Company continued after written notice specifying such failure by certified or registered mail to the Company 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 2.11.

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

(4) The Company shall become insolvent or bankrupt or shall cease paying or providing for the payment of its debts generally, or the Company 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 Company under the Bankruptcy Code shall be filed by the Company, 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 Company 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 bankruptcy, common law or equity proceedings, shall be appointed, by a decree of a court of competent jurisdiction, with respect to the Shipyard, or all or substantially all of the Company'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, or the Guarantee Commitment, 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 relating to any other property owned by the Company and financed under the Act;

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

At any time following the occurrence of a Security Default, the Secretary may give the Indenture Trustee a Secretary's Notice with respect to such Security Default, after which the Indenture Trustee and the Obligees shall have the right to make demand for payment of the Guarantees in accordance with the Indenture and the Authorization Agreement unless the Secretary shall have assumed the Company's rights and duties under the Indenture and the Obligations and made any payments in default under Section 6.09 of the Indenture.

SECTION 6.02. Acceleration of Maturity of the Secretary's Note. The Secretary may, by giving written notice to the Company, 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 Guarantees pursuant to the terms of the Indenture and the Authorization Agreement, or (b) the Secretary shall have assumed the Company's rights and duties under the Indenture and the Obligations, and made any payments in default under the terms of Section 6.09 of the Indenture. 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 Company's rights and duties under the Indenture and the Obligations, and made any payments in default under Section 6.09 of the Indenture, 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 Company, the Secretary shall waive the consequences of such event.

(b) If the Secretary shall not have assumed the Company's rights and duties under the Indenture and the Obligations, and made any payments in default under Section 6.09 of the Indenture, and if the Secretary shall have determined prior to payment of the Guarantees 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 Indenture Trustee or an Obligee for payment under the Guarantees, upon a Request by the Company, 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 Guarantees that a Payment Default had not occurred or has been subsequently remedied by the Company (and if the Secretary shall not have assumed the Company's rights and duties under the Indenture and the Obligations, and made any payments in default under Section 6.09 of the Indenture and prior to any payment of Guarantees), the Secretary shall notify the Indenture Trustee and the Company 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 Indenture Trustee the Secretary's Notice.

(e) The Secretary shall notify the Company and the Indenture Trustee 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 Company's rights and duties under the Indenture and the Obligations, and made any payments in default under Section 6.09 of the Indenture.

SECTION 6.04. Remedies After Default. (a) In the event of a Default and before and after the payment of the Guarantees or the assumption by the Secretary of the Company's rights and duties under the Indenture and the Obligations, and the making of any payments in default under Section 6.09 of the Indenture, the Secretary shall have the right to take any or all of the Security without legal process wherever the same may be (and the Company or other Person in possession shall forthwith surrender possession thereof to the Secretary upon demand) and hold, maintain, lease, operate, or otherwise use the items of Security 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 thereof and charging against all receipts from said use all reasonable charges and expenses in connection therewith.

(b) Upon either (i) payment of the Guarantees or (ii) the Secretary's assumption of the Company's rights and duties under the Indenture and the Obligations and the making of any payments in default under Section 6.09 of the Indenture, the Secretary shall have the right to:

(1) Exercise all the rights and remedies in foreclosure and otherwise given to mortgagees, secured creditors and lienors by applicable statutes;

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

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

(4) Sell any of the Security free from any claim of the Company, by public extra-judicial sale, held at such time and place and in such manner as the Secretary may reasonably deem advisable, after 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 to the Company, such publication and mailing to be made at least ten (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 for such sale or adjourned sale). It shall not be necessary to bring any item of Security 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 Company or other Person in possession shall forthwith surrender possession to the Secretary), the whole or any part of any item of 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, an agreed or compromised total loss, condemnation or requisition of the Shipyard or any portion thereof, all

insurance or other payments therefor to which the Company 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 all claims arising under this Security Agreement, and to collect such claims from the Increased Security.

(c) The Company hereby irrevocably appoints the Secretary the true and lawful attorney of the Company, 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 Company 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 Company 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 advances by, and all reasonable charges and expenses of, the Secretary pursuant to this Security Agreement;

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

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

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

(5) to the Indenture Trustee for its reasonable fees and expenses; and

(6) any balance thereof remaining shall be paid to the Company.

SECTION 6.06. General Powers of the Secretary. (a) In the event the Shipyard or any part thereof is condemned, seized, subject to foreclosure or repossessed by any Person and shall not be released within 15 days, the Company hereby authorizes the Secretary, in the name of the Company, to apply for and receive possession of and to take possession of the Shipyard or any part thereof, with all the rights and powers that the Company might possess and exercise in any such event. This authorization is irrevocable.

(b) The Company irrevocably authorizes the Secretary or its appointee (with full power of substitution) to appear in the name of the Company in any court 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 Company to the Secretary and shall be repaid by the Company 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 remedies pursuant to Section 6.04(b), or the assumption by the Secretary of the rights and duties of the Company under the Indenture and the Obligations and the making of any payments in default under Section 6.09 of the Indenture (including, but not limited to fees paid to the Indenture Trustee for expenses incident to said assumption of the Indenture 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 the failure to) take any action provided for in paragraphs (a) and (b) of this Section.

ARTICLE VII AMENDMENTS AND SUPPLEMENTS TO THE SECURITY AGREEMENT AND INDENTURE

SECTION 7.01. Amendment and Supplements to the Security Agreement. This Security Agreement shall be amended or supplemented only by an instrument in writing executed by the Company and the Secretary.

SECTION 7.02. Amendments and Supplements to the Indenture. Notwithstanding any provisions in the Indenture, the Company agrees that no amendments or supplements will be made to the Indenture 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 Company with or into any other Person, or any sale of the Shipyard or any MAST Item to any other Person lawfully entitled to acquire and operate the Shipyard, or the sale by the Company of all or substantially all of its assets to any other Person; provided that, the Secretary shall have given its prior written consent to such succession, merger, consolidation or sale.

(b) Any Successor shall (1) expressly assume the payment of the principal of (and premium, if any) and interest on the Outstanding Obligations in accordance with the terms of the Obligations, (2) execute and deliver to the Secretary an endorsement to the Secretary's Note, a supplement to the Indenture, an amendment to this Security Agreement, the Mortgage, and any related document, each in form and substance satisfactory to the Secretary, and each expressly assuming the obligation to perform the agreements of the Company thereunder. Upon execution of these documents, the Successor shall succeed to and be substituted for the Company with the same force and effect as if it had been initially named in those documents.

(c) In the event of any sale of less than the Shipyard, the Secretary shall determine if there will remain adequate security for the Guarantees after discharge of any of the MAST Items from the Security Agreement and Mortgage, and either (1) the Company shall redeem, together with any premium and accrued interest thereof, the Proportionate Part of the Outstanding Obligations relating to such item in accordance with the provisions of Article Third of the Indenture, or (2) the Person to which such sale shall have been made (the "Transferee"), shall assume, in appropriate part, the documents listed in paragraph (b) of this Section and be substituted for the Company as described in paragraph (b) of this Section.

SECTION 8.02. Transfer of a General Partner's or a Joint Venturer's Interest. If the Company 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. Company's Name or Address Change. The Company 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 MORTGAGE**

SECTION 10.01. Discharge of Security Agreement and Mortgage. (a) If the Obligations and the related Secretary's Note shall have been satisfied and discharged, and if the Company 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 Company's Request and at the Company'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 Company such instruments as may be necessary.

(b) If all of the Guarantees on the Outstanding Obligations shall have been terminated pursuant to Section 3.02(b) or (d), the Secretary shall assign to the Company 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 Company and the Secretary in this Security Agreement shall bind the Secretary and the Company, and its respective successors and assigns. This Security Agreement is for the sole benefit of the Company, 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. Rights of Company in Absence of Default. Except during the existence of a Default, the Company shall be permitted to retain actual possession and use of the Shipyard and any MAST Item.

SECTION 11.04. Table of Contents, Titles and Headings. The table of contents, and titles of the Articles and the headings of the Sections are not a part of this Security Agreement and shall not be deemed to affect the meaning or construction of any of its provisions.