

COMMITMENT TO GUARANTEE OBLIGATIONS

by

THE UNITED STATES OF AMERICA

Accepted by

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

TABLE OF CONTENTS

<u>Doc.</u> <u>No.</u>	<u>Document</u>
1	Commitment to Guarantee Obligations
2	Schedule One -- Form of Opinion of Counsel
3	Appendix I -- Form of Bond Purchase Agreement
4	Appendix II -- Form of Trust Indenture
5	Schedule A -- Schedule of Definitions to Trust Indenture
6	Exhibit 1 -- General Provisions Incorporated into the Trust Indenture by Reference
7	Exhibit 2 -- Forms of Obligation, Guarantee and Trustee's Authentication Certificate
8	Exhibit 3 -- Form of Authorization Agreement
9	Appendix III -- Form of Security Agreement
10	Exhibit 1 -- General Provisions Incorporated into the Security Agreement by Reference
11	Schedule X -- Schedule of Definitions
12	Exhibit 2 -- Form of Secretary's Note
13	Exhibit 3 -- Form of Mortgage
14	Exhibit 4 -- Form of Title XI Reserve Fund and Financial Agreement
15	Exhibit 5 -- Form of Consents of Contractor(s)
16	Exhibit 6 -- Construction Contracts
17	Exhibit 7 -- Form of Depository Agreement

Contract No. MA-_____

COMMITMENT TO GUARANTEE OBLIGATIONS

by

THE UNITED STATES OF AMERICA

Accepted by

Shipyard

THIS COMMITMENT TO GUARANTEE OBLIGATIONS, 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 "Company").

RECITALS

A. The Company is the sole owner of the existing real estate and equipment constituting the property known as the _____ (the "Shipyard").

B. The Company will be responsible for causing the construction and installation of the MAST Items, pursuant to Construction Contracts with the Contractors named therein.

C. To aid in financing the construction of the MAST Items, the Company will borrow an aggregate principal amount equal to, ___% of the Depreciated Actual Cost or Actual Cost of the aggregate of the MAST Items. To accomplish such financing, the Company has accepted this Guarantee Commitment subject to the terms and conditions set forth herein.

D. The Company has entered into the Bond Purchase Agreement providing for the sale and delivery, on the Closing Date, of obligations in the aggregate principal amount of \$_____ to be designated "United States Government Guaranteed Shipyard Modernization Obligations, ___ Series" (the "Obligations") having the maturity date and interest rate set forth in the Bond Purchase Agreement, the Indenture and the Obligations.

E. As security for the Guarantees and the Secretary's Note, the Company will execute and deliver the Security Agreement, Contract No. MA-_____, and the following agreements shall be executed and delivered: the Indenture, the Authorization Agreement, Contract No. MA-_____, the Secretary's Note, the Mortgage, Contract No. MA-_____, the Financial Agreement, Contract MA-_____, and the Depository Agreement, Contract No. 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 Company 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 Company as responsible and possessing the ability, experience, financial resources and other qualifications necessary to the adequate operation and maintenance of the Shipyard.

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 MAST Items, 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 MAST Items.

On the Closing Date, the aggregate principal amount of the Obligations 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 Obligations is satisfactory, (2) payments of principal required by the Obligations are satisfactory and (3) the interest rate to be borne by the Obligations to be issued on the Closing Date is reasonable.

Pursuant to Sections 1104A(d) and 1112 of Title XI, the Secretary has found that the Company's proposed project will be economically sound.

ARTICLE II
Commitment to Guarantee Obligations

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 Obligations, including interest accruing between the date of default under the Obligations and the payment in full of the Guarantees, and, to effect this Guarantee Commitment, hereby commits itself to execute and deliver the Authorization Agreement, Security Agreement, Mortgage, Financial Agreement, and Depository Agreement on the Closing Date pursuant to the terms of the Guarantee Commitment.

ARTICLE III
The Obligations

The Obligations shall be as provided in the Indenture and in the form of the Obligations annexed as Exhibit 2 to the Indenture. The Obligations shall be subject to all of the terms and conditions set forth in the Indenture.

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 Construction Contracts and Consent of Contractors shall have been executed and delivered;
- (c) the Company shall have executed and delivered the following documents in the form attached hereto: the Security Agreement, Mortgage, Financial Agreement, Trust Indenture, Secretary's Note, Obligations, Bond Purchase Agreement, and Depository Agreement;
- (d) the Indenture Trustee shall have executed, in the form attached hereto, the Authorization Agreement and Trust Indenture, the Depository shall have executed the Depository Agreement; and the Obligees shall have executed the Bond Purchase Agreement;
- (e) the following documents shall have been delivered to the Secretary: (i) one executed counterpart and one copy of the Bond Purchase Agreement and two conformed copies of the Offering Circular; (ii) two executed counterparts of the Indenture, (iii) two specimen copies of the Obligations; (iv) two executed originals of the legal opinion issued under section (k) of this Article; (v) two copies of the legal opinion delivered to the Obligees pursuant to the Bond Purchase Agreement, and (vi) two originals of all other documents delivered by the Company, Indenture Trustee or the Depository in connection with this Closing.
- (f) the Company shall have executed an Officers 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 Company 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.

(g) 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.

(h) the Company shall have complied in all material respects with its agreements under this Guarantee Commitment;

(i) 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;

(j) there shall have been delivered to the Secretary by the Company 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 Company 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 Company 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 10 of the Financial Agreement shall have been complied with and certified to as required therein; and

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

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

(p) at least ten days prior to the Closing Date, the Company 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 Company.

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 Company'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 Company 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 Company'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 Company 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 Obligations has been executed by the United States and accepted by the Company, all as of the day and year first above written.

(SEAL)

UNITED STATES OF AMERICA,
SECRETARY OF TRANSPORTATION

Attest:

BY: MARITIME ADMINISTRATION

Assistant Secretary
Maritime Administration

BY: _____
Secretary
Maritime Administration

ACCEPTED BY:

(SEAL)
Attest:

as Company

BY: _____

(Date)

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 "Company"), in connection with the acceptance by the Company of a Commitment to Guarantee Obligations 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 Shipyard Modernization Obligations, _____ (hereinafter called the "Obligations") pursuant to the Indenture of even date herewith between it and _____ (the "Indenture Trustee"), a _____, which Obligations are guaranteed by the execution of the Guarantee of the United States on the Obligations 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 meanings as in Schedule X to the Security Agreement of even date between the Company and Secretary.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the Commitment, the Authorization Agreement, 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 Company's certificate of no liens on the MAST Items 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 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 Company 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 except that of the Company 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 Company is a _____ duly organized, validly existing and in good standing under the laws of the _____;

2. The Company has legal power and authority to own and operate the Shipyard;

3. The Company is the sole owner of the whole of the real and personal property constituting the Shipyard, 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. The Mortgage constitutes a first Mortgage on all of the real property constituting the Shipyard;

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 the Financial Agreement have each been duly and validly granted, and assigned by the Company to the Secretary under the Security Agreement and the Financial Agreement;

5. The Company has full corporate power and authority and full power and authority under any applicable statute, law or governmental regulation to sell the Obligations issued on the date hereof and to enter into and carry out the terms of the Commitment, Bond Purchase Agreement, Indenture, Obligations, Security Agreement, Secretary's Note, Mortgage, Title XI Reserve Fund and Financial Agreement, and the Depository Agreement;

6. The execution and delivery by the Company of the agreements referred to in paragraph 5 hereof, consummation by the Company 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 5 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 Company pursuant to the terms of, any indenture, mortgage, deed or trust, loan agreement or other agreement or instrument known to us to which it is a party or by which it is bound or to which any of its 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 Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its respective properties;

7. Each and all of the agreements and instruments referred to in paragraph 5 to which the Company is a party have been duly authorized by the Company and said agreements and instruments

have been duly executed and delivered and constitute legal, valid and binding obligations of the Company enforceable against the Company according to their terms;

8. The Obligations (including the Guarantees) constitute exempted securities under Section 3(a)(2) of the Securities Act of 1933, as amended, and, accordingly, it is not necessary to register the Obligations (or the Guarantees) under said Act or to qualify the Indenture, under the Trust Indenture Act of 1939, as amended;

9. 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 Obligations or the consummation by the Company of the other transactions contemplated by any of the agreements or instruments referred to in paragraph 5 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 Obligations;

10. The statements contained in the Offering Circular insofar as such statements constitute a summary of certain provisions of the Act, the Indenture and the Authorization Agreement, respectively, fairly summarize those provisions. The Obligations conform in all material respects to the description thereof in the Offering Circular;

11. No taxes are or will be payable in connection with the issue and sale of the Obligations to the Purchasers thereof, the purchase of the Obligations by the Purchasers or the execution and delivery of the Indenture, the Authorization Agreement;

12. 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 refiling 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;

13. 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 12 and 13 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 Company in the Securities Accounts are free of any prior lien or security interest.

14. The Obligations issued on the date hereof have been duly authenticated by the Indenture Trustee and duly issued under the Indenture and constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms and are entitled to the benefit of the Indenture, the Guarantees and the Authorization Agreement.

15. 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 Company which concerns the documents referred to in paragraph 5 or which, if adversely determined, could adversely effect the compliance by the Company with any of the foregoing documents, agreements and instruments to which it is a party.

Very truly yours,

By:_____

_____ [Name of Obligor] _____

\$ _____

United States Government Guaranteed Shipyard Modernization Bonds, ____ Series
____% Sinking Fund Bonds due _____

BOND PURCHASE AGREEMENT

To each of the respective
Purchasers named in Schedule 1 hereto: _____

Dear Sirs:

The undersigned, _____ a _____ (the
“Company”), hereby agrees with each of you (each, a “Purchaser”) as follows:

1. The Bonds. The United States Government Guaranteed Shipyard Modernization Financing Bonds, ____ Series, due _____, referred to above (collectively the “Bonds”) in the aggregate principal amount set forth above are proposed to be issued and sold by the Company upon fulfillment of the terms and conditions set forth herein. The Bonds will be issued and sold to aid in the financing of the construction of _____ (the ‘Shipyard’). The Bonds will be in fully registered form only and will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the date of issuance at the rate per annum set forth above, payable semi-annually, on _____ and _____ of each year until maturity, commencing _____.

The Bonds will be issued under a Trust Indenture (the ‘Indenture’) between the Company and _____, as Trustee (the “Indenture Trustee”). Payment of the principal of and interest on the Bonds will be fully and unconditionally guaranteed by the United States of America pursuant to the guarantee imprinted by the Indenture Trustee pursuant to an Authorization Agreement, on each of the Bonds (the ‘Guarantee’) under Title XI of the Merchant Marine Act, 1936, as amended and in effect on the Closing Date (the “Act”). Since the Bonds are guaranteed with the full faith and credit of the United States of America, it is understood that you will not independently review the financial condition of the Company and will rely completely on the Secretary's determination regarding the financial resources and maritime ability of the Company.

2. Agreement to Purchase. Subject to the conditions hereinafter set forth, and the

representations and warranties contained herein, the Company agrees to sell to you and you agree to purchase on the Closing Date the Bonds in the principal amount set forth opposite your name in Schedule 1 hereto (subject to adjustment as set forth in Section 6 hereof) at 100% of such principal amount thereof.

3. Closing. Delivery of the Bonds shall be made at the office of the Maritime Administration, 400 Seventh Street, S.W., Washington, D.C., at a closing commencing at _____ .m., Eastern time, on _____ (the "Closing Date") or such other place or such later business day (which, without the approval of Purchasers of at least 50% of the aggregate principal amount of Bonds, shall not be later than _____) as the Company shall designate by at least 3 days' prior written notice to the Indenture Trustee and to you at your address specified in Schedule 1 hereto. Delivery of the Bonds shall be made against payment therefor in funds immediately available to the Company in Washington, D.C. Except as you may otherwise direct three (3) business days before the Closing Date, a single Bond dated the Closing Date, authenticated by the Indenture Trustee, guaranteed by the United States of America, and registered in your name and issued in a denomination equal to the principal amount of Bonds to be purchased by you, will be delivered to you. For the purposes of this Agreement, a "business day" is a day which is not a Saturday, Sunday or bank holiday under the laws of the United States of America or the State of _____.

4. Representations and Warranties by the Company. The Company represents and warrants to you that this Agreement, the Indenture, and the Bonds have been duly authorized, executed and delivered by the Company and constitute, each in accordance with their terms, a legal, valid and binding instrument enforceable against the Company, except as limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally. On the Closing Date, the Indenture and the Bonds will have been duly authorized, executed and delivered by the Company and will constitute legal, valid and binding instruments enforceable against the Company, and the Bonds will be entitled to the benefits of the Indenture, the Guarantees and the Authorization Agreement. The Company represents that the Bonds, the Indenture, and the Authorization Agreement conform in all material respects to the descriptions thereof contained in the Offering Circular dated _____, unless you consent to a change.

5. Conditions to Purchaser's Obligations. Your obligation under this Agreement to purchase Bonds on the Closing Date is subject to the accuracy of the representations and warranties of the Company contained in Section 4 hereof on and as of the Closing Date and to the following further conditions:

(A) Opinion of Counsel for the Company. On the Closing Date, the Company shall have furnished an opinion of its counsel addressed to you and satisfactory to you and the Indenture Trustee regarding the representations and warranties set out in Item 4 of this Agreement;

(B) Opinion of the Chief Counsel of the Maritime Administration. On the Closing

Date, your counsel shall have received a copy of a legal opinion from the Maritime Administration addressed to the Purchasers and the Indenture Trustee to the effect that the Guarantees and the Authorization Agreement have been duly authorized, executed and delivered by the United States of America, and constitute the legal, valid and binding obligations of the United States of America; and

(C) Opinion of Counsel for the Purchasers. On the Closing Date, you shall have received an opinion from your counsel satisfactory to you as to the sufficiency of this Agreement, the Indenture, the Bonds, the Authorization Agreement and the Guarantee.

If any of the conditions specified in this Section 5 shall not have been fulfilled by the Company when and as required by this Agreement, you may cancel this Agreement and all of your obligations hereunder on, or at any time prior to, the Closing Date. Notice of such cancellation shall be given to the Company in writing.

6. Adjustment of Commitments. In the event that the Secretary determines, pursuant to the Act, that the aggregate principal amount of Bonds eligible for Guarantee under the Act is greater or less than \$ _____ on the Closing Date, the Company may increase or decrease the total principal amount of Bonds to be issued by not more than 5 percent. In such event, the principal amount of Bonds to be purchased by you shall equal a percentage of such greater or lesser principal amount determined by dividing the principal amount of Bonds which is stated opposite your name on Schedule 1 hereto by the amount that is in fact to be issued, rounded to the next nearest _____, provided the Company shall have given you written notice no later than the third day preceding the Closing Date, specifying the principal amount of the Bonds to be purchased by you. If notice has not been timely given or the amount of the increase or decrease is more than 5 percent, you may cancel this Agreement.

7. Conditions of Company's Obligations. The obligations of the Company to sell and deliver the Bonds under this Agreement on the Closing Date are subject to all of the following conditions: (A) on the Closing Date all the Bonds to be delivered by the Company shall have simultaneously been purchased by the Purchasers; and (B) on or before the Closing Date (i) the Secretary shall have duly authorized the execution and delivery of the Guarantee of the Bonds and shall have duly executed and delivered the Authorization Agreement; and (ii) the Indenture Trustee shall have duly executed and delivered the Indenture and the Authorization Agreement.

8. Entire Agreement Embodied, Changes, etc. This Agreement embodies the entire agreement and understanding among the Company and you relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. Neither this Agreement nor any term hereof may be changed, waived, discharged, or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought and with the written consent of the Secretary.

9. Miscellaneous. (A) Except as otherwise expressly provided in this Agreement, (i)

whenever notice is required by the provisions hereof to be given to _____, such notice shall be in writing addressed to Attention of _____, and (ii) whenever notice is required by the provisions of this Agreement to be given to you, such notice shall be in writing addressed to you at your address set forth in Schedule 1 hereto or any other address specified in a written notice to the Company; (B) This Agreement is made solely for the benefit of and is binding upon and enforceable by you, the Company, and your respective successors and assigns, and no other person shall acquire or have any right under, or by virtue of, this Agreement; (C) If this Agreement shall be canceled or terminated by you because of non-fulfillment of the conditions set forth in Section 6 hereof or because of the Company's failure to comply on or before the Closing Date with the conditions precedent set forth herein, the Company shall have no further obligations or liability hereunder to you except that the Company will reimburse you for out-of-pocket expenses reasonably incurred by you (including reasonable fees and disbursements of your counsel and interest on funds forwarded by you for delivery on the Closing Date to purchase Bonds, such interest to be at the rate borne by the Bonds for the period from the proposed Closing Date to the date on which such funds are returned to you); (D) This Agreement shall be governed and construed in accordance with the laws of the State of _____.

Very truly yours,

By: _____

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

By: _____

SCHEDULE 1

Purchaser

Aggregate Principal
Amount of Bonds To
Be Purchased: _____

\$ _____

All payments on account of the Bonds held by such purchaser shall be made by wire transfer of immediately available funds not later than 12:00 noon on the date payment is due for credit to:

Account No. _____

ABA No. _____

Each such wire transfer shall set forth the name of the Company and the coupon rate of the Bonds.

Addresses for all communications and notices:

TRUST INDENTURE

SPECIAL PROVISIONS

THIS TRUST INDENTURE, dated ____ (the "Indenture" or the "Agreement"), between (i) _____, a _____ (the "Company"), and (ii) _____, a _____ (the "Indenture Trustee").

RECITALS

WHEREAS, pursuant to the understandings set forth in the Security Agreement, the Company has authorized the issuance of certain Obligations pursuant to the terms and conditions of this Indenture in an aggregate principal amount not to exceed \$ _____ to finance the cost of construction of the MAST Items; and

WHEREAS, The Secretary, on behalf of the United States, has agreed to Guarantee the payment of the unpaid interest to the date of such payment on, and the unpaid balance of the principal of, such Obligations under the provisions of Title XI of the Act, and has authorized the Indenture Trustee to cause the Guarantees to be imprinted on the Obligations pursuant to the Authorization Agreement.

NOW THEREFORE, in consideration of the premises, of the mutual covenants herein contained, of the purchase of the Obligations by the Holders thereof, and of other good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, and for the equal and proportionate benefit of all the present and future Holders of the Obligations, the parties hereto agree as follows:

1. **Incorporation of General Provisions.** This Indenture shall consist of two parts: the Special Provisions and the General Provisions attached hereto as Exhibit 1, and they shall be treated as one instrument. In the event of a conflict, the terms of the Special Provisions shall prevail.

2. **The Obligations.**

(a) The initial series of Obligations issued hereunder shall be designated "United States Government Guaranteed Shipyard Modernization Obligations, ____ Series," and shall be in the form of Exhibit 2 to this Indenture. The aggregate principal amount of Obligations which may be issued under this Indenture shall not exceed _____.

(b) The denominations of the Obligations shall be in integral multiples of \$ _____.

(c) The Company shall at all times cause to be maintained in the City of _____, State of _____ an office or agency for the purposes specified in Section 5.03 of this Indenture.

(d) The Indenture Trustee shall at all times have its Corporate Trust Office in the City of _____, State of _____.

(e) Pursuant to Section 3.03 of this Indenture, no optional redemption of the Obligations at premium may be made prior to _____. [In the event that a “make whole” provision is used in this indenture instead of the traditional premium structure, it should be inserted here, obviating the need for the preceding sentence among other things.]

3. **Miscellaneous**

(a) Concerning Notices. Subject to the provisions of Section 13.01 of Exhibit 1 to this Indenture, any notice, request, demand, direction, consent, waiver, approval or other communication to be given to a party hereto or the Secretary, shall be deemed to have been sufficiently given or made when addressed to:

The Indenture Trustee as:

The Company as:

The Secretary as: SECRETARY OF TRANSPORTATION
 c/o Maritime Administrator
 Department of Transportation
 400 Seventh Street, SW
 Washington, D.C. 20590

(b) Concerning Applicable Law. This Indenture and each Obligation shall be governed by the federal laws of the United State of America, but to the extent that they are inapplicable by the laws of the State of _____.

(c) Execution of Counterparts. This Indenture may be executed in any number of counterparts. All such counterparts shall be deemed to be originals, and shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Trust Indenture has been duly executed by the parties hereto as of the day and year first above written.

(SEAL)

ATTEST:

ATTEST:

Company

By: _____

Indenture Trustee

By: _____

Schedule of Definitions

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

“**Act of Obligees**” means any request, demand, authorization, direction, notice, consent, waiver or other action to be given or taken by the Obligees and embodied in one or more documents as required by the Indenture.

“**Authorization Agreement**” means the Authorization Agreement, Contract No. MA-_____, between the Secretary and the Indenture Trustee, whereby the Secretary authorizes the Guarantee of the United States to be endorsed on each of the Obligations, as the same is originally executed, or as modified, amended or supplemented therein.

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

“**Bond Purchase Agreement**” means the agreement for the purchase of the Obligations, executed by the Company and the purchaser named therein, as originally executed, modified or supplemented.

“**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 _____.

“**Company**” means _____ a _____, its successors and assigns.

“**Corporate Trust Office**” means the principal office of the Indenture Trustee at which, at any time, its corporate trust business is administered, which office is currently located at _____.

“**Guarantee**” means each, and the “**Guarantees**” means every, guarantee of an Obligation by the United States pursuant to Title XI of the Act, as provided in the Authorization Agreement.

“**Holder**” means each, and “**Holders**” means every, registered holder of an Obligation.

“**Indenture**” means the Trust Indenture dated as of the Closing Date between the Company and the Indenture Trustee, as originally executed, or as modified, amended or supplemented.

“**Indenture Default**” has the meaning specified in Article VI of the Indenture.

“**Indenture Trustee**” means _____, a _____, and any successor trustee under the Indenture.

“**Interest Payment Date**” means with respect to any Obligation, the date when any installment of interest on such Obligation is due and payable.

“MAST Item” means each, and **“MAST Items”** means every item of property involved in a determination of Actual Cost and any property at the Shipyard that has been improved, enhanced, renovated or repaired with the proceeds of the Obligations.

"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 at the Stated Maturity or by redemption or declaration of acceleration or otherwise.

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

"Obligation" means each, and **"Obligations"** means every, obligation of the Company bearing a Guarantee that is authenticated and delivered under the Authorization Agreement and Indenture.

"Obligation Register" has the meaning specified in Section 2.07 of the Indenture.

"Obligee" means each, and **"Obligees"** means every, Holder of an Obligation.

"Officer's Certificate" means a certificate conforming to Section 1.02 of the Indenture.

"Original Issue Date" means a date on which an Obligation was initially authenticated by the Indenture Trustee even if the Obligation is subsequently given a later date by reason of transfer, exchange or substitution.

"Outstanding" when used with reference to the Obligations, shall mean all Obligations theretofore issued under the Indenture, except: (1) Obligations Retired or Paid; and (2) Obligations in lieu of which other Obligations have been issued under the Indenture. Obligations which are not Outstanding shall not be entitled to any rights or benefits provided in the Indenture. For the purposes of Articles VI and X of the Indenture, and also in determining whether the Holders of a stated percentage of the principal amount of Outstanding Obligations have made an Act of Obligees required or permitted by the Indenture, Obligations owned by the Company or by any Affiliate of the Company shall be disregarded and deemed not to be Outstanding; provided that, for the purpose of determining whether the Indenture Trustee shall be protected in relying on any such Act of Obligees, only Obligations which the Indenture Trustee has actual knowledge are so owned shall be so disregarded and deemed not to be Outstanding.

"Paying Agent" means any bank or trust company meeting the qualifications in Sections 7.02(a) of the Indenture and appointed by the Company under Section 4.02 of the Indenture to pay the principal of (and premium, if any) or interest on the Obligations on behalf of the Company.

"Payment Default" has the meaning specified in Section 6.01 of the Indenture.

"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.

"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 MAST Item as of the date of such calculation bears to (y) the Depreciated Actual Cost of all the MAST Items as of such date (excluding the Depreciated Actual Cost of any MAST Item upon which its Obligations have been redeemed pursuant to Section 3.06 of the Indenture), all as determined by the Secretary.

"Redemption Date" means a date fixed for the redemption of an Obligation by the Indenture.

"Redemption Price" means the price at which an Obligation is redeemed under the Indenture.

"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 entity, the chairman of the board of directors, the president, any executive or senior vice president, the secretary, the treasurer, member or partner, (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 executive or senior vice president, the secretary, the treasurer, any trust officer, and (3) with respect to the signing or authentication of Obligations and Guarantees by the Indenture Trustee, any person specifically authorized by the Indenture Trustee to sign or authenticate Obligations.

"Retired or Paid," as applied to Obligations and the indebtedness evidenced thereby, means that such Obligations shall be deemed to have been so retired or paid and shall no longer be entitled to any rights or benefits provided in the Indenture if: (1) such Obligations shall have been paid in full; (2) such Obligations shall have been canceled by the Indenture Trustee and shall have been delivered to the Indenture Trustee for cancellation; or (3) such Obligations shall have become due and payable at Maturity and funds sufficient for the payment of such Obligations (including interest to the date of Maturity, or in the case of a payment after Maturity, to the date of payment, together with any premium thereon) and available for such payment (whether as a result of payment pursuant to the Guarantees or otherwise) shall be held by the Indenture Trustee or any Paying Agent in trust for the purpose, or with irrevocable directions, to apply the same; provided that, the foregoing definition is subject to Section 6.08 of the Indenture.

"Secretary" means the Secretary of Transportation.

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

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

"Stated Maturity" means the date determinable as set forth in any Obligation as the final date on which the principal of such Obligation is due and payable.

"Supplemental Indenture" shall mean any indenture supplemental to the Indenture entered into pursuant to Article X of the Indenture.

"Title XI" means Title XI of the Act.

TABLE OF CONTENTSPage**ARTICLE I****DEFINITIONS; OFFICER'S CERTIFICATE AND OPINIONS OF COUNSEL**

SECTION 1.01. Definitions.....	1
SECTION 1.02. Officer's Certificate and Opinions of Counsel.....	1

ARTICLE II**THE OBLIGATIONS**

SECTION 2.01. Issuance of Obligations of Initial Series.....	1
SECTION 2.02. Additional Obligations; Obligations of Additional Series.....	2
SECTION 2.03. Legends on Obligations.....	2
SECTION 2.04. Dates of Obligations.....	2
SECTION 2.05. Execution of Obligations.....	2
SECTION 2.06. Authentication of Obligations and Guarantees.....	3
SECTION 2.07. Registration, Transfer and Exchange.....	3
SECTION 2.08. Who Treated as Owners.....	4
SECTION 2.09. Lost, Stolen, Destroyed or Mutilated Obligations.....	4
SECTION 2.10. Reacquired Obligations, Cancellation and Disposition of Obligations.....	4

ARTICLE III**REDEMPTION OF OBLIGATIONS**

SECTION 3.01. Redemptions Suspended During Default.....	5
SECTION 3.02. Redemptions Without Premium	
(a) Mandatory Sinking Fund Redemptions.....	5
(b) Credit Against Mandatory Sinking Fund Redemptions.....	5
(c) Optional Sinking Fund Redemptions.....	6
(d) Mandatory Redemptions Without Premium.....	6
(e) Adjustment of Redemption Payments.....	6
SECTION 3.03. Optional Redemptions of Obligations at Premium.....	6
SECTION 3.04. Redemptions to Comply with Section 1104A(b)(2) of the Act.....	7
SECTION 3.05. Redemption After Total Loss, Requisition of Title, Seizure or Forfeiture of MAST Item or Termination of Certain Contracts.....	7
SECTION 3.06. Redemption After Assumption by the Secretary.....	7
SECTION 3.07. Determination of Obligations to be Redeemed.....	7
SECTION 3.08. Notices of Redemption.....	7
SECTION 3.09. Deposit of Redemption Moneys.....	8
SECTION 3.10. Payment of Redemption Price.....	8

**ARTICLE IV
CASH HELD BY INDENTURE TRUSTEE OR PAYING AGENTS**

SECTION 4.01. Generally.....	8
SECTION 4.02. Paying Agents.....	8
SECTION 4.03. Unclaimed Amounts.....	9
SECTION 4.04. Application of Funds.....	9

**ARTICLE V
REPRESENTATIONS AND AGREEMENTS OF COMPANY**

SECTION 5.01. Authorization, Execution and Delivery of Indenture.....	10
SECTION 5.02. Payment.....	10
SECTION 5.03. Offices or Agencies of Company.....	10

**ARTICLE VI
INDENTURE DEFAULTS AND REMEDIES**

SECTION 6.01. What Constitutes "Indenture Defaults".....	10
SECTION 6.02. Demand for Payment of Guarantees.....	10
SECTION 6.03. Appointment of Indenture Trustee and Holders of Outstanding Obligations as Attorneys-in-Fact.....	11
SECTION 6.04. Termination and Payment of the Guarantees.....	11
SECTION 6.05. Rights of Indenture Trustee After Indenture Default.....	12
SECTION 6.06. Obligees' Right to Direct Indenture Trustee After Indenture Default.....	12
SECTION 6.07. Attorney's Fees and Costs.....	13
SECTION 6.08. Recision of Payments.....	13
SECTION 6.09. Assumption of Obligations by Secretary.....	14

**ARTICLE VII
THE INDENTURE TRUSTEE**

SECTION 7.01. Acceptance of Trusts.....	14
SECTION 7.02. Eligibility of Indenture Trustee.....	14
SECTION 7.03. Rights and Duties of Indenture Trustee.....	15
SECTION 7.04. Compensation, Expenses and Indemnification of Indenture Trustee.....	17
SECTION 7.05. Resignation and Removal of Indenture Trustee.....	17
SECTION 7.06. Appointment of Successor Indenture Trustee.....	17
SECTION 7.07. Effect of Appointment of Successor Indenture Trustee.....	18
SECTION 7.08. Merger, Consolidation or Sale of Indenture Trustee.....	18

**ARTICLE VIII
CONSOLIDATION OR MERGER OF COMPANY OR SALE OF MAST ITEM**

SECTION 8.01. Consolidation or Merger of Company or Sale of MAST Item.....	18
---	----

**ARTICLE IX
ACTS OF OBLIGEEES**

SECTION 9.01. Acts of Obligees.....	19
--	----

**ARTICLE X
SUPPLEMENTAL INDENTURES**

SECTION 10.01. Permissible Without Action by Obligees.....	20
SECTION 10.02. Protection of Indenture Trustee.....	20
SECTION 10.03. Reference in Obligations to Supplemental Indentures.....	20
SECTION 10.04. Waivers and Supplemental Indentures with Consent of Obligees.....	21
SECTION 10.05. Consent of Secretary.....	21
SECTION 10.06. Continued Validity of the Guarantees.....	21

**ARTICLE XI
PERFORMANCE OF OBLIGATIONS TO SECRETARY**

SECTION 11.01. Performance of Obligations to Secretary.....	22
--	----

**ARTICLE XII
SATISFACTION AND DISCHARGE OF INDENTURE**

SECTION 12.01. Satisfaction and Discharge of Indenture.....	22
--	----

**ARTICLE XIII
MISCELLANEOUS**

SECTION 13.01. Notices and Demands.....	22
SECTION 13.02. Waivers of Notice.....	22
SECTION 13.03. Benefit of Indenture.....	23
SECTION 13.04. Execution of Counterparts.....	23
SECTION 13.05. Table of Contents; Titles and Headings.....	23
SECTION 13.06. Immunity of Incorporators, Stockholders, Limited Partners, Members, Officers and Directors.....	23

ARTICLE I
DEFINITIONS; OFFICER'S CERTIFICATES
AND OPINIONS OF COUNSEL

SECTION 1.01. Definitions. For the purposes of this Indenture, capitalized terms shall have the meanings specified in Schedule A to the Indenture unless otherwise expressly provided.

SECTION 1.02. Officer's Certificates and Opinions of Counsel. The Responsible Officer of the Person executing an Officers Certificate with respect to a covenant or condition provided for in this Indenture shall certify that the officer (a) has read such covenant or condition; (b) has made or caused to be made such independent 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. A lawyer issuing an Opinion of Counsel shall include the same representations, except that insofar as it relates to factual matters, if it is in the lawyer's professional opinion that reliance upon a certificate or an Opinion of Counsel is appropriate, the lawyer may so rely upon such certificate or opinion. Each Officer's Certificate and Opinion of Counsel shall set forth the pertinent supporting information and shall be subject to the Secretary's review of its adequacy and accuracy.

ARTICLE II
THE OBLIGATIONS

SECTION 2.01. Issuance of Obligations of Initial Series. (a) At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver to the Indenture Trustee Obligations of the initial series issuable under this Indenture duly executed by the Company, accompanied by a Request of the Company, and thereupon the Indenture Trustee shall authenticate such Obligations, after endorsing thereon and authenticating the Guarantees of the United States in accordance with the Authorization Agreement, and shall deliver such Obligations and Guarantees in accordance with such Request. Each such Request shall specify the principal amounts, interest rates and Stated Maturities of the Obligations to be authenticated and the names and addresses of the Persons in whose name the Obligations are to be registered.

(b) The initial series of Obligations shall set forth their respective principal amounts (in the denominations provided in the Special Provisions), interest rates per annum, and Stated Maturities, and shall be payable as to principal and interest and premium, if any, in any legal coin or currency of the United States and shall be subject to redemption as provided in Article III.

(c) The principal and interest and any premium due on the Obligations shall be paid by (1) the Corporate Trust Office or (2) a Paying Agent by (x) certified or official bank check mailed by first class postage prepaid to the addresses of the Obligees appearing on the Obligation Register or (y) at the request of an Obligee, received by the Indenture Trustee at least three Business Days prior to the date of payment, by wire transfer to a commercial bank in the United States or by credit to an account maintained by the Obligee with the Indenture Trustee without presentment of the Obligation. Prior

to any sale, assignment or transfer of such Obligation, the Holder is required to present the Obligation to the Indenture Trustee so that a proper notation of all principal payments under (y) are made on the Obligation.

(d) The Indenture Trustee agrees that within 30 days from the date of any payment of principal or interest when the same shall become due and payable by reason of Maturity or redemption, a Responsible Officer in the Corporate Trust Office of the Indenture Trustee shall ascertain to his satisfaction that checks in payment of such amounts have been mailed to the addresses of the Obligees as provided above, if payment is to be made by check, or if payment is to be made by wire transfer, or by credit to an account maintained by the Obligee with the Indenture Trustee, that such funds have been wired or credited, or if payment is to be made at the Corporate Trust Office, that funds were held by the Indenture Trustee for such payment on the date the payment was due. The Indenture Trustee shall have no obligation to determine whether such checks or payments were received by the Obligees.

(e) If the Maturity of any Obligation or an Interest Payment Date for any Obligation shall be a day other than a Business Day, then such payment may be made on the next succeeding Business Day, with the same force and effect as if made on the nominal date for such payment, and no interest shall accrue thereon for the period after said nominal date.

SECTION 2.02. Additional Obligations; Obligations of Additional Series. At any time, the Company may, with the approval of the Secretary, issue additional Obligations of any series and Stated Maturity theretofore issued or of one or more additional series, which shall be for the purpose of aiding in financing or refinancing the construction, reconstruction or reconditioning of one or more MAST Item and shall be (1) in such principal amount, and mature on such dates, bear interest at such rate or rates, be in such form or forms and have such other terms and provisions, as shall be set forth in a Supplemental Indenture providing for the issue thereof and (2) guaranteed by the United States under the Act pursuant to a supplement to the Authorization Agreement.

SECTION 2.03. Legends on Obligations. Any Obligation may have imprinted or stamped thereon any legend, consistent herewith, which is prescribed by the Company and approved by the Indenture Trustee, and approved by the Secretary.

SECTION 2.04. Dates of Obligations. Each Obligation of any series shall be dated the date of its authentication by the Indenture Trustee.

SECTION 2.05. Execution of Obligations. The Obligations shall from time to time be executed on behalf of the Company by a Responsible Officer thereof (whose signature may be a facsimile), and its corporate seal (which may be a facsimile), if any, shall be imprinted thereon and attested by its secretary, assistant secretary or assistant trust officer (whose signature may be a facsimile). If a Company's officer, whose signature appears on any Obligation, shall cease to be such an officer before such Obligation shall have been authenticated by the Indenture Trustee, the

Obligation nevertheless may be delivered with the same force and effect as though the person had not ceased to be a Company's officer.

SECTION 2.06. Authentication of Obligations and Guarantees. No Obligation or the Guarantee of the United States thereon shall be valid unless such Obligation shall bear thereon an authentication certificate, executed by the Indenture Trustee in accordance with the terms and conditions of the Authorization Agreement. A duly executed authentication certificate shall be conclusive evidence, and the only competent evidence, that such Obligation and such Guarantee have been duly executed, authenticated and delivered hereunder.

SECTION 2.07. Registration, Transfer and Exchange. (a) The Indenture Trustee shall keep an Obligation Register at the Corporate Trust Office for the registration of ownership, transfers and exchanges of Obligations.

(b) A registered Obligee may transfer an Obligation, at the Corporate Trust Office, by surrender of such Obligation for cancellation, accompanied by an instrument of transfer in form satisfactory to the Company and the Indenture Trustee, duly executed by the Obligee or its duly authorized attorney, and thereupon the Company shall execute, and the Indenture Trustee shall authenticate and deliver in the name of the transferee, a new Obligation, and the Guarantee of the United States thereon, in authorized denominations of like series, tenor, interest accrual date and Stated Maturity and for the same aggregate principal amount.

(c) The Company shall not be required to register transfers or make exchanges of (1) Obligations for a period of 15 days immediately prior to (A) an Interest Payment Date or (B) any selection of Obligations to be redeemed, (2) Obligations after demand for payment of the Guarantees and prior to the payment thereof or rescission of such demand pursuant to Section 6.02(a), or (3) any Obligation which has been selected for redemption in whole or in part. If any Obligation surrendered for transfer or exchange has been selected for redemption in whole or in part, there may be endorsed on any Obligation issued therefor an appropriate notation of such fact.

(d) Any Obligation may be exchanged for a like principal amount of Obligations of the same series, tenor, interest accrual date and Stated Maturity but of different authorized denominations. Obligations to be exchanged shall be surrendered at the Corporate Trust Office, and the Company shall execute, and the Indenture Trustee shall authenticate and deliver in exchange therefor, the Obligation or Obligations, and the Guarantee or Guarantees of the United States thereon, requested by the Obligee in accordance with this paragraph.

(e) As a condition precedent to any transfer or exchange of Obligations, the Company may require the payment of a sum sufficient to reimburse it for any taxes or other governmental charges that may be imposed with respect thereto and a sum not exceeding \$2.00 for each Obligation delivered upon any such transfer or exchange.

SECTION 2.08. Who Treated as Owners. The Company, the Indenture Trustee, the Secretary, and any Paying Agent for the payment of principal of (and premium, if any) or interest on the Obligations may deem the Person in whose name any Obligation is registered in the Obligation Register as the absolute owner of such Obligation for all purposes, and neither the Company, the Indenture Trustee, the Secretary, nor any such Paying Agent shall be affected by any notice to the contrary, whether such Obligation shall be past due or not. All payments of or on account of principal (and premium, if any) or interest, or pursuant to the Guarantee, to such registered Obligee shall be valid and effectual to satisfy and discharge the liability of the Company and the Secretary to the extent of the sum or sums so paid, except as otherwise provided in Section 6.08.

SECTION 2.09. Lost, Stolen, Destroyed or Mutilated Obligations. Upon receipt by the Company and the Indenture Trustee of evidence satisfactory to them of the loss, theft, destruction or mutilation of any Outstanding Obligation (“Lost Obligation”), the Company may execute, and upon request of the Company, the Indenture Trustee shall authenticate and deliver, a new replacement Obligation, with the Guarantee of the United States thereon, of like series, tenor, interest accrual date, principal amount and Stated Maturity (which may bear such notation as may be required by the Indenture Trustee and which shall bear a serial number different from that of the Lost Obligation) and in the event such Lost Obligation has or is about to become due and payable, the Indenture Trustee may deem the applicant with respect thereto to be the owner of said Obligation for the purpose of receiving any payments due on account thereof; provided that (1) the Company, the Indenture Trustee and the Secretary shall receive an indemnity satisfactory to the Company, the Indenture Trustee and the Secretary, (2) the Company shall be reimbursed for all reasonable expenses (including any fees or expenses of the Indenture Trustee) incident thereto, and (3) a mutilated Obligation shall be surrendered. Once the Indenture Trustee has issued a replacement Obligation, the Lost Obligation shall not be enforceable. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of Lost Obligations.

SECTION 2.10. Reacquired Obligations; Cancellation and Disposition of Obligations. In the event the Company shall reacquire any Obligations (whether by purchase or otherwise), such Obligations shall forthwith be delivered to the Indenture Trustee for cancellation. Except as provided in Section 3.10(b), all Obligations surrendered for the purpose of payment, redemption, transfer, exchange, or substitution, or in discharge in whole or in part of any sinking fund payment shall, if surrendered to the Company or any Paying Agent, be delivered to the Indenture Trustee and shall be canceled by it. No Obligation shall be authenticated in lieu of or in exchange for any Obligation cancelled as provided in this Section, except as may be expressly permitted by this Indenture. Obligations cancelled by the Indenture Trustee shall be delivered or disposed of as directed by a Request of the Company.

ARTICLE III REDEMPTION OF OBLIGATIONS

SECTION 3.01. Redemptions Suspended During Default. Notwithstanding the following provisions of this Article III, neither the Company nor the Indenture Trustee shall redeem any Obligations, except pursuant to Sections 3.04, 3.05 or 3.06, during the continuance of any Indenture Default, except that, where the mailing of notice of redemption of any Obligations shall have theretofore been made, the Indenture Trustee shall redeem or cause to be redeemed such Obligations if it shall have received a sum sufficient for such redemption. Except as aforesaid, any moneys received by the Indenture Trustee for the redemption of Obligations which may not be applied to the redemption thereof shall be held in trust by the Indenture Trustee and applied in the following manner: (1) in case such Indenture Default or such event shall no longer be continuing, such moneys shall thereafter be applied to the redemption of Obligations in accordance with the applicable provisions of the Obligations and of this Article III, (2) in the event the Secretary shall have assumed the Obligations pursuant to Section 6.09 or shall have been required to pay the Guarantees, such moneys shall be paid over by the Indenture Trustee to the Secretary or (3) if no Obligation shall be Outstanding, and the Secretary shall not have been required to pay the Guarantees, such moneys shall be paid to the Company.

SECTION 3.02. Redemptions Without Premium. (a) Mandatory Sinking Fund Redemptions. The Obligations are subject to redemption at a Redemption Price equal to 100% of the principal amount thereof, together with interest accrued thereon to the Redemption Date, through the operation of a mandatory sinking fund providing for semi-annual redemption commencing and continuing on the dates and in the principal amounts specified in the Obligations, plus interest accrued thereon to the applicable sinking fund Redemption Date; provided, however, that in the event of any special redemption pursuant to Sections 3.04, 3.05 or 3.06 below, the principal amount of Obligations to be redeemed on each subsequent mandatory sinking fund Redemption Date shall be reduced by an amount equal to the principal amount of the Obligations retired by reason of such special redemption divided by the number of mandatory sinking fund Redemption Dates (including the Stated Maturity of the Obligations) scheduled thereafter.

(b) Credit Against Mandatory Sinking Fund Redemptions. In lieu of making all or any part of any such mandatory sinking fund redemption of the Obligations, the Company may, at its option, receive 100% credit for Obligations that have been (1) redeemed by the Company pursuant to the optional redemption provision provided in subsection (c) below, or (2) purchased or acquired by the Company (other than by redemption) and delivered to the Indenture Trustee for cancellation pursuant to Section 2.10 above. These Obligations shall be credited by the Indenture Trustee only under the following conditions: at least 40 days but not more than 60 days prior to the due date for such mandatory sinking fund redemption, the Company delivers a Request to the Indenture Trustee, (i) specifying the principal amount of Obligations to be credited, (ii) certifying that none of the Obligations have previously been made the basis of any credit and that the Company is not restricted by contract from seeking the requested credit, and (iii) presenting the uncanceled Obligations to be credited.

(c) Optional Sinking Fund Redemptions. At its option, the Company may redeem on any mandatory sinking fund Redemption Date, at a redemption price equal to 100% of the principal amount thereof, an additional principal amount of Obligations up to the principal amount of the Obligations required to be redeemed under subsection (a) above on such date, and before any reduction pursuant to the proviso of that subsection. The right to make any such optional sinking fund redemption shall not be cumulative. If the Company shall elect to make any such optional sinking fund redemption, the Company shall, at least 40 days but not more than 60 days prior to such mandatory sinking fund Redemption Date, deliver to the Indenture Trustee a Request stating that the Company intends to exercise its right as set forth in this subsection to make such optional sinking fund redemption and specifying the additional principal amount of Obligations which the Company intends to redeem on such mandatory sinking fund Redemption Date.

(d) Mandatory Redemptions Without Premium. The Obligations of each series shall be subject to redemption without premium when redemption is required by the conditions specified in Sections 3.02, 3.04, 3.05 and 3.06.

(e) Adjustments of Redemption Payments. If there is an adjustment in mandatory redemption payments as a result of redemptions under this Section or any other provision of the Indenture, the Company shall recompute the remaining mandatory redemption payments pursuant to such provisions and shall, at least 60 days prior to the next Interest Payment Date, submit to the Secretary for his review of such recomputation to ascertain compliance with the provisions of this Indenture, a table of revised mandatory redemption payments on the Obligations of such series reflecting the adjustments made pursuant to such provisions as a result of such redemption. Upon advice by the Secretary that he finds such recomputation to comply with such provisions, the Company shall submit said table to the Indenture Trustee and the Indenture Trustee shall promptly submit a copy thereof to each Holder of an Obligation of such series.

SECTION 3.03. Optional Redemptions of Obligations at Premium. At its option, the Company may redeem the Obligations, in whole or in part, at any time, at the redemption prices specified in the Obligations, together with the interest accrued thereon; provided that, no such redemption shall be made prior to the date specified in the Special Provisions, directly or indirectly with the proceeds of, or in anticipation of, borrowing by or for the account of the Company 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 Obligations. The Company may redeem such Obligations on a date at least 40 days but not more than 60 days from the Indenture Trustee's receipt of the Request to make such an optional redemption and specifying the Redemption Date and the principal amount of Obligations which the Company intends to redeem. If this Request proposes a redemption prior to the date specified in the Special Provisions, the Company shall include with the Request an Officer's Certificate stating that the redemption complies with the proviso relating to early redemptions.

SECTION 3.04. Redemptions to Comply with Section 1104A(b)(2) of the Act. The Company and the Secretary may Request a Redemption Date, at least 40 days but not more than 60 days from the Indenture Trustee's receipt of the Request, for the redemption of certain Obligations because the principal amount of the Outstanding Obligations are in excess of the amount eligible for guarantee by the United States under Section 1104A(b)(2) of the Act. Upon receipt, the Indenture Trustee shall promptly give notice to the Holders of the Redemption Date as provided in Section 3.08 and on that date shall redeem the principal amount of Obligations specified in the instruction together with the interest accrued thereon.

SECTION 3.05. Redemption after Total Loss, Requisition of Title, Seizure or Forfeiture of a MAST Item or Termination of Certain Contracts. The Company and the Secretary may Request a Redemption Date, at least 40 days but not more than 60 days from the Indenture Trustee's receipt of the Request, for the redemption of certain Obligations because of (1) an actual, constructive, agreed or compromised total loss of the Shipyard or any MAST Item, (2) requisition, condemnation or forfeiture of the Shipyard or a MAST Item or (3) termination of a primary Construction Contract. Upon receipt, the Indenture Trustee shall promptly give notice to the Holders of the Redemption Date as provided in Section 3.08 and on that date shall redeem such principal amount of Obligations together with the interest accrued thereon.

SECTION 3.06. Redemption After Assumption by the Secretary. At any time after the Secretary has assumed the Obligations under Section 6.09 of the Indenture, the Secretary may Request a Redemption Date, at least 40 days but not more than 60 days from the Indenture Trustee's receipt of the Request, for the redemption of all or part of the Obligations. Upon receipt, the Indenture Trustee shall promptly give notice to the Holders of the Redemption Date as provided in Section 3.08 and on that date shall redeem such principal amount of Obligations together with the interest accrued thereon.

SECTION 3.07. Determination of Obligations to be Redeemed. If less than all the Obligations are to be redeemed pursuant to Sections 3.03, 3.04 or 3.05, the Indenture Trustee shall select the particular Obligations to be redeemed by multiplying the total principal amount to be redeemed by a fraction, the numerator of which is the amount each Holder of an Outstanding Obligation is owed and the denominator is the total principal amount of the Outstanding Obligations, making adjustment so that the principal amount of any Obligation to be redeemed shall be \$1,000 or an integral multiple thereof.

SECTION 3.08. Notices of Redemption. (a) In case of any redemption of Obligations, whether mandatory or optional, the Indenture Trustee shall send a notice of redemption indicating (1) the Redemption Date, (2) the Redemption Price, (3) if only a part of such Obligations is to be redeemed, the numbers or other identification of the Obligations and the principal amount thereof to be redeemed, (4) the place of payment upon redemption and (5) that interest shall cease to accrue after the Redemption Date if the Indenture Trustee or any Paying Agent shall have in fact received the required moneys. A copy of the notice shall be mailed by first class mail, postage prepaid, at

least 30 days prior to the Redemption Date, to each Holder of an Outstanding Obligation that is to be redeemed in whole or in part, at the last address appearing upon the Obligation Register.

SECTION 3.09. Deposit of Redemption Moneys. Prior to the opening of business on any Redemption Date, the Company shall cause to be deposited with the Indenture Trustee or with any Paying Agent an amount sufficient for such redemption with irrevocable directions to it to so apply the same. Failure to so deposit said amount with the Indenture Trustee or the Paying Agent shall render any notice to redeem of no effect.

SECTION 3.10. Payment of Redemption Price. (a) If notice of redemption shall have been given as provided above, the Obligations or portions thereof specified in such notice shall become due and payable on the Redemption Date and at the place of payment and the Redemption Price stated in such notice, and on and after said Redemption Date (unless the Shipyard shall default in payment of the Redemption price or shall decide to cancel the notice of optional redemption) interest on the Obligations or portions thereof so called for redemption shall cease to accrue. Upon presentation and surrender of such Obligations in accordance with such notice, such Obligations or the specified portions thereof shall be paid and redeemed at the applicable Redemption Price.

(b) Upon presentation of any Obligation redeemed in part only, the Company shall execute and the Indenture Trustee shall authenticate and deliver to the order of the Holder thereof, at the expense of the Company, a new Obligation or Obligations of like series and Stated Maturity, of authorized denominations, having endorsed thereon a Guarantee executed by the Secretary, in principal amount equal to the unredeemed portion of the Obligation so presented, or, at the option of such Holder, there may be noted thereon by the Indenture Trustee or, at its direction, by any Paying Agent the payment of the portion of the principal amount of such Obligation so called for redemption.

ARTICLE IV CASH HELD BY INDENTURE TRUSTEE OR PAYING AGENTS

SECTION 4.01. Generally. (a) To the extent required by the Obligations, cash received by the Indenture Trustee or a Paying Agent shall be promptly paid to the Holders of the Outstanding Obligations and all other cash shall be held by the Indenture Trustee or a Paying Agent as a special deposit in trust for application in accordance with this Indenture.

(b) Cash held by the Indenture Trustee or any Paying Agent (other than the Company) under this Indenture: (1) need not be segregated; (2) shall not be invested; and (3) shall not bear interest except to the extent the Company and the Indenture Trustee or Paying Agent may agree.

SECTION 4.02. Paying Agents. (a) A Paying Agent appointed in writing by the Company shall enter into a contract with the Indenture Trustee, agreeing that the Paying Agent will:

(1) hold in trust all sums held by it for the payment of the principal of (and premium, if any) or interest on Obligations for the benefit of the Holders of such Obligations, and for the benefit of the Indenture Trustee;

(2) forthwith give written notice to a Responsible Officer in the Corporate Trust Office signed by a Responsible Officer of the Paying Agent of (A) any payment by the Company of the principal of (and premium, if any) or interest on Obligations, specifying the amount paid, segregated as to principal (premium, if any) and interest, and identifying each Obligation on which any payment was made by number, date, series, Stated Maturity and the name of the Obligee, and (B) any failure of the Company to make any such payment when the same shall be due and payable; and

(3) promptly, and in no event later than ten days after any payment made by it hereunder, give written notice to a Responsible Officer in the Corporate Trust Office of all payments of Obligations made by it, including and identifying all endorsements of payment made on Obligations by it, signed and containing the specified information as provided in subparagraph (2) above, and deliver for cancellation to the Indenture Trustee all Obligations surrendered to the Paying Agent.

(b) The Company may at any time cause to be paid to the Indenture Trustee all sums held in trust by any Paying Agent pursuant to this Section, such sums to be held by the Indenture Trustee upon the same trusts.

SECTION 4.03. Unclaimed Amounts. Subject to applicable law, including State escheat laws, any moneys received by the Indenture Trustee or a Paying Agent, for the payment of Obligations or Guarantees and remaining unclaimed by the Holders thereof for 6 years after the date of the Maturity of said Obligations shall be paid to the Company upon its delivery of a Request to the Indenture Trustee, unless the Secretary has previously paid the Guarantees, in which case it shall be paid only upon a request of the Secretary. In such event, such Holders shall thereafter be entitled to look only to the Person that received the unclaimed amounts for the payment thereof, and the Indenture Trustee or such Paying Agent, as the case may be, shall thereupon be relieved from all responsibility to such Holders. No such Request or payment shall be construed to extend any statutory period of limitations which would have been applicable in the absence of such Request or payment.

SECTION 4.04. Application of Funds. If at any time the Indenture Trustee shall hold funds under Section 4.03, the application, distribution or payment of which is not governed by a Request of the Company or the Secretary delivered pursuant to any provision of the Indenture, the Indenture Trustee shall give written notice, in the absence of an Indenture Default, thereof to the Company or to the Secretary if the an Indenture Default exists or the Secretary has paid the Guarantees. The Company or the Secretary, as applicable, shall promptly thereafter deliver to the Indenture Trustee a Request.

**ARTICLE V
REPRESENTATIONS AND AGREEMENTS OF COMPANY**

The Company hereby represents and agrees, so long as Obligations are Outstanding, as follows:

SECTION 5.01. Authorization, Execution and Delivery of Indenture. The Company has duly authorized the execution and delivery of this Indenture.

SECTION 5.02. Payment. The Company will duly and punctually pay the principal of (and premium, if any) and interest on the Obligations according to the terms thereof and of this Indenture.

SECTION 5.03. Offices or Agencies of Company. The Company shall at all times maintain an office in the location within the United States specified in Article Second of the Special Provisions. Obligations and demands to or upon the Company may be presented for payment, registration of transfer and exchange at this office. The Corporate Trust Office and a Paying Agent shall also be deemed offices for such purpose.

**ARTICLE VI
INDENTURE DEFAULTS AND REMEDIES**

SECTION 6.01. What Constitutes "Indenture Defaults". (a) Each of the following events shall constitute an "Indenture Default": (1) Default in the payment of the whole or any part of the principal or interest on 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, and continuation of any such default for a period of 30 days (herein called a "Payment Default"); and (2) The giving of a Secretary's Notice to the Indenture Trustee.

(b) The Indenture Trustee shall give to the Obligees, the Secretary and the Company prompt notice in writing of any Indenture Default (unless such default shall have been remedied prior to the giving of such notice); provided that, the Indenture Trustee shall have no duty to give any such notice until a Responsible Officer of the Corporate Trust Office, has actual knowledge of such Indenture Default. The notice of an Indenture Default to the Obligees shall (1) specify the nature of such Indenture Default, (2) state that, by reason thereof, the Indenture Trustee is entitled under the Indenture to demand payment by the Secretary of the Guarantees, (3) set forth the provisions of Section 6.04(b)(3) and (5), and (4) advise the Obligees of the provisions of Section 6.02.

SECTION 6.02. Demand for Payment of Guarantees. (a) If an Indenture Default shall have occurred and be continuing, the Indenture Trustee shall, no later than 60 days from the date of such Indenture Default, demand payment by the Secretary of the unpaid interest to the date of such payment on, and the unpaid balance of the principal of, all Outstanding Obligations, whereupon the entire unpaid principal amount of the Outstanding Obligations and all unpaid interest thereon shall become due and payable no later than 30 days from the date of such demand; provided that, in the case of 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 Company and the Indenture Trustee 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. The Indenture Trustee shall give to each Obligee and to the Company prompt written notice of any demand made by the Indenture Trustee pursuant to this paragraph (a), any such notice to Obligees to be given as provided in Section 13.01.

(b) If the Indenture Trustee shall not have made the demand referred to in paragraph (a) of this Section on or before the 30th day following an Indenture Default which shall have occurred and be continuing and if the Holders of all Outstanding Obligations shall not have theretofore elected to terminate the Guarantees as provided in Section 6.04(a)(2), any Holder of an Outstanding Obligation, by an Act of Obligees delivered to the Secretary (with copies thereof to the Indenture Trustee and the Company), may, in place of the Indenture Trustee and on behalf of all Holders of Outstanding Obligations, make such demand, subject to all the provisions of, and with the effect provided in, paragraph (a) of this Section.

SECTION 6.03. Appointment of Indenture Trustee and Holders of Outstanding Obligations as Attorneys-in-Fact. Each Holder of an Outstanding Obligation by the purchase and acceptance of its Obligation, irrevocably appoints the Indenture Trustee and each other Holder of an Outstanding Obligation its agent and attorney-in-fact for the purpose of making the demand provided for in Section 6.02 and (in the case of the Indenture Trustee) of receiving and distributing any payment or payments by the Secretary made pursuant to any such demand.

SECTION 6.04. Termination and Payment of the Guarantees. (a) Except as otherwise provided in Section 6.08, 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 Holders of all Outstanding Obligations shall have elected, by Act of Obligees delivered to the Secretary, to terminate the Guarantees;
- (3) Such Guarantee shall have been paid in full in cash by the Secretary; or
- (4) The Indenture Trustee and each Obligee shall have failed to demand payment of such Guarantee as provided herein or in such Guarantee or in the Act.

(b) Subject to the provisions of Section 6.08, when the Secretary shall pay the Guarantees in full in cash to the Indenture Trustee:

- (1) The Indenture Trustee shall hold the entire amount thereof in trust for the sole purpose of providing for the payments specified in subparagraph (5) below;

(2) No Obligation or Obligations shall thereafter be issued;

(3) The Obligations (A) shall represent only the right to receive the payments from the Indenture Trustee specified in subparagraph (5) below, (B) shall otherwise no longer constitute or represent an obligation of the Company, and (C) shall not be entitled to any other rights or benefits under this Indenture;

(4) The Indenture Trustee shall forthwith give written notice to the Company and to each of the Obligees, stating that it has received payment of the Guarantees in full in cash from the Secretary and that the same is available for distribution to the Obligees in the manner specified in subparagraph (5) below (and the Indenture Trustee shall give like notice to the Holders of the Obligations at least annually thereafter for a period of 6 years or until all Obligations shall have been cancelled, whichever is earlier); and

(5) Upon the surrender for cancellation of any Obligation, the Indenture Trustee shall forthwith pay to the Holder of such Obligation in cash an amount (less the amount, if any, required to be withheld in respect of transfer or other taxes on payment to such Holder) equal to the unpaid principal amount of such Obligation and the unpaid interest accrued thereon to the date on which the Secretary shall have paid the Guarantees in full in cash to the Indenture Trustee.

(c) If the Secretary shall not have paid the Guarantees in full in cash to the Indenture Trustee within 30 days after any demand therefor pursuant to Section 6.02 (whether or not because the Secretary makes any of the findings or takes the action referred to in the proviso of Section 6.02(a)), the Indenture Trustee shall give prompt written notice of such nonpayment to each Obligee and the Company. If the Indenture Trustee shall have received notice of any of these findings or actions, such notice to each Obligee shall so state.

SECTION 6.05. Rights of Indenture Trustee After Indenture Default. Unless the Guarantees have terminated as provided herein, the Indenture Trustee's sole right shall be to demand and receive payment of the Guarantees from the Secretary and to take all action, on behalf of itself and each Holder, to enforce its rights against the Secretary under the Guarantees, including but not limited to the institution and prosecution of all judicial and other proceedings. If the Guarantees have terminated under Section 6.04(a)(4) without payment by the Secretary, the Indenture Trustee shall have the right on behalf of itself and each Holder to take all action to enforce its rights directly against the Company (but not the Secretary), including but not limited to the institution and prosecution of all judicial and other proceedings.

SECTION 6.06. Obligees' Right to Direct Indenture Trustee After Indenture Default.

(a) During the continuance of any Indenture Default, the Holders of a majority in principal amount of the Outstanding Obligations shall have the right, by an Act of Obligees, to direct the Indenture Trustee:

(1) to exercise or to refrain from exercising any right or to enforce any remedy granted to it by this Indenture; and

(2) to direct the time, method and place of the exercise of any such right or the enforcement of any such remedy;

provided that, subject to Section 7.03, the Indenture Trustee shall have the right not to take any such action if it shall determine in good faith that the action would involve it in personal liability, would subject it to expenses against which it has not been offered adequate security and indemnity, or would be unjustly prejudicial to the Obligees not parties to such direction; and provided further that, notwithstanding any other provision of this Indenture to the contrary, the Indenture Trustee shall be obligated to demand payment of the Guarantees as provided in Section 6.02(a) unless the Holders of all the Outstanding Obligations shall have directed him not to make demand.

(b) Nothing in paragraph (a) shall affect the right of any Obligee to institute any judicial or other proceeding, if the Indenture Trustee declines to do so, against the Secretary while the Guarantees are in effect or against the Company or the Indenture Trustee if the guarantees have terminated under Section 6.04(a)(4); provided, however, that such action does not seek to obtain priority or preference over any other Obligees or to enforce any right under this Indenture, except for the equal and ratable benefit of all the Obligees.

SECTION 6.07. Attorneys' Fees and Costs. In any proceeding for the enforcement of any right or remedy under this Indenture, or in any proceeding against the Indenture Trustee for any action taken or omitted by it as Indenture Trustee, the court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant, having due regard to the merits and good faith of the claims or defense made by such party litigant. The provisions of this Section shall not apply to any proceeding instituted by the Indenture Trustee or any proceeding instituted by any Obligee against the Secretary or the Company for the payment of the principal of (and premium, if any) and interest on the Obligations.

SECTION 6.08. Rescission of Payments. Notwithstanding any other provision of this Indenture, or of the Obligations, in the event that any payment to or on behalf of an Obligee of the principal of or interest due under any Obligation, or any portion of any such payment, shall at any time be repaid by such Obligee 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 Indenture Default and any payment pursuant thereto, or whether such Obligation shall theretofore have been acquired by the Company or cancelled, or whether an instrument satisfying and discharging this Indenture 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 6.01(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 Indenture 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 and, if there shall not be any Indenture Trustee hereunder then in office, such Person shall also be entitled to exercise on his own behalf all the rights of the Indenture Trustee hereunder necessary for such enforcement; provided that, in the event the Guarantee of any Obligation shall have terminated for reasons set forth in Section 6.04(a)(2) or (4) of this Indenture prior to the aforesaid date of repayment the provisions of this Section shall not apply to such Obligation.

SECTION 6.09. Assumption of Obligations by Secretary. (a) Notwithstanding anything to the contrary contained herein, in the absence of a demand under Section 6.02 hereof and upon the occurrence of a default in the payment of any principal or interest due under the Obligations which has continued for 25 days or more or upon the Secretary's giving of a Secretary's notice under this indenture, the Secretary may, in its sole discretion, prior to receipt by the Secretary of demand for payment of the Guarantees in accordance with this Indenture assume the rights and obligations of the Shipyard under this Indenture and the Obligations by (i) giving to the Shipyard and Indenture Trustee a signed notice stating that it has assumed the Obligations and the Indenture and (ii) making any payment of principal or interest which is due under the Obligations.

(b) The Indenture Trustee and the Shipyard hereby agree that, upon the Indenture Trustee's receipt of the notice and payments referred to in paragraph (a)(i) and (ii) 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 Indenture Trustee and the Shipyard 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 Shipyard under this Indenture and the Obligation with the same force and effect as if the Secretary has been named as the Shipyard herein and therein. The Secretary may exercise its rights under this section as often as it deems appropriate in its sole discretion.

ARTICLE VII THE INDENTURE TRUSTEE

SECTION 7.01. Acceptance of Trusts. The Indenture Trustee hereby accepts the trusts of this Indenture.

SECTION 7.02. Eligibility of Indenture Trustee. (a) The Indenture Trustee shall at all times be a bank with corporate trust powers or trust company which (1) is organized and doing business under the laws of the United States, any state or territory thereof, (2) has a combined capital and surplus (as set forth in its most recent published report of condition) of at least \$25,000,000, and (3) shall not have become incapable of acting or have been adjudged a bankrupt or an insolvent nor have had a receiver appointed for itself or for any of its property, nor have had a public officer take charge or control of it or its property or affairs for the purpose of rehabilitation, conservation or liquidation.

(b) Should the Indenture Trustee at any time cease to be eligible, pursuant to this Section, to act as trustee, it shall promptly notify the Obligees, the Company and the Secretary of such fact; and should the Company obtain knowledge of such ineligibility, it shall promptly advise the Indenture Trustee, the Secretary, and the Obligees of all the relevant facts.

SECTION 7.03. Rights and Duties of Indenture Trustee. (a) The Indenture Trustee shall not be responsible for the correctness of the Recitals in the Special Provisions hereof or in the Obligations (except the Indenture Trustee's authentication certificate thereon), all of which Recitals are statements made solely by the Company.

(b) The Indenture Trustee shall not be responsible for the validity, execution by other parties thereto, or sufficiency of this Indenture, the Authorization Agreement, the Obligations or the Guarantees.

(c) The Indenture Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(d) Except during the continuance of any Indenture Default, the Indenture Trustee shall perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee.

(e) No provision of this Indenture shall relieve the Indenture Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct; provided that:

(1) Except during the continuance of an Indenture Default, in the absence of bad faith on the part of the Indenture Trustee, the Indenture Trustee may conclusively rely upon certificates or opinions conforming to the requirements of this Indenture as to the truth of the statements and the correctness of the opinions expressed therein; and

(2) The Indenture Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with an Act of Obligees relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee.

(f) Subject to paragraph (i) of this Section, the Indenture Trustee shall be under a duty to examine certificates and opinions required by this Indenture to be furnished to it to determine whether or not they conform to the requirements hereof.

(g) Subject to paragraph (c) of this Section, the Indenture Trustee may rely and shall be protected in acting upon any resolution, certificate, opinion, notice, request, consent, order, appraisal, report, bond, or other paper or document believed by it to be genuine, to have been signed by the proper party or parties and to be in conformity with the provisions of this Indenture.

(h) Subject to paragraph (c) of this Section, in all cases where this Indenture does not make express provision as to the evidence on which the Indenture Trustee may act or refrain from acting, the Indenture Trustee shall be protected in acting or refraining from acting hereunder in reliance upon an Officer's Certificate as to the existence or nonexistence of any fact.

(i) Subject to paragraph (c) of this Section, the Indenture Trustee may consult with counsel satisfactory to the Indenture Trustee, and an Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such Opinion of Counsel.

(j) Whenever it is provided that the Indenture Trustee shall take any action, including the giving of any notice or the making of any demand, or refrain from taking any action upon the happening or continuation of a specified event (including an Indenture Default) or upon the fulfillment of any condition or upon the Request of the Company or of Obligees or upon receipt of any notice, including a Secretary's Notice, the Indenture Trustee shall, subject to paragraph (c) of this Section, have no liability for failure to take such action or for failure to refrain from taking such action until a Responsible Officer in the Corporate Trust Office, has actual knowledge of such event or continuation thereof or the fulfillment of such conditions or shall have received such Request.

(k) Subject to paragraph (c) of this Section, the Indenture Trustee shall not be under any obligation to exercise any of the trusts or powers hereof at the request, order or direction of any Obligees or the Secretary, unless such Obligees or the Secretary shall have offered to the Indenture Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities to be incurred thereby.

(l) The Indenture Trustee, in its individual or any other capacity, may become the owner or pledgee of Obligations with the same rights it would have if it were not Indenture Trustee.

(m) Notwithstanding any other provision of this Indenture, the Indenture Trustee shall not take any action contrary to the terms of the Authorization Agreement, and any such purported action or any attempt to take such action shall be void and of no effect.

(n) No provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(o) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section.

(p) Upon the execution and delivery of an instrument satisfying and discharging this Indenture as provided in Section 12.01 hereof, all duties and obligations of the Indenture Trustee hereunder (except with respect to the application of funds for the payment of Obligations then held by the Indenture Trustee) shall cease and shall not thereafter be revived, whether or not the Indenture shall thereafter be in full force and effect as provided in Section 6.08.

(q) Notwithstanding any other provision of this Indenture or the Authorization Agreement, the Indenture Trustee shall have no duty to exercise any of its rights or powers hereunder with respect to a Payment Default by reason of a repayment referred to in Section 6.08 unless and until it shall have received notice of such default and information concerning (1) the date thereof, (2) the Obligation to which such repayment relates, (3) the Person making such repayment, (4) the amounts of such repayment attributable to principal, premium and interest on such Obligation, and (5) the Interest Payment Date or other date on which the Obligor received the moneys to which the court order mentioned in Section 6.08 relates.

SECTION 7.04. Compensation, Expenses and Indemnification of Indenture Trustee. The Company shall (1) pay reasonable compensation to the Indenture Trustee and reimburse it for its reasonable expenses and disbursements (including counsel fees and expenses) and (2) indemnify the Indenture Trustee for, and hold it harmless against, any loss, liability or expense which it may incur or suffer without negligence or bad faith in acting under this Indenture or the Authorization Agreement. The compensation of the Indenture Trustee shall not be limited to the compensation provided by law for a trustee acting under an express trust.

SECTION 7.05. Resignation and Removal of Indenture Trustee. (a) The Indenture Trustee may resign at any time by giving written notice to the Company. Within 10 days thereafter, the resigning Indenture Trustee shall give notice of such resignation to the Obligees in the manner provided in Section 13.01. If the resigning Indenture Trustee fails to do so within such 10-day period, within the next succeeding 10 days the Company shall give such notice in the same manner.

(b) The Indenture Trustee may at any time be removed by: (1) written notice to the Indenture Trustee and the Company by the Holders of a majority in principal amount of the Outstanding Obligations; or (2) written notice to the Indenture Trustee by the Company or the Secretary that the Indenture Trustee has ceased to be eligible under Section 7.02(a).

(c) Any resignation or removal of the Indenture Trustee shall be effective only upon appointment of a successor Indenture Trustee approved by the Secretary

SECTION 7.06. Appointment of Successor Indenture Trustee. (a) If any notice of resignation or of removal shall have been given pursuant to Section 7.05, then a successor Indenture Trustee may be appointed by the Company; provided that, if such successor Indenture Trustee is not so appointed (or has not accepted such appointment) within 15 calendar days after the giving of any such notice, such appointment may be made (1) by the Secretary or (2) by a court of competent

jurisdiction upon the application of the Secretary, the Company, the retiring Indenture Trustee or any Person who then is, and has been, the Holder of an Outstanding Obligation for at least 6 months.

(b) No successor Indenture Trustee shall be appointed without the prior written consent of the Secretary and until such successor Indenture Trustee shall enter into an amendment to the Authorization Agreement as provided therein.

(c) If a successor Indenture Trustee is appointed, approved by the Secretary and accepts such appointment, the Company shall give notice to the Obligees of such appointment in the manner provided in Section 13.01. The failure of the Company to give such notice shall not affect the validity of any such appointment.

SECTION 7.07. Effect of Appointment of Successor Indenture Trustee. Each successor Indenture Trustee shall forthwith, without further act or deed, succeed to all the rights and duties of its predecessor in trust under this Indenture and the Authorization Agreement. Upon the written request of the successor Indenture Trustee or the Company and upon payment by the Company of all amounts due to such predecessor under this Indenture, such predecessor shall promptly deliver to such successor Indenture Trustee all sums held hereunder, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Indenture Trustee under this Indenture and shall transfer, assign and confirm to the successor Indenture Trustee all its rights under this Indenture in such manner as deemed by such successor Indenture Trustee or the Company to be necessary or appropriate in connection therewith.

SECTION 7.08. Merger, Consolidation or Sale of Indenture Trustee. In the event of any merger (including for the purposes of this Section, the conversion of a state bank into a national banking association or vice versa) or consolidation of the Indenture Trustee into any other Person or in the event of the sale of all or substantially all the Indenture Trustee's corporate trust business, the Person resulting from such merger or consolidation, or the transferee in the case of any such sale, shall forthwith notify the Company and, subject to Section 7.02(a) and 7.06(b), shall be the Indenture Trustee under this Indenture and the Authorization Agreement without further act or deed.

ARTICLE VIII

CONSOLIDATION OR MERGER OF COMPANY OR SALE OF MAST ITEM

SECTION 8.01. Consolidation or Merger of Company or Sale of MAST Item. (a) Nothing in this Indenture shall prevent any lawful consolidation or merger of the Company with or into any other Person, or any sale of a MAST Item by the Company, the Secretary or a court of law to any other Person lawfully entitled to acquire and operate such MAST Item or any sale by the Company, the Secretary, or a court of law of all or substantially all of its assets to any other Person; provided that, except where the Company shall be the Person surviving a merger or consolidation, either (1) the Person formed by or surviving such consolidation or merger, or the Person to which the sale of such MAST Item shall be made, shall expressly assume, by Supplemental Indenture, the payment of the principal of and interest (and premium, if any) on the Proportionate Part of the

Outstanding Obligations, as determined by the Secretary, relating to such MAST Item and expressly assume the Company's duties under the Indenture, or (2) to the extent that the Secretary determines that the Outstanding Obligations and the duties under the Indenture are not so assumed, the Company shall redeem the principal amount of those unassumed Obligations in accordance with the terms of the Obligations and of the Indenture.

(b) When a Person so assumes this Indenture and such Proportionate Part of the Outstanding Obligations, the Supplemental Indenture shall discharge and release the Company from any and all obligations thereunder relating to such Proportionate Part of the Outstanding Obligations. In the event of such an assumption by a Person to whom a MAST Item has been sold (a) such Person shall succeed to, and be substituted for, and may exercise every right and power of the original Company with the same effect as if such successor Company had been named as the Company herein and (b) such Proportionate Part of the Outstanding Obligations shall be surrendered to the Indenture Trustee for appropriate notation or for the issuance of new Obligations in exchange for such Proportionate Part of the Outstanding Obligations in the name of the successor Company, as required by the Secretary. The principal amount of the Proportionate Part of the Outstanding Obligations shall be determined by the Secretary.

ARTICLE IX ACTS OF OBLIGEEES

SECTION 9.01. Acts of Obligees. (a) Except as herein otherwise expressly provided, an Act of Obligees shall become effective when it is delivered to the Indenture Trustee and, where it is expressly required, to the Company and the Secretary. Proof of execution of any instrument appointing an agent or attorney to execute an Act of Obligees made in the manner of subsection (b) below shall be sufficient for any purpose of this Indenture.

(b) The fact and date of the execution by any Person of any instrument referred to in paragraph (a) of this Section may be proved by the affidavit of a witness of such execution or by the certificate or acknowledgment of any notary public, stating that the individual signing such instrument acknowledged to him the execution thereof. The fact and date of the execution of any such instrument, or the authority of the Person executing the same, may also be proved in any other manner which the Indenture Trustee (or, if such instrument is addressed to the Secretary, the Secretary) deems sufficient.

(c) Any Act of Obligees taken by the Holder of any Obligation shall bind every future Holder of any of the Obligations in respect of anything done or suffered to be done by the Indenture Trustee, any Paying Agent or the Company in reliance thereon, whether or not notation of such action is made upon such Obligation.

ARTICLE X
SUPPLEMENTAL INDENTURES

SECTION 10.01. Permissible Without Action by Obligees. The Company, the Indenture Trustee, or, where applicable, the Secretary, may at any time, without the consent of or notice to any of the Obligees, subject to Sections 10.02 and 10.05, enter into an indenture or other instrument supplemental hereto and which thereafter shall form a part hereof, for any one or more of the following purposes:

- (1) to add to the covenants of the Company;
- (2) to evidence, pursuant to Article VIII, the succession of another corporation or entity to the Company or any assumption of all or part of the Obligations;
- (3) to eliminate any right reserved to or conferred upon the Company;
- (4) to make such provisions for the purpose of curing any ambiguity or correcting or supplementing any provisions in this Indenture as the Company or the Secretary may deem necessary or desirable, provided such provisions are not inconsistent with this Indenture and shall not adversely affect the interests of the Obligees;
- (5) to provide for the issuance of additional Obligations of any series and Stated Maturity theretofore issued under this Indenture or to set forth the terms and provisions of any one or more additional series of Obligations in accordance with Section 2.04; or
- (6) to evidence the assumption pursuant to Section 6.09 by the Secretary of the Company's obligations under this Indenture and the Outstanding Obligations.

SECTION 10.02. Protection of Indenture Trustee. Upon receipt of a Request of the Company that the Indenture Trustee execute any Supplemental Indenture and upon receipt of any Act of Obligees required pursuant to Section 10.04 and the consent of the Secretary required pursuant to Section 10.05, the Indenture Trustee shall enter into such Supplemental Indenture; provided that, the Indenture Trustee shall not be obligated to enter into any Supplemental Indenture which the Indenture Trustee believes adversely affects the Indenture Trustee's own rights, duties or immunities under this Indenture.

SECTION 10.03. Reference in Obligations to Supplemental Indentures. Obligations authenticated and delivered after the execution and delivery of any Supplemental Indenture may, with the consent and approval of the Company and the Indenture Trustee, contain a text modified to conform to such Supplemental Indenture or have imprinted or stamped thereon a legend with respect to such Supplemental Indenture, but no such modification or legend shall be necessary to make such Supplemental Indenture effective.

SECTION 10.04. Waivers and Supplemental Indentures with Consent of Obligees. With the consent of the Holders of not less than 60% in principal amount of the Outstanding Obligations of each series affected thereby, by Act of Obligees delivered to the Company and the Indenture Trustee, (x) compliance by the Company with any of the terms of the Indenture may be waived or (y) the Company and the Indenture Trustee may enter into any Supplemental Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of the Obligations issued under this Indenture; provided that, no such waiver or Supplemental Indenture shall:

(a) Without the consent of all Obligees affected thereby (1) change the Stated Maturity or reduce the principal of any Obligation, (2) extend the time of payment of, or reduce the rate of, interest thereon, (3) change the due date of or reduce the amount of any mandatory sinking fund payment, (4) reduce any premium payable upon the redemption of any Obligation, or (5) change the coin or currency in which any Obligation or the interest thereon is payable; or

(b) Without the consent of all Obligees (1) terminate or modify any of the Guarantees or the obligations of the Secretary thereunder, (2) reduce the amount of any of the Guarantees, (3) eliminate, modify or condition the duties of the Indenture Trustee to demand payment of the Guarantees or otherwise to comply with the provisions of Sections 6.02 and 6.04, (4) eliminate or reduce any of the eligibility requirements for the Indenture Trustee stated in Section 7.02, or (5) reduce the percentage in principal amount of the Outstanding Obligations of any series, the consent of whose Holders is required for any such Supplemental Indenture, or required for any waiver provided herein or to modify any of the provisions of this Section.

It shall not be necessary for any Act of Obligees under this Section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such Act shall approve the substance thereof. Promptly after the execution of any Supplemental Indenture pursuant to this Section, the Company shall give notice thereof to the Obligees in the manner provided in Section 13.01. Any failure of the Company to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

SECTION 10.05. Consent of Secretary. Subject to the provisions of Section 11.01, no waiver pursuant to Section 10.04 shall be effective, and neither the Company nor the Indenture Trustee shall enter into any Supplemental Indenture, without the prior written consent of the Secretary, and any purported action or attempt to take such action forbidden to be taken by this Section shall be null and void ab initio and of no legal effect.

SECTION 10.06. Continued Validity of the Guarantees. Notwithstanding anything herein to the contrary, this Indenture, the Guarantees and the Authorization Agreement shall each remain in full force and effect notwithstanding the assumption by the Secretary of the Obligations pursuant to Section 6.09, and pursuant to Section 1103(e) of the Act, the validity of the Guarantee of any Obligation shall be unaffected.

ARTICLE XI
PERFORMANCE OF OBLIGATIONS TO SECRETARY

SECTION 11.01. Performance of Obligations to Secretary. Notwithstanding any provisions of this Indenture to the contrary, upon termination of the Guarantees pursuant to Section 6.04(a), each of the provisions of the Indenture which refers to the rights and duties of the Secretary shall not be effective and the Sections containing such provisions shall be read as though there were no such rights or duties.

ARTICLE XII
SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 12.01. Satisfaction and Discharge of Indenture. Whenever all Outstanding Obligations authenticated and delivered hereunder shall have been Retired or Paid the Indenture Trustee shall forthwith deliver to the Company and the Secretary a duly executed instrument, in form submitted to it by the Company and reasonably satisfactory to the Secretary, satisfying and discharging this Indenture and, at the time such form of instrument is submitted to the Indenture Trustee the Company shall deliver to the Indenture Trustee an Officer's Certificate and an Opinion of Counsel each stating that all conditions precedent herein provided relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture, the Obligations of the Company to the Indenture Trustee under Section 7.04 shall survive.

ARTICLE XIII
MISCELLANEOUS

SECTION 13.01. Notices and Demands. Any communication to, the Indenture Trustee, the Company or the Secretary shall be deemed to have been sufficiently given or made by being mailed, registered or certified mail, postage prepaid, addressed to the Indenture Trustee, the Company or the Secretary at their respective addresses appearing in the Special Provisions of this Indenture or at such other address as any of them may advise the others in writing from time to time. Any communication to, the Obligees shall be deemed to have been sufficiently given or made by being mailed, in the same manner, to the address of each Obligee last appearing on the Obligation Register.

SECTION 13.02. Waivers of Notice. In any case where notice by mail or otherwise is provided herein, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event. Waivers of notice shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken thereon in reliance upon any such waiver.

SECTION 13.03. Benefit of Indenture. This Indenture is for the sole benefit of the Company, the Indenture Trustee, the Holders and (until the obligations to the Secretary shall have terminated as provided in Article XI) the Secretary.

SECTION 13.04. Execution of Counterparts. This Indenture may be executed in any number of counterparts. All such counterparts shall be deemed to be original and shall together constitute but one and the same instrument.

SECTION 13.05. Table of Contents; Titles and Headings. Any table of contents, the titles of the Articles and the headings of the Sections are not a part of this Indenture and shall not be deemed to affect the meaning or construction of any of its provisions.

SECTION 13.06. Immunity of Incorporators, Stockholders, Limited Partners, Members, Officers and Directors. No recourse shall be had for any payment regarding any Obligation, or upon any provision of this Indenture, against any past, present or future incorporator, stockholder, limited partner, member, officer or director of the Company or of any successor company, either directly or indirectly. It is expressly agreed that this Indenture and the Obligations are solely the obligations of the Company.

SPECIMEN OBLIGATION

No.____

\$_____

U.S. GOVERNMENT GUARANTEED SHIPYARD MODERNIZATION OBLIGATION

___ Sinking Fund Obligation Due ___
Issued by

_____, a _____ (herein called the "Shipyard"), FOR VALUE RECEIVED, promises to pay to _____ or registered assigns, the principal sum of _____ AND NO/100 DOLLARS (\$_____.00) on _____, and to pay interest semiannually on _____ and _____ of each year, commencing _____, on the unpaid principal amount of this Obligation at the rate of ___% per annum (calculated on the basis of a 360-day year of twelve 30-day months) from the interest payment date referred to above next preceding the date of this Obligation to which interest on the Obligations has been paid (unless the date hereof is the date to which interest on the Obligations has been paid, in which case from the date of this Obligation), or if no interest has been paid on the Obligations since the Original Issue Date (as defined in the Indenture hereinafter mentioned) of this Obligation, from the Original Issue Date, until payment of said principal sum has been made or duly provided for, and at the same rate per annum on any overdue principal.

The principal of and the interest on this Obligation, as well as any premium hereon in case of certain redemptions hereof prior to maturity, are payable to the registered owner hereof at the Corporate Trust Office of the Indenture Trustee, _____, a _____ (the "Indenture Trustee") or at a Paying Agent maintained for such purposes in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts therein; provided that, payments may be made by check mailed to the address of the registered owner hereof as such address shall appear on the Obligation Register of said Indenture Trustee, and by such other methods of payment as permitted by the Indenture.

This Obligation is one of an issue of Obligations of the Company of _____ aggregate principal amount of sinking fund Obligations, designated as its "United States Government Guaranteed Shipyard Modernization Obligations, ___ Series," all issued under a Trust Indenture dated as of _____ (the "Indenture"), between the Company and the Indenture Trustee to aid in financing the cost of the MAST Items. Reference is hereby made to the Indenture for a definition of the capitalized terms used but not defined herein and a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Company and the Indenture Trustee, the Obligees of the Obligations, and the Secretary.

In accordance with the terms of an Authorization Agreement dated as of _____, between the United States of America, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary") and the Indenture Trustee, and by endorsement of the guarantee of the United States of America (the "Guarantees") on each of the Obligations and the authentication and delivery of the Guarantees by the Indenture Trustee, all pursuant to the Act, the Obligations are guaranteed by the United States of America as provided in the Authorization Agreement and in the Guarantees endorsed thereon. Reference is hereby made to the Authorization Agreement for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Secretary, the Indenture Trustee, and the Obligees of the Obligations.

Furthermore, it is hereby noted that Section 1103(d) of Title XI of the Act provides that:

"The full faith and credit of the United States is pledged to the payment of all guarantees made under this title with respect to both principal and interest, including interest, as may be provided for in the guarantee, accruing between the date of default under a guaranteed obligation and the payment in full of the guarantee."

If an Indenture Default shall have occurred and be continuing, the Indenture Trustee, as provided in the Indenture shall, not later than 60 days from the date of such Indenture Default, demand payment by the Secretary of the Guarantees, whereupon the entire unpaid principal amount of the Outstanding Obligations and all unpaid interest thereon shall become due and payable on the first to occur of the date which is 30 days from the date of such demand or the date on which the Secretary pays the Guarantees. If no demand for payment of the Guarantees shall have been made by the Indenture Trustee on or before the 30th day following an Indenture Default, the Obligee of any Outstanding Obligation may, in the manner provided in the Indenture, make such demand in place of the Indenture Trustee. In the event of an Indenture Default of which the Secretary has actual knowledge, the Secretary, as provided in the Authorization Agreement, will publish notice in the Authorized Newspaper, which shall be The Wall Street Journal, of the occurrence of such Indenture Default within 30 days from the date of such Indenture Default, unless demand for payment under the Guarantees shall previously have been made by the Indenture Trustee, but any failure to publish such notice or any defect therein shall not affect in any way any rights of the Indenture Trustee, the Secretary or any Obligee of a Obligation.

Within 30 days from the date of any demand for payment of the Guarantees, the Secretary shall pay to the Indenture Trustee all the unpaid interest to the date of such payment on, and the unpaid balance of the principal of such Obligations in full, in cash; provided that, in the case of a demand made as a result of an Indenture Default, the Secretary shall not be required to make any such payment if (i) within such 30-day period (and prior to any payment of the Guarantees by the Secretary), the Secretary finds either that there was no Payment Default, or that such Payment Default was remedied prior to the demand for payment of the Guarantees, or (ii) the Secretary assumes the Obligations in the manner provided in Section 6.09 of the Indenture. In each such event the Guarantees shall continue in full force and effect.

The Obligee of this Obligation, by the purchase and acceptance hereof, hereby irrevocably appoints the Indenture Trustee and each other Obligee of any Outstanding Obligation as agent and attorney-in-fact for the purpose of making any demand for payment of the Guarantees, and (in the case of the Indenture Trustee) of receiving and distributing such payment; provided that, no action or failure to act by the Indenture Trustee shall affect the right of the Obligee of this Obligation to take any action whatsoever permitted by law and not in violation of the terms of this Obligation or of the Indenture.

Any amount payable by the Secretary under the Guarantees shall not be subject to any claim or defense of the United States of America, the Secretary, or others, whether by way of counter-claim, set-off, reduction or otherwise. Further, the Obligee of this Obligation shall have no right, title or interest in any collateral or security given by the Company to the Secretary.

After payment of the Guarantees by the Secretary to the Indenture Trustee, this Obligation (1) if it has not then been surrendered for cancellation or canceled, shall represent only the right to receive payment in cash of an amount (less the amount, if any, required to be withheld with respect to transfer or other taxes on payments to the Obligee of this Obligation) equal to the unpaid principal amount hereof and the unpaid interest accrued hereon to the date on which the Secretary shall have paid the Guarantees in full in cash to the Indenture Trustee, (2) shall otherwise no longer constitute or represent an obligation of the Company, and (3) shall not be entitled to any other rights or benefits provided in the Indenture, subject to Section 6.08 of the Indenture.

The Obligations (including this Obligation) may be redeemed upon the terms and conditions provided in the Indenture, in whole or in part, at the option of the Company, at any time or from time to time upon at least 40 and not more than 60 days prior notice given as provided in the Indenture, at a redemption price equal to _____% of the principal amount hereof, if redeemed on or prior to _____, and thereafter at the following redemption prices (expressed in percentages of the principal amount), together with the interest accrued thereon to the date fixed for redemption:

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

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

The Obligations (including this Obligation) are also subject to redemption, upon the terms and conditions provided in the Indenture and upon like notice, through the operation of a mandatory sinking fund providing for the redemption on _____, and on each _____ and _____ thereafter to and including _____, at 100% of the principal amount thereof plus interest accrued thereon to such date, of a principal amount of such Obligations equal to _____ and on _____, the entire unpaid principal amount of the Outstanding Obligations shall be paid in full, together with all interest accrued thereon to such date (a “Mandatory Sinking Fund Redemption”).

On the date of any Mandatory Sinking Fund Redemption, the Company may redeem an additional amount of principal (also without premium) equal in an amount of the Mandatory Sinking Fund Redemption payment (an “Optional Sinking Fund Redemption”), provided that, the right to make an optional redemption may not be cumulative.

The Obligations (including this Obligation) are also subject to mandatory redemption without premium, upon the terms and conditions provided in the Indenture, in whole or in part, at 100% of the principal amount thereof, plus interest accrued thereon to the date of redemption, upon at least 40 and not more than 60 days prior notice (a) in the event that Obligations must be redeemed so that the principal amount of all Obligations Outstanding after such redemption will not exceed ___% of the Depreciated Actual Cost or Actual Cost, as determined by the Secretary, of the MAST Items, (b) in the event of an actual, constructive, agreed or compromised total loss of, or seizure or forfeiture of the Shipyard or any of the MAST Items, or (c) in the event of termination of a primary Contractor’s contract relating to the MAST Items. If the principal amount of Outstanding Obligations is reduced by reason of any redemption described in this paragraph, the principal amount of Obligations subject to Mandatory Sinking Fund Redemptions in the future shall be reduced as provided in the Indenture.

In lieu of making all or any part of any such mandatory sinking fund redemption, the Company may, at its option, receive credit for Obligations (not previously credited against a mandatory sinking fund payment) (i) redeemed pursuant to the Optional Sinking Fund Redemption, (ii) redeemed by the Company pursuant to the optional redemption at a premium referred to 4 paragraphs above, or (iii) purchased or acquired by the Company other than by redemption. Such Obligations shall be credited by the Indenture Trustee at 100% of the principal amount thereof.

The Obligations (including this Obligation) may also be redeemed without premium upon the terms and conditions provided in the Indenture, in whole or in part, at the option of the Secretary, at any time following an assumption of the Obligations and the Indenture by the Secretary, upon at least 40 and not more than 60 days prior notice given as provided in the Indenture, at a Redemption Price equal to 100% of the principal amount to be redeemed, plus interest accrued to the date fixed for redemption.

Any optional redemption shall be subject to the receipt of the redemption moneys by the

Indenture Trustee or any Paying Agent. Obligations called for redemption shall (unless the Company shall cancel the proposed optional redemption) cease to bear interest on and after the date fixed for redemption.

As provided in the Indenture and to the extent permitted thereby, compliance by the Company with any of the terms of the Indenture may be waived, and the Indenture and the rights and obligations of the Company, and the rights of the Obligees of the Obligations (including this Obligation) thereunder may be modified, at any time with the prior consent of the Secretary, and except as otherwise expressly provided in the Indenture, the consent of the Obligees of at least 60% in principal amount of the Outstanding Obligations affected thereby in the manner and subject to the limitations set forth in the Indenture; provided that, no such waiver or modification shall (1) without the consent of the Obligee of each Obligation affected thereby: (a) change the Stated Maturity or reduce the principal amount of any Obligation, (b) extend the time of payment of, or reduce the rate of, interest thereon, (c) change the due date of or reduce the amount of any sinking fund payment, (d) reduce any premium payable upon the redemption thereof, or (e) change the coin or currency in which any Obligation or the interest thereon is payable; or (2) without the consent of all Obligees of Obligations: (a) terminate or modify any of the Guarantees or the obligations of the United States of America thereunder, (b) reduce the amount of any of the Guarantees, (c) eliminate, modify or condition the duties of the Indenture Trustee to demand payment of the Guarantees, (d) eliminate or reduce the eligibility requirements of the Indenture Trustee, or (e) reduce the percentage of principal amount of Obligations the consent of whose Obligees is required for any such modification or waiver.

The Indenture provides that the Obligations (including this Obligation) shall no longer be entitled to any benefit provided therein if the Obligations shall have become due and payable at Maturity (whether by redemption or otherwise) and funds sufficient for the payment thereof (including interest to the date fixed for such payment, together with any premium thereon) and available for such payment (1) shall be held by the Indenture Trustee or any Paying Agent, or (2) shall have been so held and shall thereafter have been paid to the Company after having been unclaimed for 6 years after the date of maturity thereof (whether by redemption or otherwise) or the date of payment of the Guarantees, except for the right (if any), of the Obligee to receive payment from the Company of any amounts paid to the Company as provided in (2) above with respect to this Obligation, all subject to the provisions of Section 6.08 of the Indenture.

This Obligation is transferable by the registered Obligee or by his duly authorized attorney, at the Corporate Trust Office of the Indenture Trustee, upon surrender or cancellation of this Obligation, accompanied by an instrument of transfer in form satisfactory to the Company and the Indenture Trustee, duly executed by the registered Obligee hereof or his attorney duly authorized in writing, and thereupon a new, fully registered Obligation or Obligations of like series and maturity for the same aggregate principal amount will be issued to the transferee in exchange therefor, each in the principal amount _____ or any integral multiple thereof, subject to the provisions of the Indenture. The Indenture provides that the Company shall not be required to make transfers or exchanges of (1) Obligations for a period of 15 days immediately prior to an interest payment date, (2) Obligations after demand for payment of the Guarantees and prior to payment thereof or

rescission of such demand as provided in Section 6.02(a) of the Indenture, or (3) Obligations which have been selected for redemption in whole or in part.

The Company, the Secretary, the Indenture Trustee and any Paying Agent for the payment of Obligations will treat the person in whose name this Obligation is registered as the absolute owner thereof for all purposes, and this rule may not be altered by any notice to the contrary to any of these entities, whether this Obligation shall be past due or not.

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 Indenture, against any incorporator or any past, present or future subscriber to the capital stock, stockholder, limited partner, member, officer or director of the Company 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 Indenture. So long as the Guarantee is in effect, there shall be no recourse against the Company.

Neither this Obligation nor the Guarantee endorsed hereon shall be valid or become obligatory for any purpose until the Indenture Trustee shall have fully signed the authentication certificate endorsed hereon.

IN WITNESS WHEREOF, the Company has caused this Obligation to be duly executed by the manual or facsimile signatures of its duly authorized officers under its corporate seal or facsimile thereof.

Dated as of _____.

BY: _____

(SEAL)

Attest:

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

TRUSTEE'S AUTHENTICATION CERTIFICATE

This is one of the Obligations described in the Indenture and the foregoing Guarantee is one of the Guarantees described in the Authorization Agreement.

Indenture Trustee

BY: _____

AUTHORIZATION AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA
AND

_____, Indenture Trustee

This Authorization Agreement, dated as of _____, is entered into between (i) the United States of America, represented by the Secretary of Transportation, acting by and through the Maritime Administrator (the "Secretary"), and (ii) _____, a _____, as the Indenture Trustee under the Trust Indenture dated as of the date hereof between the Indenture Trustee and _____, a _____ (the "Company").

RECITALS:

A. Under the provisions of Title XI of the Merchant Marine Act, 1936, as amended (the "Act"), the Secretary has determined that the requirements of the Act with respect to the Guarantees and the Obligations proposed to be issued under the Indenture have been met; and

B. The Secretary and the Indenture Trustee have entered into this Authorization Agreement in order (1) to authorize the Indenture Trustee to endorse and execute by means of a facsimile signature of the Secretary and a facsimile seal of the U.S. Department of Transportation and to authenticate on each of the Obligations the Guarantee of the United States pursuant to the terms of the Indenture, (2) to agree upon the procedures whereby the Indenture Trustee or any Holder of any Outstanding Obligation, as agent and attorney-in-fact for the Holders of all Outstanding Obligations, as provided in the Indenture, will make demand upon the Secretary for payment of the Guarantees, and (3) to provide for the payment of the Guarantees by the Secretary to the Indenture Trustee.

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

**ARTICLE I
EXECUTION, AUTHENTICATION AND DELIVERY OF THE GUARANTEES**

SECTION 1.01. Authorization to Imprint, Authenticate and Deliver. (a) The Secretary hereby authorizes and directs the Indenture Trustee to cause the Guarantees, the facsimile signature of the Maritime Administrator or the Acting Maritime Administrator, and facsimile seal of the U.S. Department of Transportation to be imprinted upon Obligations issued in accordance with Article

II and Article III of the Indenture. The form of the Guarantee to be imprinted on the Obligation is as follows:

"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)

BY: _____
Maritime Administrator"

(b) The Secretary hereby authorizes and directs the Indenture Trustee to authenticate the Obligations and Guarantees thereon, and to deliver such Obligations and Guarantees in accordance with the Indenture and herewith.

(c) Once an Obligation has been imprinted with the Guarantees, the requisite facsimile signatures and seals, authenticated by the Trustee and delivered to the Holders, then that Obligation shall bind the United States regardless of the fact that the individual signing as such Maritime Administrator or Acting Maritime Administrator ceased to hold such office prior to the authentication and delivery of the Obligation bearing such Guarantee, or did not hold such office on the date of such Obligation.

SECTION 1.02. Issuance of Obligations. The Indenture Trustee is authorized to execute, authenticate and deliver the Guarantees in the manner set forth in Section 1.01 above, only in accordance with the Obligations issued under Sections 2.01, 2.02, 2.07, 2.09 and 3.10 (b) of the Indenture.

ARTICLE II
DEMAND FOR PAYMENT OF GUARANTEES

SECTION 2.01. Default under the Indenture. (a) In the event of any Indenture Default, the Indenture Trustee or any Holder of an Outstanding Obligation may demand, in accordance with the provisions of Section 6.02 of the Indenture, on behalf of the Holders of all the Obligations then Outstanding, payment by the Secretary of the unpaid principal and interest to the date of payment on all Outstanding Obligations.

(b) Within 30 days from the date of any demand for payment made pursuant to paragraph (a) of this Section, the Secretary shall pay to the Indenture Trustee as agent and attorney-in-fact for the Holders of the Outstanding Obligations, all the unpaid interest to the date of such payment on, and the unpaid balance of the principal of, all Outstanding Obligations as aforesaid in full, in cash; provided that, in the case of a demand made as a result of a Payment Default, the Secretary shall not be required to make such payment if (1) the Secretary assumes the Obligations pursuant to Section 6.09 of the Indenture or (2) prior to the expiration of such 30-day period subsequent to such demand and prior to any payment of the Guarantees by the Secretary, he shall find there was no Payment Default or that such Payment Default had been remedied prior to such demand, and in any such case the Guarantees shall remain in full force and effect. The Secretary shall give prompt written notice to the Company and the Indenture Trustee of each such finding.

SECTION 2.02. Payment of the Guarantees. The Secretary and the Indenture Trustee confirm that, in accordance with the provisions of the Obligations and the Indenture, the payment of the Guarantees as provided in Section 2.01 by the Secretary to the Indenture Trustee, as agent and attorney-in-fact for the Holders of all Outstanding Obligations, shall be made by the Secretary to, and accepted by, the Indenture Trustee, solely for the benefit of the Holders of Outstanding Obligations, as payment in full of the Outstanding Obligations, and that such Obligations will thereupon cease to be obligations of the Company.

ARTICLE III
REPRESENTATIONS AND COVENANTS OF THE INDENTURE TRUSTEE

SECTION 3.01. Consent of the Secretary. The Indenture Trustee covenants that it will not, without the written consent of the Secretary, and then only upon such conditions, if any, as may be specified in such consent, (a) take or participate in the taking of any action which, by the terms of the Indenture, may require the consent of the Secretary, or (b) enter into any amendment or supplement to the Indenture, or waive any condition of the Indenture, except in the case of any such waiver as the Indenture may expressly permit.

SECTION 3.02. Authorization, Execution and Delivery. The Indenture Trustee represents and warrants that it has satisfied all requirements of law for the due execution and delivery of this Authorization Agreement and upon execution and delivery hereof, this Authorization Agreement will

constitute a valid and legally binding obligation of the Indenture Trustee, enforceable in accordance with its terms.

SECTION 3.03. Agreements of Indenture Trustee. The Indenture Trustee agrees that it shall:

(a) Furnish to the Secretary a written statement of the principal amount, interest rate, Stated Maturity and date of delivery of any (1) Obligations that are authenticated and delivered in accordance with Sections 2.01 and 2.02 of the Indenture on the date hereof and on each subsequent date of delivery; (2) Obligations that are authenticated and delivered by the Indenture Trustee under Section 1.02 and 1.03 hereof within 15 Business Days after each such delivery, and (3) Obligations that are redeemed or Retired or Paid within 30 days of the event.

(b) 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 Indenture, the Obligations, the Guarantees and this Authorization Agreement, and all matters related thereto; and

(c) 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 Indenture, the Obligations, and the Guarantees, and acts performed by the Indenture Trustee with respect thereto, as the Secretary may reasonably deem necessary or appropriate.

ARTICLE IV GENERAL PROVISIONS

SECTION 4.01. Definitions. For all purposes of this Authorization Agreement, unless otherwise expressly provided or unless the context otherwise requires, capitalized terms not specifically defined herein shall have the respective meanings given in Schedule A to the Indenture.

SECTION 4.02. Secretary's Agreements. The Secretary agrees that:

(a) This Authorization Agreement and the Guarantees of the Obligations are made and entered into pursuant to Title XI of the Act, and conclusively evidence the eligibility of the Obligations for the Guarantees, and the validity of the Guarantees shall be incontestable;

(b) The obligations of the United States to pay the Guarantees shall be subject to no conditions whatsoever, express or implied, except that demand shall have been made therefor by the Indenture Trustee or any Holder of an Outstanding Obligation not later than 60 days from the date of an Indenture Default that shall have occurred and be continuing, it being the intent of the United

States that the Guarantees will be paid under any and all circumstances upon demand duly made therefor; and

(c) In the event of an Indenture Default of which the Secretary has actual knowledge, the Secretary will publish notice in the Authorized Newspaper of the occurrence of such Indenture Default within 30 days from the date of such Indenture Default, unless demand for payment under the Guarantees shall previously have been made by the Indenture Trustee, but any failure to publish such notice or any defect therein shall not affect in any way any rights of the Indenture Trustee or any Holder of an Obligation with respect to such Indenture Default, or in any way affect the rights of the Secretary.

SECTION 4.03. Benefits to Holders of Obligations. All authorizations and directions to authenticate and deliver Obligations and Guarantees, and all other agreements of the Secretary herein are made with the Indenture Trustee for, and shall inure to, the benefit of all Holders of the Obligations. The agreements of the Indenture Trustee herein are made with the Secretary for, and shall inure to, the benefit of all Holders of the Obligations.

SECTION 4.04. Successor Indenture Trustee; Amendments and Supplements. The authority and direction granted to the Indenture Trustee hereby, and all rights of the Indenture Trustee hereunder, are granted to and shall accrue to the benefit of any Person who from time to time acts as successor Indenture Trustee, pursuant to the terms of Article VII of the Indenture; provided that, such successor Indenture Trustee and the Secretary shall have entered into an amendment hereto whereby such successor Indenture Trustee agrees to fulfill the obligations of the Indenture Trustee hereunder. Except as provided in the preceding sentence, this Authorization Agreement may not be amended or supplemented in any regard whatever, nor may the rights or obligations of the Indenture Trustee hereunder be assigned to any other Person, except by a writing duly executed by the Indenture Trustee and the Secretary.

SECTION 4.05. Effective Period. This Authorization Agreement and the authorization and direction to authenticate and deliver Guarantees granted to the Indenture Trustee (or any successor Indenture Trustee) shall have effect from the date hereof until termination upon, and only upon, the occurrence of one or both of the following events:

(a) When the Indenture shall have been satisfied and discharged in accordance with Section 12.01 thereto; or

(b) When the Guarantees of all the Outstanding Obligations shall have been terminated in accordance with Section 6.04(a) of the Indenture.

SECTION 4.06. Payments, Notices or Other Communications. Except as otherwise provided herein, all payments, notices or other communications provided for herein 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 below, or at such other address as such party shall advise the other party by written notice, and shall be effective upon mailing or delivery in person.

The addresses of the Secretary and the Indenture Trustee are as follows:

SECRETARY OF TRANSPORTATION

c/o Maritime Administrator
Department of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590

SECTION 4.07. Execution of Counterparts. This Authorization 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 4.08. Titles and Headings. The titles of the Articles and the headings of the Sections are not a part of this Authorization Agreement, and shall not be deemed to affect the meaning or construction of any of its provisions.

SECTION 4.09. Conformity with Regulations. The Secretary hereby affirms that, with respect to the rights of the Indenture Trustee and the Holders, this Authorization Agreement conforms to its existing regulations governing the issuance of commitments to guarantee and guarantees under Title XI of the Act.

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

(SEAL)

UNITED STATES OF AMERICA,
SECRETARY OF TRANSPORTATION,

Attest:

MARITIME ADMINISTRATOR

Assistant Secretary
Maritime Administration

BY _____

(SEAL)

Attest:

INDENTURE TRUSTEE

BY _____

SECURITY AGREEMENT

SPECIAL PROVISIONS

THIS SECURITY AGREEMENT, dated _____ (the "Security Agreement"), is among _____, a _____ corporation ("Company"), 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 ("Title XI").

RECITALS

A. The Company is the owner of certain real estate and equipment constituting the property known as _____, (the "Shipyard"). The real estate consists of _____.

B. The Company will be responsible for causing the construction and installation of certain improvements and renovations (including new equipment) of the Shipyard (the "MAST Items"), pursuant to certain Construction Contracts with _____ and with other design, equipment, and material contractors (the "Contractors"). The Company will be the owner of the MAST Items.

C. On the date hereof, the Secretary entered into, and the Company accepted a Commitment to Guarantee Obligations, Contract No. MA-_____, whereby the United States has committed itself to guarantee the payment in full of all the unpaid interest on, and the unpaid principal balance of, the Obligations (as defined herein) in the aggregate principal amount equal to ___% of the Depreciated Actual Cost or the Actual Cost of the MAST Items, as the case may be, on the Closing Date, which amounts are set out in Table A.

D. The Company has entered into the Bond Purchase Agreement providing for the sale and delivery, on the Closing Date, of obligations in the aggregate principal amount of \$_____ to be designated "United States Government Guaranteed Shipyard Modernization Obligations, _____ Series" (the "Obligations") having the maturity date and interest rate set forth in the Bond Purchase Agreement, the Indenture and the Obligations.

E. On the date hereof, the Company and _____, a _____ as Indenture Trustee, executed and delivered the Trust Indenture (the "Indenture") pursuant to which the Company will issue the Obligations.

F. On the date hereof, the Secretary and the Indenture Trustee executed the Authorization Agreement, Contract No. MA-_____, which authorizes the Indenture Trustee to endorse, execute, and authenticate the Secretary's Guarantee on each of the Obligations.

G. As security for the due and timely payment of the Secretary's Note, issued this day by the Company, and for the Secretary's issuance of the Guarantees, the Company has executed and delivered the Security Agreement, Contract No. MA-_____, the Mortgage, Contract No. MA-_____, and the Financial Agreement, Contract No. MA-_____, granting the Secretary a first priority security interest in, among other things, (w) all fixtures, tangible personal and real property (including, without limitation, all land, docks, piers, basins, cranes, structures, machinery, equipment and tools) owned by Company and either currently on or in the Shipyard or subsequently acquired by Company and installed or placed thereon (including but not limited to the MAST Items), (x) any future leases of the Shipyard or any portion of the Shipyard or its fixture, personal or real property, (y) certain general intangibles and contracts (including all Construction Contracts), and depository accounts held under the Depository Agreement, and (z) all of the proceeds of the foregoing.

H. As further security to the Secretary and in consideration of the Secretary's agreeing to issue the Guarantees, the primary Contractors have granted the Secretary a security interest in the Shipyard, its component parts, machinery, and equipment during the construction period and has executed on this date the Consent of Contractor to the assignment of the Construction Contract to the Secretary.

I. In order to implement certain aspects of the transactions contemplated by the Security Agreement and the Financial Agreement, the Secretary, the Contractor and _____, a _____ (the "Depository") have entered into the Depository Agreement, Contract No. 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, the 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(a)(2) of the Security Agreement, the minimum amount of comprehensive public liability coverage for injury or death in one accident or occurrence shall be not less than \$_____, and not less than \$_____ for property damage in any one accident or occurrence.

(2) In connection with the last paragraph of Section 2.05(a) of the Security Agreement, the maximum amount of self-insurance permitted to the Company shall be (i) \$___ for property damage suffered by the Company (provided, that the maximum amount of self-insurance permitted to the Company for property damage suffered by the Company as a result of wind or storm shall be \$_____) and \$_____ for liability incurred by the Company resulting from any one accident or occurrence or (ii) as to each of the foregoing, such other greater amount as may be agreed to by the Secretary.

(3) In connection with Section 2.05(b)(1) of the Security Agreement, the Secretary shall permit payment of losses up to the amount of \$_____ to be made directly to the Company 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

Company as: _____

Indenture Trustee 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 the maritime laws of the United States and with the laws of the _____.

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

(SEAL)

COMPANY

Attest:

BY: _____

(SEAL)

UNITED STATES OF AMERICA
SECRETARY OF TRANSPORTATION
MARITIME ADMINISTRATOR

Attest:

BY: _____

Assistant Secretary
Maritime Administration

EXHIBITS TO THE SECURITY AGREEMENT

- Exhibit 1--General Provisions Incorporated into the Security Agreement by Reference
- Schedule X - Schedule of Definitions
- Exhibit 2 -- Form of Secretary's Note
- Exhibit 3 -- Form of Mortgage
- Exhibit 4 -- Form of Financial Agreement
- Exhibit 5 -- Form of Consent of Shipyard
- Exhibit 6 -- Form of Construction Contract
- Exhibit 7 -- Form of Depository

TABLE A

The aggregate Actual Cost of the MAST Items as of the date hereof as determined by the Secretary is \$_____. The itemization of said Actual Cost is as follows:

Actual Cost

Demolition
Facilities Modernization
New and reconditioned capital equipment
Engineering changes
Construction period interest
Guarantee Fee
Company Capital Contribution

TOTAL \$

The list of MAST Items covered by this Security Agreement include the following:

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 the MAST Items, as set forth in Table A of the Security Agreement or as subsequently redetermined by the Secretary pursuant to the Security Agreement and the Act.

“**Audited Financial Statements**” mean the annual audit of the Company’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 Company’s regular auditors.

“**Authorization Agreement**” means the Authorization Agreement, Contract No. MA-_____, between the Secretary and the Indenture Trustee, whereby the Secretary authorizes the Guarantee of the United States to be endorsed on the Obligations, as the same is originally executed, or as modified, amended or supplemented therein.

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

“**Bond Purchase Agreement**” means the agreement for the purchase of the Obligations, executed by the Company and the purchaser named therein, as originally executed, modified or supplemented.

“**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 _____.

“**Closing Date**” or “**Closing**” means the date when the Security Agreement is executed and delivered by the Company.

“**Commitment to Guarantee Obligations**” has the same meaning as the term Guarantee Commitment.

“**Company**” means _____, a _____ corporation, and its successors and assigns.

“**Consent of Contractor**” means each, and "Consents of Contractors" means every, document evidencing such Contractor’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 the purchase, fabrication or construction of any MAST Items including designing, installing, erecting, inspecting, outfitting, equipping and completing of the Shipyard.

"**Construction Contract**" means each, and "**Construction Contracts**" means every, contract relating to the Construction of the MAST Items between the Company and the Contractor, 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.

"**Contractor**" means each, and "**Contractors**" means every, contractor entering into a Construction Contract with the Company.

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

"**Delivery Date**" means the date on which a MAST Item is delivered to and accepted by the Company.

"**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 Company, the Secretary and the Depository, as originally executed or as modified or supplemented in accordance with the applicable provisions thereof.

"**Depreciated Actual Cost**" means the depreciated actual cost of the MAST Items, as set forth in Table A of the Security Agreement or as subsequently 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 Company 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.

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

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

"Increased Security" means the Secretary's Note, the Security Agreement, the Security, the Escrow Fund, the Title XI Reserve Fund, the Construction Fund, and any other security agreement between the Secretary and the Company relating to any property financed under the Act, and the Policies of Insurance, and the proceeds of the foregoing.

"Indenture" means the Trust Indenture dated as of the Closing Date between the Company and the Indenture Trustee, as originally executed, or as modified, amended or supplemented.

"Indenture Default" has the meaning specified in Article VI of the Indenture.

"Indenture Trustee" means _____, a _____, and any successor trustee under the Indenture.

"Interest Payment Date" means with respect to any Obligation, the date when any installment of interest on such Obligation is due and payable.

"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 Company's balance.

"MAST Item" means each, and **"MAST Items"** means every item of property involved in a determination of Actual Cost and any property at the Shipyard that has been improved, enhanced, renovated or repaired with the proceeds of the Obligations, including, but not limited to the MAST Items listed in Table A to the Security Agreement.

"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 at the Stated Maturity or by redemption, declaration of acceleration or otherwise.

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

"Mortgage" means the mortgage on the real property described therein, Contract No. MA-_____, executed by the Company as security for the Secretary, as originally executed, modified, amended or supplemented.

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

"Mortgagor" means the Company, 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 each, and **"Obligations"** means every, obligation of the Company bearing a Guarantee that is authenticated and delivered under the Authorization Agreement and Indenture.

"Obligee" means each, and **"Obligees"** means every, holder of an Obligation.

"Offering Circular" means the offering circular relating to the issuance and sale of each Obligation.

"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 Obligations, shall mean all Obligations theretofore issued under the Indenture, except: (1) Obligations Retired or Paid; and (2) Obligations in lieu of which other Obligations have been issued under the Indenture.

"Paying Agent" means any bank or trust company meeting the qualifications in Section 7.02(a) of the Indenture and appointed by the Company under Section 4.02 of the Indenture to pay the principal of (and premium, if any) or interest on the Obligations on behalf of the Company.

"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 Shipyard, (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 MAST Item as of the date of such calculation

bears to (y) the Depreciated Actual Cost of all the MAST Items as of such date (excluding the Depreciated Actual Cost of any MAST Item upon which its Obligations have been redeemed pursuant to Section 3.06 of the Indenture), all as determined by the Secretary.

"Redemption Date" means a date fixed for the redemption of an Obligation by the Indenture.

"Related Party" means one that can exercise control or significant influence over the management and/or operating policies of another Person, to the extent that one of the Persons 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 Person 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 Person to the extent that an arm's-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 entity, the chairman of the board of directors, the president, any executive or senior vice president, the secretary, the treasurer, member or partner, (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 executive or senior vice president, the secretary, the treasurer, any trust officer, and (3) with respect to the signing or authentication of Obligations and Guarantees by the Indenture Trustee, any person specifically authorized by the Indenture Trustee to sign or authenticate Obligations.

"Retired or Paid," as applied to Obligations and the indebtedness evidenced thereby, means that such Obligations shall be deemed to have been so retired or paid and shall no longer be entitled to any rights or benefits provided in the Indenture if: (1) such Obligations shall have been paid in full; (2) such Obligations shall have been canceled by the Indenture Trustee; or (3) such Obligations shall have become due and payable at Maturity and funds sufficient for the payment of such Obligations (including interest to the date of Maturity, or in the case of a payment after Maturity, to the date of payment, together with any premium thereon) and available for such payment and are held by the Indenture Trustee or any Paying Agent with irrevocable directions to pay such Obligations; provided that, the foregoing definition is subject to Section 6.08 of the Indenture.

"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 officials duly authorized to perform the 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 Company to the Secretary substantially in the form of Exhibit 2 of the Security Agreement, 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 Indenture Trustee 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 Company 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.

"**Shipyards**" means (1) the aggregate of all Shipyards Assets; (2) parcel or parcels of land, as described in the Mortgage (the "Land"); and (3) any and all buildings, structures, fixtures and improvements now or hereafter erected in or on the Land, attached to or next to the Land, or in the water adjacent to the Land.

"**Shipyards Assets**" means all goods, materials, parts, spare parts, products, machinery, and other tangible personal property, whether equipment, inventory or otherwise, pertaining to, relating to or intended to be used in connection with the Shipyards or installed in or affixed to the Shipyards, located at the Shipyards or in transit, whether now owned or hereafter acquired, and whether or not covered by the Mortgage.

"**Stated Maturity**" means the date determinable as set forth in any Obligation as the final date on which the principal of such Obligation is due and payable.

"**Successor**" means a Person formed by or surviving a consolidation or merger with the Company or to which the Shipyards has been sold.

"**Supplemental Indenture**" shall mean any indenture supplemental to the Indenture entered into pursuant to Article X of the Indenture.

"**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 _____.

"**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 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 current receivables arising out of the ordinary course of business and not outstanding for more than 60 days; and

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

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I	
DEFINITIONS; OFFICER'S CERTIFICATES AND GRANTING CLAUSE	
SECTION 1.01. Definitions.....	1
SECTION 1.02. Officer's Certificates.....	1
SECTION 1.03. Granting Clause.....	1
ARTICLE II	
COMPANY'S REPRESENTATIONS AND AGREEMENTS	
SECTION 2.01. Company's Representations, Agreements, Organization and Existence	
(a) General Representations.....	3
(b) Taxes.....	3
SECTION 2.02. Covenants Concerning the Shipyard	
(a) Title to and Possession of the Shipyard	4
(b) Sale, Encumbrance, Lease or Transfer of the Shipyard.....	4
(c) Taxes and Governmental Charges.....	4
(d) Liens.....	4
(e) Compliance with Applicable Laws.....	5
(f) Condition and Maintenance of the Shipyard.....	5
(g) Material Changes in the MAST Items.....	5
SECTION 2.03. Maintenance of Construction Contract.....	6
SECTION 2.04. Execution and Delivery of Evidence of Perfected Security Interests.....	6
SECTION 2.05. Insurance.....	7
SECTION 2.06. Inspection of the Shipyard; Examination of Company's Records.....	10
SECTION 2.07. Condemnation, Requisition or Total Loss.....	10
SECTION 2.08. Performance of Company's Agreements by the Secretary.....	11
SECTION 2.09. Filings and Recordings; Further Assurances.....	11
SECTION 2.10. Modification of Formation Agreements.....	12
SECTION 2.11. Members of Limited Liability Companies.....	12
SECTION 2.12. Concerning the Performance and Payment Bonds.....	12

**ARTICLE III
THE SECRETARY'S NOTE**

SECTION 3.01.	Secretary's Note.....	13
SECTION 3.02.	Termination of the Guarantees.....	13
SECTION 3.03.	Execution of Additional Secretary's Note.....	13

**ARTICLE IV
CONSTRUCTION FUND; MONEYS DUE WITH RESPECT TO
CONSTRUCTION OF THE MAST ITEMS**

SECTION 4.01.	Construction Fund.....	14
SECTION 4.02.	Moneys Due with Respect to Construction of the MAST Items.....	14

**ARTICLE V
ACTUAL COST; THE ESCROW FUND**

SECTION 5.01.	Actual Cost Determinations.....	14
SECTION 5.02.	Escrow Fund Deposits.....	15
SECTION 5.03.	Escrow Fund Withdrawals.....	15
SECTION 5.04.	Investment and Liquidation of the Escrow Fund.....	17
SECTION 5.05.	Income on the Escrow Fund.....	17
SECTION 5.06.	Termination Date of the Escrow Fund.....	17

**ARTICLE VI
DEFAULTS AND REMEDIES**

SECTION 6.01.	What Constitutes "Defaults"; Continuance of Defaults.....	18
SECTION 6.02.	Acceleration of Maturity of the Secretary's Note.....	19
SECTION 6.03.	Waivers of Default.....	19
SECTION 6.04.	Remedies After Default.....	20
SECTION 6.05.	Application of Proceeds.....	22
SECTION 6.06.	General Powers of the Secretary.....	23

**ARTICLE VII
AMENDMENTS AND SUPPLEMENTS TO THE
SECURITY AGREEMENT AND INDENTURE**

SECTION 7.01.	Amendments and Supplements to the Security Agreement.....	23
SECTION 7.02.	Amendments and Supplements to the Indenture.....	24

**ARTICLE VIII
CONSOLIDATION, MERGER AND SALE**

SECTION 8.01.	Consolidation, Merger, or Sale.....	24
SECTION 8.02.	Transfer of a General Partner's or Joint Venturer's Interest.....	24

**ARTICLE IX
NOTICES**

SECTION 9.01.	Notices.....	25
SECTION 9.02.	Waivers of Notice.....	25
SECTION 9.03.	Company's Name or Address Change.....	25

**ARTICLE X
DISCHARGE OF SECURITY AGREEMENT AND THE MORTGAGE**

SECTION 10.01.	Discharge of Security Agreement and the Mortgage.....	25
-----------------------	---	----

**ARTICLE XI
MISCELLANEOUS**

SECTION 11.01.	Successors and Assigns.....	26
SECTION 11.02.	Execution in Counterparts.....	26
SECTION 11.03.	Rights of Company in Absence of Default.....	26
SECTION 11.04.	Table of Contents, Titles and Headings.....	26

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.

PROMISSORY NOTE TO UNITED STATES OF AMERICA

_____ (the "Company"), for value received, promises to pay **THE UNITED STATES OF AMERICA** (the "United States"), 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 Obligations.

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 Guarantees of payment of the unpaid interest on and the unpaid balance of the principal amount of the Company's United States Government Guaranteed Shipyard Modernization Obligations (the "Obligations") issued by the Company on the date hereof in order to finance a portion of the cost of Construction of the MAST Items, and (3) to evidence the Company's obligation to pay the Secretary any amount that the Secretary may be required to pay to the Holders of the Obligations under said Guarantees.

This Secretary's Note is issued pursuant to the provisions of the Security Agreement, Contract No. MA-_____, dated _____, between the Company and the Secretary. The Security Agreement contemplates that on the date hereof, a mortgage on the Shipyard will be executed and delivered by the Company, as mortgagor, to the Secretary, as mortgagee, covering the Company's interest in the Shipyard (said mortgage, as the same may be amended or supplemented, being herein called the "Mortgage"). 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 any of the Obligations are Outstanding and until the Guarantees on each of the Obligations have been terminated pursuant to the provisions of 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 Outstanding Obligations 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 Obligations in accordance with the provisions thereof and of the Indenture;

(2) by any redemption of such Obligations in accordance with the provisions thereof and of the Indenture;

(3) when such Obligations have been Retired or Paid, other than by payment of the Guarantees;

If such payment is made with moneys advanced or loaned to the Company by the Secretary, such payment on the Obligations 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 Company's rights and duties under the Indenture and the Obligations 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 Guarantees pursuant to the terms of the Indenture and the Authorization Agreement or (ii) assumes, pursuant to the terms of the Indenture, the Company's rights and duties under the Indenture and the Obligations. 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 Company has caused this Secretary's Note to be signed on this ____ day of _____.

as Company

(SEAL)

BY: _____

Attest:

BY: _____
Assistant Secretary

CONSENT OF CONTRACTOR

This Consent of Contractor dated _____, is made by _____, a _____ corporation (the "Contractor"), to _____ a _____ corporation (the "Company") 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 Company in and to those certain construction contracts dated as of _____, between the Contractor and the Company (the "Construction Contracts"), in so far as they relate to the MAST Items listed on Exhibit "A" hereto (the "MAST Items"), together with all of the Company's right, title and interest in and to the MAST Items from the Company to the Secretary under a security agreement (the "Security Agreement"). The Contractor 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 Contractor 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 MAST Items in favor of the Secretary pursuant to the Security Agreement;

2. The Contractor 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 Company under the Construction Contracts;

(b) the Contractor shall pay any amount coming due to the Company 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 from 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 Contractor shall promptly pay any such moneys to the Company;

(c) except during any period after the Contractor 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 Contractor in writing that such Default has been cured or waived, the Company shall be entitled to exercise all of its rights under the Construction Contracts with respect to the MAST Items and to receive all of the benefits thereunder, subject to subsection 2(b) hereof, to the same extent as if the Construction Contracts and the MAST Items 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 Contractor, 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 (the "Financial Agreement"), dated _____ between _____, a _____ corporation ("the Company"), and THE UNITED STATES OF AMERICA (the "United States"), 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 obligations designated "United States Government Guaranteed Shipyard Modernization Obligations, ____ Series" in an aggregate principal amount not to exceed \$_____ to finance the cost of Construction of the MAST Items;

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 cash flow. The net cash flow shall be the change in cash and cash equivalents as prepared in accordance with generally accepted accounting principles and shall be as shown on the statement of cash flows in its audited financial statements. ("Title XI Reserve Fund Net Cash Flow").

(2) Promptly after the computation of the Title XI Reserve Net Cash Flow by the Company:

(A) The Company shall deposit into the Title XI Reserve Fund an amount equal to two (2) percent of Title XI Reserve Fund Net Cash Flow.

(B) 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 Obligations and the related Secretary's Note shall have been satisfied and discharged and if the Company shall have paid or caused to be paid all other sums secured by the Security Agreement or the Mortgage, (ii) all of the Guarantees on the Outstanding Obligations shall have been terminated pursuant to the Security Agreement, (iii) for any fiscal year, 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 Outstanding Obligations, or (iv) for any fiscal year the Company meets, at the end of that fiscal year, the financial tests set out in section 8(b)(1) hereof.

(C) 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)(A), 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)(A) (and the Security Agreement, if applicable) and showing the pertinent calculations.

(D) 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 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)(E) were required to be made (and, if such adjustments were required to be made, stating the reasons therefor).

(E) 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 Indenture Trustee of the Guarantees pursuant to the Indenture, 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 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 Obligations or Obligations 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 under this subsection shall be made in any obligations of the Company or a Related Party;

(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 Obligations to be redeemed pursuant to the mandatory sinking fund provisions of the Indenture, 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 shall be made in stock of the Company or a Related Party; provided further that, any request under this subsection 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 60 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 in lieu thereof, with the Secretary's prior written consent, may 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 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 Section 5(a)(3)(D), of securities acquired pursuant to Section 5(a)(3)(D) 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. 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 subsection (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 8(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 subsection, 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 Shipyard, or appoint or designate a managing or operating agent for the operation of the Shipyard unless approved by the Secretary;

(3) (A) Sell, mortgage, transfer, or lease the MAST Items or any assets to any non-Related Party except as permitted in subsection 8(a)(7) below, or (B) sell, mortgage, transfer, or lease the MAST Items 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 lease, the lease payments are cash payments.

(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 Indenture Trustee, except endorsement for deposit of checks and other negotiable instruments acquired in the ordinary course of business and except as otherwise permitted in Section 8(b);

(6) Directly or indirectly embark on any new enterprise or business activity not directly

connected with the business of shipbuilding or other activity in which the Company is actively engaged;

(7) Enter into any merger or consolidation or convey, sell, lease, 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 9 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 8(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, (i) the Company's Working Capital is equal to at least one dollar, (ii) the Company's Long-Term Debt does not exceed two times the Company's Net Worth and (iii) 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:

- (1) Withdraw any capital;
- (2) Redeem any share capital or convert any of the same into debt;
- (3) Pay any dividend (except dividends payable in capital stock of the Company);
- (4) 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;
- (5) Make any investments in the securities of any Related Party;
- (6) Prepay in whole or in part any indebtedness to any stockholder, director, officer or employee of the Company, or to any Related Party;
- (7) 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 years 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;

(8) Acquire any fixed assets other than those required for the maintenance of the Company's existing assets, including the normal maintenance and operation of the Shipyard;

(9) Either enter into or become liable (directly or indirectly) under leases (having a term of six months or more) for lease payments on all such leases which have annual payments aggregating in excess of \$_____;

(10) Pay any indebtedness subordinated to the Obligations or to any other Title XI obligations;

(11) 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;

(12) 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;

(13) 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 and (ii) liens incurred in the ordinary course of business as such business presently exists.

SECTION 9. (a) Annual Financial Statements. The Company shall furnish to the Secretary, in duplicate, (1) within 105 days after the end of the Company'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 Officers 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 Officers 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 or Security Agreement, and if so, specifying each such default and stating the nature thereof.

SECTION 10. 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, Net Worth and Long Term Debt specified in Section 8(b).

SECTION 11. 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

The Title XI Reserve
Fund Depository as:

The Company as:

SECTION 12. 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 13. 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

DEPOSITORY AGREEMENT

THIS DEPOSITORY AGREEMENT (the "Agreement") dated as of _____, among (i) _____, a _____ corporation (the "Company"), (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 Company has issued certain Obligations designated "United States Government Guaranteed Shipyard Modernization Obligations, ____ Series" in an aggregate principal amount not to exceed \$_____ to finance the Construction of MAST Items;

WHEREAS, As further security for the issuance of the Secretary's Guarantee, the Company 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 Obligations 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 Company 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 Secretary's prior written consent.

(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 Company 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 Company or any other Person without the Secretary's prior written approval.

(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 Company's Requests (including an approved Request for payment or a Request to invest or reinvest) or any other instruction from the Company 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, securities, 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 (1) shall be segregated, (2) shall not be invested or reinvested except as provided in the following subsection (b), and (3) shall not bear interest, except as the Company 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 Company'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 Company'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 (1) 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 Company and the Secretary, and the Company shall promptly pay the deficiency to the Depository, or (2) 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 Company, 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 Company 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 Company, be payable to the order of the Company or specially indorsed to the Company, 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 (1) 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; (2) shall maintain continuous possession of such certificated securities; (3) shall identify, by book entry or otherwise, that such certificated securities belong to the Company subject to a security interest in favor of the Secretary, and (4) shall send to the Company 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 (1) 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 Company and the Secretary with written notice thereof; (2) shall hold such Treasury Securities in (city) directly through a member of the FRB_; (3) shall identify such Treasury Securities, by book entry or otherwise, as being registered in the name of the Depository, for the benefit of the Company, subject to the Secretary's security interest therein; and (4) shall send to the Company 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 Company 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 their signatures below, the Company and the Depository hereby acknowledge 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 Company 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 Company.

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

SECTION 4. Depository' 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 Company'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 Company 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 Company 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 Company 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 Company 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: _____

Company: _____

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 hereto. 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 Company 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 Company and the Secretary. The Depository may at any time be removed by the Company with the prior written consent of the Secretary, or by the Secretary by written notice delivered to the Depository with a copy to the Company.

(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 (1) the Company with the prior written consent of the Secretary, or (2) the Secretary if the Company 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 Company, 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 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 Company, 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 Company 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