

1058-6

REGISTRATION NO. 1058-6

APR 16 1981 10 50 AM

INTERSTATE COMMERCE COMMISSION

SECURITY AGREEMENT

dated as of April 1, 1981

between

THE CONNECTICUT BANK AND TRUST COMPANY,
acting not in its individual capacity
but solely as owner trustee under the
Trust Agreement referred to herein,

Shipowner

and

PITTSBURGH NATIONAL BANK,
Lender

20 Box Hopper Barges
With Roll Top Covers
Hull Nos. 8231 through 8250

Filed and recorded with the Interstate Commerce Commission
pursuant to 49 U.S.C. §11303 on April __, 1981 at _____,
recordation number _____.

SECURITY AGREEMENT

Special Provisions

20 Box Hopper Barges
With Roll Top Covers
Hull Nos. 8231 through 8250

THIS SECURITY AGREEMENT dated as of April 1, 1981 between THE CONNECTICUT BANK AND TRUST COMPANY, a Connecticut banking corporation, acting not in its individual capacity but solely as owner trustee under the Trust Agreement dated as of April 1, 1981 between it and New England Merchants Leasing Corporation B-7, and PITTSBURGH NATIONAL BANK, a national banking association.

RECITALS:

A. As provided in Article Second hereof, the capitalized terms used herein which are defined in Schedule X hereto or by reference to other agreements or instruments shall, unless otherwise defined herein, have the respective meanings stated in Schedule X or such other agreements or instruments.

B. The Charterer has entered into the Construction Contract with the Shipbuilder providing for the construction of the Vessels;

C. Pursuant to the Construction Contract Assignment entered into concurrently herewith, the Charterer has assigned all of its right, title and interest in and to the Construction Contract (except as otherwise provided therein) to the Shipowner and the Shipbuilder has consented to such assignment;

D. The Shipowner, concurrently herewith, has entered into the Charter, whereby the Charterer will demise charter the Vessels for an original term commencing as to each Vessel on its Delivery Date and expiring (except as otherwise provided therein) on December 31, 2003;

E. To finance the cost of construction and acquisition of each Vessel on its Delivery Date, the Shipowner will borrow from the Lender a portion of the Shipowner's Cost of such Vessel as provided in the Participation Agreement;

F. To accomplish such financing and evidence such borrowings, the Shipowner has duly authorized the issuance of the Secured Notes in an aggregate principal amount not to exceed \$5,250,000, which when duly executed and delivered will constitute the legal, valid and binding obligations of the Shipowner;

G. The Shipowner is entering into this Security Agreement to secure the payment of the Secured Notes and for the other purposes hereinafter set forth; and

H. The Shipowner, as further security, will enter into the Mortgage on the first Delivery Date and will, on each Delivery Date, execute and deliver a Mortgage Supplement with respect to the Vessels delivered on such Delivery Date.

NOW, THEREFORE, in consideration of the premises, of the mutual covenants herein contained, and of other good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, and in order to provide security to the Lender for the payment of the Secured Notes and the payment and performance of the other obligations and liabilities to the Lender referred to herein:

GRANTING CLAUSE

In order to create a present and continuing security interest in the Lender, the Shipowner does hereby grant, sell, convey, assign, transfer, mortgage, pledge, set over and confirm unto the Lender all of its right, title and interest in and to, as the case may be, all of the following:

I. The Construction Contract, all other contracts (if any) relating to the construction of the Vessels, the Construction Contract Assignment and the Consent of Shipbuilder, and all moneys payable to the Shipowner under any thereof. Said right, title and interest are hereinafter referred to, collectively, as the "Rights Under the Construction and Related Contracts".

II. The Charter and all moneys payable to the Shipowner thereunder (excluding, however, any moneys constituting Supplemental Hire which are payable to the Shipowner pursuant to the Participation Agreement). Said right, title and interest in and to the Charter and all moneys payable thereunder are herein referred to, collectively, as the "Rights Under the Charter".

The Lender shall have as further security:

III. The Mortgage, including each Mortgage Supplement.

The right, title and interest of the Lender mentioned in paragraphs I through III are hereinafter collectively called the "Security". The Lender shall hold the Security as collateral security for the payment and performance of all the obligations and liabilities of the Shipowner under the Secured Notes and this Security Agreement.

Irrespective of the foregoing, (1) the Shipowner shall remain liable to perform whatever obligations it may have under the above-mentioned contracts, and the Lender shall not, by virtue of this Security Agreement, have any obligations under any of such contracts, except as expressly provided therein, or be required to make any payment owing by any of the parties thereunder; (2) except during any period beginning when each party to any contract or assignment included in the Security shall have received written notice from the Lender as to the existence of a Default hereunder and continuing until the Lender shall have notified in writing such persons that such Default has been cured or waived, the Shipowner shall be entitled to exercise all of its rights under each of such contracts, and to receive all of the benefits accruing to them thereunder as if the foregoing were not applicable, except the right to receive all moneys included in the Security, all of which shall be paid to the Lender for application as provided in this Security Agreement; and (3) the Shipowner shall have the right at all times, after written notice to the Lender, to make any claim or institute any action to enforce payment in full of amounts due to the Shipowner under the Charter in any instance where the Charterer or the Shipowner has paid an amount sufficient to cover the interest and principal then due on the Secured Notes but the Charterer has paid less than the total amount due as Basic Charter Hire or otherwise due and payable by the

Charterer under the Charter.

The Shipowner and the Lender agree that the Security is to be held by the Lender subject to the further agreements and conditions hereinafter set forth.

ARTICLE FIRST

INCORPORATION OF EXHIBIT 1 BY REFERENCE

This Security Agreement shall consist of two parts: these Special Provisions and the General Provisions attached hereto as Exhibit 1, made a part of the Security Agreement and incorporated herein by reference.

ARTICLE SECOND

DEFINITIONS

For all purposes of this Security Agreement, unless otherwise expressly provided or unless the context otherwise requires:

1. All references herein to Articles, Sections or other subdivisions, unless otherwise specified, refer to the corresponding Articles, Sections and other subdivisions of the Special Provisions or the General Provisions of the Security Agreement. Where a provision of the General Provisions has been modified or superseded by a provision of the Special Provisions, all references to the modified or superseded sections

shall be deemed to refer to such sections as so modified or superseded;

2. The terms "hereof", "herein", "hereby", "hereto", "hereunder" and "herewith" refer to this Security Agreement; and

3. The capitalized terms used herein which are defined in Schedule X to this Security Agreement or by reference therein to other instruments or forms of instruments, as such capitalized terms may be amended from time to time in accordance with the provisions of this Security Agreement, shall have the respective meanings stated in Schedule X or such other instruments.

ARTICLE THIRD

ADDITIONS, DELETIONS AND AMENDMENTS TO EXHIBIT 1

A. Concerning Certain Terms.

1. Wherever the same shall appear in Exhibit 1 hereto:

a. the terms "Secretary" and "Secretary of Commerce" and (in Section 2.07(i) and 2.07(m) only) the term "United States" shall be deemed to mean and refer to the Lender;

b. the term "Secretary's Note" and the term "Obligations" shall be deemed to mean and refer to one

or more of the Secured Notes, as the context shall require;

c. the term "Increased Security" shall be deemed to mean and refer to the Security.

2. Wherever the same shall appear in Exhibit 1 hereto, the following terms, together with any provisions relating solely and expressly thereto, shall be disregarded as inapplicable to the transactions contemplated by this Security Agreement, and shall be deemed to be deleted (including, in each case, references to any articles, sections, paragraphs or other provisions thereof): "Depository Agreement", "Indenture", "Title XI Reserve Fund and Financial Agreement", "Authorization Agreement" and "Guarantees".

B. Concerning Section 2.02. Section 2.02 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting therefor the following:

"Section 2.02. Concerning Citizenship. The Shipowner shall not, and shall not permit any charterer (including the Charterer) or subcharterer of any Vessel to, enter into any demise charter or demise subcharter with respect to any Vessel (other than the Charter) or any time charter or time subcharter of more than six months duration with respect to any Vessel unless (i) the Shipowner shall have submitted to the Lender, prior to the effective date of such charter or subcharter, a letter or other written statement stating that the charterer or subcharterer is a citizen of the United States within the meaning of Section 2 of the Shipping Act, 1916, as amended, or (ii) in the event the

charterer or subcharterer under any such time charter or time subcharter is a noncitizen, approval pursuant to Sections 9 and 41 (and 37 if applicable) of the Shipping Act, 1916, as amended, shall have been obtained from the Secretary of Commerce prior to the effective date of such time charter or time subcharter."

C. Concerning Section 2.04. Section 2.04 of Exhibit 1 hereto is hereby amended as follows:

1. by deleting that portion of paragraph (a) preceding the proviso clause and substituting therefor the following:

"Section 2.04. (a) Title to and Possession of the Vessels. The Shipowner represents that the Charterer has agreed in Section 6(d) of the Charter that it will take such action as may be necessary duly to discharge or eliminate or bond any Lien on any Vessel or any part thereof not excepted in such Section 6(d) if the same shall arise at any time before the expiration or termination of the Charter Period. On each Delivery Date the Shipowner will be the sole owner of the whole of each Vessel delivered to the Shipowner on such Delivery Date free from any Liens (1) voluntarily created or incurred by the Shipowner or any Affiliate of the Shipowner, other than this Security Agreement, the Mortgage and the Charter, or (2) arising as a result of claims against the Shipowner or any Affiliate of the Shipowner not related to the Shipowner's ownership of any of the Vessels or its administration of the Trust Estate. The Shipowner agrees to warrant and defend the title and possession of each Vessel and every part thereof against the claims and demands of all Persons whomsoever arising as the result of any Liens of the character described in the immediately preceding sentence arising at any time.

2. by deleting Sections 2.04(a)(1)(A) through

2.04(a)(1)(C) and substituting therefor the following:

"(A) to liens for Crew's Wages, for salvage (including contract salvage) or for general average which are: (i) not yet due and payable, or (ii) either unclaimed or covered by insurance, or (iii) being contested by appropriate proceedings diligently conducted so long as such proceedings do not involve a significant risk of a sale, forfeiture or loss of any Vessel;

(B) to contract and tort liens arising out of or incident to current operations of, or repairs to, any Vessel (except for liens for Crew's Wages, salvage and general average) which are subordinate to the lien of the Mortgage or covered by insurance or includible in any deductible applicable thereto, and which are: (i) based on claims not yet due and payable, or (ii) being contested by appropriate proceedings diligently conducted so long as such proceedings do not involve a significant risk of a sale, forfeiture or loss of any Vessel;

(C) [Omitted];"

3. by fixing the amount of liens permitted under Section 2.04(a)(1)(E) at \$25,000 with respect to each Vessel and \$200,000 in the aggregate for all of the Vessels and by deleting in said Section clause (i);

4. by deleting Section 2.04(a)(1)(H) and substituting therefor the following:

"(H) to mortgages and charters to the extent permitted by paragraph (b) of this Section 2.04;"

5. by inserting in Section 2.04(b) at the end of clause (i) the phrase ", any subcharters in accordance with

the express provisions of Section 18 of the Charter (subject to the provisions of Section 2.02), or any sales or transfers in accordance with the express provisions of Section 8(c), 14 or 17 of the Charter," and by inserting "or appointments of successor trustees" after "consolidations";

6. by deleting the second sentence of Section 2.04(d)(1);

7. by deleting Section 2.04(d)(2) and substituting therefor the following:

"(2) Neither the Shipowner, any charterer, the master of any Vessel, nor any other Person has or shall have any right, power or authority, without the prior written consent of the Lender, to create, incur or permit to be placed or imposed on any Vessel any Lien except (A) the Mortgage, (B) the Charter and any Liens permitted thereunder (excluding Liens referred to in the second and third sentences of Section 2.04(a) hereof or in Section 17 of the Participation Agreement), (C) the Liens permitted on and after the Delivery Date by Section 2.04(a), except, during the Charter Period, any required to be discharged or eliminated or bonded by the Charterer pursuant to Section 6(d) of the Charter, and (D) the charters and subcharters permitted by Section 2.04(b). The Lender hereby consents to other Liens incident to current operations and (subject to the provisions of Section 2.02) any subcharters of any Vessel permitted under the Charter.";

8. by deleting Section 2.04(e) and substituting therefor the following:

"(e) Documentation of the Vessels. The

Shipowner represents that the Charterer has agreed in the Charter to maintain throughout the Charter Period the documentation of each Vessel in the Shipowner's name under the laws and flag of the United States in accordance with the terms of the Charter. The Shipowner agrees to execute such documents and furnish such information as the Charterer may reasonably require to enable the Charterer to maintain such documentation.";

9. by deleting Section 2.04(h) and substituting therefor the following (provided, however, that such amendment shall be applicable only so long as the Charter remains in effect):

"(h) Condition and Maintenance of Vessels. Section 7 of the Charter is incorporated herein by reference as though such Section 7, as incorporated herein, shall be Section 2.04(h); provided, however, that if the obligations specified in such Section 7 (except the first sentence thereof) shall not be performed and shall not be deemed to have been performed pursuant to Section 2.16, such non-performance shall constitute the basis for a Default hereunder."

D. Concerning Section 2.06. Section 2.06 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting therefor the following:

"Section 2.06. Execution and Delivery of the Mortgage. On the first Delivery Date, the Shipowner shall execute and deliver to the Lender the Mortgage covering the Vessels delivered on the first Delivery Date. On each subsequent Delivery Date, the Shipowner shall execute and deliver to the Lender a Mortgage Supplement covering the Vessels delivered on such Delivery Date, in the form required by the Mortgage.

On each Delivery Date, the Shipowner shall record or cause to be recorded the Mortgage or such Mortgage Supplement, as the case may be, in the office of the United States Coast Guard, or its successor, at the home port of the Vessel, and cause the same to be endorsed upon such Vessel's documents (or shall make due provision for said endorsement at a documentation office of the Coast Guard, or its successor, within 15 days of such recordation)."

E. Concerning Section 2.07. Section 2.07 of Exhibit 1 hereto is hereby amended as follows:

1. Section 2.07(a) is hereby deleted in its entirety;
2. Section 2.07(b) is hereby amended by (i) specifying \$1,000,000 as the amount of self-insurance permitted thereunder for any loss to any Vessel or Vessels resulting from any one accident or occurrence provided that such deductible shall be subject to a maximum aggregate deductible per year of \$5,000,000 and (ii) adding at the end thereof a paragraph to read as follows:

"All policies of insurance required under this Section 2.07(b) shall, unless the Lender shall otherwise consent in writing, provide that, in the event of an Event of Loss with respect to any Vessel, the full aggregate amount for such Vessel insured under any such policies shall be payable to the Lender.";

3. Concerning Section 2.07(c), payment of losses up to the amount of \$200,000 may be made directly to the Charterer or, after the Charter Period, the Shipowner, provided

there is no existing Default;

4. Subparagraph (1) of the second paragraph of Section 2.07(c) is hereby amended by (i) deleting the phrase "actual or constructive total loss or an agreed or compromised total loss of any Vessel" in the third and fourth lines thereof and substituting therefor the phrase "Event of Loss with respect to any Vessel (or resulting in an Event of Loss with respect to a Cover unless the Charterer elects to pay Stipulated Loss Value with respect to such Cover in accordance with the second paragraph of Section 14(b) of the Charter)", deleting clauses (B), (C) and (D) thereof and substituting therefor the following:

"(B) if there is no existing Default and if one of the events described in Section 2.09 has occurred, apply such insurance recoveries as provided in Section 2.09, or (C) if there is an existing Default, apply such insurance recoveries as provided in Section 6.05;"

5. Subparagraph (2) of the second paragraph of Section 2.07(c) is hereby deleted;

6. Subparagraph (3) of the second paragraph of Section 2.07(c) is hereby deleted in its entirety and the following is substituted therefor:

"(3) In the event of an accident, occurrence or event resulting in an Event of Loss with respect to any Vessel or, if the Charterer elects to pay Stipulated Loss Value with respect thereto in accordance with the second paragraph of Section

14(b) of the Charter, any Cover, the Shipowner and the Charterer shall forthwith deposit with the Lender any insurance moneys which the Shipowner or the Charterer receives on account thereof under policies of insurance required by this Section, and any such insurance moneys received by the Lender, whether from the Shipowner, the Charterer or otherwise, shall (A) if there is no existing Default, be applied, to the extent necessary, pursuant to Section 2.09, or (B) if there is an existing Default, be applied as provided in Section 6.05; provided that, irrespective of the foregoing, the Shipowner and the Charterer shall not be required to so deposit with the Lender insurance moneys in an amount which, together with funds otherwise available for the prepayment of Secured Notes, is in excess of that required for the prepayment of the Proportionate Part of the Outstanding Secured Notes and for the payment to the Lender of all other sums then due and payable that may be secured by this Security Agreement and the Mortgage.";

7. Concerning the first paragraph of Section 2.07(e), war protection and indemnity insurance shall not be required;

8. Concerning the second paragraph of Section 2.07(e), the amount of self-insurance permitted in the proviso clause of said paragraph shall be \$1,000,000 with respect to each accident, occurrence or event and \$1,000,000 with respect to each cargo or property carried; provided that such deductible shall be subject to a maximum aggregate deductible per year of \$5,000,000. The second paragraph of Section 2.07(e) is also hereby amended by deleting the phrase commencing with the words "as follows: (A)" and ending with the words "such Request;" and substituting therefor the phrase "as provided in Section

6.05;";

9. Section 2.07(h) of Exhibit 1 hereto is amended by deleting it in its entirety and substituting therefor the following:

"(h) During the continuance of (1) a taking or requisition of the use of any Vessel by any government or governmental body, or (2) a charter, with the prior written consent of the Lender and the Shipowner, of the use of any Vessel by the United States or any governmental body of the United States, or by any other government or governmental body, the provisions of this Section 2.07 shall be deemed to have been complied with in all respect as to such Vessel if such government or governmental body shall have agreed to reimburse (in a manner approved by the Lender and the Shipowner in writing) the Shipowner and the Charterer for loss or damage covered by the insurance required hereunder or resulting from the risks indicated in Sections 2.07(b) and (e) or if the Shipowner and the Charterer shall be entitled in the reasonable judgment of the Shipowner and the Lender to just compensation therefor. In addition, the provisions of this Section 2.07 shall be deemed to have been complied with in all respects as to any Vessel during any period after an Event of Loss shall have occurred with respect to such Vessel. In the event of any taking, requisition, charter or Event of Loss contemplated by this paragraph, the Shipowner or the Charterer shall promptly furnish to the Lender an Officer's Certificate stating that such taking, requisition, charter or Event of Loss has occurred and, if there shall have been such a taking, requisition or charter of a Vessel, that the government or governmental body in question has agreed to reimburse the Shipowner and the Charterer for any loss or damage resulting from the risks indicated in the above-mentioned Sections 2.07(b) and (e) or that the Shipowner and the Charterer are entitled to just compensation therefor.";

10. Notwithstanding the provisions of Section 2.07(1) of Exhibit 1 hereto, neither the original nor any copy of any policies evidencing insurance need be delivered to the Lender so long as Charterer shall have complied in all material respects with the provisions of Section 9 of the Charter which require the furnishing of certificates or opinions as to the insurance maintained pursuant to said Section 9.

F. Concerning Section 2.08. Section 2.08 of Exhibit 1 hereto is hereby amended by deleting the phrase "in connection with the performance of his duties and functions under the Act and".

G. Concerning Section 2.09. Section 2.09 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting therefor the following:

"Section 2.09. Event of Loss. Upon the occurrence of an Event of Loss with respect to any Vessel or (if the Charterer elects to pay Stipulated Loss Value with respect thereto in accordance with the second paragraph of Section 14(b) of the Charter) any Cover -

(1) The Shipowner shall promptly after obtaining Actual Knowledge thereof give written notice thereof to the Lender;

(2) The Shipowner shall promptly pay all amounts it receives by reason of such Event of Loss to the Lender; and

(3) On the date on which all amounts which are reasonably expected to be received

by the Lender in connection with any such Event of Loss (whether from the Shipowner pursuant to the foregoing subparagraph (2), from any insurer, from a government or governmental body, from the Charterer, or otherwise) shall have been received by the Lender or on which the Lender shall have received amounts in connection therewith which are sufficient for the payment in full of the amounts referred to in subclause (A)(x) of this subparagraph (3) (provided that such date may not occur before the end of any period elected in accordance with the proviso in the second sentence of Section 3(a) of any Secured Note), (A) if there is no existing Default, the Lender shall (x) apply such amounts to the payment of the Proportionate Part of the Outstanding Secured Notes and interest accrued and unpaid on such Proportionate Part to the date of such payment, and (y) pay the balance, if any, to the Shipowner, or (B) if there is an existing Default, the Lender shall apply such amounts as provided in Section 6.05;

provided that, irrespective of the foregoing, (i) the Shipowner shall not be required to pay to the Lender pursuant to the foregoing subparagraph (2) an amount which, together with funds held by the Lender and available for the payment of Secured Notes is in excess of that required for the prepayment of the Proportionate Part of the Outstanding Secured Notes and for the payment to the Lender of all other sums then due and payable that may be secured by this Security Agreement and the Mortgage, and (ii) if the Shipowner considers the amount tendered to the Shipowner on account of any such Event of Loss to be unsatisfactory, the Shipowner shall have the right to contest the same by judicial or other proceedings.";

H. Concerning Section 2.10. Section 2.10(a) of Exhibit 1 hereto is hereby deleted in its entirety.

I. Concerning Section 2.11. Section 2.11 of Exhibit 1 hereto is hereby amended by inserting the words and punctuation ", or cause to be complied with and satisfied," after the phrase "comply with and satisfy" therein.

J. Concerning Section 2.12. Section 2.12 of Exhibit 1 hereto is hereby amended as follows:

1. by deleting the first paragraph thereof in its entirety;

2. by deleting all the material in the second paragraph thereof after the phrase "nine inches high," and substituting therefor the phrase "shall within a reasonable time after each Delivery Date be prominently placed on board each of the Vessels and incorporated on a durable plate."; and

3. the notice of mortgage referred to in the second paragraph thereof shall read as set forth in Section 4 of the Charter during the Charter Period, and thereafter shall be appropriately modified to delete references to the Charter.

K. Concerning Section 2.16. Article II of Exhibit 1 hereto is hereby amended by adding a new Section 2.16 to read as follows:

"Section 2.16. Performance by Charterer.
The obligations of the Shipowner under Sections 2.04 (except clause (b)), 2.07, 2.09(1) 2.11

and 2.12 hereof shall be deemed in all respects satisfied by the Charterer's performance thereof. The Shipowner shall not have any responsibility for the failure to perform such obligations, irrespective of whether the Charter is in effect, but, if the Shipowner's failure to perform such obligations, but for this Section 2.16, would have constituted the basis for a Default under Article VI, then the failure of both the Shipowner and the Charterer to perform such obligations shall constitute the basis for such Default."

L. Concerning Articles III, IV and V. Articles III, IV and V of Exhibit 1 hereto are hereby deleted in their entireties and the following Articles III, IV and V are substituted therefor:

"ARTICLE III

THE SECURED NOTES

Section 3.01. Form of Secured Notes. The Secured Notes shall be substantially in the form set forth in Exhibit 2 hereto, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Security Agreement or as may, consistently herewith, be determined by any officer executing such Secured Notes, as evidenced by his execution thereof.

Section 3.02. Terms. The aggregate principal amount of Secured Notes which may be issued and delivered under this Security Agreement is limited to an amount not to exceed \$5,250,000 (except for Secured Notes issued in lieu of other Secured Notes pursuant to Section 3.04 hereof). Each Secured Note shall bear interest and be payable as provided in the form thereof set forth in Exhibit 2 hereto. The Secured Notes shall be subject to prepayment as provided in Sections 2.09 and Article IV hereof.

Section 3.03. Execution and Dating of Secured Notes. The Secured Notes shall be executed on behalf of the Shipowner by the manual signature of a duly authorized officer of the Shipowner. Each Secured Note shall be dated the Delivery Date on which such Secured Note is issued.

Section 3.04. Mutilated, Destroyed, Lost or Stolen Secured Notes. If (i) any mutilated Secured Note is surrendered to the Shipowner or (ii) satisfactory evidence of the destruction, loss or theft of any Secured Note is presented to the Shipowner and there is delivered to the Shipowner a written undertaking of the Lender to hold the Shipowner and the Security harmless, the Shipowner shall execute and deliver to the Lender, in exchange for any such mutilated Secured Note or in lieu of any such destroyed, lost or stolen Secured Note, a new Secured Note of like tenor, date and principal amount bearing a number not contemporaneously outstanding. Upon the issuance of any new Secured Note under this Section 3.04, the Shipowner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith. The provisions of this Section 3.04 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Secured Notes.

Section 3.05. Payments Only from Security; Rights and Liabilities of the Shipowner, Etc. Notwithstanding any other provision of this Security Agreement, all payments of principal and interest to be made on the Secured Notes and all payments to be made under this Security Agreement or the Mortgage shall be made only from the income and proceeds of the Security and only to the extent that the Shipowner shall have actually received sufficient income or proceeds from the Security to make such payments in accordance with the terms hereof. The Lender agrees that it will look, as against the Shipowner and the Owner Participant, solely to the income and proceeds from the Security to the extent available for distribution to it as herein

provided, and that neither the Shipowner nor any Affiliate of the Shipowner nor the Owner Participant nor any Affiliate of the Owner Participant is personally liable to the Lender for any amounts payable under any Secured Note or this Security Agreement or the Mortgage, nor to return any sums properly distributed to the Shipowner in accordance with the terms of this Security Agreement.

The Connecticut Bank and Trust Company is not a fiduciary for the Lender, and shall not be answerable or accountable or liable in its individual capacity under this Security Agreement or under the Mortgage or the Secured Notes to the Lender or any other person under any circumstances, except for its own willful misconduct or gross negligence or as otherwise expressly provided in the Participation Agreement. The Connecticut Bank and Trust Company acts hereunder solely as owner trustee under the Trust Agreement, and reference is made to the Trust Agreement and to the Participation Agreement for a description thereunder of the rights, duties and authority of The Connecticut Bank and Trust Company."

ARTICLE IV PREPAYMENT OF SECURED NOTES

Section 4.01. Applicability of Article. Prepayment of the Secured Notes as required or permitted by any provision of this Security Agreement or of the Secured Notes shall be made in accordance with this Article IV. The Secured Notes shall be prepaid at the principal amount thereof plus interest accrued and unpaid thereon to the date of prepayment and without premium, as follows: (a) in whole or in part as provided in Section 2.09 following an Event of Loss referred to therein, (b) in whole or in part in the event of termination of the Charter with respect to any Vessels as provided in Section 17 thereof, (c) in part in the event of a sale of any Covers as provided in Section 8(c) of the Charter and (d) in whole or in part at the option of the Shipowner as provided in Section 4.05. The aggregate principal amount of Secured Notes to be prepaid as described in clause (b)

or (c) shall be the Proportionate Part of the Outstanding Secured Notes in respect of the Vessels or Covers involved.

Section 4.02. Prepayment Dates; Notices. The prepayment date for Secured Notes to be prepaid as described in Section 4.01(a) shall be the date specified in clause (3) of Section 2.09; the prepayment date for Secured Notes to be prepaid as described in Section 4.01(b) shall be the Termination Date as provided in Section 17 of the Charter (but only if the Charter shall in fact be terminated as to any Vessels in accordance with Section 17 thereof); the prepayment date for Secured Notes to be prepaid as described in Section 4.01(c) shall be the date on which the Covers are sold as provided in Section 8(c) of the Charter; and the prepayment date for Secured Notes to be prepaid as described in Section 4.01(d) shall be the date specified by the Shipowner pursuant to Section 4.05. Notice of any prepayment described in Section 4.01(b), (c) or (d) shall be given to the Lender by or on behalf of the Shipowner not less than ten days prior to any such prepayment except that no prior notice shall be required in the case of any prepayment described in Section 4.01(d) if an Event of Default shall have occurred and be continuing under the Charter. Any such notice shall state the prepayment date, the principal amount of each Secured Note to be prepaid, the amount of interest which shall have accrued and be unpaid on the prepayment date and, in the case of prepayment in whole, the place or places where the Secured Notes may be surrendered. In the event of any change in any of the information stated in any such notice for any reason, the Shipowner shall give or cause to be given notice thereof to the Lender promptly after the Shipowner obtains Actual Knowledge of such change.

Section 4.03. Deposit of Funds. At or before 12:00 noon Pittsburgh time on any prepayment date, the Shipowner shall cause to be deposited with the Lender immediately available funds in an amount which, together with other funds held by the Lender and available for application to such prepayment pursuant to the provisions hereof,

shall be sufficient to make such prepayment.

Section 4.04. Secured Notes Payable on Prepayment. (a) In the case of prepayment in part, the Secured Notes shall become due and payable ratably, without priority of one over the other, in the proportion that the aggregate principal amount to be prepaid bears to the aggregate principal amount of all Secured Notes then Outstanding, together with interest accrued and unpaid on the principal amount prepaid to the date of such prepayment. Prepayment shall be made without presentment of the Secured Notes and from and after such date the Secured Notes shall cease to bear interest on the amount of principal so prepaid.

(b) In the case of prepayment in whole, the Secured Notes shall become due and payable on the prepayment date, together with interest accrued and unpaid on the principal amount prepaid to the date of such prepayment and from and after such date the Secured Notes shall cease to bear interest. Promptly upon such prepayment, the Lender shall surrender the Secured Notes to the Shipowner in accordance with the instructions of the Shipowner.

(c) If any Secured Note to be prepaid in part or in whole shall not be paid as aforesaid, the principal amount thereof to have been prepaid and interest thereon, to the extent permitted by applicable law, shall bear interest from the prepayment date until paid at the Default Rate.

Section 4.05. Optional Prepayment of Secured Notes. Upon the notice and in the manner and with the effect provided in this Article IV, the Secured Notes may be prepaid at any time in whole or at any time and from time to time in part, at the option of the Shipowner, upon notice given by the Shipowner to the Lender not less than ten days prior to the date specified in such notice as the prepayment date, except that no prior notice shall be required if an Event of Default shall have occurred and be continuing under the Charter. Notwithstanding the foregoing, no prepayment may be made under

this Section 4.05 before the end of any period elected in accordance with the proviso in the second sentence of Section 3(a) of any Secured Note, unless an Event of Default shall have occurred and be continuing under the Charter, in which case such prepayment may be made upon payment of the premium (if any) determined in accordance with the next sentence. Such premium shall be equal to the product obtained by multiplying (i) the aggregate principal amount of Secured Notes to be prepaid, by (ii) a fraction, the numerator of which shall be the number of days remaining in such period after the prepayment date and the denominator of which shall be 365, by (iii) the excess (if any) of the Interest Rate (as such term is defined in the Secured Notes) fixed for the remainder of such period over the Interest Rate which would be fixed in accordance with the aforesaid proviso for a period beginning on the day of such prepayment (or, if earlier, the 30th day before the last day of such period) and ending on the last day of such period.

Section 4.06. Installments after Prepayment in Part. In the case of any prepayment in part, the amount of each installment of principal in respect of each Secured Note becoming due thereafter shall be recalculated by the Lender to reflect such prepayment in part, and shall in each case be equal to the amount obtained by multiplying the principal amount which would have been payable in respect of such Secured Note by a fraction, the numerator of which is the aggregate unpaid principal amount of Secured Notes Outstanding immediately after such prepayment in part and the denominator of which is the aggregate unpaid principal amount of Secured Notes Outstanding immediately preceding such prepayment in part (such adjustments to be cumulative in the case of more than one prepayment in part); provided, however, that the final installment of interest and principal shall be in an amount sufficient to discharge interest accrued and unpaid on such Secured Note and the unpaid principal thereof. The Lender shall send notice of each such recalculation to the Shipowner and the Charterer.

ARTICLE V
RECEIPT AND APPLICATION OF FUNDS

Section 5.01. Distribution of Interim Charter Hire and Basic Charter Hire. Except as otherwise provided in Section 6.05 hereof, each installment of Interim Charter Hire or Basic Charter Hire, as well as payments received to be credited against Interim Charter Hire or Basic Charter Hire and any payment of interest applied on any such installments which are not paid when due, received by the Lender shall be applied by the Lender as follows:

First, so much of such amounts as shall be required to pay the principal of and accrued interest on the Outstanding Secured Notes then due and payable shall be distributed to the Lender for application to such payment; and

Second, the balance, if any, of such amounts remaining thereafter shall be paid to the Shipowner.

Section 5.02. Distribution of Payments Received Pursuant to Section 2.09 or 4.05 of this Security Agreement or Section 17 or 8(c) of the Charter. Except as otherwise provided in Section 6.05 hereof, any amounts received by the Lender as contemplated by Section 2.09 or 4.05 hereof, or as a result of a termination of the Charter as to any Vessel pursuant to Section 17 of the Charter, or as a result of a sale of any Cover pursuant to Section 8(c) of the Charter, shall in each case be applied by the Lender as follows:

First, so much of such amounts as shall be required to prepay pursuant to Section 2.09 or Article IV hereof the Secured Notes to be prepaid shall be applied by the Lender to the prepayment thereof on the prepayment date therefor; and

Second, the balance, if any, of such amounts remaining thereafter shall be paid to the Shipowner.

Section 5.03. Distribution in Accordance

with Charter and Participation Agreement. Except as otherwise provided in Section 6.05 hereof, any payments received by the Lender for the application of which provision is made in the Charter or the Participation Agreement shall be applied by the Lender in accordance with the terms of, and for the purpose specified in, the Charter or the Participation Agreement, as the case may be.

Section 5.04. Other Distribution. Except as otherwise provided in Section 6.05 hereof, (a) any payments received by the Lender for which no provision as to the application thereof is made in the Charter or the Participation Agreement or elsewhere in this Security Agreement and (b) all payments received and amounts realized by the Lender under the Charter or otherwise with respect to any Vessel (including, without limitation, all amounts realized upon the sale or recharter of any Vessel) to the extent received or realized at any time after payment in full of the principal of and interest on all Secured Notes, as well as any other amounts then remaining as part of the Security, shall be paid by the Lender to the Shipowner.

Section 5.05. Application of Distributions to Secured Notes. In the case of each Secured Note, any payment made in respect of any payment of principal and interest and any other payments made with respect thereto shall be applied:

First, to the payment of interest accrued to the date of such payment; and

Second, except as provided in Section 4.06, to the payment of the installments of principal then due thereunder in the order of their Stated Maturities.

Section 5.06. Distributions Withheld from the Shipowner, Etc. Anything in this Article to the contrary notwithstanding, after a Responsible Officer of the Lender shall have Actual Knowledge of a Default or other event which, after lapse of time or any action or occurrence (including without limitation the giving of notice) would become a Default, all

amounts (other than amounts under Sections 10, 11 or 12 of the Participation Agreement) which, but for the provisions of this Section 5.06, would otherwise be distributable to the Shipowner or the Owner Participant shall be held by the Lender as part of the Security and, if such Default or other event shall cease to be continuing prior to the time such amounts may become distributable pursuant to Section 6.05 hereof, such amounts shall be distributed as elsewhere in this Article V provided.

Section 5.07. Distributions to the Shipowner. Any amounts which would be distributable by the Lender to the Shipowner pursuant to this Security Agreement shall instead be distributed to the Owner Participant if and to the extent that the Lender shall have received written instructions to such effect from the Owner Participant and the Shipowner confirmed (except in the case of amounts referred to in Section 5.01 hereof and amounts paid in respect of Stipulated Loss Value or Termination Value) by the Charterer."

M. Concerning Section 6.01. Section 6.01 of Exhibit 1 hereto is hereby amended as follows:

1. by deleting paragraph (a) of Section 6.01 in its entirety and substituting therefor the following:

"(a) Default in the payment of the whole or any part of the interest on any of the Outstanding Secured Notes 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 Secured Notes when the same shall become due and payable, whether by reason of maturity, redemption, acceleration or otherwise, and continuation of such default for a period of 30 days shall constitute and is herein called a "Payment Default".";

2. by deleting from paragraph (b) of Section 6.01

clauses (1) and (7) thereof;

3. by deleting from paragraph (b) of Section 6.01 clause (6) thereof and substituting therefor the following:

"(6) Any Event of Default under the Charter which has occurred and is continuing, whether or not the Shipowner has declared the Charter to be in default;"

4. by deleting the last paragraph of Section 6.01 in its entirety.

N. Concerning Section 6.02. Section 6.02 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting therefor the following:

"Section 6.02. Acceleration of Maturity of the Secured Notes. The Lender may, by giving written notice to the Shipowner, declare the principal of the Secured Notes and interest accrued thereon to be immediately due and payable at any time after the occurrence and during the existence of any Default. Thereupon the principal of and interest on the Secured Notes shall become immediately due and payable together with interest (to the extent lawful) on overdue principal and interest."

O. Concerning Section 6.03. Section 6.03 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting therefor the following:

"Section 6.03. Waiver of Default; Rescission of Acceleration. The Lender may by written notice to the Shipowner waive any Default and its

consequences, or rescind any declaration of acceleration pursuant to Section 6.02, but no such waiver or rescission shall extend to any subsequent or other Default or declaration of acceleration or impair any right consequent thereon."

P. Concerning Section 6.04. Section 6.04 of Exhibit 1 hereto is hereby amended by deleting paragraphs (a) and (b) in their entireties and substituting the following:

"(a) If a Default shall have occurred and shall continue to exist, the Lender shall have the right to

(1) Take the Vessels without legal process wherever the same may be (and the Shipowner or other Person in possession shall forthwith surrender possession of the Vessels to the Lender upon demand) and hold, lay up, lease, charter, operate, or otherwise use the Vessels for such time and upon such terms as the Lender may reasonably deem to be for the best advantage to the Lender, accounting only for the net profits, if any, arising from such use of the Vessels and charging against all receipts from the use of the Vessels all reasonable charges and expenses in connection with such use of the Vessels;

(2) Exercise all the rights and remedies in foreclosure and otherwise given to mortgagees by the Ship Mortgage Act, 1920, as amended;

(3) Bring suit at law, in equity or in admiralty to recover judgment for any and all amounts due under the Secured Notes, this Security Agreement and the Mortgage, collect the same out of any and all of the Security and in connection therewith obtain a decree ordering the sale of the Vessels in accordance with the following subparagraph (5);

(4) Have a receiver of the Vessels appointed as a matter of right in any suit under

this Section (and any such receiver may have the rights of the Lender under the following subparagraph (5));

(5) Sell the Vessels, free from any claim of the Shipowner, by public sale with sealed bids, held at such time and place and in such manner as the Lender may reasonably deem advisable, after first publishing notice of the time and place of such sale for 10 consecutive Business Days in the Authorized Newspapers, and mailing a copy of such notice by registered or certified mail to each of the Shipowner and the Charterer at its last known address, the first such publication and mailing to be made at least 30 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 originally scheduled of the new time and place appointed for such sale or adjourned sale). It shall not be necessary to bring the Vessels to the place appointed for such sale or adjourned sale;

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

(7) Receive, in the event of an Event of Loss, all insurance or other payments therefor to which the Shipowner would otherwise be entitled; and

(8) Pursue to final collection all claims arising under, and collect such claims from, the Security."

Q. Concerning Section 6.05. Section 6.05 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting the following:

"Section 6.05. Application of Proceeds.

(1) The proceeds (from sale or otherwise) of the whole or any part of the Security and use thereof by the Lender under any of the foregoing powers, (2) the proceeds of any judgment collected by the Lender for any Default hereunder, (3) the proceeds of any insurance and of any claim for damages to the whole or any part of the Security received by the Lender while exercising any such power and (4) all other amounts received by the Lender during the existence of a Default, including amounts which are required by Sections 2.07 and 2.09 or otherwise to be applied as provided in this Section, shall be applied as follows:

First, so much of such amounts as shall be required to reimburse the Lender for any expenses incurred in connection with the collection and distribution of such amounts shall be distributed to the Lender;

Second, so much of such amounts as shall be required to pay the principal of and accrued interest on the Outstanding Secured Notes then due and payable, whether by declaration of acceleration pursuant to Section 6.02 or otherwise, shall be distributed to the Lender;

Third, so much of such amounts as shall be required to pay to the Lender and the Shipowner any indemnities and any additional amounts owing to them under the Charter or pursuant to Sections 10 through 12 of the Participation Agreement shall be distributed to the Lender and the Shipowner ratably, without priority of one over the other, in the proportions that the aggregate unpaid amount of such indemnities and additional amounts owing to each bears to the aggregate unpaid amount of such indemnities and additional amounts owing to the Lender and the Shipowner; and

Fourth, the balance, if any, of such amounts remaining thereafter shall be paid to the Shipowner."

R. Concerning Sections 6.08 and 6.09. Article VI of Exhibit 1 hereto is hereby amended by adding a new Section 6.08 and a new Section 6.09 to read as follows:

"Section 6.08. Remedy of Defaults. In the event of any default in the payment of any installment of Interim Charter Hire or Basic Charter Hire, the Shipowner may to the extent permitted by this Section 6.08 pay to the Lender a sum equal to the amount of Interim Charter Hire or Basic Charter Hire then due and payable, together with any interest then due and payable thereon pursuant to the Charter. In the event of any default in any other obligation under the Charter which can be cured through the payment or application of money, the Shipowner may, to the extent permitted by this Section 6.08, perform such obligation on behalf of the Charterer. Solely for the purpose of determining whether there exists a Default under this Security Agreement, (a) any payment pursuant to the first sentence of this Section 6.08, if made before the 10th Business Day after the related Default occurs, shall be deemed to remedy such default; provided, however, that this Section 6.08 shall not permit the remedying of any default in the payment of Basic Charter Hire if the Shipowner shall have exercised its right under this Section 6.08 to remedy any such default on the two immediately preceding Charter Hire Payment Dates, and (b) any performance by the Shipowner pursuant to the second sentence of this Section 6.08, if completed before the 30th day after the related Default occurs, shall be deemed to remedy such default to the same extent that like performance by the Charterer would have remedied such default; provided, however, that this Section 6.08 shall not permit the remedying of any default specified in the foregoing clause (a) or (b) if the Shipowner shall previously have exercised four times its rights under this Section 6.08 to remedy defaults.

If, on the basis specified in the preceding sentence, all Defaults shall have been remedied, then any declaration of default pursuant to

Section 20 of the Charter, and any declaration pursuant to Section 6.02 shall be deemed to be rescinded. The Shipowner may make a demand upon the Charterer for repayment, as Supplemental Charter Hire, of all amounts expended by the Shipowner in effecting any remedy pursuant to this Section 6.08, together with interest on such amounts as provided in the Charter. All such amounts may be paid directly to the Shipowner unless a Default shall have occurred and be continuing, in which event all such amounts shall be paid to the Lender and upon receipt of the repayment so demanded, the Lender shall apply the same as provided in Section 6.05. The Shipowner agrees that, except in accordance with the provisions of this Section 6.08, it shall not seek to recover or accept any repayment in respect of amounts expended by the Shipowner in effecting any remedy pursuant to this Section 6.08 until this Security Agreement shall have been satisfied and discharged. Nothing in this Section 6.08 shall be deemed to relieve the Charterer of its duty to pay all Interim Charter Hire, Basic Charter Hire and Supplemental Charter Hire and to perform all of its obligations pursuant to the Charter and the Participation Agreement.

Section 6.09. Rights of Shipowner. Nothing in this Article VI shall interfere with the right of the Shipowner to bring suit at law, in equity or in admiralty for the specific performance by the Charterer or the Shipbuilder of their respective obligations under the Charter, the Participation Agreement, the Construction Contract or the Construction Contract Assignment, or to recover damages for the breach thereof, provided that any damages so recovered in respect of any Rights Under the Charter or Rights Under the Construction and Related Contracts shall be subject to the lien of this Security Agreement and paid over to the Lender.

S. Concerning Article VII. Article VII of Exhibit 1 hereto is hereby deleted in its entirety.

T. Concerning Section 8.01. Section 8.01 of Exhibit 1 hereto is hereby amended by adding to the end thereof the phrase ", provided that no such amendment or supplement shall be made without the written consent of the Charterer if such amendment or supplement would increase the obligations of the Charterer or would otherwise in any manner be adverse to the Charterer's interests."

U. Concerning Section 8.02. Section 8.02 of Exhibit 1 hereto is hereby amended by deleting the phrase "with 15 days' prior notice".

V. Concerning Section 8.03. Section 8.03 of Exhibit 1 hereto is hereby amended by deleting it in its entirety and substituting therefor the following:

"Section 8.03. Amendments and Supplements to the Charter, Etc. The Shipowner agrees that no amendments, supplements or waivers will be made to or in respect of any provision of the Charter or any other document referred to in the Granting Clause hereof without the prior written consent of the Lender, and any purported action or attempt to take action forbidden to be taken by this Section shall be null and void and of no force or effect."

W. Concerning Section 9.01. Section 9.01 of Exhibit 1 is hereby amended by (i) adding the following at the end of paragraph (a) thereof: "The proviso to the preceding sentence notwithstanding, nothing in this Section 9.01(a) shall be

construed to require the Lender's consent to (x) any lawful merger or consolidation of the Bank with or into any other Person, or (y) the transfer to a qualified successor Shipowner of the Shipowner's title and interest in and to any Vessel in accordance with Article VII of the Trust Agreement."; (ii) deleting paragraph (b) thereof in its entirety and substituting therefor the following:

"(b) the Person formed by or surviving such consolidation or merger (if such Person shall not be the Shipowner), or to which such sale shall have been made (herein called the "Successor"), shall, by instrument amending or supplementing this Security Agreement and the Mortgage, as may be necessary, expressly assume the payment of the principal of and interest on the Outstanding Secured Notes in accordance with the terms of the Secured Notes, and also shall expressly assume the performance of the agreements of the Shipowner in this Security Agreement, the documents referred to in the Granting Clause hereof and the Participation Agreement.";

and (iii) adding the following at the end of paragraph (c) thereof: "Nothing in this Section 9.01(c) shall be construed to require the Lender's consent to the transfer to a qualified successor Shipowner of the Shipowner's title and interest in and to any Vessel in accordance with Article VII of the Trust Agreement.".

X. Concerning Section 10.01. For purposes of Section 10.01 of Exhibit 1 hereto, the addresses of the Shipowner, the Lender and the Charterer are as follows:

Shipowner: The Connecticut Bank and Trust Company
One Constitution Plaza
Hartford, Connecticut 06115
Attention: Corporation Trust Department

With a copy to:

New England Merchants
Leasing Corporation B-7
One Washington Mall
Boston, Massachusetts 02108
Attention: Vice President, Administration

Lender: Pittsburgh National Bank
Pittsburgh National Building
Pittsburgh, Pennsylvania 15222
Attention: Mr. Bruce Robbins, Vice President

Charterer: Dravo Mechling Corporation
One Oliver Plaza
Pittsburgh, Pennsylvania 15222
Attention: Vice President, Finance

Y. Concerning Section 11.01. Section 11.01 of Exhibit 1 hereto is hereby amended by deleting paragraph (b) thereof in its entirety and substituting therefor the following:

"(b) The Shipowner shall notify the Charterer promptly of the satisfaction and discharge of this Security Agreement and the Mortgage."

Z. Concerning Section 12.01. Section 12.01 of Exhibit 1 hereto is hereby amended by inserting in the second sentence thereof after the phrase "successors and assigns," the phrase

"and the Charterer to the extent expressly provided herein,".

AA. Concerning Section 12.06. Section 12.06 of Exhibit 1 hereto is hereby deleted in its entirety.

BB. Concerning the Special Provisions. In the event of any conflict in, or inconsistency between, the Special Provisions and General Provisions of this Security Agreement, the Special Provisions shall control, except to the extent otherwise required by Section 12.05.

IN WITNESS WHEREOF, the parties have caused this Security Agreement to be executed and delivered as of the day and year first above written.

THE CONNECTICUT BANK AND TRUST COMPANY, acting not in its individual capacity but solely as owner trustee under the Trust Agreement referred to herein

(Seal)

Attest:

Eric Lawton

By

[Signature]
PITTSBURGH NATIONAL BANK

(Seal)

Attest:

William E. Feller

By

[Signature]

COMMONWEALTH OF PENNSYLVANIA)
) ss.:
COUNTY OF ALLEGHENY)

On this 15th day of April, 1981, before me personally appeared Bruce Robbins, to me personally known, who, being by me duly sworn, says that he is a V. Pres. of PITTSBURGH NATIONAL BANK, that one of the seals affixed to the foregoing instrument is the corporate seal of said Corporation, that said instrument was signed and sealed on behalf of said Corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said Corporation.

Eileen L. McGovern
Notary Public

[Notarial Seal]

My Commission expires

EILEEN L. MCGOVERN, NOTARY PUBLIC
PITTSBURGH, ALLEGHENY COUNTY
MY COMMISSION EXPIRES MAR. 24, 1984
Member, Pennsylvania Association of Notaries

COMMONWEALTH OF PENNSYLVANIA)
) ss.:
COUNTY OF ALLEGHENY)

On this 15th day of April, 1981, before me personally appeared Michael J. Rister, to me personally known, who, being by me duly sworn, says that he is a Asst. V. Pres. of THE CONNECTICUT BANK AND TRUST COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said Corporation, that said instrument was signed and sealed on behalf of said Corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said Corporation.

Eileen L. McGovern
Notary Public

[Notarial Seal]

My Commission expires

EILEEN L. MCGOVERN, NOTARY PUBLIC
PITTSBURGH, ALLEGHENY COUNTY
MY COMMISSION EXPIRES MAR. 24, 1984
Member, Pennsylvania Association of Notaries

EXHIBIT 1

GENERAL PROVISIONS OF THE SECURITY AGREEMENT

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EXHIBIT 1

General Provisions Incorporated Into the
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ARTICLE I

Definitions; Officer's Certificates and
Opinions of Counsel

Section 1.01. Definitions. For all purposes of this Security Agreement, the terms used herein shall have the meanings specified in the Special Provisions hereof.

Section 1.02. Officer's Certificates and Opinions of Counsel. (a) Each Officer's Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Security Agreement (or waiver thereof) shall include:

(1) A statement that the Person making such certificate or rendering such opinion has read such covenant or condition;

(2) A brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificates or opinions are based;

(3) A statement that, in the opinion of such Person, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with (or compliance therewith has been waived); and

(4) A statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with (or such compliance has been waived).

(b) An Opinion of Counsel may be based (insofar as it relates to factual matters, or to information which is in the possession of any Person) upon a certificate or opinion of or representations in writing signed by an officer or officers of such Person or by such Person and (insofar as it relates to matters required or permitted under this Security Agreement to be covered by a certificate or opinion of or representations by an appraiser, accountant, engineer or other expert) upon the certificate or opinion of or representations by such Person so acting, and may be based upon an Opinion of Counsel signed by another counsel.

Exhibit 1 to Security Agreement

agreement and in its individual capacity, is a banking corporation 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 (iii) in either case, except as provided in Article IX, shall maintain such corporate existence, and the Shipowner has paid or caused to be paid all taxes assessed against it, unless the same are being contested in good faith or an authorized extension of time has been granted.

Section 2.02. United States Citizenship of Shipowner. (a) The Shipowner is a citizen of the United States within the meaning of Section 2 of the Shipping Act, 1916, as amended, and shall remain such a citizen for operation in the trades in which the Shipowner proposes to operate the Vessels, or in the event the Shipowner shall cease to be such a citizen, the Shipowner shall notify the Secretary thereof as soon as it obtains knowledge of such fact.

(b) Within 30 days after the date of each annual meeting of its stockholders, or of any written consent in lieu thereof, the Shipowner shall submit to the Secretary supplemental proof to establish that it remains a citizen of the United States within the meaning of the foregoing paragraph (a).

Section 2.03. Authorization of Security Agreement, Obligations and Related Agreements. The execution and delivery of this Security Agreement, the Depository Agreement (if any), the Indenture, the Secretary's Note, and the Obligations have been duly authorized by the Shipowner and are not in contravention of any indenture, agreement or undertaking to which the Shipowner is a party or by which it is bound.

Section 2.04. (a) Title to and Possession of the Vessels. On the date of this Security Agreement the Shipowner lawfully owns each Vessel free from any lien whatsoever (subject to (i) the equity of the Shipbuilder under the Construction Contract, (ii) liens which the Shipbuilder is obligated to discharge under the Construction Contract, (iii) any pledge or assignment, subordinated to the interest of the Secretary hereunder, permitted under the Special Provisions hereof, and (iv) the rights of the Secretary hereunder) and shall for the Secretary's benefit, warrant and defend the title to, and cause the Charterer to warrant and defend title to, and possession of, each Vessel and every part thereof against the claims and demands of all Persons whomsoever arising during the Charter Period; and the Shipowner represents that the Charterer, for the benefit of the Secretary, has agreed in the Charter in accordance with the provisions thereof to warrant and defend the title to and possession of each Vessel and every part thereof against the

Exhibit 1 to Security Agreement

(G) in the event of an actual or constructive total loss or an agreed or compromised total loss of the respective Vessel; or

(H) to mortgages to the extent permitted by paragraph (b) of this Section;

provided that the liens stated to be permitted by the foregoing subparagraphs (A) through (D) shall, unless they constitute a lien for damages arising out of tort, for wages of a stevedore when employed directly by the Shipowner, the Charterer, or the operator, master, or agent of the respective Vessel, for Crew's Wages, for general average, or for salvage (including contract salvage), be permitted only to the extent they are liens subordinate to the lien of the Security; and

(2) The foregoing, insofar as it relates to the possession of a Vessel, shall not apply to sales, transfers and charters permitted by paragraph (b) of this Section.

(b) Sale, Mortgage, Transfer or Charter of the Vessels. The Shipowner shall not, without the prior written consent of the Secretary, sell, mortgage, demise charter or transfer any Vessel, or charter any Vessel to an Affiliate under any form of charter, except the foregoing shall not apply to (i) the Charter, (ii) takings, or requisitions of the title or use of any Vessel by any government or governmental body, (iii) mergers or consolidations permitted by Article IX, or (iv) demise charters approved by the Secretary in writing.

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

(d) Liens. (1) As a condition precedent to each payment by the Shipowner under the Construction Contract, the Shipowner shall require evidence from the Shipbuilder showing that there are no liens or rights in rem against the respective Vessel prohibited by the Construction Contract. After the Delivery Date of each Vessel, the Shipowner shall forthwith satisfy, or cause to be satisfied, within 30 days of its knowledge thereof, any lien or encumbrance which shall be filed against such Vessel unless the same is being contested in good faith; and

(2) Neither the Shipowner, any charterer, the master of the Vessel, nor any other Person has or shall have any right, power or authority, without the prior written consent of the Secretary, to create, incur or permit to be placed or imposed on any Vessel

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(h) Condition and Maintenance of the Vessels. Each Vessel, shall on her Delivery Date, meet all requirements to entitle her to the highest classification and rating for vessels of the same age and type in the American Bureau of Shipping.

The Shipowner shall at all times (unless otherwise required by any military authority of the United States and except during such period as (1) the use or title of any Vessel has been taken or requisitioned by any government or governmental body as contemplated by paragraph (b) of this Section, (2) there has been an actual or constructive total loss or an agreed or compromised total loss of such Vessel, or (3) there has been any other loss with respect to such Vessel and the Shipowner shall not have had a reasonable time to repair the same) after the respective Delivery Date, (A) at its own cost and expense, maintain and preserve each Vessel, so far as may be practicable, in at least as good order and condition, ordinary wear and tear excepted, as at the Delivery Date, and (B) except with the express permission of the Maritime Administration during any idle or inactive period, keep each Vessel in such condition as will entitle her to retain the highest classification and rating for vessels of the same age and type in the American Bureau of Shipping (or other classification society of like standing if the requirements of the American Bureau of Shipping shall not be applicable).

The Shipowner shall, on the Delivery Date, furnish to the Secretary an Interim Classification Certificate for each Vessel issued by the American Bureau of Shipping (or other classification society of like standing if the requirements of the American Bureau of Shipping shall not be applicable) and promptly after the Delivery Date, furnish to the Secretary a Certificate of Classification issued by the American Bureau of Shipping (or such other classification society). During each calendar year after the year in which the Delivery Date occurs (unless any military authority of the United States requires that the above-mentioned classification and rating not be retained and except during periods as aforesaid) the Shipowner shall (1) furnish to the Secretary a Certificate of Confirmation of Class issued by the American Bureau of Shipping (or such other classification society) showing that the above-mentioned classification and rating have been retained for each Vessel and (2) furnish to the Secretary copies of all American Bureau of Shipping reports on annual, other periodical and damage surveys for each Vessel.

(i) Material Changes in the Vessels. After the Delivery Date of any Vessel, the Shipowner shall not make, or permit to be made, or give its consent to anyone to make, any material changes in the structure, means of propulsion, type or speed of such

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with such additional insurance as may be specified by the Secretary in an amount in dollars (in any coin or currency of the United States which at the time of the policy in question is legal tender for public and private debts) at least equal to 110% of the unpaid principal amount of the Proportionate Outstanding Obligations, or such greater sum, up to and including the full commercial value of such Vessel as may be required by the Secretary by, except in the case of the insurance required on the Delivery Date, at least 30 days' written notice (15 days' written notice in the case of war risk insurance, if any) to the Shipowner prior to the end of any policy period:

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

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

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

(c) All policies of insurance under this Section shall provide, so long as this Security Agreement has not been discharged, that payment of all losses shall be made payable to the Secretary for distribution by him to himself, the Shipowner, the Charterer, and (in the case of the insurance required by paragraph (a) of this Section) the Shipbuilder, except that (i) as provided in paragraph (e) of this Section and (ii) under the policies required by paragraph (b) of this Section, payment of

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Section 3.05 (2) or (4), pay the insurance to the Shipowner or the Charterer;

(2) In the event of an accident, occurrence or event resulting in an actual or constructive total loss of any Vessel prior to the Delivery Date of such Vessel, the Shipowner or the Charterer shall forthwith deposit with the Secretary any insurance moneys which the Shipowner or the Charterer receives on account thereof under policies of insurance required by paragraph (a) of this Section, and any such insurance moneys shall be held by the Secretary for 10 days (or such lesser or further time as the Shipowner and the Secretary may agree upon). Upon the expiration of said period of time, (A) if there is no existing Default and if the Shipowner, the Shipbuilder and the Secretary shall have elected not to construct such Vessel under the Construction Contract, then said insurance moneys shall be applied, to the extent necessary and required pursuant to Section 2.09, or (B) if there is no existing Default and if the Shipowner, the Shipbuilder and the Secretary shall not have made the election contemplated by the foregoing clause (A) of this subparagraph (2), then said insurance moneys (together with the funds of the Shipowner to the extent, if any, required by the Secretary for deposit on account of interest under clause (ii) below) shall be deposited in the Escrow Fund, in such amount and to the extent available, so that the moneys in the Escrow Fund after such deposit shall be equal to (i) the principal amount of the Proportionate Outstanding Obligations relating to such Vessel at the time of such deposit and (ii) such interest on said deposit, if any, as may be required by the Secretary (said moneys to be subject to withdrawal in the same manner as moneys originally deposited in said Escrow Fund); and the balance, if any, of such insurance moneys held by the secretary shall be paid to the Shipowner; and

(3) In the event of an accident, occurrence or event resulting in an actual or constructive total loss or an agreed or compromised total loss of any Vessel whether prior to or after the Delivery Date of such Vessel and the insurance moneys have not been applied as provided in subparagraph (2) of this paragraph (c), the Shipowner or the Charterer shall forthwith deposit with the Secretary any insurance moneys which the Shipowner or the Charterer receives on account thereof under policies of insurance required by this Section, and any such insurance moneys received by the Secretary, whether from the Shipowner or otherwise, or held by the Secretary pursuant to subparagraph (2) above, shall (A) if there is no existing Default, be applied to the extent necessary, pursuant to Section 2.09, or (B) if there is an existing Default, be held until the same

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the Person to whom any liability covered by such policies has been incurred (whether or not a Default then exists), and (2) if the Shipowner or the Charterer shall have incurred the loss, damage or expense in question, any such loss shall be paid to the Shipowner or the Charterer in reimbursement if there is no existing Default of which the underwriter has written notice from the Shipowner or the Secretary, or, if there is such an existing Default, to the Secretary to be held and applied as follows: (A) applied as provided in Section 6.05 in the event the Guarantees shall have terminated pursuant to Section 3.05(3), or (B) to the extent not theretofore applied pursuant to Section 6.05, paid forthwith to the Shipowner or the Charterer upon its Request in the event there is no existing Default or the Guarantees shall have terminated pursuant to Section 3.05(2) or (4) at the date of the delivery of such Request; provided that, irrespective of the foregoing, with the prior written consent of the Secretary, the Shipowner or the Charterer shall have the right to self-insure in an amount up to the limit specified in the Special Provisions hereof with respect to each accident, occurrence or event, except that, with respect to cargo or property carried, the Shipowner or the Charterer, with the prior written consent of the Secretary, shall have the right to self-insure in an amount up to the limit specified in the Special Provisions hereof with respect to each cargo or property carried.

(f) All insurance required under this Section shall be placed and kept with the United States government or with American and/or British (and/or other foreign, if permitted by the Secretary in writing by notice furnished to the Shipowner and the Charterer) insurance companies, underwriters' associations or underwriting funds approved by the Secretary of Commerce. All insurance required under this Section shall be arranged through marine insurance brokers and/or underwriting agents as may be selected by the Shipowner and/or the Charterer and approved by the Secretary.

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

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cancellation for the non-payment of premiums, commissions, club calls, assessments or advances shall be given to the Secretary by the insurance underwriters.

(j) The Shipowner shall not, without the prior written consent of the Secretary, (1) do any act, nor voluntarily suffer nor permit any act to be done, whereby any insurance required by this Section shall or may be suspended, impaired or defeated or (2) suffer or permit any Vessel to engage in any voyage or to carry any cargo not permitted under the policies of insurance then in effect without first covering such Vessel with insurance satisfactory in all respects for such voyage or the carriage of such cargo; provided that, this paragraph shall be subject to the requirements of any military authority of the United States and shall not apply in the case of such Vessel if and so long as the title or use of such Vessel shall have been taken, requisitioned or chartered by any government or governmental body as contemplated by Section 2.09.

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

(l) Except as the Secretary shall otherwise direct by notice in writing to the Shipowner and the Charterer, the Shipowner or the Charterer shall deliver to the Secretary the original policies evidencing insurance maintained under this Section; provided that, if any such original policy shall have been delivered previously to the Secretary or to a mortgagee by the Shipowner or the Charterer under another ship mortgage of the Shipowner or the Charterer, the Shipowner or the Charterer shall deliver a duplicate or pro forma copy of such policy to the Secretary. The Secretary or any agent thereof (who may also be an agent of the issuer) shall at all times hold the policies delivered as aforesaid; provided that, if one or more of said policies are held by an agent of the Secretary, the Shipowner or the Charterer shall, upon request of the Secretary, deliver a duplicate or pro forma copy thereof to the Secretary and provided further that, if the Shipowner or the Charterer shall deliver to the Secretary a Request (1) stating that delivery of any such

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the occurrence of the circumstances referred to in Section 2.07(c) (3) if there shall have been an accident, occurrence or event resulting in an actual or constructive total loss or an agreed or compromised total loss of such Vessel--

(1) The Shipowner shall promptly give written notice thereof to the Secretary;

(2) The Shipowner shall (subject to the consent or approval of the Secretary and/or the Maritime Administration if and to the extent they have jurisdiction) promptly pay all amounts it receives by reason of such requisition, seizure, forfeiture, termination or total loss to the Secretary; and

(3) After all amounts which are reasonably expected to be received by the Secretary in connection with any such requisition, seizure, forfeiture, termination or total loss (whether from the Shipowner pursuant to the foregoing subparagraph (2), from a government or governmental body, or otherwise) shall have been received by the Secretary (A) if there is no existing Default, the aforementioned amounts shall be applied by the Secretary as follows, (i) the Secretary and the Shipowner shall give notice to the Indenture Trustee of a redemption of the Proportionate Outstanding Obligations pursuant to Section 3.05 of Exhibit 1 to the Indenture, (ii) such amounts, 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 Exhibit 1 to the Indenture and (iii) the remainder shall next be applied by the Secretary for the payment of the Proportionate Part of all other sums that may be secured hereby, and (iv) the balance, if any, shall be paid to the Shipowner, or (B) if there is an existing Default and the Guarantees shall not have terminated pursuant to Section 3.05, such amounts shall be held until the same may be applied or paid under clause (A), (C) or (D) of this subparagraph (3), whichever is applicable, or (C) if the Guarantees shall have terminated pursuant to Section 3.05(3), such amounts shall be applied as provided in Section 6.05, or (D) if the guarantees shall have terminated pursuant to Section 3.05(2) or (4), such amounts shall be paid by the Secretary to the Shipowner;

provided that, irrespective of the foregoing, (i) the Shipowner shall not be required to pay to the Secretary pursuant to the foregoing subparagraph (2) an amount which, together with funds held by the Secretary and the Indenture Trustee and available for the redemption of Obligations, is in excess of that required for the redemption of the Proportionate Outstanding Obligations

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Provisions hereof (or containing such other information as may be approved by the Secretary), printed in plain type of such size that the paragraph of reading matter shall cover a space not less than six inches wide by nine inches high, and framed, shall (together with a notice of any assignment of the Mortgage) be placed and kept prominently exhibited in the chart room and in the Master's cabin of each Vessel.

The provisions of this Section shall not apply until a reasonable time after the recordation of the Mortgage.

Section 2.13. Payment of Principal of and Interest on the Obligations. The Shipowner shall duly and punctually pay the principal of and interest on the Outstanding Obligations (and the corresponding Secretary's Note), when the same shall become due and payable, whether by reason of Maturity, redemption or otherwise, in accordance with the terms of the Obligations, the Secretary's Note and the Indenture.

Section 2.14. Performance of Shipowner's Agreements by the Secretary. If the Shipowner shall fail to perform any of its agreements hereunder or under the Mortgage, or if the Charterer shall fail to perform any of its agreements under the Charter, the Secretary may, in his discretion, at any time during the continuance of a Default, do all acts and make all necessary expenditures to remedy such failure. Notwithstanding the foregoing, the Secretary shall not be obligated to (and shall not be liable for his failure to) do such acts and make such expenditures.

All funds advanced and expenses and damages incurred by the Secretary in connection with any such compliance, together with interest at the highest rate borne by the Outstanding Obligations (excluding interest on overdue principal), shall constitute a debt due from the Shipowner to the Secretary and shall be secured hereunder and under the Mortgage prior to the Secretary's Note and shall be repaid by the Shipowner upon demand.

Section 2.15. Uniform Commercial Code Filings; Further Assurances. The Shipowner shall (i) furnish evidence satisfactory to the Secretary that financing statements under the Uniform Commercial Code shall have been filed against the Shipowner and the Shipbuilder in all offices in which it may be necessary or advisable in the opinion of the Secretary to perfect its security interest, and (ii) from time to time execute and deliver such further instruments and take such action as may reasonably be required more effectively to subject the Security to the lien of this Security Agreement and the Mortgage as contemplated thereby.

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Secretary to be filed by the Charterer with the Secretary next prior to the date on which the Guarantee Fee is to be paid by the Shipowner (the "Latest Schedule"), or (ii) computed in accordance with General Order 22 (Revised), as amended or hereafter amended (46 CFR, Part 282) (or other order or directive in lieu of said General Order 22, as determined by the Secretary), in the event that the Latest Schedule (whether or not required) has not been filed by the Charterer with the Secretary; provided, however, that, with the consent of the Secretary, there shall be included in Net Worth but excluded from Long Term Debt any subordinated indebtedness representing loans to the Charterer, evidence of which shall have been delivered to the Secretary.

(c) The applicable annual Guarantee Fee for annual periods beginning with the date hereof and prior to the Delivery Date of each Vessel will be determined as follows:

(1) If the Net Worth is less than 15% of the Long Term Debt, the Guarantee Fee shall be $\frac{1}{2}$ of 1% per annum of the Average Proportionate Principal Amount of Obligations Outstanding during the annual period covered by said Guarantee Fee;

(2) If the Net Worth is less than the Long Term Debt but equal to or greater than 15% of the Long Term Debt, the Guarantee Fee shall be $\frac{3}{8}$ of 1% per annum of the Average Proportionate Principal Amount of Obligations Outstanding during the annual period covered by said Guarantee Fee; or

(3) If the Net Worth shall equal or exceed the Long Term Debt, the Guarantee Fee shall be $\frac{1}{4}$ of 1% per annum of the Average Proportionate Principal Amount of Obligations Outstanding during the annual period covered by said Guarantee Fee.

(d) The applicable annual Guarantee Fee for annual periods commencing on and after the Delivery Date of each Vessel will be determined as follows:

(1) If the Net Worth is less than 15% of the Long Term Debt, the Guarantee Fee shall be 1% per annum of the Average Proportionate Principal Amount of Obligations Outstanding during the annual period covered by said Guarantee Fee;

(2) If the Net Worth is less than 60% of the Long Term Debt but equal to or greater than 15% of the Long Term Debt, the Guarantee Fee shall be $\frac{3}{4}$ of 1% per annum of the Average Proportionate Principal Amount of Obligations Outstanding during the annual period covered by said Guarantee Fee;

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the Secretary is hereby acknowledged. The Guarantee Fee hereunder in respect of each succeeding 12-month period shall be paid to the Secretary by the Shipowner at least 65 days prior to each anniversary of the date hereof, covering the 12-month period then commencing. The Guarantee Fee shall not be due for any period on or after any anniversary date if, prior to said date, said Guarantees shall have terminated or the Secretary shall have defaulted in making payment of said Guarantees.

(h) Unless otherwise specified by the Secretary in a written notice to the Shipowner, the Guarantee Fee hereunder may be paid by check (which need not be certified) payable to the order of "Maritime Adm.-Commerce", delivered in person or sent by mail, addressed to the Secretary as provided in Article X, accompanied by a letter stating that the payment is of the Guarantee Fee required hereunder and specifying the period covered by such payment.

(i) In the event that the Secretary at any time determines that the amount of any Guarantee Fee should be adjusted, has been erroneously calculated or is subject to increase or decrease pursuant to paragraph (f) of this Section 3.02, he shall promptly give written notice thereof to the Shipowner, specifying the correct amount, the basis of computation thereof and the amount of the deficiency or excess. The Shipowner shall pay to the Secretary, within 30 days after it has received said notice, the amount of any deficiency.

In the event that during any such annual period the Delivery Date of a Vessel shall have occurred, the rate of the Guarantee Fee shall be prorated so that the Guarantee Fee specified in paragraph (c) of this Section is applicable from the next prior anniversary date of this Security Agreement to such Delivery Date and that the Guarantee Fee specified in paragraph (d) of this Section is applicable from the Delivery Date to the end of such annual Guarantee Fee period.

The amount of any excess payment shall be refunded to the Shipowner by the Secretary; provided that, if there is an existing Default, any such amount shall, subject to Article VI, be retained by the Secretary until (A) there is no existing Default or (B) the Guarantees shall have terminated pursuant to Section 3.05 (1), (2) or (4).

(j) Subject to the provisions of paragraphs (f) and (i) of this Section, the Guarantee Fee shall be determined to be fully earned as of the commencement of the period to which it is applicable and, subject to said provisions, no refund will be made by the Secretary of any Guarantee Fee in the event the Guarantees shall terminate after the due date of such Guarantee

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(4) The Indenture Trustee and each Obligee shall have failed to demand payment of such Guarantee as provided in the Indenture or in such Guarantee or in the Act.

Section 3.06. Execution of Additional Secretary's Note Upon Subsequent Issue of Obligations. 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 provisions of, the Special Provisions of the Indenture and Section 2.04 of Exhibit 1 to the Indenture, (i) the Shipowner shall, at the time of the issuance of such Obligations, execute and deliver to the Secretary an additional 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 prescribed by Section 3.03 and otherwise of like tenor to the form of Secretary's Note annexed hereto, and (ii) the Shipowner and the Secretary shall execute an instrument amending or supplementing the Mortgage if then in effect (or the form of the Mortgage, if not then in effect) to the extent necessary to provide security in respect of such additional Secretary's Note. The Secretary's Note executed and delivered in accordance with the provisions of this Section shall, together with the Secretary's Note referred to in the Special Provisions hereof, be secured by this Security Agreement and the Mortgage.

ARTICLE IV

Construction Fund; Moneys Due in Respect of
Construction of the Vessels

Section 4.01. Construction Fund. (a) The Shipowner has, simultaneously with the execution of this Security Agreement, deposited with the Depository the amount, if any, as indicated in the Special Provisions hereof to be held in the Construction Fund in a special joint depository account subject to the joint control of the Shipowner and the Secretary.

(b) The Construction Fund, if any, will be maintained and withdrawn in accordance with the provisions of this Section and Sections 4.02, 4.03 and 4.04.

(c) In the event the Special Provisions hereof provide for a Construction Fund, the Secretary and the Shipowner shall have entered into the Depository Agreement with the Depository governing the establishment and maintenance of the Construction Fund in form satisfactory to the Shipowner and the Secretary.

(d) At the time of each original issue of additional Obligations the Shipowner shall deposit with the Depository an

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disbursement paid by the Shipowner with respect to such related Vessel pursuant to the last sentence of Section 5.02(d) or for reimbursement of any payment by the Shipbuilder referred to in clauses (B) and (C) of this subparagraph (2); provided that, in the event that the amount eligible for guarantees pursuant to Section 1104(b)(2) of the Act, is limited to 75% of the Actual Cost or Depreciated Actual Cost of the related Vessel with respect to which such payment is made, after 50% of the Actual Cost of such Vessel has been paid by or for the account of the Shipowner on account of the above-mentioned items, amounts and increases, the minimum of 12-1/2% set forth in clause (A) of this subparagraph (2) shall be changed to 25% with respect to payments on account of items, amounts and increases relating to such Vessel.

(b) In the event that one of the events described in Section 2.09 has occurred, upon a Request of the Shipowner, approved in writing by the Secretary, moneys remaining on deposit in the Construction Fund may be withdrawn for one of the following purposes: (1) application as provided in Section 3.05 of Exhibit 1 to the Indenture, (2) payment to the Shipowner or its order in the event that all of the Proportionate 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.

Section 4.03. Procedures for Construction Fund Withdrawals. (a) Prior to any payment or reimbursement pursuant to Section 4.02, there shall have been delivered to the Secretary:

(1) A request for payment (the "Request for Payment") (specifying the Person or Persons to be paid and the amount of such payment) executed by the Shipowner, approved and countersigned by the Secretary which Request for Payment shall request the Depository to notify the Secretary when the Construction Fund is exhausted; and

(2) An Officer's Certificate stating--

(A) That the payments and reimbursements are on account of the items, amounts or increases set forth in the determination of Actual Cost;

(B) That the amounts stated therein are then payable in respect thereof (specifying the amount in respect of each such item, amount and increase and the name and address of the Person to whom it should be paid) and/or that payments in a stated amount in respect

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(b) Cash held by the Depository in the Construction Fund (i) need not be segregated, (ii) shall not be invested or reinvested except as provided in the following paragraph (c), and (iii) shall not bear interest except to the extent the Depository allows interest on similar deposits or except as the Shipowner and the Depository may agree.

(c) If the Depository is so directed by the Shipowner by the Delivery of a Request, any cash held in the Construction Fund pursuant to paragraph (a) of this Section shall, unless there is an existing Default, (i) be invested or reinvested by the Depository in negotiable certificates of deposit of the Depository, provided such investment in negotiable certificates of the Depository do not exceed 10% of the Depository's capital or (ii) be invested or reinvested by the Depository in securities which constitute direct obligations of the United States or any agency of the United States, provided that, such investments or reinvestments shall mature not later than one year from the date of the investment or reinvestment. The Depository shall sell all or any designated part of such securities if (i) so directed by the Shipowner by the delivery of a Request approved by the Secretary in writing (or, at the Secretary's written direction, without any Request of the Shipowner, during the continuance of a Default) or (ii) at any time the proceeds thereof are required for the purposes specified in Section 4.02. If such sale (or any payment at maturity) produces a net sum less than the cost (including accrued interest paid as such) of the securities so sold or paid, the Depository shall give written notice to the Secretary and the Shipowner of such deficiency and the Shipowner shall promptly pay the deficiency to the Depository. If such sale or payment produces a net sum greater than the cost (including accrued interest paid as such) of the securities so sold or paid, the Depository shall promptly pay the excess to the Shipowner unless the Depository shall have received written notice from the Secretary that there is then an existing Default. All such securities and the net proceeds of the sale or payment thereof (plus any deficiency paid by the Shipowner, but excluding any excess over cost paid to the Shipowner) shall be held by the Depository for the same purposes as the cash used to purchase the securities.

(d) Any interest on cash or securities (less an amount equal to accrued interest paid upon purchase) held by the Depository shall, unless there is an existing Default, be promptly paid to the Shipowner.

Section 4.06. Moneys Due in Respect of Construction of the Vessels. In the event that the Shipowner shall from time to time receive moneys described in the Granting Clause of the Special Provisions hereof from the Secretary, the Shipbuilder, its

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of the Vessels set forth in ARTICLE FIRST of the Special Provisions hereof as so redetermined and all other Vessels then subject to the Security Agreement set forth in ARTICLE FIRST of the Special Provisions as so redetermined. The Shipowner shall give written notice to the Indenture Trustee of all Obligations credited pursuant to the immediately preceding sentence, specifying the number and principal amount of such Obligations so credited, within three days of the determination of the Secretary referred to above, provided that if Obligations are required to be redeemed in connection with Section 1104(b)(2) of the Act in accordance with the Indenture, the notice of Obligations credited, if any, shall be included in the written notice required to be given to the Indenture Trustee in connection with such redemption.

ARTICLE V

Actual Cost; The Escrow Fund

Section 5.01. Actual Cost Determinations. The Actual Cost of each Vessel (and the sum of the Actual Cost of all of the Vessels), determined as of the date of this Security Agreement, is as set forth in the Special Provisions hereof. The Secretary agrees that he (1) will make a final determination of the Actual Cost of each Vessel, limited to amounts paid by or for the account of the Shipowner on account of the items (not in excess of the respective amounts of the items) set forth or referred to in the Special Provisions hereof and, to the extent approved by the Secretary, any other items or any increase in the amounts of such set forth or referred to items, such determination to be made as of the time of payment by or for the account of the Shipowner of the full amount of said Actual Cost of such Vessel, excluding any amounts which are not to become due and payable and (2) will promptly give written notice to the Shipowner of the results of said final determination; provided that, the Shipowner shall have requested such determination not less than 60 days in advance (unless otherwise agreed by the Secretary) and shall have furnished to the Secretary not less than 30 days in advance of such determination (unless otherwise agreed by the Secretary) a certification by the Shipowner and (unless otherwise agreed by the Secretary) a statement by an independent certified (or, with the consent of the Secretary, an independent) public accountant or firm of accountants of the total amounts paid or obligated to be paid by or for the account of the Shipowner for the Construction of such Vessel, together with a breakdown of such totals according to the items for which paid or obligated to be paid.

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(2) No payment or reimbursement under this Section shall be made (A) to any Person until the Construction Fund has been exhausted and a certificate as to such fact shall have been delivered to the Secretary by the Depository (B) to any Person until the total amount paid by or for the account of the Shipowner on account of said items, amounts and increases from sources other than the proceeds of such Obligations equals at least 12-1/2% (or, in the circumstances described in the proviso of this subparagraph (2), 25%) of the Actual Cost of the related Vessel with respect to which such payment is made, (C) to the Shipbuilder until any estimated net trade-in allowance applicable to such Vessel which is at the time due and payable by the United States to the Shipbuilder pursuant to Section 510 of the Act has been paid to the Shipbuilder on account of Item (1) of the Table annexed hereto, (D) to the Shipbuilder until the Shipowner shall have paid to the Shipbuilder out of its general funds all amounts which at the time are due and payable by the Shipowner on account of charter hire of a Vessel traded in pursuant to the foregoing Section 510, (E) to the Shipowner which would have the effect of reducing the total amounts paid, referred to in clause (B) of this subparagraph (2), below the respective minima set forth in said clause, or (F) to the Shipowner for reimbursement of any balance of a requested disbursement paid by the Shipowner with respect to such related Vessel pursuant to the last sentence of paragraph (d) of this Section or for reimbursement of any payment to the Shipbuilder referred to in clauses (C) and (D) of this subparagraph (2); provided that, in the event the amount eligible for Guarantees pursuant to Section 1104(b)(2) of the act, is limited to 75% of the Actual Cost or Depreciated Actual Cost, as the case may be, of such Vessel, after 50% of the Actual Cost of such Vessel has been paid by or for the account of the Shipowner on account of the above-mentioned items, amounts and increases, the minimum of 12-1/2% set forth in clause (B) of this subparagraph (2) shall be changed to 25%.

(c) 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 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 be disbursed by the Secretary upon Request of the Shipowner made not more than 10 Business Days prior to such Interest Payment Date or made no later than 30 days after such Interest Payment Date.

(d) The Secretary shall not be required to make any disbursement pursuant to this Section except out of cash

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related Proportionate Outstanding Obligations (2) payment to the Shipowner, or its order, in the event all of the Proportionate Outstanding Obligations are Retired and 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.

Section 5.03. Disbursement Upon Termination Date of the Escrow Fund. If payments under the Guarantees of the Obligations have not become payable prior to the Termination Date of the Escrow Fund, then on or immediately after said date any balance of the Escrow Fund shall be disbursed by the Secretary as set forth below:

(1) To the extent that (A) the principal amount of such Obligations originally issued, less (B) the aggregate principal amount (as established by an Officer's Certificate of the Shipowner delivered to the Secretary not less than 30 days in advance of the Termination Date of the Escrow Fund) of such Obligations which either (i) have been or are (as indicated by the giving of a notice of redemption which does not state that it is subject to the receipt of the redemption moneys by the Indenture Trustee or any Paying Agent of the Shipowner for such Obligations) to be Retired or Paid on or before said Termination Date pursuant to Sections 3.02(a), 3.02(b), or 3.05 of Exhibit 1 to the Indenture, and not, in the case of redemptions pursuant to Sections 3.02(a) and 3.02(b) of Exhibit 1 to the Indenture, availed of as a credit against redemptions otherwise required to be made pursuant to the sinking fund provisions of Section 3.02(c) of Exhibit 1 to the Indenture, or (ii) have been delivered by the Shipowner to the Indenture Trustee for cancellation to be availed of pursuant to and in full compliance with Section 3.04 of Exhibit 1 to the Indenture shall be in excess of a sum which is (C) the aggregate of 75% or 87-1/2%, whichever is applicable under Section 1104 of the Act, of the respective Actual Cost of each of the Vessels limited to amounts paid by or for the account of the Shipowner on account of items (not in excess of the respective amounts of the items) set forth or referred to in the Table annexed hereto and, to the extent approved by the Secretary, any other items or any increase in the amounts of the items set forth or referred to in said Table, as such cost is finally determined by the Secretary as of the Termination Date of the Escrow Fund, the Escrow Fund shall be paid to the Indenture Trustee accompanied by a written notice from the Secretary and the Shipowner to the Indenture Trustee, stating that such funds (y) shall be applied by the Indenture Trustee to redeem an equal principal amount of Obligations and (z) are to be so applied in order that the principal amount of Obligations that will be Outstanding after such redemption will not

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thereof and (B) cash received from the payment of interest on securities, and (ii) the term "upon receipt by the Secretary" shall mean the time of receipt by the Secretary of advice of the payment of such income by the Treasury Department into the account in which the Escrow Fund has been deposited.

Section 5.06. Termination Date of the Escrow Fund;
Extension of the Termination Date. The Escrow Fund will terminate 90 days after the last Delivery Date of a Vessel covered by this Security Agreement (herein called the "Termination Date of the Escrow Fund"). In the event that on such date the payment by or for the account of the Shipowner of the full amount of the Actual Cost of all of the Vessels set forth or referred to in the Special Provisions hereof has not been made or the amounts in respect of such Actual Cost are not then due and payable, then the Shipowner and the Secretary by letter agreement shall extend the Termination Date of the Escrow Fund for such period as shall be determined by the Shipowner and the Secretary as sufficient to allow for the contingencies hereinabove set forth. If the Secretary shall make a final determination of the Actual Cost of all of the Vessels in accordance with Section 5.01, the Termination Date of the Escrow Fund shall be deemed to be the date of such final determination.

ARTICLE VI

Defaults and Remedies

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

(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 Exhibit 1 to the Indenture, and continuation of such default for a period of 30 days shall constitute and is herein called a "Payment Default". For the purposes of this Security Agreement and the Mortgage only, 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":

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registered mail to the Shipowner and the Charterer by the Secretary;

(7) Any default in the due and punctual observance and performance of any provision in the Title XI Reserve Fund and Financial Agreement;

(8) Any representation or warranty made in connection with the execution and delivery of this Security Agreement, the Mortgage, the Title XI Reserve Fund and Financial Agreement or in any certificate required to be furnished thereunder, that shall prove to be incorrect in a material respect; and

(9) Any additional Security Default prescribed in the Special Provisions hereof.

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 provisions of the Indenture and the Authorization Agreement.

Section 6.02. Acceleration of Maturity of the Secretary's Note. The Secretary may, by giving written notice to the Shipowner, declare the principal of the Secretary's Note and interest accrued thereon to be immediately due and payable at any time after the Secretary shall have been obligated to pay the Guarantees pursuant to the terms of the Indenture and the Authorization Agreement. Thereupon the principal of and interest on the Secretary's Note shall become immediately due and payable, together with interest at the same rates for overdue principal.

Section 6.03. Waivers of Default. (a) 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, he shall waive the consequences of such event.

(b) 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, he 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 (and prior to any payment of the Guarantees by the Secretary), he shall notify the

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

(4) Sell any Vessel, free from any claim of the Shipowner, by public sale with sealed bids, held at such time and place and in such manner as the Secretary may reasonably deem advisable, after first publishing notice of the time and place of such sale for 10 consecutive Business Days in the Authorized Newspapers, and mailing a copy of such notice, by registered or certified mail, to the Shipowner at its last known address, the first such publication and mailing to be made at least 30 days prior to the date fixed for such sale; provided that, such sale may be adjourned from time to time without further publication or notice (other than announcement at the time and place appointed to such sale or adjourned sale). It shall not be necessary to bring any such Vessel to the place appointed for such sale or adjourned sale;

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

(6) In his discretion, take any and all action authorized by Sections 1105(c), 1105(e) and 1108(k) of the Act and, to the extent not in express conflict with the action authorized by said Sections 1105(c), 1105(e) and 1108(b), or with this Section 6.04, any and all action provided for or authorized or permitted by or in respect of the Secretary's Note, this Security Agreement, the Vessels, the Security, the Escrow Fund, the Construction Fund, the Title XI Reserve Fund and the Policies of Insurance (said documents, funds and assets being herein called the "Increased Security"), including all action provided for in or authorized or permitted by or in respect of the Increased Security;

(7) Receive, in the event of an actual or constructive total loss or an agreed or compromised total loss or a requisition of title to or use of any Vessel, all insurance or other payments therefor to which the Shipowner would otherwise be entitled, such insurance moneys to be applied by the Secretary in accordance with the interest of the Secretary as provided in Section 7.01 and, if any balance

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Second--to the payment of all sums of money due and unpaid and secured by the Mortgage or this Security Agreement;

Third--to the payment of all advances by the Secretary pursuant to this Security Agreement and all reasonable charges and expenses of the Secretary;

Fourth--to the payment of the whole amount of the interest then due and unpaid upon the Secretary's Note;

Fifth--to the payment of the whole amount of the principal then due and unpaid upon the Secretary's Note;

Sixth--to the Indenture Trustee for its reasonable fees and expenses; and

Seventh--any balance thereof remaining shall be paid to the Shipowner or the Charterer as their interests may appear.

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

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

(c) All reasonable expenses incurred pursuant to paragraphs (a) or (b) of this Section shall constitute a debt due from the Shipowner to the Secretary and shall be repaid by the Shipowner upon demand. The Secretary shall not be obligated to (nor be liable for his failure to) take any action provided for in the foregoing paragraphs (a) and (b).

Section 6.07. Concerning the Charter. Notwithstanding the foregoing provisions of this Article VI, so long as the Charter

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expenses (including administrative expenses) incurred and advances and disbursements made by the Secretary (or the United States) in connection with the Increased Security or otherwise (other than those incurred or made in respect of the purchase of any Vessel by the Secretary at foreclosure proceedings or other public sale, after the time of acquisition of title at such foreclosure proceedings or other public sale);

(3) an amount equal to the amount of interest which is due and payable upon the Secretary's Note;

(4) an amount equal to the amount of principal which is due or will become due and payable upon the Secretary's Note;

after deducting therefrom all credits, if any, under Section 1108(b) of the Act and all cash payments theretofore made to the Secretary on account of said items; and such interest shall be discharged and satisfied in full before discharging and satisfying any interest of the Shipowner.

Section 7.02. The Interest of the Shipowner. The interest of the Shipowner, including its interest for the purpose of asserting, protecting, pursuing or enforcing any or all of the rights in or under the Increased Security, and any cash, securities or other property (other than property purchased by the Secretary at foreclosure proceedings or other public sale, and any payments or receipts from the requisition, sale, charter, operation or other use or disposition of any such property accrued after the time of acquisition of title at such proceedings or sale, all of which property, payment or receipts shall as stated above belong to and vest exclusively in the Secretary), which may at any time be collected, received, realized or held by or for the Secretary (or others) in respect thereof (including payments referred to in Section 6.04(b)(4), and any excess Guarantee Fee held by the Secretary and not refundable to the Shipowner under Section 3.02), shall, except as otherwise provided in the Special Provisions hereof, be a residual interest after full discharge and satisfaction of the interest of the Secretary, as provided in Section 7.01, and the Secretary shall promptly pay or otherwise account therefor to the Shipowner.

Section 7.03. Interest in Funds Held by the Indenture Trustee. The Secretary shall at no time have any right or interest in or in respect of (i) any funds held at any time by the Indenture Trustee under the Indenture for payment of the Obligations or (ii) any funds held by the Indenture Trustee in respect of Obligations which shall have been Retired or Paid within the meaning of the Indenture.

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the Shipowner in the Indenture, this Security Agreement and the Mortgage.

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

(d) Upon any such consolidation, merger, appointment or designation, (A) the Successor shall succeed to and be substituted for the Shipowner with the same effect as if it had been named herein and (B) the Secretary shall consent to the surrender of the document of any Vessels pursuant to Subsection O of the Ship Mortgage Act, 1920, as amended; provided that, concurrently with such surrender, such Vessels shall be redocumented under the laws of the United States and all endorsements necessary and proper to preserve the preferred status of the Mortgage shall be made upon the new document of such Vessels, when issued.

ARTICLE X

Notices

Section 10.01. 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 10.02. 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 10.03. Change of Name. The Shipowner shall not change its name without first notifying the Secretary of the new name and the change in address, if any.

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Section 12.02. 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 12.03. Rights of Shipowner in Absence of Default. Except during the existence of a Default (unless the Shipowner shall have failed to perform any of its agreements under Section 2.04 or the Charterer shall have failed to perform any of its agreements under the Charter and such failure shall be continuing at the time in question), the Shipowner (1) shall be suffered and permitted to retain actual possession and use of the Vessels and (2) shall have the right, from time to time, in its discretion and without the consent of or release by the Secretary, to dispose of, free from the lien hereof and of the Mortgage, any and all engines, boilers, machinery, masts, boats, anchors, cables, chains, rigging, tackle, apparel, furniture, capstans, outfit, tools, pumps, pumping and other equipment, and all other appurtenances to the Vessels, and also any and all additions, improvements and replacements in or to the Vessels or said appurtenances, after, except with the prior written consent of the Secretary, first or simultaneously replacing the same with items of at least substantially equal value.

Section 12.04. Surrender of Vessel's Documents. The Secretary shall consent to the surrender of each Vessel's documents in connection with any redocumentation of such Vessel required on account of alterations to such Vessel which, as stated in an Officer's Certificate delivered to the Secretary, are not prohibited by this Security Agreement and by the Mortgage.

Section 12.05. No Waiver of Preferred Status. No provision of this Security Agreement or of the Mortgage shall be deemed to constitute a waiver by the Secretary of the preferred status of the Mortgage given by Subsection M of the Ship Mortgage Act, 1920, as amended, and any provision of this Security Agreement or of the Mortgage which would otherwise constitute such a waiver shall to such extent be of no force or effect.

Section 12.06. Regulations Inapplicable. None of the regulations heretofore or hereafter issued, whether or not under Title XI of the Act, is a part of or affects this Security Agreement in any respect, and the provisions of this Security Agreement shall control notwithstanding the provisions of any such regulations.

Section 12.07. Table of Contents, Titles and Headings. The table of contents, the titles of the Articles and the headings of the Sections are not a part of this Security Agreement and shall

Exhibit 2 to
Security Agreement

[Form of Secured Note]

THE CONNECTICUT BANK AND TRUST COMPANY,
acting not in its individual capacity but solely
as owner trustee under the Trust Agreement
dated as of April 1, 1981 between it and
New England Merchants Leasing Corporation B-7

Secured Note due December 31, 2001

THE CONNECTICUT BANK AND TRUST COMPANY, acting not
in its individual capacity but solely as owner trustee under
the Trust Agreement dated as of April 1, 1981 between it and
New England Merchants Leasing Corporation B-7 (in its capacity
as such owner trustee, the "Shipowner"), hereby promises to
pay to PITTSBURGH NATIONAL BANK, a national banking association
(the "Lender"), the principal sum of

Dollars (\$), together with interest on the amount
of said principal sum remaining unpaid from time to time from
the date of this Secured Note until such principal sum shall
have become due and payable at a fluctuating interest rate per
annum (the "Interest Rate") determined in accordance with the
procedures set forth below.

1. Payments. This Secured Note shall be payable
in forty-two (42) consecutive semiannual installments of interest
or of interest and principal on June 30 and December 31 of each
year (the "Payment Dates"), commencing on June 30, 1981. Each
of the first two (2) installments shall be in an amount equal
to the interest hereon accrued and unpaid to the date of such
installment. Each of the next forty (40) installments shall
be in an amount equal to the sum of the interest hereon accrued
and unpaid to the date of such installment plus an amount equal
to the product obtained by multiplying (i) the percentage set
forth in the following table opposite the number of such
installment (subject to reduction as provided in Section 4.06
of the Security Agreement referred to below in the event of
a prepayment in part) times (ii) the original principal amount

of this Secured Note:

<u>Number of Installment</u>	<u>Percentage</u>	<u>Number of Installment</u>	<u>Percentage</u>
3	0.50%	23	1.93%
4	0.54%	24	2.07%
5	0.57%	25	2.22%
6	0.61%	26	2.37%
7	0.66%	27	2.54%
8	0.70%	28	2.71%
9	0.75%	29	2.90%
10	0.80%	30	3.11%
11	0.86%	31	3.32%
12	0.92%	32	3.56%
13	0.98%	33	3.81%
14	1.05%	34	4.07%
15	1.13%	35	4.36%
16	1.20%	36	4.66%
17	1.29%	37	4.99%
18	1.38%	38	5.34%
19	1.48%	39	5.71%
20	1.58%	40	6.11%
21	1.69%	41	6.54%
22	1.81%	42	7.18%

provided, however, that the final such installment of interest and principal shall be in such amount as is sufficient to discharge the interest hereon accrued and unpaid and the unpaid principal hereof.

2. Interest Rate. (a) At all times from and after the date of this Secured Note to and including March 31, 1982, the Interest Rate shall be equal to three-fourths of one percent ($3/4$ of 1%) per annum over the Federal Funds Rate (as hereinafter defined) from time to time in effect, determined as hereinafter set forth; provided, however, that if either (i) the Secretary of Commerce (as defined in the Security Agreement) has not, on or before March 31, 1982, issued a Letter Commitment (within the meaning of 46 C.F.R. §298.1(k)) providing for guarantees under Title XI of the Merchant Marine Act, 1936, as amended, with respect to obligations to be issued in connection with the vessels covered by the Mortgage referred to below, or (ii) on or before March 31, 1982, the Shipowner or the Owner Participant (as defined in the Security Agreement) shall have entered into a commitment to refinance all or any portion of the indebtedness evidenced by this Secured Note with loans which are not guaranteed under said Title XI, the Interest Rate during the aforesaid period shall be equal to the Prime Rate (as

hereinafter defined) from time to time in effect, determined as hereinafter set forth (but in no event shall there be any reduction or return of any interest which shall have become payable on a Payment Date occurring before the date of such event; and if the amount of interest determined in accordance with this proviso to be payable on any date occurring before the date of such event shall exceed the amount of interest previously determined in accordance with this Section 2(a) to be payable on such date, the Shipowner shall pay to the Lender, as additional interest, the amount of such excess on the Payment Date next following the Shipowner's receipt of a notice of such determination from the Lender).

(b) At all times from and after April 1, 1982 to and including March 31, 1983, the Interest Rate shall be equal to one and one-fourth of one percent (1-1/4%) per annum over the Federal Funds Rate from time to time in effect, determined as hereinafter set forth; provided, however, that if the Secretary of Commerce has not, on or before March 31, 1982, issued a Letter Commitment (within the meaning of 46 C.F.R. §298.1(k)) providing for guarantees under said Title XI with respect to obligations to be issued in connection with the vessels covered by the Mortgage referred to below, the Interest Rate during such period shall be equal to one hundred ten percent (110%) of the Prime Rate from time to time in effect, determined as hereinafter set forth.

(c) At all times from and after April 1, 1983, the Interest Rate shall be equal to the higher of (i) one hundred twenty-five percent (125%) of the Prime Rate from time to time in effect or (ii) one percent (1%) per annum over the "A" Industrial Bond Rate (as hereinafter defined) from time to time in effect, in each case determined as hereinafter set forth.

(d) Notwithstanding anything in this Secured Note to the contrary, in no event shall the Interest Rate exceed the maximum permitted by applicable law.

3. Certain Terms and Determinations. (a) For purposes of this Secured Note, the term "Federal Funds Rate" shall mean at any time the effective rate of interest per annum (taking into account any applicable reserve requirements and premiums) at which the Lender may obtain an advance of funds on deposit at a federal reserve bank (or funds on deposit at a commercial bank which are exchangeable for funds on deposit at a federal reserve bank) with repayment to be made on the next Business Day or on the last day of the period, if any, elected by the Shipowner in accordance with the proviso in the next sentence. To the extent that the Interest Rate may be

based upon the Federal Funds Rate, the Interest Rate for any day shall be equal to the daily average effective rate of interest as aforesaid for advances as aforesaid which are obtained or obtainable by the Lender on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) and which are to be repaid on the next Business Day; provided, however, that, at the election of the Shipowner exercised from time to time by written notice to the Lender, the Federal Funds Rate may be fixed for purposes of all determinations hereunder for such period as may be stated in such notice at a rate equal to the effective rate of interest as aforesaid in effect for advances as aforesaid which are obtained or obtainable by the Lender at the commencement of such period and which are to be repaid on the last day of such period. Any period elected in accordance with the proviso in the preceding sentence shall commence on a Business Day not less than two days after the giving of the notice of election, shall end on a Business Day not earlier than the date 30 days after the commencement of such period, and shall end on a Business Day not later than the earlier of (i) the date 180 days after the commencement of such period or (ii) the Payment Date next following the commencement of such period.

(b) For purposes of this Secured Note, the term "Prime Rate" shall mean at any time the rate of interest per annum which the Lender announces as its prime rate on 90-day loans to its most responsible and substantial commercial borrowers. To the extent that the Interest Rate may be based upon the Prime Rate, each change in the Interest Rate shall take effect simultaneously with the corresponding change in the Prime Rate.

(c) For purposes of this Secured Note, the Term "'A' Industrial Bond Rate" shall mean with reference to any semiannual period commencing on the day after a Payment Date, or any portion of such a semiannual period, the median yield to maturity, determined in accordance with generally accepted financial practices on the basis of the closing price on the first trading date of such semiannual period, of the first five bond issues listed in the Complete Coverage Section of the most current edition (as of such trading date) of Moody's Industrial Manual which are rated "A" in such Manual, which have a final maturity not earlier than January 1, 2001 nor later than December 31, 2002, and which are traded on the New York Stock Exchange or the American Stock Exchange or the successor of either. To the extent that the Interest Rate may be based upon the "A" Industrial Bond Rate, the Interest Rate shall be effective for the full semiannual period ending with the Payment Date following the trading date on which the determinations of yield to maturity

are made.

(d) Interest hereunder shall be computed on the basis of a 365 or 366-day year, as the case may be, over the actual number of days elapsed. Except with respect to the elections of the Shipowner pursuant to Section 3(a) hereof, all determinations with respect to the Interest Rate and interest due hereunder shall be made by the Lender. The Lender shall furnish notices to the Shipowner, with copies to the Charterer (as defined in the Security Agreement), of all such determinations, setting forth in reasonable detail the basis for such determinations and the manner in which such determinations were made. Any such notice shall be given at least 10 days prior to the applicable Payment Date and shall state whether or not the determination of interest due hereunder is estimated or exact. If such determination is estimated, the Lender shall furnish written notice to the Shipowner, with a copy to the Charterer, of the exact determination and how it was calculated within 10 days after such Payment Date. Payment of the excess, if any, of the exact interest over the estimated interest shall be due within two Business Days of receipt by the Shipowner and the Charterer of such notice. If the estimated interest exceeds the exact interest, such notice shall be accompanied by repayment of such excess by the Lender to the Shipowner. By its acceptance hereof, the Lender agrees to the provisions of this paragraph (d).

4. Interest on Late Payment. This Secured Note to the extent permitted by applicable law shall bear interest at a fluctuating interest rate per annum equal at all times to one percent (1%) per annum above the then applicable Interest Rate, computed on the basis of a 365 or 366-day year, as the case may be, over the actual number of days elapsed, on any part of the principal hereof or interest hereon not paid when due for any period during which the same shall be overdue (but in no event shall such rate exceed the maximum permitted by applicable law).

5. Security Agreement and Mortgage. This Secured Note is one of an authorized series of Secured Notes designated as set forth on the face hereof, such Secured Notes being limited to the aggregate principal amount provided in Section 3.02 of the Security Agreement hereinafter referred to. The Secured Notes are issued under, and equally and ratably secured by, a Security Agreement dated as of April 1, 1981 (the "Security Agreement") and a First Preferred Fleet Mortgage dated April 16, 1981 (the "Mortgage"), executed in each case by the Shipowner and the Lender. Reference is hereby made to the Security Agreement, the Mortgage and all supplements thereto for a

description of the Security and the rights of the Shipowner and the Lender in respect of the Security. The terms defined in the Security Agreement are used herein with the same meanings.

6. Limited Recourse. All payments of principal and interest to be made hereunder shall be made only from the income and proceeds from the Security and only to the extent that the Shipowner shall have actually received sufficient income or proceeds from the Security to make such payments in accordance with the Security Agreement. The Lender, by its acceptance of this Secured Note, agrees that it will look, as against the Shipowner and the Owner Participant, solely to the income and proceeds from the Security to the extent available for distribution to it in accordance with the terms of the Security Agreement, and that neither the Shipowner nor any Affiliate of the Shipowner nor the Owner Participant nor any Affiliate of the Owner Participant is personally liable to the Lender for any amounts payable under this Secured Note or the Security Agreement or the Mortgage, nor to return any sums properly distributed to the Shipowner or the Owner Participant in accordance with the terms of the Security Agreement.

7. Manner of Payment. Principal hereof and interest hereon shall be paid in immediately available funds at the principal office of the Lender without presentment of this Secured Note; provided, however, that in the event this Secured Note is prepaid in whole it shall be presented to the Shipowner for cancellation; and provided, further, that on the date of the final semiannual installment payable hereon, this Secured Note shall be surrendered to the Shipowner for cancellation if duly paid in full as aforesaid.

8. Prepayments. As provided in Section 4.05 of the Security Agreement, and subject to the provisions thereof, this Secured Note may be prepaid at any time in whole, or at any time and from time to time in part, at the option of the Shipowner, at the unpaid principal amount to be so prepaid together with interest, if any, on such amount accrued and unpaid to the date fixed for prepayment and without premium. As provided in Section 2.09 and Article IV of the Security Agreement, this Secured Note is also subject to prepayment in whole or in part at the unpaid principal amount hereof together with interest hereon, if any, accrued and unpaid to the date fixed for prepayment and without premium in the event of termination of the Charter with respect to any Vessel or Cover in accordance with the provisions of Section 8, 14 or 17 thereof.

9. Acceleration. Upon the occurrence of a Default, the principal amount of this Secured Note may be declared immediately due and payable upon the conditions and in the manner and with the effect provided in the Security Agreement.

10. No Disposition. NEITHER THIS SECURED NOTE NOR ANY INTEREST HEREIN MAY BE TRANSFERRED OR OTHERWISE DISPOSED OF, PROVIDED THAT THE FOREGOING SHALL NOT LIMIT THE RIGHT OF THE LENDER TO GRANT A PARTICIPATION WITH RESPECT TO ITS INTEREST IN THIS SECURED NOTE IN ACCORDANCE WITH ALL APPLICABLE LAWS AND CUSTOMARY BANKING PRACTICE TO ANY NATIONAL BANKING ASSOCIATION OR BANKING CORPORATION EXISTING UNDER THE LAWS OF ANY STATE OF THE UNITED STATES WHICH IS A UNITED STATES CITIZEN WITHIN THE MEANING OF SECTION 2 OF THE SHIPPING ACT, 1916, AS AMENDED.

IN WITNESS WHEREOF, the Shipowner has caused this Secured Note to be duly executed on its behalf by a duly authorized officer.

Dated: _____, 1981

At: _____

THE CONNECTICUT BANK AND TRUST COMPANY, acting not in its individual capacity but solely as owner trustee under the Trust Agreement dated as of April 1, 1981 between it and New England Merchants Leasing Corporation
B-7

By _____

[Seal]

Title _____

Attest:

SCHEDULE X - DEFINITIONS

"Act" means the Merchant Marine Act, 1936, as amended.

"Actual Knowledge" or "actual knowledge" means, when used with respect to a corporation, actual knowledge of a Responsible Officer thereof, when used with respect to a bank or trust company other than the Lender, actual knowledge of a Responsible Officer in the corporate trust department thereof and when used with respect to any other Person, actual knowledge of such Person.

"Adjustment" has the meaning set forth in Section 23(a) of the Participation Agreement.

"Affiliate" of any specified Person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, the term "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Appraisal Procedure" has the meaning set forth in Section 21(b) of the Charter.

"Authorized Newspapers" means "The Wall Street Journal" (all editions), "The Journal of Commerce" and a newspaper of general circulation in Pittsburgh, Pennsylvania printed in the English language, and customarily published on each Business Day, whether or not published on Saturdays, Sundays or legal holidays. Whenever successive publications in Authorized Newspapers are required, they may be made in the same or in different Authorized Newspapers. If, because of the temporary or permanent suspension of the publication or general circulation of any newspaper or for any other reason, it is impossible or impractical to publish any notice required to be published in the Authorized Newspapers in the manner required, then such publication in lieu thereof as shall be made in the reasonable discretion of the Lender shall constitute a sufficient publication of such notice.

"Bank" means The Connecticut Bank and Trust Company, a Connecticut banking corporation, and its successors and assigns.

"Basic Charter Hire" means the amounts payable by the Charterer pursuant to Section 3(a)(2) of the Charter.

"Business Day" means a day which is not a Saturday, Sunday or other day on which banking institutions doing business in Pittsburgh, Pennsylvania or Boston, Massachusetts or Hartford, Connecticut are authorized or obligated by law or required by executive order to be closed.

"Change" means a Change in Debt, a Change in Tax Law, or a Change in Transaction Costs.

"Change in Debt" means the occurrence of any of the following as a result of a refinancing of the Secured Notes as contemplated by Section 19(a) or (b) of the Participation Agreement: (i) other than 69.804891% of Shipowner's Cost of all Vessels is refinanced with the proceeds of the Refinancing Obligations; (ii) the interest rate borne by the Refinancing Obligations is other than 14% per annum, or (iii) the final maturity of the Refinancing Obligations, the method or schedule of amortization of the principal amount of the Refinancing Obligations or the number or frequency of the installment payments of such principal, differs from the final maturity of the Secured Notes or the method or schedule of amortization of the principal amount of the Secured Notes or the number or frequency of the installment payments of such principal.

"Change in Tax Law" means the enactment or adoption of any amendment to the Code or to any Treasury Regulation which is enacted or adopted and has an effective date prior to April 1, 1982 and which (i) increases or decreases (or which would, if elected by the Owner Participant, increase) any of the Owner Participant's intended tax benefits in respect of any Vessel as set forth in Section 11(a) of the Participation Agreement, or (ii) increases or decreases the maximum marginal tax rate at which the Owner Participant is subject to federal income tax from the present tax rate of 46%, or (iii) increases or decreases the tax benefits from deductions of interest on the Secured Notes or Refinancing Obligations or from the method for depreciating or amortizing Transaction Costs (assuming that no portion thereof constitutes part of Vessel Costs).

"Change in Transaction Costs" means (i) a change in the amount of Transaction Costs which results in the actual amount of Transaction Costs (including Refinancing Costs) being greater or lesser than .99% of Shipowner's Cost, or (ii) a change in the ratio of the total investment of the Owner Participant in Shipowner's Cost to the aggregate original principal amount

of Secured Notes as a result of the payment by the Owner Participant of 100% of Differential Shipowner's Cost under the circumstances contemplated by Section 2(d) of the Participation Agreement.

"Charter" means the Bareboat Charter dated as of April 1, 1981 between the Shipowner and the Charterer, as the same may be modified, amended or supplemented (whether by a Charter Supplement or otherwise) from time to time in accordance with the applicable provisions thereof.

"Charterer" means Dravo Mechling Corporation, a Delaware corporation, and its successors and assigns.

"Charter Hire Payment Date" means June 30, 1981, December 31, 1981 and each June 30 and December 31 following thereafter through and including December 31, 2003 and, during any Renewal Term, each June 30 and December 31 thereof.

"Charter Period" means, prior to the giving of the first Renewal Notice, the Original Term, and after any Renewal Notice has been given, the Original Term and all succeeding Renewal Terms.

"Charter Supplement" means any supplement to the Charter substantially in the form attached thereto between the Shipowner and the Charterer, as the same may be modified, amended or supplemented in accordance with the applicable provisions thereof.

"Charterer-Furnished Equipment" means all items and equipment furnished by or on behalf of the Charterer for any Vessel, the cost of which shall have been included in the Vessel Costs for such Vessel.

"Citizen" means a "citizen of the United States" within the meaning of Section 2 of the Shipping Act, 1916, as amended, qualified to engage in the coastwide trade.

"Code" means the Internal Revenue Code of 1954, as amended, or any comparable successor law.

"Consent of Shipbuilder" means the Consent of Shipbuilder dated as of April 1, 1981 by the Shipbuilder to the Shipowner and the Lender, as the same may be modified, amended or supplemented from time in accordance with the applicable provisions thereof.

"Construction Contract" means the construction contract dated August 27, 1980 between the Charterer and the Shipbuilder, as the same may be modified, amended or supplemented from time to time in accordance with the applicable provisions thereof.

"Construction Contract Assignment" means the Construction Contract Assignment dated as of April 1, 1981 between the Charterer and the Shipowner, and consented to by the Shipbuilder, as the same may be modified, amended or supplemented from time to time in accordance with the applicable provisions thereof.

"Cover" means the set of roll top covers delivered with a box hopper barge which together constitute a Vessel.

"Crew's Wages" means wages of the crew of a Vessel including the wages of a master to the extent provided by Public Law 90-293 of the United States, approved April 25, 1968.

"Default" or "Default under the Security Agreement", when used with respect to the Security Agreement or the Mortgage, has the meaning specified in Section 6.01 of Exhibit 1 to the Security Agreement.

"Default Rate" means, with respect to any time period, such interest rate as would be applicable respecting such time period to any overdue payments of principal of, and pursuant to the terms of, the Secured Notes or the Refinancing Obligations; provided, however, that the term "Default Rate", with respect to any time period during which there shall not be outstanding any Secured Notes or Refinancing Obligations shall mean, to the extent permitted by applicable law, an interest rate equal to 1% per annum over the interest rate most recently applicable to the last Outstanding Secured Note or Refinancing Obligation.

"Delivery Date" means each date, which shall be a Business Day, on which any Vessel is delivered by the Shipbuilder and accepted by the Shipowner pursuant to the Construction Contract and simultaneously delivered by the Shipowner and accepted by the Charterer pursuant to the Charter.

"Delivery Date Certificate of Shipowner's Cost" means, with respect to any Vessels, a certificate of the Charterer, substantially in the form of Exhibit G to the Participation Agreement, approved by the Shipowner, dated the Delivery Date for such Vessels, which shall set forth in reasonable detail for such Vessels (a) the amount of all items of Vessel Costs and Transaction Costs which have been paid prior to the date

of said certificate, (b) the amount of all items of Vessel Costs and Transaction Costs which are due and payable on such Delivery Date specifying to whom each such item is payable and attaching to such certificate an invoice, bill or similar document, if available, of each person who is to be paid and (c) the amount of the Owner Participant's investment and the Lender's loan to be made pursuant to Section 2(c) of the Participation Agreement.

"Differential Shipowner's Cost" means, with respect to any Vessel, the aggregate of all Transaction Costs (other than Refinancing Costs) which would have been properly includable in Shipowner's Cost for such Vessel on the Delivery Date of such Vessel but which were not included in the Delivery Date Certificate of Shipowner's Cost for such Vessel because such Transaction Costs were unknown or uncertain as of such Delivery Date, as the same shall be set forth in the Settlement Date Certificate of Shipowner's Cost.

"Dollars" means any coin or currency which at the time of payment is legal tender for the payment of public and private debts in the United States.

"Event of Default" means any of the events specified in Section 19 of the Charter.

"Event of Loss" with respect to any Vessel or Cover means any of the following events with respect to such Vessel or Cover: (i) loss of such Vessel or Cover or of the use thereof due to theft, disappearance, destruction or damage thereto which, in the sole opinion of the Charterer, shall make repair thereof uneconomical or make such Vessel or Cover permanently unfit for normal use for any reason whatsoever; (ii) any damage to such Vessel or Cover which results in an insurance settlement with respect to such Vessel or Cover on the basis of a total loss; (iii) the condemnation, forfeiture, confiscation or seizure (for a period in excess of five days, unless occurring as a result of or in connection with a Lien required to be discharged pursuant to Section 17 of the Participation Agreement, in which event for a period continuing beyond 120 days) of, or requisition of title to, such Vessel or Cover provided that, if such condemnation, forfeiture, confiscation or seizure under this clause (iii) occurs as a result of or in connection with Shipowner's Liens or Owner Participant's Liens and if, on or prior to the date for payment of Stipulated Loss Value with respect to such Event of Loss, the Vessel or Cover condemned, forfeited, confiscated or seized is recovered by the Shipowner or the Charterer, no Event of Loss shall be deemed to have occurred and the Charter shall continue in full force and effect

with respect to such Vessel or Cover; (iv) a requisition of use of such Vessel or Cover by any governmental authority (other than the United States or any agency or instrumentality thereof) for a period in excess of 60 days; or (v) a requisition of use of such Vessel or Cover by any governmental authority for a period which extends beyond the end of the Charter Period with respect to such Vessel or Cover.

"Final Certificate of Shipowner's Cost" means a certificate of the Charterer substantially in the form of Exhibit G to the Participation Agreement, approved by the Shipowner, which shall set forth in reasonable detail (a) the amount of all items of of Refinancing Cost and (b) the amount of the Owner Participant's investment, if any, required to be made pursuant to Section 2(e) of the Participation Agreement.

"Final Payment Notice" means with respect to a particular Variable Charter Hire Payment Date a written notice given to the Charterer setting forth the exact Variable Amount for such Variable Charter Hire Payment Date, how such Variable Amount was calculated and the difference, if any, between such exact Variable Amount and the estimated Variable Amount set forth in the Preliminary Payment Notice delivered with respect to such Variable Charter Hire Payment Date.

"Fixed Amount" means for any Charter Hire Payment Date 5.3876% of the aggregate of Shipowner's Cost for all Vessels subject to the Charter in the case of the first twenty-two installments of Basic Charter Hire and 6.5848% of such Shipowner's Cost in the case of the remaining installments, as such percentages may be amended from time to time in accordance with Section 23 of the Participation Agreement.

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

"Guarantor" means New England Merchants Leasing Corporation, a Massachusetts corporation, and its successors and assigns.

"Guaranty" means the Guaranty dated as of April 1, 1981 by the Guarantor, as the same may be modified, amended or supplemented in accordance with the applicable provisions thereof.

"Hire" means Interim Charter Hire, Basic Charter Hire and Supplemental Charter Hire.

"Hire Factors" means Basic Charter Hire, Stipulated Loss Values and Termination Values.

"Indenture Trustee" means the Person, if any, acting as indenture trustee for the purchasers of the Refinancing Obligations.

"Interest Rate" shall have the meaning set forth in the Secured Notes.

"Interim Charter Hire" means the amounts payable by the Charterer pursuant to Section 3(a)(1) of the Charter.

"Lender" means Pittsburgh National Bank, a national banking association, and its successors.

"Lien" means any lien, encumbrance, mortgage, pledge, charge, lease, security interest or claim of any nature whatsoever.

"Maturity" means, when used with respect to any Secured Note or Refinancing Obligation, the date on which the principal of such Secured Note or Refinancing Obligation becomes due and payable as therein provided, whether at the Stated Maturity or on a prepayment date or by declaration of acceleration, or otherwise.

"Mortgage" means the First Preferred Fleet Mortgage dated the first Delivery Date from the Shipowner to the Lender, as the same may be amended, modified or supplemented (whether by a Mortgage Supplement or otherwise) in accordance with the applicable provisions thereof.

"Mortgage Supplement" means any supplement to the Mortgage substantially in the form attached thereto from the Shipowner to the Lender, as the same may be amended, modified or supplemented whether by a Mortgage Supplement or otherwise in accordance with the applicable provisions thereof.

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

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

"Non-Severable Improvement" shall have the meaning assigned in Section 8(b) of the Charter.

"Officer's Certificate" means, when used with respect

to any corporation, a certificate signed by the chairman or vice chairman of the board, the president, any vice president, any assistant vice president, the controller, any assistant controller, the secretary or clerk, any assistant secretary or assistant clerk, the treasurer, or any assistant treasurer of such corporation and, when used in relation to the Security Agreement, conforming to the provisions of Section 1.02 of Exhibit 1 to the Security Agreement.

"Opinion of Counsel" means an opinion of counsel conforming to Section 1.02 of Exhibit 1 to the Security Agreement.

"Original Term" means the period beginning on the date of the Charter and ending on December 31, 2003, as such period may be extended pursuant to Section 1(a), 1(b) or 16 of the Charter.

"Outstanding" when used with respect to the Secured Notes means all Secured Notes theretofore issued except (a) Secured Notes which shall have been paid in full, (b) Secured Notes in lieu of which other Secured Notes have been issued pursuant to the Security Agreement and (c) Secured Notes which shall have been cancelled by the Shipowner or delivered to the Shipowner for cancellation.

"Overall Transaction" means the construction, purchase, ownership, financing, chartering, operation and management of the Vessels as described in and contemplated by the Principal Documents.

"Owner Participant" means New England Merchants Leasing Corporation B-7, a Massachusetts corporation, and its successors and assigns.

"Owner Participant's Liens" means those Liens of the character required to be discharged by the Owner Participant pursuant to Section 17 of the Participation Agreement.

"Participation Agreement" means the Participation Agreement dated as of April 1, 1981 among the Shipowner, the Owner Participant, the Charterer and the Lender, as the same may be modified, amended or supplemented from time to time in accordance with the applicable provisions thereof.

"Payment Default" means any of the events specified in Section 6.01(a)(1) of Exhibit 1 to the Security Agreement.

"Person" means any individual, corporation,

partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Plans and Specifications" means the plans and specifications for the construction of the Vessels as identified in the Construction Contract, as the same may be modified, amended or supplemented from time to time pursuant to the Construction Contract.

"Preliminary Payment Notice" means with respect to a particular Variable Charter Hire Payment Date a written notice given to the Charterer setting forth the Variable Amount as estimated on the date of such notice for such Variable Charter Hire Payment Date and how such estimated Variable Amount was calculated. If the Variable Amount can be exactly computed on the date of the Preliminary Payment Notice, such notice shall so state.

"Prepayment Date" means any date fixed for the prepayment of any Secured Note by or pursuant to the Security Agreement.

"Principal Documents" means the following agreements and documents:

Charter	Mortgage
Charter Supplements	Mortgage Supplements
Consent of Shipbuilder	Participation Agreement
Construction Contract	Secured Notes
Construction Contract	Security Agreement
Assignment	Trust Agreement
Guaranty	

"Principal Office", when used with respect to the Bank or Indenture Trustee, means the office of the Bank or Indenture Trustee at which, at any particular time, its corporate trust business shall be principally administered.

"Proportionate Part" or "Proportionate Outstanding Obligations" means, when used with respect to any Vessel or Cover, the portion of the Secured Notes or Refinancing Obligations or other item in question which bears the same proportion to all of the Secured Notes or Refinancing Obligations or other items as (x) the Shipowner's Cost of such Vessel or Cover bears to (y) the aggregate Shipowner's Cost of all of the Vessels (including Covers) subject to the Charter immediately before the event requiring the making of such determination.

"Refinancing Cost" means those Transaction Costs that relate to the proposed issuance of Refinancing Obligations including without limitation the preparation of the Title XI application and the Title XI Documents and other documents relating to the refinancing of the Secured Notes.

"Refinancing Date" means the date on which Refinancing Obligations shall be issued and sold.

"Refinancing Obligations" means Title XI Obligations or other indebtedness, if any, issued by the Shipowner to refinance the Secured Notes..

"Renewal Notice" means the notice given by the Charterer to the Shipowner pursuant to Section 21(a) of the Charter stating that the Charterer irrevocably elects to exercise its option to extend the Charter Period for a Renewal Period as stated therein.

"Renewal Term" means a period commencing at midnight on the last day of the Original Term or of the Renewal Term immediately preceding, and ending, except as expressly specified in Section 20 or 21(a) of the Charter, at midnight one year after the commencement of such period.

"Request" means a written request to a Person for the action therein specified, signed, if the Person making such request is a corporation, bank or trust company, by a Responsible Officer thereof or, if the Person making such request is not a corporation, bank or trust company, by such Person.

"Responsible Officer" means, when used with respect to any corporation, the chairman or vice chairman of the board, the president, any vice president, any assistant vice president, the controller, any assistant controller, the secretary, any assistant secretary, the treasurer, any assistant treasurer, or any other officer of such corporation, customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Secretary" means the Secretary of Commerce or any official or body from time to time duly authorized to perform the duties and functions of the Secretary of Commerce under the Act (including the Assistant Secretary of Commerce for Maritime Affairs, the Acting Assistant Secretary of Commerce for Maritime Affairs, the Maritime Administrator, the Acting Maritime Administrator, and, to the extent so authorized, the

Deputy Assistant Secretary of Commerce for Maritime Affairs, the Deputy Maritime Administrator and other officials of the Maritime Administration).

"Secured Notes" means the Secured Notes due December 31, 2003 issued pursuant to the Security Agreement, as the same may be modified, amended or supplemented from time to time in accordance with the applicable provisions thereof.

"Security" has the meaning specified in the Granting Clause of the Security Agreement.

"Security Agreement" means the Security Agreement dated as of April 1, 1981 between the Shipowner and the Lender, as the same may be modified, amended or supplemented from time to time in accordance with the applicable provisions thereof.

"Security Default" means any of the events specified in Section 6.01(a)(2) through (8) of Exhibit 1 to the Security Agreement.

"Settlement Date" means the Business Day designated by the Charterer by written notice occurring at least five days after the Charterer shall deliver the Settlement Date Certificate of Shipowner's Cost to the Shipowner, the Owner Participant and the Lender, provided that such date shall not occur later than June 30, 1981.

"Settlement Date Certificate of Shipowner's Cost" means a certificate of the Charterer substantially in the form of Exhibit G to the Participation Agreement, approved by the Shipowner, which shall set forth in reasonable detail (a) the amount of all items of Differential Shipowner's Cost and specifying to whom each such item is payable and attaching to such certificate an invoice, bill or similar document, if available, of each Person who is to be paid for such items and (b) the amount of the Owner Participant's investment and the Lender's loan to be made pursuant to Section 2(d) of the Participation Agreement.

"Shipbuilder" means Dravo Corporation, a Pennsylvania corporation, and its successors and assigns.

"Ship Mortgage Act" means the Ship Mortgage Act, 1920, as amended.

"Shipowner" means The Connecticut Bank and Trust Company, acting not in its individual capacity but solely as owner trustee under the Trust Agreement and its successors in

trust.

"Shipowner's Cost" means, with respect to any Vessel, the aggregate of the Vessel Costs and Transaction Costs for such Vessel as set forth in the Delivery Date Certificate of Shipowner's Cost for such Vessel until delivery of the Settlement Date Certificate of Shipowner's Cost, and thereafter such aggregate plus Differential Shipowner's Cost for such Vessel as set forth in the Settlement Date Certificate of Shipowner's Cost until delivery of the Final Certificate of Shipowner's Cost, if any, and thereafter such aggregate plus Refinancing Cost for such Vessel as set forth in the Final Certificate of Shipowner's Cost.

"Shipowner's Documents" means all Principal Documents other than the Trust Agreement, the Construction Contract, the Guaranty and the Consent of Shipbuilder.

"Shipowner's Liens" means those Liens of the character required to be discharged by the Bank pursuant to Section 17 of the Participation Agreement.

"Shipping Act" means the Shipping Act, 1916, as amended.

"Stated Maturity" means, when used with respect to any Secured Note or Refinancing Obligation, the date determinable as set forth in such Secured Note or Refinancing Obligation as the final date on which the principal of such Secured Note or Refinancing Obligation is due and payable.

"Stipulated Loss Value" means, as of any Charter Hire Payment Date with respect to a Vessel or a Cover, an amount determined by multiplying Shipowner's Cost for such Vessel or Cover by the appropriate percentage indicated in Schedule Two to the Charter (as such percentage may be adjusted pursuant to the terms of Section 23 of the Participation Agreement).

"Supplemental Hire" means all amounts which the Charterer agrees to pay to any of the Shipowner, the Owner Participant or the Lender pursuant to the Charter or the Participation Agreement, other than Basic Charter Hire and Interim Charter Hire.

"Termination Value" means, as of any Charter Hire Payment Date with respect to a Vessel or a Cover, an amount determined by multiplying the Shipowner's Cost of such Vessel or Cover by the appropriate percentage indicated in Schedule Two to the Charter (as such percentage may be adjusted pursuant

to the terms of Section 23 of the Participation Agreement).

"Title XI" means Title XI of the Act.

"Title XI Documents" means those agreements, documents and instruments which the Charterer or the Shipowner enter into in connection with the issuance of the Title XI Obligations.

"Title XI Obligations" means the United States Government Guaranteed Ship Financing Obligations of the Shipowner, if any, issued with respect to the Vessels and guaranteed by the United States pursuant to Title XI.

"Transaction Costs" means and includes reasonable legal fees and disbursements of special counsel to the Charterer, the Shipowner, the Owner Participant, the Lender, the purchasers of the Refinancing Obligations and the Indenture Trustee, printing or duplicating expenses, reasonable debt placement fees and expenses incurred in connection with the issuance of the Refinancing Obligations, the investigation fee of the Maritime Administration described in §298.15 of 46 CFR 298, any commitment fee paid to the Lender or the purchasers of the Refinancing Obligations and all other similar transaction expenses contemplated by the Participation Agreement, but excluding any accounting fees, any costs of in-house counsel and any other Persons employed by the parties hereto, and any costs which with the consent of the Owner Participant are paid directly by the Charterer. Transaction Costs shall not include any items included in Vessels Costs. Transaction Costs shall be allocated equally among the Vessels.

"Treasury Regulations" means the federal income tax regulations issued under the Code.

"Trust Agreement" means the Trust Agreement, dated as of April 1, 1981, between the Bank and the Owner Participant, as the same may be modified, amended or supplemented from time to time in accordance with the applicable provisions thereof.

"Trust Estate" shall have the meaning assigned in Section 1.2 of the Trust Agreement.

"United States" means the United States of America.

"Variable Amount" means, for any Variable Charter Hire Payment Date, (i) the amount of interest on the outstanding Secured Notes due and payable on such Variable Charter Hire Payment Date, as set forth in the Preliminary Payment Notice for such Variable Charter Hire Payment Date until the giving

of the Final Payment Notice, if any, and thereafter as set forth therein, less (ii) the amount of interest which would have accrued on the outstanding Secured Notes during the period beginning on the day after the prior Charter Hire Payment Date and ending on the Variable Charter Hire Payment Date for which the Variable Amount is being calculated and which would have been due and payable for such period if the outstanding Secured Notes had borne interest for such period at a rate per annum equal to 14%. The Variable Amount may be positive, negative or zero. For Charter Hire Payment Dates other than Variable Charter Hire Payment Dates the Variable Amount shall be zero.

"Variable Charter Hire Payment Date" means each Charter Hire Payment Date which follows a period during which there was outstanding one or more Secured Notes secured by the Mortgage which has an interest rate which may vary from time to time during such period.

"Vessel" means each of the box hopper barges together with each related Cover delivered by the Shipbuilder and accepted by the Shipowner pursuant to the Construction Contract and simultaneously delivered by the Shipowner and accepted by the Charterer pursuant to the Charter, being of approximately 1223.97 gross tons and 1223 net tons and constructed in 1981 at Pittsburgh, Pennsylvania, together with all of its engines, boilers, machinery, masts, spars, boats, anchors, cables, chains, rigging, tackle, apparel, furniture, capstans, outfit, tools, pumps, pumping and other equipment or gear, furnishings, appliances, fittings and spare and replacement parts and all other appurtenances to said barge and Cover pertaining or belonging, including the Charterer-Furnished Equipment, if any, whether now owned or hereafter acquired, whether on board or not on board, and also any and all additions, improvements and replacements hereafter made in or to said barge and Cover or any part thereof, or in or to her equipment and appurtenances aforesaid, excepting, however, any equipment or appurtenances owned by a third-party lessor which has furnished the same to the Charterer under a rental agreement and further excepting any equipment or appurtenances which remain or become the property of the Charterer pursuant to the Charter and the value of such equipment or appurtenances shall not be included in the Vessel for purposes of the Appraisal Procedure or the determinations of the fair market sales value of the Vessel; provided that after a Cover has ceased to be subject to the Charter by reason of Section 8(c), 14 or 17 thereof, Vessel shall not include such Cover.

"Vessel Costs" means, with respect to any Vessel, an amount equal to the sum of (i) the amount paid or payable

by the Shipowner to the Charterer to reimburse the Charterer for amounts paid by or on behalf of the Charterer under the Construction Contract or for Charterer-Furnished Equipment, plus (ii) the aggregate of all payments due from the Charterer to the Shipbuilder pursuant to the terms of the Construction Contract and to other Persons with regard to Charterer-Furnished Equipment, plus (iii) to the extent not included as a part of (i) or (ii) above, any appraisal fees, fees relating to documentation of the Vessels, costs of construction supervision, naval architects and engineers fees, interest on construction costs during the period of construction, and any delivery or other transportation charges and sales taxes, if and to the extent that any of the same are allowable as costs of new Section 38 property within the meaning of the Code.