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July 2, 1998

VIA FEDERAL EXPRESS

Mr. Bradley Litchfield
Associate General Counsel
Federal Election Commission
999 E Street, NW
Washington, D.C. 20463

Supplement to
AOR 1998-11

RE: AOR 1998-11

Dear Mr. Litchfield:

This letter answers the questions you posed to me in your letter of June 9, 1998 (copy attached). The answers set forth below respond to your questions in the order as set forth in your letter.

(1) Patriot Holdings ("PH") has a \$10 million line of credit from a single bank. The assets used to secure this line of credit were the government contract account receivables held by American Ship Management ("ASM") and Patriot Contract Services ("PCS"). The purpose of the credit line is to cover the cash flow needs arising from the ASM and PCS government contracts.

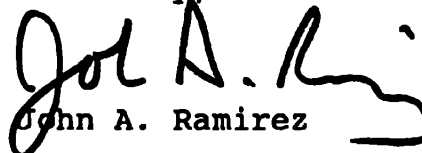
(2) PH does not pay the salaries or expenses of PCS or ASM employees or staff.

(3) and (4) No. The government and other contracts to which ASM and PCS are, or have been subject to, do not contain clauses or terms which would hold PH liable for breaches by ASM or PCS.

In addition, per Michael Marinelli's request, enclosed please find the LLC agreement for PH.

Needless to say, please contact me at your convenience should you have any further questions.

Sincerely,


John A. Ramirez

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Enclosure
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3. Do any of the Government contracts currently under performance (or those that have been fully performed in the past) have clauses or terms under which PH could be held liable for contract breaches of ASM or PCS.

4. Do any other contracts currently under performance (or those that have been fully performed within the past year) have clauses or terms under which PH could be held liable for contract breaches of ASM or PCS?

After receiving the above required information, this office and the Commission will give further consideration to your inquiry as an advisory opinion request. If you have any questions about this letter or the advisory opinion process, please contact Michael Marinelli, the staff attorney who prepared this letter. His number is (202) 694-1650.

Sincerely,

Lawrence M. Noble
General Counsel

BY:



N. Bradley Litchfield
Associate General Counsel

If any Interest is transferred pursuant to the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent the Capital Account is attributable to the transferred Interest.

"Code" means the Internal Revenue Code of 1986, as amended, or any corresponding provision of any succeeding revenue law.

"Company" means PATRIOT HOLDINGS, LLC.

"Contribution" means any money, property, or services rendered, or a promissory note or other binding obligation to contribute money or property, or to render services as permitted in this Agreement or by law, which a Member contributes to the Company as capital in that Member's capacity as a Member pursuant to this Agreement or any other agreement between the Members, including an agreement as to value.

"Economic Interest" means a Person's right to share in the income, gains, losses, deductions, credit, or similar items of, and to receive Distributions from, the Company, but does not include any other rights of a Member including, without limitation, the right to Vote or to participate in management, or any right to information concerning the business and affairs of the Company.

"Interest Holder" means any Person who holds an Economic Interest, whether as a Member or as an Assignee of a Member.

"Involuntary Withdrawal" means, with respect to any Member, the occurrence of any of the following events:

(i) the Member makes an assignment for the benefit of creditors; the Member is bankrupt; or the Member seeks, consents to, or acquiesces in the appointment of a trustee for, receiver for, or liquidation of the Member or of all or any substantial part of the Member's properties;

(ii) the Member's death or adjudication by a court of competent jurisdiction as incompetent to manage the Member's person or property;

(iii) if the Member files an action seeking a decree of judicial dissolution pursuant to Section 17351 of the Act; or

(iv) with respect to any Member, the affirmative Vote of all of the Members other than the Member whose withdrawal is being Voted upon.

"Member" means any person who executes a counterpart of this Agreement as a Member and any Person who subsequently is admitted as a Member of the Company.

"Membership Interest" means a Member's rights in the Company, collectively, including the Member's Economic Interest, any right to Vote or participate in management, and any right to information concerning the business and affairs of the Company.

"Negative Capital Account" means a Capital Account with a balance of less than zero.

"Percentage" means, as to a Member, the Percentage set forth after the Member's name on Exhibit A, as amended from time to time, and as to an Interest Holder who is not a Member, the Percentage or part of a Percentage

Article III
Members; Capital; Capital Accounts

3.1. *Initial Contributions.* Not later than October 31, 1997, each Member shall make a capital contribution in an amount agreed upon by the Members. Not later than November 17, 1997, the Members shall contribute to the Company cash in amounts proportionate to the percentages set forth on Exhibit A, less the amount originally contributed by October 31, 1997, with the total of the initial contributions (both those contributed by October 31 and those contributed by November 17) equalling One Million Dollars (\$1,000,000). If a Member shall fail to make any of the contributions by those dates or any other dates agreed upon by all of the Members, that Member shall have no Membership Interest in the Company.

3.2. *No Additional Contributions.* No Member shall be required to contribute any additional capital to the Company.

3.3. *No Interest on Contributions.* Neither Members nor any Interest Holders shall be paid interest with respect to Contributions.

3.4. *Return of Contributions.* Except as otherwise provided in this Agreement or the Act, no Member nor Interest Holder shall have the right to receive the return of any Contribution or withdraw from the Company, except upon the dissolution of the Company.

3.5. *Form of Return of Capital.* If a Member or an Interest Holder is entitled to receive the return of a Contribution, the Company may distribute, in lieu of money, notes or other property having a value equal to the amount of money distributable to the Member or Interest Holder.

3.6. *Capital Accounts.* A separate Capital Account shall be maintained for each Member and Interest Holder.

3.7. *Loans and Other Business Transactions.* Any Member may, at any time, make or cause a loan to be made to the Company in any amount and on those terms upon which the Company and the Member agree, provided the loan is approved by not less than two Members who together hold a majority of the Company's membership interests. Members may also transact other business with the Company and, in doing so, they shall have the same rights and be subject to the same obligations arising out of any such business transaction as would be enjoyed by and imposed upon any Person, not a Member, engaged in a similar business transaction with the Company.

3.8. *No Personal Liability.* No Member shall have personal liability for any obligation of the Company except as expressly provided by law.

3.9. *Qualified Income Offset.* If a Member unexpectedly receives any adjustment, allocation or distribution, described in U.S. Tax Regulation § 1.704-1(b)(2)(ii)(d)(4), (5), or (6), items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain in the year in which such adjustments, allocations or distributions occur) shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Member created by such adjustment, allocation, or distribution.

executing a waiver of such notice, or by appearing at and participating in the meeting, in person or by proxy. All Members must be present, or have agreed in writing that the meeting may be held in their absence, for there to be a quorum. A Member may Vote either in person or by written proxy signed by the Member or by the Member's duly authorized attorney in fact.

5.2.2. Each Member shall be entitled to vote in accordance with that Member's Percentage. Except as otherwise provided in this Agreement, to approve any matter coming before the Members, there must be the affirmative vote of not less than two Members who together hold a majority of the aggregate Percentages. For example, although he holds a Percentage greater than 50%, Truchan's vote alone shall not be sufficient for an affirmative decision on a matter coming before the Members, because a minimum of two members must vote in favor of any particular action or resolution; at the same time, the combined votes of Jones and Collins shall be insufficient because together they own less than 50% of the Company.

5.2.3. In lieu of holding a meeting, the Members may take action by unanimous written consents specifying the action to be taken.

5.2.4. Amendment of the Articles of Organization or this Agreement shall require a unanimous vote of the Members.

5.3. *Personal Service.* No Member shall be required to perform services for the Company solely by virtue of being a Member. Unless approved by the Members, no Member shall be entitled to compensation for services performed for the Company. However, upon substantiation of the amount and purpose thereof, the Members shall be entitled to reimbursement for expenses reasonably incurred, and advances of funds reasonably made, in furtherance of the business of the Company.

5.4. *Officers.* The Company shall have a President and CEO, an Executive Vice President & COO, an Executive Vice President & CFO, and a Secretary. The Members may add or change the officers of the Company.

5.5. *Duty to Devote Time to the Company.* Although the Members shall be entitled to engage in business which does not conflict with the business of the Company, each Member shall devote as much time as is reasonably necessary for the successful operation of the Company. The Members agree that the business of the Company is their primary occupation.

Article VI Transfer of Interests and Involuntary Withdrawals of Members

6.1. *Transfers.* Except as herein provided, no Member may Transfer all, or any portion of, or any interest or rights in, the Membership Interest owned by the Member. Notwithstanding any other provisions of this Operating Agreement, no Membership Interest may be assigned or transferred if such assignment or transfer would cause the Company to lose its Section 2 citizenship status. Each Member hereby acknowledges the reasonableness of this prohibition in view of the purposes of the Company and the relationship of the Members. The attempted Transfer of any portion or all of a Membership Interest in violation of the prohibition contained in this Section 6.1 shall be deemed invalid, null and void, and of no force or effect, except any Transfer mandated by operation of law and then only to the extent necessary to give effect to such Transfer by operation of law.

whether the Company shall elect to exercise the Purchase Option.

6.1.4.4. The Purchaser's notice of its election to purchase the Transfer Interest shall fix a closing date (the "Transfer Closing Date") for the purchase, which shall not be earlier than five (5) days after the date of the notice of election nor more than thirty (30) days after the expiration of the Transfer Period.

6.1.4.5. The Purchase Price shall be paid in cash on the Transfer Closing Date.

6.1.4.6. If the Company's Purchase Option is not exercised, the Transferor shall be permitted to offer and sell the Transferor Interest to any other person for a period of six (6) months (the "Free Transfer Period") after the expiration of the Transfer Period. If the Transferor does not Transfer the Transferor Interest within the Free Transfer Period, the Transferor's right to Transfer the Transferor Interest pursuant to this Section shall cease and terminate.

6.1.4.7. Any Transfer of the Transferor Interest made after the last day of the Free Transfer Period or without strict compliance with the terms, provisions, and conditions of this Section and all other terms, provisions, and conditions of this Agreement, shall be null and void and of no force or effect.

6.2 Involuntary Withdrawals

6.2.1. Involuntary Withdrawal. Immediately upon the occurrence of an Involuntary Withdrawal, the successor of the withdrawn Member, if any, shall thereupon become an Interest Holder but shall not become a Member. If the Company is continued, the successor Interest Holder shall have all the rights of an Interest Holder but shall not have the right to exercise any other rights of a Member.

6.2.2. Optional Buy-out in Event of Involuntary Withdrawal.

6.2.2.1. If the Members elect to continue the Company after an Involuntary Withdrawal, the withdrawn Member or the successor in interest to such Member (the "Withdrawn Member") shall be deemed to offer for sale to the Company (the "Withdrawal Offer") all of the Membership Interest of the Withdrawn Member (the "Withdrawal Interest").

6.2.2.2. The Withdrawal Offer shall be and remain irrevocable for a period (the "Withdrawal Offer Period") ending at 11:59 p.m. local time at the Company's principal office on the sixtieth (60th) day following the date the Members elect to continue the Company. At any time during the Withdrawal Offer Period, the Company may accept the Withdrawal Offer by notifying the Withdrawn Member of its acceptance (the "Withdrawal Notice"). The Withdrawn Member shall not be deemed a Member or Manager for the purpose of the Vote on whether the Company shall accept the Withdrawal Offer.

6.2.2.3. If the Company accepts the Withdrawal Offer, the Withdrawal Notice shall fix a closing date (the "Withdrawal Closing Date") for the purchase which shall be not earlier than ten (10) or later than ninety (90) days after the expiration of the Withdrawal Period.

6.2.2.4. If the Company accepts the Withdrawal Offer, the Company shall purchase the Withdrawal Interest for the price

the Act.

7.2. *Procedure for Winding Up and Dissolution.* If the Company is dissolved, the remaining Members shall wind up its affairs. On winding up of the Company, the assets of the Company shall be distributed, first to creditors of the Company, including Interest Holders who are creditors, in satisfaction of the liabilities of the Company, and then to the Interest Holders in accordance with Section 7.4 of this Agreement.

7.3. *Filing of Certificate of Cancellation.* Upon completion of winding up the affairs of the Company, the Members shall promptly file the Certificate of Cancellation of Articles of Organization with the Secretary of State. If there are no remaining Members, such Certificate shall be filed by the last Person to be a Member; if there are no remaining Members, or last Person to be a Member, the Certificate shall be filed by the legal or personal representatives of the last Person to be a Member.

7.4. *Liquidation and Dissolution.*

7.4.1. Upon liquidation of the Company, the assets of the Company shall be distributed to the Interest Holders in accordance with their positive balances in their respective Capital Accounts, after giving effect to all Contributions, Distributions, and allocations for all periods.

7.4.2. No Interest Holder shall be obligated to restore a Negative Capital Account.

**Article VIII
Books, Records, Accounting, and Tax Elections**

8.1. *Bank Accounts.* All funds of the Company shall be deposited in a bank account or accounts opened in the Company's name. The Members shall determine the financial institution or institutions at which the accounts will be opened and maintained, the types of accounts, and the Persons who will have authority with respect to the accounts and the funds therein.

8.2. *Maintenance of Books and Records.*

8.2.1. The Members shall keep or cause to be kept complete and accurate books, records, and financial statements of the Company and supporting documentation of transactions with respect to the conduct of the Company's business. The books, records, and financial statements of the Company shall be maintained on the accrual method of accounting. Such books, records, financial statements, and documents shall include, but not be limited to, the following:

(1) a current list of the full name and last known business or residence address of each Member and Interest Holder, with the Contribution and the share in profits and losses of each Member and Interest Holder specified in such list;

(2) the Articles of Organization, including all amendments;

(3) federal, state, and local income tax or information returns and reports, if any, for the six most recent taxable years;

**Article IX:
Indemnification.**

9.1. The Company shall have the power to indemnify any Person who was or is a party, or who is threatened to be made a party, to any Proceeding by reason of the fact that such Person was or is a Member, officer, employee, or other agent of the Company, or was or is serving at the request of the Company as an officer, employee, or other agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by such Person in connection with such Proceeding, if such Person acted in good faith and in a manner that such person reasonably believed to be in the best interest of the Company, and in the case of a criminal proceeding, such Person had no reasonable cause to believe that the Person's conduct was unlawful. The termination of any proceeding by judgment order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Person did not act in good faith and in a manner that such Person reasonably believed to be in the best interest of the Company, or that Person had reasonable cause to believe that the Person's conduct was unlawful.

To the extent that an agent of the Company has been successful on the merits in defense of any claim, issue, or matter in any such Proceeding, the agent shall be indemnified against expenses actually and reasonably incurred in connection with the Proceeding. In all other cases, indemnification shall be provided by the Company only if authorized in the specific case by all of the Members.

"Proceeding," as used in this Section 9.1, means any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative.

Expenses of each Person indemnified under this Agreement actually and reasonably incurred in connection with the defense or settlement of a Proceeding may be paid by the Company in advance of the final disposition of such Proceeding, as authorized by a majority of the Members, upon receipt of an undertaking by such person to repay such amount unless it shall ultimately be determined that such Person is entitled to be indemnified by the Company. "Expenses," as used in this Section 9.1, includes, without limitation, attorney fees and expenses of establishing a right to indemnification, if any, under this Section 9.1.

**Article X:
General Provisions**


10.1. *Assurances.* Each Member shall execute all certificates and other documents and shall do all such filing, recording, publishing, and other acts as the Members deem appropriate to comply with the requirements of law for the formation and operation of the Company and to comply with any laws, rules, and regulations relating to the acquisition, operation, or holding of the property of the Company.


The signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

10.11. *Time of the Essence.* Time is of the essence of every provision of this Agreement that specifies a time for performance.

IN WITNESS WHEREOF, the parties have executed, or caused this Agreement to be executed, under seal, as of the date set forth hereinabove.

MEMBERS:


Jordan M. Truchan
22 Santa Lucia
Orinda, California 94563


Saunders A. Jones
587 Indian Home Road
Danville, California 94526



Judy L. Collins
4 Sheryl Court
Pleasant Hill, California 94523

Exhibit B

List of Titles

<u>Name</u>	<u>Title</u>
Jordan M. Truchan	President & CEO
Saunders A. Jones	Executive Vice President & COO
Judy L. Collins	Executive Vice President & CFO, and Corporate Secretary