

OPTION AND DEVELOPMENT AGREEMENT

Dated as of April 11, 2006

by and between

**CN Terra Nova Holdings, LLC
a Delaware limited liability company**

("Owner"),

**K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, L.L.C.,
a Virginia limited liability company**

("Builder")

and

**K. HOVNANIAN HOLDINGS NJ, L.L.C.,
a New Jersey limited liability company**

("Holdings")

TABLE OF CONTENTS

Option and Development Agreement.....		1
1. Grant of Option.....		3
(a) Deposit.....		3
(b) Due Diligence Expenses.....		4
(c) Option.....		4
2. Effectiveness of Option.....		4
3. Term of the Option.....		4
4. Purchase Price.....		5
5. Exercise of Option.....		7
(a) Notice and Schedule.....		7
(b) Acceleration.....		7
(c) Failure to Exercise.....		8
6. Closing.....		10
(a) Escrow.....		10
(b) Taxes and Assessments.....		11
7. Title and Conveyances.....		11
(a) Delivery of Deed.....		11
(b) Condition of Title.....		11
(c) Excluded Lots.....		12
8. Property Condition.....		12
9. Regulatory Matters.....		13
(a) Interstate Land Sales Full Disclosure Act.....		13
(b) Environmental Laws.....		13
(c) Responsibility for Regulatory Compliance.....		15
10. <u>Final Maps; Subdivision; Final Plat Approvals</u>		15
(a) Processing of Final Maps.....		15
(b) Risk of Delay.....		15

11.	Improvements	16
	(a) Improvement Schedule	17
	(b) Improvement Default	17
	(c) Plans and Specifications	17
	(d) Hiring of Consultants; Bonds and Letters of Credit	17
	(e) Completion of Improvements	18
	(f) Field Changes to Improvement Plans	19
	(g) As Built Plans	19
	(h) Permits and Approvals	19
	(i) Improvement Budget	20
	(j) Balancing	21
	(k) Force Majeure Delays	22
	(l) Inspections	22
12.	Use and License	22
	(a) Model Homes	22
	(b) Construction Trailer	23
	(c) Temporary Sales Facility	23
13.	Model Homes/Production Lots	23
	(a) Obligation to Restore	23
	(b) Permits and Approvals	23
	(c) Owner's Cooperation	23
	(d) No Liens	23
	(e) Covenants, Conditions and Restrictions	24
14.	Additional Obligations of Builder Concerning the Property	24
	(a) Taxes and Assessments	24
	(b) Other Charges	24
	(c) Obligations Under Purchase Agreement	25
15.	Maintenance	25
16.	Insurance	25
17.	Indemnity	26
18.	Default and Remedies	27
	(a) Defaults	27
	(b) Remedies	29
	(i) Default	29
	(ii) Failure to Exercise Option	29

	(iii) Early Acquisition Option	30
	(c) Costs and Fees.....	31
	(d) Default Interest.....	31
	(e) Waiver	31
19.	Representations, Warranties and Covenants of Owner	32
	(a) Authority	32
	(b) Individual Authority	32
	(c) No Undisclosed Agreements.....	32
	(d) No Construction.....	32
	(e) Cooperation.....	32
20.	Representations, Warranties and Covenants of Builder.....	32
	(a) Authority	32
	(b) Individual Authority	32
	(c) Due Diligence	32
	(d) Purchase Agreement.....	33
	(e) Intentionally Omitted	33
	(f) Reports	33
	(g) Information	33
	(h) Lots	33
	(i) Association Fees	33
21.	Condemnation.....	33
22.	Model Homes, Model Homes Parking Lot and Unfinished Homes	34
	(a) Model Sale/Leaseback Transactions	34
	(b) Owner's Right to Purchase	34
	(c) Owner's Right to Repurchase Lots	35
23.	Utility Deposits and Refunds	36
24.	Commissions.....	36
25.	Miscellaneous.	36
	(a) Notices	36
	(b) Memorandum.....	38
	(c) Interpretation.....	39
	(d) Successors and Assigns.....	39
	(e) No Partnership, Third Person.....	39
	(f) Entire Agreement	39
	(g) Further Documents.....	39
	(h) Incorporation of Exhibits	40
	(i) Date of Performance	40

(j)	Builder's Interest.....	40
(k)	Architectural Control Committee	40
(l)	Survival	40
(m)	Time of the Essence	40
(n)	Governing Law	40
(o)	No Third Party Beneficiary.....	40
(p)	Counterparts.....	40
(q)	Confidentiality	41
(r)	Recharacterization.....	41
(s)	Recitals.....	41
26.	Financial Covenants; Financial Statements	41
27.	FASB's Interpretation of FIN No. 46R Compliance.....	42
	NCD ACCEPTANCE	43
	ESCROW AGENT ACCEPTANCE	44

Index of Definitions

- 1.) "Agreement" - has the meaning set forth in the introductory paragraph.
- 2.) "Association" - has the meaning set forth in the introductory paragraph.
- 3.) "Builder" - has the meaning set forth in the introductory paragraph.
- 4.) "Buyer" - has the meaning set forth in Recital A.
- 5.) "City" - has the meaning set forth in Recital A.
- 6.) "Closing" - has the meaning set forth in Section 6(a).
- 7.) "Closing Date" - has the meaning set forth in Section 5.
- 8.) "Condemnation" - has the meaning set forth in Section 21.
- 9.) "County" - has the meaning set forth in Recital A.
- 10.) "Damages" - has the meaning set forth in Section 9(b).
- 11.) "Declarations" - has the meaning set forth in Section 11.
- 12.) "Deed" - has the meaning set forth in Section 7(a).
- 13.) "Deposit" - has the meaning set forth in Section 1(a)(i).
- 14.) "Deposit Release Date" - has the meaning set forth in Section 1(a)(ii).
- 15.) "Default Termination Notice" - has the meaning set forth in Section 18(b)(iii).
- 16.) "Early Acquisition Option" - has the meaning set forth in Section 18(b)(iii).
- 17.) "Effective Date" - has the meaning set forth in Section 2.
- 18.) "Escrow" - has the meaning set forth in Section 6(a).
- 19.) "Escrow Agent" - has the meaning set forth in Section 6(a).
- 20.) "Excluded Lot" - has the meaning set forth in Section 7(c).
- 21.) "Existing Exception" - has the meaning set forth in Section 7(b).
- 22.) "FIN 46R" - has the meaning set forth in Section 27.

- 23.) "Financial Covenant Default" - has the meaning set forth in Section 26.
- 24.) "Final Approvals" - has the meaning set forth in Recital A.
- 25.) "Final Plat" - has the meaning set forth in Recital A.
- 26.) "Final Site Plan" - has the meaning set forth in Recital A.
- 27.) "Force Majeure Events" - has the meaning set forth in Section 11(k).
- 28.) "Governmental Improvement Agreements" - has the meaning set forth in Section 11.
- 29.) "Hazardous Substances" - has the meaning set forth in Section 9(b).
- 30.) "Holdings" - has the meaning set forth in the introductory paragraph.
- 31.) "Improvements" - has the meaning set forth in Section 11.
- 32.) "Improvement Budget" - has the meaning set forth in Section 11(i).
- 33.) "Improvement Default" - has the meaning set forth in Section 11(b).
- 34.) "Improvement Plans" - has the meaning set forth in Section 11(c).
- 35.) "Improvement Schedule" - has the meaning set forth in Section 11(a).
- 36.) "Interstate Land Sales Full Disclosure Act" - has the meaning set forth in Section 9(a).
- 37.) "Lender" - has the meaning set forth in Section 2.
- 38.) "Letter of Credit" - has the meaning set forth in Section 1(a)(i).
- 39.) "License Agreement" - has the meaning set forth in Section 12.
- 40.) "Loan Documents" - has the meaning set forth in Section 2.
- 41.) "Lot" or "Lots" - has the meaning set forth in Recital E.
- 42.) "Material Adverse Change" - has the meaning set forth in Section 18(a)(ix).
- 43.) "Model Home Investor" - has the meaning set forth in Section 22(a).
- 44.) "Model Home Lot" - has the meaning set forth in Section 22.
- 45.) "Model Homes" - has the meaning set forth in Section 5(c)(ii).

- 46.) "Model Plans" - has the meaning set forth in Section 5(c)(ii).
- 47.) "NCD" - has the meaning set forth in Recital A.
- 48.) "Option" - has the meaning set forth in Section 1(a)(i).
- 49.) "Owner" - has the meaning set forth in the introductory paragraph.
- 50.) "Owner's Reimbursement Amount" - has the meaning set forth in Section 11(i).
- 51.) "Permitted Exception" - has the meaning set forth in Section 7(b).
- 52.) "Personal Property" - has the meaning set forth in Section 22(b)(ii).
- 53.) "Preliminary Plan" - has the meaning set forth in Recital A.
- 54.) "Project" - has the meaning set forth in Recital B.
- 55.) "Property" - has the meaning set forth in Recital A.
- 56.) "Purchase Agreement" - has the meaning set forth in Recital A.
- 57.) "Purchase Price" - has the meaning set forth in Section 4.
- 58.) "Reimbursement Request" - has the meaning set forth in Section 11(i)(ii).
- 59.) "Seller" - has the meaning set forth in Recital A.
- 60.) "State" - has the meaning set forth in Recital A.
- 61.) "Term" - has the meaning set forth in Section 3.
- 62.) "Unplatted Takedown Lot" - has the meaning set forth in Section 10(b).
- 63.) "Utility Deposits" - has the meaning set forth in Section 23.

LIST OF EXHIBITS

Exhibit A	Legal Description of Property
Exhibit A-1	Greene County Planning Department Letter
Exhibit B	Lot Takedown Schedule
Exhibit C	Assignment of Plans, Contracts, Warranties and Guaranties and Other Intangible Property
Exhibit D	Deed
Exhibit E	Improvement Schedule
Exhibit E-1	Improvement Budget
Exhibit E-2	Line Item Improvement Budget
Exhibit F	Form of Construction License and Indemnity Agreement
Exhibit G	Memorandum of Option and Development Agreement
Exhibit H	Notice of Termination of Option and Quitclaim Deed
Exhibit I	Preliminary Plan
Exhibit J	Form of Letter of Credit
Exhibit K	Acquisition Pro Forma
Exhibit L	Owner's Authorization

OPTION AND DEVELOPMENT AGREEMENT

THIS OPTION AND DEVELOPMENT AGREEMENT (the "Agreement") is entered into this 11th day of April 2006, by and between CN Terra Nova Holdings, LLC, a Delaware limited liability company ("Owner"), K. Hovnanian's Four Seasons at Charlottesville, LLC, a Virginia limited liability company ("Builder") and K. Hovnanian Holdings NJ, L.L.C., a New Jersey limited liability company ("Holdings"), with reference to the following facts:

RECITALS

A. Pursuant to that certain Purchase Agreement entered into by and between K. Hovnanian Homes of Virginia, Inc., as the buyer ("Buyer") and Reynolds S Corp. ("Seller") dated June 13, 2005, as amended (the "Purchase Agreement"), Seller agreed to sell to Buyer and Buyer agreed to purchase from Seller that certain real property located at the intersection of Route 29 and Route 33, along the Route 29 corridor North of the Charlottesville ("City") area in Greene County ("County"), Virginia ("State"), commonly referred to as "K. Hovnanian's Four Seasons at North Charlottesville" and legally described on the attached Exhibit A consisting of approximately 204 acres (the "Property"). On the Effective Date, the preliminary subdivision plan approved by the Greene County Planning Department on April 20, 2005 pursuant to the letter attached as Exhibit A-1 setting forth an overview of the Project (as defined below) consistent with the approved zoning and including the proposed layout of the streets and the Lots for the entire Project, prepared by Urban Engineering and Associates dated March 15, 2005 (the "Preliminary Plan") will have been approved by the County and all required governmental authorities. The final subdivision plat site plan ("Final Site Plan") for Phase I of the Project (the first 144 Lots) and the record plat (the "Final Plat") for Phase I of the Project has been approved by the applicable governmental authorities and will be bonded and recorded within thirty (30) days after the Effective Date. The detailed engineering for the Final Site Plan, the recording of the Final Plats for all of the Phases of the Project, the posting of all required bonds, and all other items necessary including any State, County, City and local approvals and compliance with proffers and permits to construct any Phase of the Project are hereinafter collectively referred to as the "Final Approvals." On the Effective Date, Builder shall cause Seller to deliver a special warranty deed to Owner's wholly owned subsidiary, North Charlottesville Development, LLC ("NCD"), a Delaware limited liability company, such that NCD will acquire fee title to the Property in place of Buyer. All references in this Agreement which obligate the Owner to take any action with respect to the Property will be deemed to be the obligation of NCD.

B. It is anticipated that the Property will be divided into approximately five hundred thirty-five (535) market rate, single family detached age-restricted homes to be constructed by Builder on the Property each having a separate tax account (the "Project").

C. Owner desires to grant Builder the option to purchase lots in accordance with the terms and subject to the conditions of this Agreement.

D. As used herein, the term "Builder" shall include Holdings which is an affiliate of K. Hovnanian's Four Seasons at Charlottesville, LLC, it being the understanding and intent of the parties that Holdings shall be responsible and liable for all of the representations,

covenants, duties, obligations acts and omissions of Builder under this Agreement, including, but not limited to, the indemnifications and covenants under Sections 17 and 20, respectively.

E. Builder will obtain the Final Approvals necessary to create the lots and to allow for the construction of five hundred thirty-five (535) (unless reduced in accordance with the terms hereof) market rate, single family detached age-restricted homes (each, a "Lot" and collectively, the "Lots") on the Property in accordance with K. Hovnanian's Four Seasons at Charlottesville, Preliminary Plan attached hereto as Exhibit I as such may be further amended (except with respect to Phase I, which shall be constructed in accordance with the Final Site Plan and Final Plat for Phase I of the Project in effect as of the Effective Date) with Owner's reasonable consent, which consent shall not be unreasonably withheld, conditioned nor delayed, or subject to engineering review in accordance with the requirements of the County in connection with the filing of the Final Plats for each Phase of the Project and the Improvement Plans (as defined in Section 11 below) together with all of the on-site, off site and common facilities and dedications, if any, required in connection with the requisite governmental approvals and plans approved by Owner. Pursuant to this Agreement and provided Builder is not in default, Owner is granting a rent free license to Builder to enter on to the Property to carry out this contemplated development and to construct certain approved improvements on the Property. Subject to Builder's reimbursement rights set forth in Section 11(i) below and any other term of this Agreement (including, without limitation, Section 22), these improvements will be paid for entirely by Builder, who shall maintain the Property free of all liens and encumbrances, including mechanics liens during the term of this Agreement. These improvements will be the property of Owner until such time, if any, as such improvements are conveyed to Builder.

F. Because of the large investment which Builder may make in obtaining governmental approvals and permits and constructing improvements on the Property of Owner, the parties have agreed that in the event of an uncured breach of this Agreement by Builder, Owner will accord Builder a one-time limited duration extraordinary right to acquire all of the Lots remaining on the Property subject to the Option, as described in Section 18(b)(iii) of this Agreement.

G. The parties to this Agreement intend that Owner be the true and complete owner of the Property at all times prior to the conveyance of any Lot to Builder pursuant to Builder's exercise of its option rights under this Agreement or the clubhouse and other amenities are conveyed to the "Home Owners' Association" (the "Association"). The parties further intend that their business arrangements created by this Agreement are a true option, and are not in any way to be construed or treated as a lease, loan, mortgage, deed of or in trust, joint venture, partnership or other business arrangement other than an option to purchase Lots in accordance with the terms of this Agreement.

AGREEMENT

Now, therefore, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Owner, Builder and Holdings agree as follows:

1. Grant of Option.

(a) Deposit.

(i) Subject to Section 2 hereof, in consideration of Builder's delivery to the Escrow Agent (as hereinafter defined), concurrently with Owner's purchase of the Property, of a standby letter of credit (in a form attached hereto as Exhibit J and issued by a bank reasonably acceptable to Owner) (the "Letter of Credit") in the amount of \$11,105,174.70 (the "Deposit"), and the covenants of Builder herein, Owner hereby grants to Builder the exclusive right and option (the "Option") to purchase the Lots, in accordance with the terms of this Agreement. On the Effective Date, the Deposit shall be delivered by Escrow Agent to Owner. Pursuant to the Loan Documents (as hereafter defined), Builder acknowledges that Owner will assign to the Lender (as hereafter defined) Owner's rights hereunder with respect to the Letter of Credit as collateral for the loan from Lender and has directed Builder that the sole beneficiary under the Letter of Credit will be the Lender. Such assignment will not affect the rights of either the Builder or the Owner under this Agreement. Subject to the reduction of the Letter of Credit in the manner described in Section 1(a)(ii) hereof, the Deposit shall be deemed fully earned by Owner upon execution and delivery by Owner of this Agreement and will be returned to Builder (to the extent not previously drawn down upon in whole or part) upon Builder's purchase of the last Lot on the Property in accordance with this Agreement and the schedule set forth in Exhibit B. The Letter of Credit shall automatically renew each year unless the issuer bank shall give sixty (60) days prior notice to Owner. Upon the receipt of such notice, Owner may draw upon the Letter of Credit if Builder does not provide a replacement Letter of Credit within at least forty-five (45) days prior to the expiration of the existing Letter of Credit. Owner may draw on the Letter of Credit upon any default by Builder to exercise the Option in accordance with the terms hereof.

(ii) The Deposit shall be reduced quarterly upon the completion of each takedown of Lots. Commencing with the first takedown of Lots and on each subsequent takedown of Lots occurring thereafter (each a "Deposit Release Date"), provided that no default by Builder or Holdings shall have occurred hereunder, Owner shall require Lender to release a portion of the Deposit in an amount necessary to cause the remaining balance of the Deposit to be retained by Owner to equal the product obtained by multiplying \$11,105,174.70 (the original Deposit amount) by a fraction, the numerator of which shall equal the total number of Lots remaining to be purchased by Builder and the denominator of which shall equal five hundred thirty-five (535) (the total number of Lots within the Property), unless Final Approvals for the Project are for less than 535 Lots in which case the denominator shall be equal to such lesser number of approved Lots. On or after each Deposit Release Date, the Letter of Credit shall be reduced to the amount calculated in accordance with the immediately preceding sentence. On or before ten (10) business days following such Deposit Release Date, provided that Builder is entitled to a reduction in the Deposit, Owner shall deliver to the issuing bank a certificate, which shall state the new, reduced amount of the Letter of Credit. It is the parties' understanding that the issuing bank automatically shall reduce the amount of the Letter of Credit (without issuing a new one) and will deliver a letter to Owner and Builder confirming that fact and that the amount of the Letter of Credit has been reduced. Pursuant to the assignment by Owner to Lender of Owner's rights under the Letter of Credit, Builder acknowledges that all reductions in and other dispositions of the Letter or Credit and the Deposit shall be made by Lender.

(b) Due Diligence Expenses. Builder has delivered to Owner the sum of Fifty Thousand and 00/100 Dollars (\$50,000.00) (the "Initial Deposit") for the estimated cost of Owner's due diligence expenses to be incurred by Owner prior to acquisition of the Property which Owner will apply to the cost of Owner's legal fees and costs and real property due diligence costs and expenses, including, if necessary, a property appraisal, a market study, civil engineer review, geotechnical study and a phase one environmental study. The due diligence costs are expressly included in the Improvement Budget as provided in Section 11(i) herein which costs are subject to Builder's reimbursement right. On the Effective Date or in event the acquisition of the Property by Owner doesn't occur for reasons other than Owner's default, Owner will provide Builder with an actual accounting of all of Owner's due diligence expenses and to the extent such expenses are in excess of the Initial Deposit, Builder shall pay such additional amount immediately upon Owner's request; provided, however, that the aggregate due diligence costs and expenses (including, but not limited to, legal expenses) reimbursed to Owner shall not exceed One Hundred Sixty Thousand and 00/100 Dollars (\$160,000.00) unless otherwise agreed to by Owner and Builder. If Owner's actual expenses are less than Fifty Thousand and 00/100 Dollars (\$50,000.00), the unused portion of the Initial Deposit shall be returned to Builder.

(c) Option. This Agreement shall constitute an option agreement and not an agreement obligating Builder to purchase all or any number of the Lots. Furthermore, the parties agree that this Agreement is not in any way to be construed or treated as a lease, loan, mortgage, deed of or in trust, joint venture, partnership or other business arrangements other than an option to purchase Lots in accordance with the terms of this Agreement.

2. Effectiveness of Option. The Option shall become effective on the date hereof (the "Effective Date"). Notwithstanding anything to the contrary contained in either the Purchase Agreement or this Agreement, Owner shall be obligated to purchase the Property in accordance with and to take all other actions reasonably required under the Purchase Agreement in connection with the acquisition of the Property, provided that (i) M&T Mortgage Corporation (the "Lender") enters into loan documents acceptable to Owner (the "Loan Documents"); (ii) Owner receives titles insurance and survey acceptable to Owner, (iii) there is no default hereunder, (iv) Final Approvals have been obtained for Phase I (subject to recordation of the Final Plat and bonding) and (v) Seller is not in default under the Purchase Agreement. Subject to Builder's reimbursement rights set forth in Section 11(i), Builder shall pay all of Owner's closing costs and expenses including attorney fees, title and survey fees in connection with the acquisition and financing of the Property.

3. Term of the Option. The term of the Option (the "Term") shall commence upon the Effective Date and shall expire on the earlier of either (i) March 31, 2011, (ii) such date that Builder fails to exercise any Option in accordance with Exhibit B, (plus the thirty (30) day cure period, as provided in Section 5(c) below), or (iii) date of a default by Builder as described in Section 18 below. Builder shall have the right to acquire Lots on the Effective Date and up to and including the date specified in the previous sentence on which the Term expires. Notwithstanding anything contrary set forth in this Agreement, upon commencement of any construction of residences (including pouring of foundations) or vertical construction related activity in and on a Lot, the Option held by Builder in and on such Lot shall terminate and shall automatically convert to an obligation of Builder to purchase such Lot within ten (10) days after notice by Owner to

Builder. Subject to Builder's reimbursement rights set forth in Section 11(i) below, Builder shall pay Owner's reasonable closing costs in connection with the exercise of an Option and the sale of any Lots in connection therewith.

4. Purchase Price. Subject to compliance with the provisions of this Agreement and provided no default exists (unless waived by Owner), Builder may purchase the Lots (including the water taps and/or sewer taps for such Lots) at the times set forth on Exhibit B by paying Owner the purchase price set forth in Exhibit B as same may be increased in accordance with the terms hereof ("Purchase Price") for each Lot. The Purchase Price for each Lot shall be paid by wire transfer and if Builder purchases all of the Lots on the Property pursuant to this Agreement, Owner shall within ten (10) days require the Lender to return the Letter of Credit and any amendments thereto to Builder together with a letter addressed to the issuer authorizing the termination of the Letter of Credit. The Purchase Price for each Lot is based upon generating an internal rate of return on Owner's total investment in the Project (which total investment amount is anticipated to be \$59,089,282 as shown on Exhibit E-2) calculated at a rate of 12.55% (using Microsoft Excel XIRR formula) and the purchase of 535 Lots by Builder. In the event the number of Lots on the Property pursuant to the Preliminary Plan is decreased (which decrease shall only be permitted hereunder if required by any governmental authority as a result of the detailed engineering for the filing of the Final Plats for each Phase of the Project), the Purchase Price per Lot shall be correspondingly increased based upon generating an internal rate of return on Owner's total investment in the Project calculated at a rate of 12.55% (using Microsoft Excel XIRR formula) and the revised total number of Lots to be purchased by Builder hereunder. In the event the number of Lots on the Property pursuant to the Preliminary Plan is decreased upon the filing of the Final Plats for any Phase of the Project, Builder and Holdings agree to indemnify Owner in an amount equal to the fair market value of the number of approved Lots less than 535 lots (less the portion of any amounts paid by Builder to Owner for the purchase of lots as a result of an increase in the purchase price of the Lots resulting from a decrease in the total number of Lots) if Builder does not exercise its Option to purchase all of the Lots in accordance with the terms of this Option Agreement. For purposes of this Section 4, fair market value shall be determined and payable on the later of (i) the termination of the Option and (ii) the recording of the Final Plat by the Builder or a successor developer selected by Owner for the Phase or Phases in which the number of Lots were decreased below the number set out on the Preliminary Plan.

5. Exercise of Option.

(a) Notice and Schedule. Builder shall exercise its Option to purchase Lots by providing Owner with at least ten (10) business days prior written notice of the date Builder desires to consummate the purchase of specified Lots. Lots shall be purchased between the first business day and the sixth business day of the month in which the takedown is to occur. Under no circumstances shall Builder, without first obtaining the prior written approval of Owner, which approval will not be unreasonably withheld, conditioned or delayed, be entitled to more than three (3) Closings (as described in Section 6(a) below) per month for Lots at the Property. Such written notice shall specify the specific Lots to be acquired, subject to the restrictions contained in this Agreement, and the date on which Owner shall convey the specified Lots to Builder (the "Closing Date"). If Builder exercises the Option or is deemed to have exercised the Option pursuant to the terms hereof, Builder may not exercise the Option with respect to any Lot unless Builder exercises the Option with respect to all Lots to be included within the building of

which such Lot is to be a part of. Attached hereto as Exhibit B is Builder's schedule of Lot purchases, which indicates the number of Lots to be acquired at each takedown. Builder shall acquire Lots at the pace set forth in such schedule, except that (subject to Section 5(b) below) Builder shall have the right to accelerate the acquisition of Lots, and shall be required to purchase all of the Lots as shown in Phase I of the Preliminary Plan prior to purchasing the Lots shown in Phase II, all of the Lots as shown in Phase II of the Preliminary Plan prior to purchasing the Lots shown in Phase III, all of the Lots as shown in Phase III of the Preliminary Plan prior to purchasing the Lots shown in Phase IV and all of the Lots as shown in Phase IV of the Preliminary Plan prior to purchasing the Lots shown in Phase V. Notwithstanding anything to the contrary contained herein, Builder's Option hereunder shall expire on March 31, 2011. No Closing Date for any Lot shall occur beyond the date set forth on Exhibit B for such Lot. Notwithstanding any provision of this Agreement to the contrary and except as provided in Section 5(b) below, to maintain the effectiveness of the Option, Builder shall be required to acquire the number of Lots set forth on attached Exhibit B at the corresponding time period indicated until all Lots have been acquired by Builder.

(b) Acceleration.

(i) If there is no existing default hereunder and Builder desires to accelerate the acquisition of Lots due to market driven conditions (i.e., Builder is developing and selling Lots sooner than anticipated compared to the schedule set forth in Exhibit B), then Builder may purchase the Lots earlier than the dates set forth in Exhibit B without penalty, provided that Builder, upon at least twenty (20) days notice, delivers to Owner a written request from Builder to Owner regarding the early purchase of Lots and the designation of Lots to be purchased; and provided further that Builder pays to Owner an amount equal to the Purchase Price for each such Lot. Any acceleration in the acquisition of Lots by Builder does not accelerate the takedown of any of the other Lots pursuant to the takedown schedule as set forth in Exhibit B. By way of example, if Builder acquires 18 Lots in the month ending 10/31/06 (instead of 15 Lots as set forth on Exhibit B), then in the subsequent month ending 11/30/06 Builder only needs to exercise its option to acquire 2 Lots (instead 5 Lots as set forth in Exhibit B) in order to comply with this Section 5(b)(i) and Exhibit B. Alternatively, Builder may acquire a greater or lesser number of Lots in any month than as specified in Exhibit B, provided that by the end of that month, Builder acquires the cumulative number of Lots set forth in Exhibit B.

(ii) If there is no existing default hereunder, Builder may elect, at anytime eighteen (18) months after the Effective Date, to accelerate the acquisition of all of the remaining unpurchased Lots, and provided further that Builder has complied with the terms and conditions of Section 5(b)(i), Builder shall have the right to purchase all such remaining Lots earlier than the dates set forth in Exhibit B provided that Builder pays to Owner an amount equal to the Purchase Price for each Lot on which Owner then holds title adjusted so that the internal rate of return to Owner on the accelerated purchase does not exceed 12.55% (using Microsoft Excel XIRR formula), taking into account the total amount of Owner's Reimbursement Amount not actually funded by Owner as of the date of the calculation. In such event, the proviso contained in the last sentence of Section 11(i)(i) shall not apply.

(c) Failure to Exercise. Except as otherwise described below in this Subsection 5(c), if Builder does not exercise its Option and complete closings of the Lots in accordance with Exhibit B before the time periods indicated on the attached Exhibit B:

(i) The Option shall immediately terminate and Builder shall have no further right to acquire any of the Lots (except for Builder's Early Acquisition Option described in Section 18(b)(iii) below) and shall have no rights to the Property or claims against Owner and Owner, as its exclusive remedy for Builder's failure to acquire and complete closings of the Lots in accordance with Exhibit B, (but without limiting the remedies of Owner for defaults by Builder and Holdings under this Agreement and Owner's right to collect under the indemnities from Builder and Holdings for budget shortfalls or a reduction in the number of Lots in accordance with Section 11(e) and Section 4, respectively), shall have the right to retain the Deposit as liquidated damages, pursuant to Section 18(b)(ii) below.

(ii) Builder shall and does hereby by execution of the Assignment attached hereto as Exhibit C assign to Owner, all of Builder's rights in and to the developer's or sponsor's rights under the Preliminary Plan and the Final Plats, the Final Approvals and all of Builder's rights in all guarantees and warranties relating to the Lots not then owned by Builder, the Improvements or any off site improvements, the Improvement Plans, Preliminary Plan, the Final Plats, all governmental agreements, permits and service contracts, and the right to utilize the plans and specifications (collectively, the "Model Plans") for the Project and the Model Homes to be built by Builder for purposes of marketing the residences to be built and sold by Builder within the Property ("Model Homes"), and any other residences being offered for sale by Builder within the Property, provided that Owner agrees that the Assignment of the previously described rights and documents to Owner by Builder shall only remain effective for the duration of this Project and upon the conclusion thereof and construction of all the Improvements in accordance herewith, Owner shall assign all such rights and documents to Builder. If Owner (or an assignee of Owner) uses Builder's Model Plans to construct the Model Homes and other residences in this Project, Owner shall indemnify, defend and hold Builder harmless from any claims, actions or damages arising from or related to Owner's (or its assignees) negligent or unauthorized use of such Model Plans.

(iii) Not later than five (5) business days after the later to occur of (x) Owner's written request or (y) the termination of the Option for any reason other than the Closing of all Lots hereunder, Builder or its assignee or designee and Owner shall execute reasonable cross easement agreements requested by Owner relating to access and use of the Project in relation to Phases I through V as may be applicable, and shall (in case of clause (y), at Builder's cost) (1) execute all necessary and reasonable documents and take all necessary and reasonable actions requested by Owner to facilitate Owner's continued development and sale of the remaining Lots, including without limitation confirming in writing and effecting the assignments in Subsection 5(c)(ii) above, however such writing shall not be a prerequisite to effectiveness of such assignment (2) deliver to Owner legible copies or originals of all reports, analyses, acquisition pro forma, test results and other documents within the possession of Builder that in any manner relate to the Lots retained by Owner, excepting any reports or documents to the extent they contain confidential or proprietary information concerning Builder or its affiliates generally and not specific information about the Lots retained by Owner, (3) transfer to Owner all signs and billboards on the Lots or, at the option of Owner, remove the same from the Lots,

and (4) remove all other personal property of Builder from the Lots, except as otherwise provided in Section 12 or Section 13. In addition, if it is then within Builder's control, at Owner's written request, Builder shall cause Owner or its designee to be designated as the successor developer or sponsor of the Association and shall cause representatives of Owner to replace the representatives of Builder on the board of directors of the Association for the Project. At Owner's request, Builder shall cause to be executed letters of resignation by the members of the board of directors to be held by Owner which shall become effective in the event of a default hereunder. All Association documents shall require Owner's prior consent which consent shall not be unreasonably withheld, conditioned or delayed and shall not be filed or recorded against the Property or the Lots without such consent. Additionally, Owner shall cause any homeowner's association documents to be amended to remove Builder and replace Owner as "declarant" with respect to all lots not purchased by Builder and, upon Owner's written request, Builder shall cause all representatives of Builder on any architectural control committee or similar committee to resign and to cause such members to be replaced with representatives of Owner. During the term of this Agreement, Builder shall maintain representatives on the board of directors of the Association to the fullest extent permitted by law.

(iv) In addition to the rights of Owner described in Subsection 5(c)(iii) above, pending resolution of any contest initiated by Builder with respect to the propriety of Owner's termination of the Option, such termination shall be treated as proper and effective on the date intended by Owner. In that regard, among other things, all assignments made by Builder to Owner shall be considered effective on the date intended by Owner. Moreover, pending resolution of such contest, Owner shall be entitled to take all actions it reasonably deems appropriate with respect to the Property, and Builder shall have no right to dictate or provide any input regarding the development of the Property. With respect to actions taken by Owner during such period, third parties shall be entitled to rely on such actions as binding upon Owner and the Property without further consent or action by Builder. If the resolution of such contest includes a determination by a court of competent jurisdiction or other appropriate decision making authority that Owner's termination of the Option was appropriate, then to the extent actions taken by Owner during such period were actions which Builder would have been obligated to undertake pursuant to this Agreement or which otherwise monetarily benefited Builder, then, Builder shall, within ten (10) days of notification by Owner of all costs associated with such actions, reimburse Owner for such costs, plus interest at the highest rate then allowed by law, and if the resolution of such contest includes a final determination by a court of competent jurisdiction or other appropriate decision making authority that Owner's termination of the Option was not appropriate, then all actions taken by Owner during such period shall be paid for by Owner and, within ten (10) days of notification by Builder of all costs associated with such actions, reimburse Builder for such costs, plus interest at the highest rate then allowed by law.

(v) Builder shall have no right whatsoever to receive any refund or credit of any portion of the Deposit retained by Owner upon the termination of Builder's rights to acquire Lots under this Agreement.

(vi) Notwithstanding the foregoing provisions of this Subsection 5(c), if Owner shall have failed to convey Lots to Builder in violation of the provisions of this Agreement, the Option shall be extended until the date that is ten (10) days after the date on which Owner offers to convey such Lots to Builder, provided that Builder shall have timely

delivered all documents, instruments and funds to Escrow Agent required pursuant to this Agreement to be delivered by Builder in order to acquire Lots and neither Builder nor Holdings is then in default hereunder. In the event that Owner fails and/or refuses to convey Lots to Builder as contemplated herein, Builder shall be entitled to pursue any and all remedies set forth in Section 18(b)(i).

6. Closing.

(a) Escrow. The purchase, sale and conveyance ("Closing") of each Lot or specified Lots shall be consummated through an escrow ("Escrow") established with an escrow agent mutually acceptable to Owner and Builder ("Escrow Agent") or with such other Escrow Agent as may be reasonably designated by Owner. The escrow agent whose name and address are shown in Subsection 25(a) is hereby appointed by Owner and Builder to serve as the initial Escrow Agent. Builder, Owner and the Escrow Agent shall enter into a mutually acceptable agreement designating Escrow Agent as the "Reporting Person" for the transaction pursuant to Section 6045(e) of the Internal Revenue Code and the regulations promulgated. At or prior to each Closing, Builder shall pay to Owner through Escrow the entire Purchase Price and each of the parties shall execute and deliver such documents and perform such acts as are provided for herein, or as are reasonably deemed necessary, to consummate the purchase and sale of the Lots.

(b) Taxes and Assessments. Subject to Builder's reimbursement rights set forth in Section 11(i) below, Builder is fully responsible for the payment of all real estate taxes, special taxes, assessments, transfer taxes, sales taxes, transaction privilege taxes and other or similar taxes or charges owing including, without limitation, in connection with the Property, Builder's development of the Property and Lots and Builder's subsequent resale of such Lots or in connection with fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency during the term of the Option and other charges imposed upon the Property during and prior to the term of the Option; provided that during the term of this Agreement, Owner shall timely forward any bills or invoices received by Owner for such items to Builder. Accordingly, no proration of real estate taxes, special taxes or assessments shall be required to be made at any Closing. All Closing costs, including title premiums, escrow fees, prorations, fees, Owner's legal fees and costs, charges and recording costs shall be paid by Builder with respect to each Closing. Builder acknowledges that it is acquiring each Lot for resale. Builder hereby assumes the liability for and agrees to pay when due (or, if permitted by the applicable taxing authority, at the time of its resale of each Lot) and shall indemnify, defend and hold harmless Owner and Owner-Related Persons from and against all city, County and State reassessments, transfer taxes, sales taxes, transaction privilege taxes and other or similar taxes or charges owing, in connection with Builder's acquisition of the Lots or in connection with Builder's development of the Property and Lots and Builder's subsequent resale of such Lots or in connection with fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency in curred or accrued during the term of the Option. Following the termination of the Option, Owner shall be fully responsible for all of the costs and expenses set forth in the foregoing section as such relate to Lots retained by Owner.

7. Title and Conveyances.

(a) Delivery of Deed. Upon each Closing, fee simple title to each Lot purchased together with an undivided percentage interest in the common areas of the Project equal to that percentage interest allocated to each Lot in the Preliminary Plan and Final Plat for such Phase of the Project, together with any water tap and/or sewer tap for such Lot, shall be conveyed to Builder by grant, bargain and sale deed with covenants against grantor's acts (individually, a "Deed" and collectively, the "Deeds") duly executed by Owner and delivered and recorded in the Official Records of the County at the Closing, subject only to Permitted Exceptions (as defined below). The Deed shall be in substantially the form of Exhibit D hereto. At each Closing, Owner shall execute and deliver to Builder (i) a reasonable and customary affidavit of title, if applicable; (ii) a Non Foreign Affidavit complying with the provisions of Section 1445 of the Internal Revenue Code, (iii) to Escrow Agent a Transferor's State Tax Withholding Certificate in the form required by State law and (iv) such other documents as may be reasonably requested by Builder's title insurer and customary for transactions of this nature. Builder shall be entitled to obtain title insurance policies for each of the Lots, provided that the acquisition of such insurance shall be at Builder's sole expense and shall not delay any Closing, except as provided in Section 7(c) below.

(b) Condition of Title. Builder will have reviewed and approved all matters of record, rights of parties in possession and matters revealed by the plat of the Property dated September 23, 2004 prepared by Roudabush, Gale & Associates, Inc. and Title Commitment No. VX1015 prepared by Founder's Title Agency, Inc., writing for First American Title Insurance Company (all such matters collectively being referred to herein as the "Existing Exceptions") prior to Owner's acquisition of the Property. As used herein, "Permitted Exceptions" shall mean any and all Existing Exceptions and any other matters whether of record or not including, without limitation, the Preliminary Plan, the Final Plats and any additional matters that would be disclosed by an ALTA/ACSM survey of the Lots, except such as may have been created by the specific acts or omissions of Owner which are not otherwise permitted or contemplated under this Agreement or which have not been consented to by Builder. It is the understanding of the parties to this Agreement that title matters or defects arising after Owner's acquisition of the Property other than those excluded above, shall not be considered a title defect or exception and shall be considered a Permitted Exception, as defined herein.

(c) Excluded Lots. Any Lot subject to a title defect other than the Permitted Exceptions shall be deemed an "Excluded Lot" and Owner shall have thirty (30) days from receipt of written notice from Builder describing such title defect within which to cure the same and provide Builder with notice of such cure, unless such cure cannot reasonably be completed within such thirty (30) day period, in which event Owner shall have an additional thirty (30) days to cure the title defect so long as Owner commences such cure within the first thirty (30) days after receipt of notice from Builder. Notwithstanding anything in Section 4, Exhibit B or any other provision of this Agreement to the contrary, Builder need not purchase an Excluded Lot in the order shown on Exhibit B. Once the title defect has been cured, the Lot shall no longer be deemed an Excluded Lot and Owner shall convey to Builder, and Builder shall purchase from Owner, the Lot upon the earlier of five (5) business days' notice or the next scheduled takedown as shown on Exhibit B. If the title defect affecting an Excluded Lot is not cured within the applicable cure period set forth above in this Section 7(c), then Builder, within five (5) business

days thereafter, shall elect either to (a) waive the title defect and acknowledge that the Lot is no longer an Excluded Lot, (b) renounce its right to acquire the Excluded Lot, (c) notify Owner that Builder still desires to purchase the Excluded Lot at such time as the title defect affecting the Excluded Lot is cured, or (d) in the event there are twelve (12) or more Excluded Lots, deliver written notice to Owner that Owner has failed to cure the title defect within the applicable cure period set forth above and if Owner fails to cure such title defect on or before five (5) calendar days following Owner's receipt of such notice, Builder may declare Owner to be in default under this Agreement. If Builder fails to take any of the actions described in clauses (a) through (d) above, Builder shall be deemed to have elected to confirm its desire to acquire the Excluded Lot at such time as the title defect affecting the Excluded Lot has been cured. If Builder renounces, or is deemed to have renounced its right to acquire an Excluded Lot pursuant to the terms of this Section 7 or if Builder desires to purchase the Excluded Lot once the title defect is cured but such title defect is not cured by the date on which the last Lot (other than the Excluded Lot) is acquired by Builder, then such Excluded Lot shall not be considered in determining whether Builder has acquired all the Lots, and Owner shall reduce the Deposit pro rata by an amount determined based on the ratio of the number of Lots to which Builder has renounced its rights to the total number of Lots that were originally the subject of this Agreement.

8. Property Condition. All Lots purchased by Builder shall be purchased strictly in "AS IS" condition, and Builder accepts and agrees to bear all risks regarding all attributes and conditions, latent or otherwise, of the Lots purchased by Builder, except to the extent that Owner has by its gross negligence or willful misconduct been the sole cause of any such risks or defects. Builder has made its own inspection and investigation of the Property, including, without limitation, its subsurface, soil, engineering and other conditions and requirements, whether there are any eminent domain or other public or quasi public takings of the Property contemplated, and all zoning and regulatory matters pertinent to the Property, as Builder deems necessary or prudent. Builder shall purchase the Lots upon Builder's own inspection and investigation and not in reliance on any statement, representation, inducement or agreement of Owner except as expressly provided herein. Builder agrees that neither Owner nor anyone acting on behalf of Owner has made any representation, guarantee or warranty whatsoever, either written or oral, concerning the Property. Owner shall have no responsibility, liability or obligation with respect to any conditions, including, without limitation, environmental conditions, or as to any other matters whatsoever respecting in any way the Lots purchased by Builder in such Closing, and Builder hereby fully and forever releases Owner and Owner's direct and indirect partners, members, and their respective owners, officers, directors, employees, agents, affiliates, successors and assigns including, without limitation, the Lender, its affiliates and any other lender acquiring title to the Property through foreclosure or deed in lieu of foreclosure (collectively, the "Owner Related Persons") with respect to such conditions and agrees to indemnify, defend and hold harmless the Owner Related Persons from any claims by parties other than Builder relating to any of the matters covered by this Section 8.

9. Regulatory Matters.

(a) Interstate Land Sales Full Disclosure Act. Builder represents and warrants that the sales provided for herein are exempt from State subdivided land sales laws and the Interstate Land Sales Full Disclosure Act by reason of being within one or more of the exemptions set forth therein or in the regulations promulgated pursuant thereto. In support of

such exemption, Builder represents and warrants to Owner as follows, which representation and warranty shall be true and correct at all times during the term of this Agreement and shall survive the term of this Agreement: Builder is regularly engaged in the business of constructing residential, commercial or industrial buildings and/or reselling or leasing Lots to persons engaged in such business, is acquiring the Lots in the ordinary course of that business and otherwise meets the exemption prerequisites set forth in 15 U.S.C. Section 1702(a)(7) and further defined in 24 CFR 1710.5(g) and 24 CFR 1710, Appendix A. Builder shall indemnify, defend and hold harmless Owner and all Owner Related Persons for, from and against any and all claims, demands, liabilities, obligations, costs and expenses (including, without limitation, reasonable attorneys' fees and costs) incurred as a result of any misrepresentation by Builder in this Subsection 9(a).

(b) Environmental Laws. Builder shall have the responsibility at Builder's cost and expense, to comply with all federal, State and local environmental laws, regulations and requirements pertaining to the development and operation of the Lots, including but not limited to the obligation to prepare and submit to the U.S. Environmental Protection Agency a Notice of Intent (NOI) for Storm Water Discharges under the National Pollutant Discharge Elimination System (NPDES) and to comply with all applicable pollution prevention, control, monitoring, reporting, inspection and permitting conditions and requirements related thereto. Owner has acquired the Property based upon Builder's representation that Builder has hired consultants that have fully investigated the Property for any "Hazardous Substances" (as defined below). Except as disclosed by the Phase I environmental site assessment of the Property dated April 22, 2005, prepared by Williamsburg Environmental Group, Inc., and the accompanying "reliance letter" dated February 28, 2006, Builder warrants to Owner that there are no Hazardous Substances currently existing on, in or under the Property, or that are a threat to be released onto or under the Property from sources either on the Property or off the Property, and that no above or underground storage tanks are located on the Property. Builder hereby agrees to indemnify, defend and hold the Owner Related Persons harmless from and against any and all claims, damages, liabilities, costs or expenses, including reasonable attorneys' and consultants' fees (collectively "Damages") suffered or incurred by any of the Owner Related Persons as a result of any breach of any representation or covenant under this Section 9(b) or any Hazardous Substance (i) now or hereafter existing on, in or under the Property or Improvements as of the date of this Agreement; (ii) subsequently released or discharged onto, in or under the Property or Improvements from sources existing on or off the Property; (iii) released or discharged onto, in or under the Property or Improvements during the course of development of the Project. The liability of Builder as set forth in the preceding sentence includes, without limitation, the cost of, or liability for, investigation, clean up or remediation of the Property and Owner's legal fees and expenses incurred in connection with this Section 9(b); any damages resulting in diminution in value or adverse effect on the marketability of the Property or any portion thereof; any fines, penalties, interest, assessments, judgments or other liabilities arising from any laws relating to Hazardous Substances; any liabilities for property damage, personal injury, injury to natural resources, and consequential damages; and any amounts expended by any of the Owner-Related Persons to settle or compromise any claim or allegation of liability arising out of Hazardous Substances (provided, however, that Owner shall not settle or compromise any claim or allegation of liability without Builder's prior written consent, which consent shall not be unreasonably withheld). The indemnity contained in this Subsection 9(b) shall not relate to any matter caused by the gross negligence or willful misconduct of Owner. As used herein, "Hazardous Substances"

means (i) any chemical, compound, material, mixture or substance that is now or hereafter defined or listed in, or otherwise classified pursuant to or regulated by, any laws, regulations, rules or orders including, but not limited to, the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Comprehensive Environment Response, Compensation and Liability Act of 1980, as amended (including the Superfund Amendments and Reauthorization Act of 1986), 42 U.S.C. Section 9601 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601 et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651, the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; and all comparable state and local laws, laws of other jurisdictions or orders and regulations defining or listing materials as hazardous, toxic, infectious, carcinogenic or otherwise injurious to human health or the environment; (ii) asbestos; (iii) PCB's; (iv) radioactive materials; (v) mold; and (vi) any petroleum or petrochemical substances. Each of the obligations of this Subsection 9(b) shall survive any subsequent acquisition of the Property by Owner and any termination of this Agreement.

(c) Responsibility for Regulatory Compliance. Builder acknowledges and agrees that Builder shall have full responsibility at its sole cost and expense for the compliance of the Property with all applicable statutes, ordinances, laws and regulations and nothing in this Section 9 or elsewhere in this Agreement shall relieve Builder from its obligations under this Agreement in the event the Property or Lots fails to comply with applicable statutes and regulations or the development or sale of the Lots is stopped or delayed as a result of the failure to comply with applicable statutes and regulations.

10. Final Plat Approvals.

(a) Filing of the Final Plats. Builder, with Owner's reasonable cooperation (but without cost to Owner), shall obtain the Final Approvals for each of Phase II, Phase III, Phase IV and Phase V of the Project to create the subdivided Lots in substantial conformity with the Preliminary Plan, which Final Approvals may not be materially modified such that the value of the Property or the costs of development are adversely affected without the prior written consent of Owner which consent shall not be unreasonably withheld, conditioned or delayed, as soon as practicable after the execution of this Agreement so that the Final Plat for each Phase will be recorded and bonded prior to the time the Builder is required to purchase the Lots in such Phase pursuant to Exhibit B. Builder shall, with Owner's cooperation (but without cost to Owner), the approved Final Plats for each Phase of the Project. The Final Plats shall include all necessary dedications or easements for rights-of-way, utilities and related facilities. All costs and expenses of obtaining and recording the Final Plats shall be paid by Builder, subject to reimbursement under the Improvement Budget. Owner shall cooperate as reasonably requested to assist Builder in obtaining the Final Plats for each Phase, including executing documents required by the County to obtain approval of such Final Plats and documents necessary to record the applicable portions of such Final Plats; however, in no event shall Owner be required to incur any costs in providing such cooperation nor shall Owner be required to assume or incur any liability or risk to its fee interest that is not the subject of an indemnification by Builder. To assist Builder in obtaining approval of the Final Plats on a timely basis, Owner will execute and

deliver to Builder an Owner's Authorization in the form attached hereto as Exhibit L. Owner may revoke the Owner's Authorization at any time by written notice to Builder.

(b) Risk of Delay. As of the date of this Agreement, the Preliminary Plat has been approved by the County, the Final Approvals for Phase I have been obtained from the applicable governmental authorities and the Final Plat will be recorded and bonded within thirty (30) days after the Effective Date; however, the Final Plats for Phases II through V of the Project have not been filed. The recordation of the Final Plat(s) for each Phase of the Project shall not be a condition precedent to Builder's obligations hereunder. Any delay experienced in recording the Final Plats or any other component of the Final Approvals for each Phase of the Project shall not affect the Exhibit B and the timing of Builder's Option to purchase Lots; and if the Final Plat or any other component of the Final Approvals pertaining to a particular Lot (each, an "Unplatted Takedown Lot") has not been recorded at the time of the scheduled Lot purchase pertaining to such Unplatted Takedown Lot, then notwithstanding anything to the contrary contained in this Agreement, as a condition to Builder's right to maintain this Option, Builder shall be required to pay to Owner, at the time of the scheduled purchase of the Unplatted Takedown Lot as reflected on Exhibit B, the total consideration to be paid to purchase the Unplatted Takedown Lot as reflected on Exhibit B. Builder acknowledges that it must purchase the Lots set forth on Exhibit B for the Option to remain in effect regardless of whether the Final Plat or any other component of the Final Approvals for a particular Phase has been recorded or obtained for the Lots scheduled to be purchased as set forth on Exhibit B; however, if, at the time of any scheduled purchase of Lots, the Final Plat or any other component of the Final Approvals has not been recorded or obtained as to the applicable Lots then required to be purchased by Builder, then Owner shall not be obligated to concurrently convey such Unplatted Takedown Lot(s) to Builder. Instead, if Builder has paid to Owner the total consideration for the scheduled purchase, Owner shall deliver to Escrow Agent a Deed and such other documents as are required to be delivered by Owner pursuant to this Agreement at a Closing no later than three (3) business days after recordation of the Final Plat affecting such Unplatted Takedown Lot. Upon Escrow Agent's receipt of such documents from Owner, Escrow Agent shall cause the Deed to be recorded conveying to Builder the requisite number of Lots consistent with the previous payments made to Owner.

11. Improvements. Builder shall construct all on-site and off-site improvements in the nature of infrastructure and related public improvements shown on the Final Plats and Final Site Plan in accordance with the Preliminary Plan, the Final Approvals and the terms of this Agreement and the Improvement Budget approved by Owner, and pursuant to (a) the Government Improvement Agreements described herein below, or (b) any condition for Final Plat approval, or as necessary to provide the required access and utilities to the Property and the Lots to be developed on the Property, and Builder shall be required to obtain all Final Approvals and supervise the construction of on the Property including, without limitation, the improvements described in Section 10(a) hereof (collectively, the "Improvements"). A material inducement to Owner to enter into this Agreement is Builder's undertaking to commence promptly, pursue diligently and in a first-class manner, and to complete or cause to be completed all of the Improvements, free and clear of claims, liens and encumbrances on the Property and the Improvements in accordance with the Improvement Schedule attached hereto as Exhibit E. Builder's obligation to obtain all governmental approvals necessary to record the Final Plats and complete the construction of the Improvements is independent from Builder's right to acquire the

Lots and Builder and Holdings hereby unconditionally guaranty to obtain all Final Approvals, complete the construction and installation of the Improvements in accordance with the requirements of this Agreement, the Final Plats and Final Approvals as such documents may be amended, modified or revised with Owner's consent (which consent shall not be unreasonably withheld, conditioned or delayed) and any other permits, conditions, requirements or agreements to which Builder or the Property is subject (collectively, the "Government Improvement Agreements"). Builder acknowledges that the Property has been or is intended to be subjected to certain declarations of covenants, conditions, restrictions and easements (the "Declarations"). Builder shall perform all of the obligations of Owner under the Declarations accruing during the term of this Agreement and Builder shall otherwise comply during the term of this Agreement with all provisions of the Declarations applicable to Builder, Owner or any of the Property. The parties acknowledge that in the event Builder or Holdings defaults in the obligation of this Section 11 to complete, or cause to be completed, the Improvements in accordance herewith, Owner shall be entitled to all remedies at law and in equity, including specific performance. All Final Approvals shall be subject to Owner's consent (which consent shall not be unreasonably withheld, conditioned or delayed).

(a) Improvement Schedule. Attached hereto as Exhibit E is a schedule (the "Improvement Schedule") for the construction of the Improvements. The Improvement Schedule sets forth a general description of the various Improvements and a date by which each such Improvement shall be complete. All of the Improvements to be built by Builder, whether consisting of, among other things, off-site work, in-tract work, park development or work on the Property (other than for-sale housing built in and on Lots already purchased by Builder or the Model Homes as otherwise described herein) shall be subject to the provisions of this Section 11 and shall be built in accordance with the Improvement Schedule and the terms of this Agreement.

(b) Improvement Default. Notwithstanding anything to the contrary contained herein, except in the event that Builder has purchased all of the Lots in accordance with the terms of this Agreement, Builder and Holdings shall be required to complete the construction of the Improvements on the Property in accordance with the terms of this Agreement. In the event that Builder has failed to construct the Improvements in accordance with this Agreement, the Improvement Schedule or in substantial compliance with the Improvement Plans, as defined in Subsection 11(c) below, and such failure is not cured within the period provided in Subsection 18(a)(ii) below ("Improvement Default"), and as a result thereof, Owner gives Builder a Default Termination Notice (as defined in Subsection 18(b)(iii) below) evidencing Owner's intention to terminate the Option as the result of an Improvement Default, which notice shall cite this provision and state that Builder's failure to act in the specified time may result in a forfeiture of the right to acquire the Property pursuant to this Agreement, Builder may exercise the Early Acquisition Option described in Subsection 18(b)(iii) below.

(c) Plans and Specifications. All Improvements constructed by Builder shall be built in conformance with the Preliminary Plan and the Final Approvals for each Phase of the Project, subject to field variances (the "Improvement Plans") copies of which have been or will be delivered to Owner by Builder and approved by both Builder and Owner. No material changes or material modifications, other than those required by applicable regulatory authorities

(e.g., the City or County) or required by field variances not known by Builder on the date hereof, shall be made in the Improvement Plans without the approval of both Builder and Owner.

(d) Hiring of Consultants; Bonds and Letters of Credit. Builder shall furnish or arrange for all consultants, skills, labor, materials, supplies, equipment, services, machinery, tools and other items of every description required for the prompt and efficient completion of the Improvements in a good and workmanlike manner in accordance with terms of this Agreement. Subject to Builder's reimbursement rights set forth in Section 11(i) below, Builder shall be responsible, at its cost, for obtaining any and all bonds or letters of credit required by the City, County and/or other governmental agencies for the construction of the Improvements and/or development of the Property, or otherwise as reasonably required by Owner. If, at the expiration of the term of the Option, Builder shall not have exercised the Option with respect to all of the Lots, Owner shall replace any outstanding bonds affecting the Project and posted by Builder on or before ninety (90) days following the date that Owner's inspector confirms to Owner in writing that all Improvements have been completed; provided however, (i) Builder shall pay all costs incurred by Owner to provide such bonds and any amount not paid within ten (10) days after written demand therefore shall be offset against any other amount the Owner or one of its affiliates owes to Builder or any affiliate of Builder or Holdings under this Agreement or any other agreement with Owner or one of its affiliates; provided further that if the Owner cannot replace the bonds at a cost acceptable to Builder, Builder shall have the option to keep the current bonds in place, and (ii) that Builder shall remain responsible and indemnify, defend, protect and hold Owner and all Owner-Related Persons harmless from and against any and all claims, demands, losses, costs, expenses damages and liabilities arising from or in connection with any defects of any nature in the Improvements, notwithstanding Owner's posting of such bonds. Upon any termination of the Option (except following Builder's purchase of all the Lots) resulting from Owner's default hereunder, Owner shall cause any bonds or letters of credit provided by Builder to be replaced with alternative bonds or letters of credit, and until such bonds or letters of credit have been provided, Owner shall indemnify and defend Builder against all liability, loss, cost or expense arising out of claims on such bonds or letters of credit.

(e) Completion of Improvements. Builder shall pay the full cost, subject to Builder's reimbursement rights set forth in Section 11(i)(i), of preparing and filing the Final Plats for each Phase of the Project, obtaining all Final Approvals, and constructing and installing the Improvements in accordance therewith and herewith and Owner shall have no liability for any costs in excess of the Improvement Budget. If for any reason whatsoever the cost of the foregoing, including any related costs, whether foreseen or unforeseen, exceeds the Improvement Budget, Builder shall pay for all such costs in excess of the Improvement Budget at the time all or any portion of such excess costs come due; provided that if during any period when Builder is obligated to fund costs in excess of the Improvement Budget, Builder experiences a Material Adverse Change (as defined in Section 18(a)(ix) below), then Builder shall immediately pay to Owner the entire amount of the projected costs in excess of the Improvement Budget, irrespective of whether or not such sums are then due. Owner shall have no obligation to continue funding Improvements unless Builder timely pays all costs in excess of the Improvement Budget as such costs come due, or if Builder has experienced a Material Adverse Change, as described above, until Builder has paid to Owner the entire amount of projected costs in excess of the Improvement Budget. Owner shall have no obligation to fund any costs or incur any expenses in excess of Owner's Reimbursement Amount, and the existence of any cost

overage shall not justify Builder's defaulting on its obligation to complete the Improvements as set forth in this Section 11 and this Agreement. Builder shall keep the Improvements and the Property free from any liens or claims resulting from the Improvements or otherwise and shall immediately pay and discharge any such liens or claims (whether by posting a bond or otherwise) that attach to the Improvements or the Property. Furthermore, Builder acknowledges that its failure to complete the Improvements or obtain the Final Approvals, as provided herein, may prevent Owner from obtaining building permits for the Lots. In the event of (A) an Improvement Default and irrespective of whether the Option has or has not been terminated by Owner, or (B) Builder's failure to timely exercise its Option and purchase Lots in accordance with this Agreement, in addition to all other rights and remedies of Owner hereunder, Owner, in its sole and absolute discretion, may elect to either: (i) at such time as Owner deems appropriate (without regard to the Improvement Schedule), to obtain the Final Approvals and to complete the construction and installation of the Improvements, it being expressly understood and agreed that any and all costs incurred by Owner or a third party hired by Owner to obtain the Final Approvals and to complete the Improvements that are in excess of the Owner's Reimbursement Amount as defined in Section 11(i)(i) below (including, without limitation, any overhead fee or comparable fee Owner may be required to pay to another builder), irrespective of the reason for such additional costs, shall be paid by Builder within fifteen (15) days after Owner's written request for payment and that the costs incurred by Owner or a third party hired by Owner in obtaining the Final Approvals and constructing the Improvements shall be final evidence of the cost thereof and shall not be disputed by Builder, or (ii) require Builder to proceed with preparation, filing and recordation of the Final Plats for each Phase of the Project and the constructing, installing and completing the Improvements using a construction schedule that Owner, in its sole discretion, determines is appropriate (but in no event requiring completion prior to the dates set forth in the Improvement Schedule), provided that if Owner elects to have Builder complete the Improvements, Builder shall be entitled to reimbursement, in accordance with Section 11(i) below, for all costs incurred by Builder which are included in the Improvement Budget, up to a maximum amount equal to Owner's Reimbursement Amount. Builder shall remain solely liable for and shall promptly pay for any and all costs and expenses in excess of the total Improvement Budget.

(f) Field Changes to Improvement Plans. If any field changes or modifications to the Improvement Plans made during the course of construction substantially deviate from the Improvement Plans, such changes shall require prior reasonable consent of Owner in writing, approved and signed by the engineer in charge of the Improvements, and noted on the Improvement Plans and a copy shall be delivered to Owner for its records.

(g) As Built Plans. As soon as reasonably possible after completion of the Improvements in each Phase and all inspections of the Improvements in each Phase, Builder shall submit to Owner "as built" Improvement Plans, executed by Builder's appropriate State-licensed consultants (engineer, architect and/or landscape architect, etc.), and as required by applicable governmental authorities in order to release bonds, to certify that such installations are substantially conforming to the Improvement Plans.

(h) Permits and Approvals. In constructing the Improvements, Builder shall use a quality of materials and workers at least commensurate with similar quality projects constructed by Builder and its affiliates in Virginia and contractors with sufficient skill and

expertise to construct the Improvements in a commercially acceptable and defect free manner. Builder shall, in constructing the Improvements, first obtain all necessary land use and environmental permits and approvals and the Improvements shall be constructed in accordance with such permits and approvals and all applicable laws, statutes and regulations. Builder shall not use in constructing the Improvements or otherwise incorporate into the Improvements any Hazardous Substances, except such as may be necessary in constructing the Improvements (such as petroleum products used in equipment) which shall be used in compliance with all applicable laws and regulations relating to Hazardous Substances. Builder shall immediately notify Owner of any discharge of Hazardous Substances occurring on the Property.

(i) Improvement Budget.

(i) Attached hereto as Exhibit E-1 is a budget for the Improvements ("Improvement Budget"), which has been prepared by Builder and approved by Owner. As set forth in the Improvement Budget, the total cost of the Improvements shall be \$37,020,532.00 (including fees as identified on the Improvement Budget). Attached as Exhibit E-2 to the Improvement Budget is a line-by-line breakdown of the maximum amount Owner shall be obligated to reimburse Builder for constructing and installing the Improvements. The total amount, which Owner has agreed to reimburse Builder subject and pursuant to the terms of this Agreement, is \$37,020,532.00 ("Owner's Reimbursement Amount"). The acquisition pro forma attached hereto as Exhibit K sets forth the amounts and dates Owner shall be obligated, subject to the terms hereof, to reimburse Builder as set forth in the Improvement Budget, so long as on the date a reimbursement is to be made: (a) Builder shall not have received written notice from Owner that Owner desires to complete the construction of the Improvements pursuant to Section 11(e)(i) hereof, (b) the Improvement Budget is "in balance", as described in Subsection 11(j) below, (c) the Improvements have been completed, as certified by Builder in the manner described below subject to Owner's inspection, and (d) no default hereunder. Notwithstanding the foregoing, Owner shall not be obligated to reimburse Builder in any month for amounts set forth in the Improvement Budget in excess of the aggregate amount projected to be reimbursed to Builder through the applicable corresponding date. In no event shall Owner have any obligation to reimburse Builder for any amount in excess of Owner's Reimbursement Amount or make such reimbursements on any date other than the date set forth in Exhibit K. Provided that Builder has purchased all of the Lots as provided for in this Agreement and neither Holdings nor Builder is in default under this Agreement, concurrently with the purchase by Builder of the last Lot, Owner shall pay to Builder or, at Owner's option, Builder may offset against the Purchase Price for the last Lot(s), an amount equal to the positive difference, if any, between the total projected pro forma Owner's Reimbursement Amount less the actual portion of Owner's Reimbursement Amount disbursed by Owner as of the calculation date. To the extent set forth in the Improvement Budget and subject to Builder's reimbursement rights set forth in Section 11, the costs of Owner and Lender relating to the monitoring and review of the Improvements and the uses of Owner's Reimbursement shall be paid by the Builder.

(ii) Before making any monthly Owner's Reimbursement to Builder, Owner will require that Builder present to Owner a written request for reimbursement ("Reimbursement Request") at least fifteen (15) business days prior to the date upon which Owner is required to fund such reimbursement to Builder that includes the following:

(1) the total dollar amount for which reimbursement is being requested which amount shall not include any retention amounts which Builder has not disbursed to its subcontractors;

(2) the dollar amounts and individual line items from the Improvement Budget comprising the total amount requested;

(3) the percentage of the work within each such line item that has been completed;

(4) an invoice or other reasonable documentation for all amounts included in the Reimbursement Request;

(5) a copy of a conditional lien release in a form reasonably satisfactory to Owner, from each subcontractor, materialman or laborer paid by Builder for work or materials included in the Reimbursement Request for the previous quarter (under Local Counsel Review), setting forth the amount required to release such lien;

(6) a certification executed by Builder to Owner stating that (a) all amounts included in the Reimbursement Request have been paid by Builder and have been incurred properly in the construction and installation of the Improvements and in accordance with this Agreement, (b) all Improvements for which Builder is requesting reimbursement have been completed in accordance with the terms of this Agreement, and (c) Owner shall be entitled to rely thereon; and

(7) a certification executed by Owner's engineer stating that all Improvements for which Builder is requesting reimbursement have been completed in accordance with this Agreement. Builder may move dollar amounts between line items of the Improvement Budget, so long as Builder has provided reasonably satisfactory evidence to Owner that the total cost of constructing and installing the Improvements will not exceed \$37,020,532.00 (Owner's Reimbursement Amount), and provided further that Owner will have no obligation to reimburse Builder, in any given month, for any amount in excess of the applicable monthly reimbursement amount set forth in the Improvement Budget, unless in a prior month Owner has reimbursed Builder for less than projected, in which case Owner will reimburse Builder up to an amount equal to the aggregate amount projected in the Improvement Budget to be reimbursed to Builder through the end of that quarter provided all the conditions herein relating to such work have been satisfied. Provided there are no defaults hereunder and the reimbursement conditions have been satisfied, Owner will deliver to Builder a good check or wire transfer for the amount requested within fifteen (15) business days following Owner's receipt of a properly completed Reimbursement Request.

(j) Balancing. Owner shall be obligated to make reimbursements to Builder only when the Improvement Budget is "in balance." The Improvement Budget shall be "in balance" only at such times as (i) the aggregate amount of the Improvement Budget disbursed does not exceed one hundred percent (100%) of the actual budgeted cost of the Improvements completed as of the time of calculation, and (ii) Builder has invested sufficient funds towards the

payment of costs necessary to complete the construction and installation of the Improvements so that, in Owner's reasonable judgment, the undisbursed portion of the Improvement Budget shall be sufficient to complete the construction and installation of the Improvements. Should Owner determine that the Improvement Budget is not in balance, Builder shall not be entitled to any further disbursements of the Owner's Reimbursement, and Owner shall not be required to fund such disbursements of Owner's Reimbursement, until Builder provides evidence to Owner, to Owner's reasonable satisfaction, that Builder has funded any Improvement Budget shortfalls necessary to cause the Improvement Budget to be "in balance" in order to complete the construction of the Improvements in accordance with the terms of this Agreement.

(k) Force Majeure Delays. If Force Majeure Events delay Builder's ability to develop the Property in accordance with the Improvement Schedule and the Improvement Budget, Builder shall be entitled to a one time extension to the Improvement Schedule of up to ninety (90) days. As used herein, "Force Majeure Events" shall mean: (a) acts of God or elements of nature such as flood, hurricanes or tornadoes; (b) acts of war, terrorism, civil riots or rebellions; (c) emergency governmental restrictions such as embargoes and quarantines; (d) fire; (e) strikes, work stoppages or other labor union actions not resulting from the acts or omissions by Builder or its affiliates; or (e) moratoria or stop work orders of general effect and not resulting from a default by Builder under this Agreement or the acts or omissions of Builder and its affiliates.

(l) Inspections. Owner shall have the right, but not the obligation, to conduct monthly or more frequent inspections or to cause its agents to inspect the progress and quality of all work performed by, or under subcontract to, Builder in connection with the Project, to require the replacement of any defective or improper work and to refuse payment of any funds until such matters have been remedied and Builder will provide Owner and Lender or their agents access to the Property for this purpose. Inspections by Owner or its agents shall not in any manner constitute Owner's approval or acceptance of the progress or quality of the work. The failure of Owner to inspect shall not relieve Builder of its duties under this Agreement. Every month during the term of this Agreement, Builder shall pay to Owner an inspection fee of \$500.00 per month, will be invoiced separately by Owner to Builder.

12. Use and License. Subject to the restrictions contained in this Agreement and in the License Agreement attached hereto as Exhibit F ("License Agreement"), Builder shall have a license to use the Property for purposes of inspection, making surveys and tests, staking, obtaining topographical information and performing other preliminary development work, constructing the Improvements, performing incidental work in the course of constructing Model Homes or production homes on the Property, and for the following uses and no other purposes:

(a) Parking. Three (3) Lots as designated on the Preliminary Plan immediately adjacent to the Lots designated for Model Homes may be utilized for parking purposes (i.e., parking of motor vehicles that may be driven by Builder's customers and other business visitors, and for providing a walkway to Builder's Model Home complex) associated with the Model Home complex. Builder shall notify Owner of the Lot which Builder requests be designated for such parking purposes. Upon termination of the Option and to the extent requested by Owner, Builder shall remove and properly dispose of all parking surface material and restore such Lot to a finished Lot condition within thirty (30) days of termination.

(b) Construction Trailer. Two (2) Lots may be used as a construction trailer location. Builder shall notify Owner of the Lot that Builder requests be designated as a construction trailer location. Any such construction trailer and all attendant equipment or utilities shall be immediately removed upon termination of the Option.

(c) Temporary Sales Facility. Two (2) Lots may be used as a temporary sales trailer location for the purpose of selling homes in the Property. Any such sales trailer and all attendant equipment or utilities shall be immediately removed upon termination of the Option.

13. Model Homes/Production Lots.

(a) Obligation to Restore. If Builder has not previously acquired the Lots utilized to build homes in accordance with the foregoing provisions, then upon expiration or termination of the Option, to the extent requested by Owner but only to such extent, Builder shall restore those Lots not previously acquired to substantially the same condition as all other Lots upon which no construction of dwelling units has commenced, and in no event to a condition worse than that of such Lots as they existed on the Effective Date.

(b) Permits and Approvals. Builder shall not grade or construct any improvements on the Lots without first having obtained all licenses, permits and approvals required by law and shall not perform any such work on Lots owned by Owner without obtaining Owner's prior approval of the plans for such work. To the extent not already granted by Owner, Owner may grant or deny such approval in its reasonable discretion.

(c) Owner's Cooperation. Provided that Builder fully reimburses Owner for all actual out of pocket costs and expenses (including, attorney's fees) reasonably incurred by Owner, and subject to the other provisions of this Agreement, Owner shall, at no other charge to Builder, promptly and diligently cooperate with Builder as reasonably necessary in connection with Builder's efforts to develop the Lots by signing tract maps or plats, the Final Plats, filings with the DCA or similar government agencies, permit applications, and such other and similar documents and instruments that are reasonably deemed necessary or desirable by Builder to enable Builder to comply with its obligations contained in this Agreement and which are consistent with the terms hereof and the Project contemplated herein.

(d) No Liens. Following the conveyance of any Lots to Builder, Owner shall not encumber such Lots except as required by the Loan Documents. Moreover, during the period Owner owns any Lots, Builder shall maintain the status of Owner's title consistent with the status of Owner's title when the Property was conveyed to Owner pursuant to the Purchase Agreement. Builder shall keep the Lots free and clear of all liens and encumbrances incurred by or resulting from acts of Builder or its agents, employees, contractors and representatives, and Builder shall indemnify, defend and hold harmless Owner and Owner Related Persons for, from and against any such liens or encumbrances.

(e) Covenants, Conditions and Restrictions. Builder acknowledges that the Lots will be subject to the Preliminary Plan and a Final Site Plan for each Phase of the Project to be prepared by Builder and approved by Owner, approved by the necessary governmental authorities and then recorded in the Recorder's Office of the County. Builder shall, at its

expense, perform all of the obligations of the developer or sponsor under the Final Plats including without limitation making the payment of all fees, assessments, dues, charges and other sums allocable to the Property, if any, prior to the due date thereof and Builder shall otherwise comply with all provisions of the Final Plats applicable to the "grantor," Builder, Owner or the Property during the term of the Option. Builder shall have no right to (and shall not permit any third party to) (i) record any covenants, conditions or restrictions other than the Final Plats against the Lots or (ii) amend, terminate or de-annex the Lots from, or agree to amend, terminate or de-annex the Lots from, the Final Plats, without Owner's prior written consent, which consent Owner shall not unreasonably withhold, condition or delay. Owner agrees to reasonably cooperate with Builder to timely execute any and all documents required to be signed by the title holder of the Property which are reasonably necessary or required to accomplish the obligations of Builder under this Agreement.

14. Additional Obligations of Builder Concerning the Property. As partial consideration for the grant of the Option to Builder, and commencing on the Effective Date:

(a) Taxes and Assessments. Subject to Builder's reimbursement rights set forth in Section 11(i), Builder shall pay prior to delinquency all general and special real estate taxes, assessments and other charges, including association dues, otherwise payable by Owner and attributable to the Property (regardless of whether such taxes or assessments relate to periods prior to the Effective Date), and otherwise perform at its expense all maintenance, insurance and other obligations contained in this Agreement, and shall bear the construction responsibilities and costs, if any, described in this Agreement. A copy of each check to the County Treasurer for taxes attributable to the Lots owned by Owner shall be sent to Owner promptly upon the submission of same to the municipal tax collector and not less than ten (10) days prior to the date on which such taxes become delinquent. Upon the termination of the Option pursuant to Section 5 above, Builder shall immediately pay to Owner in cash all unpaid taxes and assessments attributable, as of the date of said termination, to the Lots not acquired by Builder, and Owner shall refund to Builder any over payments of taxes Builder has made which Owner has received or later receives. The amounts payable by Builder shall be determined based upon the latest and best available information, and when the actual bills are received, the parties shall make such payment, one to the other, as is necessary so that Builder pays the actual amount of taxes and assessments attributable to the term of the Option. Builder shall maintain Property books and records for the Property and Lots (cash basis) and detailed records of uses of Owner's Reimbursement.

(b) Other Charges. Subject to Builder's reimbursement rights set forth in Section 11(i), Builder, at its sole cost and expense, shall pay all other charges and make all other payments required under this Agreement to the parties specified hereunder. Owner and Builder each state and represent that it is the intention of each of them that Owner shall not be required, during the term of this Agreement, to incur any expense or other charge applicable to the Property except as expressly set forth herein, so that all impositions, insurance premiums, utility expenses, construction costs, repair and maintenance expenses and all other costs and expenses (but excluding income, gift, estate, inheritance or excess profits taxes) of whatsoever character or kind, general or special, ordinary or extraordinary, foreseen or unforeseen, and of every kind and nature whatsoever, shall be paid or discharged by Builder.

(c) Obligations Under Purchase Agreement. Builder shall perform all covenants and obligations of the "Buyer" under the Purchase Agreement and pay all charges and make all payments required under the Purchase Agreement to be paid by the "Buyer" thereunder, except that Owner shall pay the purchase price required thereunder. Owner and Builder intend that, as between them, Owner shall not be required at any time to perform any obligations of the "Buyer" under the Purchase Agreement, nor incur any expense or other charge applicable to the Property except as expressly set forth herein.

15. Maintenance. During the term of the Option and subject to Builder's reimbursement rights set forth in Section 11(i), Builder shall, at its sole expense, maintain the Property in good order, condition and repair. In the event of any damage to or destruction of the Property or the Improvements during the term of the Option, except to the extent caused by Owner's gross negligence or willful misconduct, Builder shall at its sole expense proceed to repair and restore the Property and the Improvements to their condition immediately prior to such damage and destruction. No such damage or destruction shall release Builder from any of its obligations hereunder or extend the time for construction of the Improvements as provided in Section 11, or extend the time for the purchase of the Lots except as specifically provided elsewhere in this Agreement. Subject to the foregoing exclusion, upon termination of the Option, Builder shall deliver to Owner the portion of the Property not purchased by Builder pursuant to the terms of this Agreement and the Improvements to Owner in good condition and repair. Builder shall pay prior to delinquency all charges for water, electricity, telephone service, trash removal and all other services or utilities used on or about the Property prior to the expiration or termination of the Option.

16. Insurance. Subject to Builder's reimbursement rights set forth in Section 11(i), Builder shall, at its sole expense, procure and maintain commercial general liability insurance against claims for bodily injury, death or property damage, occurring in, on or about the Property, or resulting from Builder's use or maintenance thereof, in an amount of at least Five Million and 00/100 Dollars (\$5,000,000.00) for each occurrence and Five Million and 00/100 (\$5,000,000.00) in the general aggregate or as reasonably requested by Owner. The liability policy shall name Owner, its partners or members, Lender and any other parties designed by Owner, as an additional insured. The policy shall be issued by an insurance company authorized to do business in the Commonwealth of Virginia and approved by Owner, which approval will not be unreasonably withheld, provided that such insurance company has a rating classification of A-VII or better according to the latest edition of the A.M. Best Key Rating Guide. The policy shall provide that no cancellation, alteration or non renewal of said insurance shall be effective unless the insurance company issuing such policy gives Owner at least thirty (30) days prior written notice thereof. The policy shall provide that it will be primary to any insurance policy otherwise purchased by Owner. The insurance coverage required to be maintained by Builder pursuant to this Agreement may be maintained through one or more a "blanket" policies so long as any such policy expressly provides that no loss suffered under any such "blanket" policy will cause any reduction in the coverage required to be maintained by Builder under this Agreement. Builder shall also, at its sole expense, procure and maintain employer's liability insurance for worker's compensation in an amount not less than the statutory limits of coverage.

17. Indemnity. To the fullest extent permitted by law, Builder (jointly and severally with Holdings) does and shall indemnify, defend and hold harmless, and hereby releases and

discharges, Owner and the Owner Related Persons for, from and against all claims, demands, liabilities, losses, damages, costs and expenses, including but not limited to court costs and reasonable attorneys' fees, arising out of or suffered or incurred in connection with (a) Builder's use or occupancy of the Lots, any other portion of the Property, or any neighboring property and any violations of any laws or regulations relating to the Property or Lots and the development thereof, (b) Builder's construction of the Improvements, and Builder's failure to construct Improvements in accordance with terms of this Agreement, (c) any work, occurrence, conduct, act or omission maintained, performed, permitted or suffered by Seller, Builder or any representative, subcontractor or supplier of Builder or Seller, or any employee, agent, invitee or licensee of any of the foregoing, on or about or pertaining to the Lots, the Property, or any neighboring property, (d) any claim pertaining, or relating, to the Lots, the Improvements, any other portion of the Property, or any neighboring property, specifically including, without limitation, any claims arising as a result of any work performed on the Property or any neighboring property by, or on behalf of Builder, or the condition of the surface and sub surface of the Lots, any other portion of the Property, or any neighboring property, or the failure of the Improvements to be properly developed in a fashion necessary to reasonably minimize all risks of subsidence and any other settlement or movement of the soils, (e) any condition of or on the Lots, any other portion of the Property, any neighboring property, any street, curb or sidewalk thereon or adjacent thereto, or any Improvement constructed or to be constructed thereon, (f) Builder's failure to perform Builder's obligations (including, but not limited to, failing to obtain Final Approval for each Phase of the Project), or Builder's breach of Builder's covenants, obligations, representations or warranties, under this Agreement, the Purchase Agreement or any other agreement executed in connection herewith or relating to the Property or Lots or the development thereof, including without limitation, any obligation of Builder to construct and fund Improvements or to carry out any other obligation related to the construction or funding of Improvements, including, without limitation, obtaining and maintaining appropriate insurance coverages, complying with all applicable federal, State and local laws and regulations, complying with all requirements imposed by government agencies with jurisdiction over the Property, complying with all permitting requirements, fulfilling any indemnification obligations owed to Seller, or any municipality, government agency or guarantor of Seller's obligations, or satisfying any liens, (g) any act or negligence of Builder or its representatives, subcontractors, suppliers, employees, agents, invitees or licensees with respect to the Lots, the Property, the Improvements, or any neighboring property, (h) during the term of this Agreement, any accident, injury or damage whatsoever caused to any person, firm or corporation on the Lots, the Improvements, any other portion of the Property, any neighboring property, or any sidewalk, street or land adjacent thereto, (i) any claim, action or proceeding relating to the construction or use of the Improvements, or the Model Homes, including without limitation, any claim, action or proceeding based upon any defect or alleged defect in the Improvement Plans or the Model Plans or in the development of the Lots, any other part of the Property, or any neighboring property, (j) any claim, action or proceeding brought by Seller, or any other party under the Purchase Agreement, the Assignment of Purchase Agreement, or any other agreement entered into by Owner pursuant to the Purchase Agreement, Assignment of Purchase Agreement or the escrows relating to the Purchase Agreement or Assignment of Purchase Agreement; (k) the failure by Builder to perform any of its obligations under Section 9 hereof, Owner's acting as "sponsor" or "co-sponsor" under any registration, submission or filing with the DCA or Owner's acting as "grantor" or "co-grantor" under the Final Plats; (l) until such time as the fee title to the common

areas (including the shared pond) are transferred to the Association, any claim pertaining to the shared maintenance of the shared pond with the adjoining landowners; and (m) any default by Owner under the Loan Documents as a result of a Builder default hereunder; provided, however, that in no event shall the indemnities set forth in this Section 17 extend to losses resulting solely from the gross negligence or willful misconduct of Owner its employees or contractors. The obligations of Builder under this Section 17 are hereby guaranteed by Holdings and Holdings waives all defenses it or Builder or their Affiliates may have to Builder's obligations hereunder. All indemnifications contained in this Agreement (including this Section 17), shall survive the termination of the Option and/or this Agreement.

18. Default and Remedies.

(a) Defaults.

The following shall constitute defaults under this Agreement:

(i) The failure by either party to pay any sum of money when due as provided in this Agreement and such failure continues for a period of at least fifteen (15) calendar days after the delivery of written notice thereof by the other party;

(ii) The failure by either party to perform any covenant, agreement or condition as provided in this Agreement, including, without limitation, Builder's failure to adhere to the Improvement Schedule and such failure continues for a period of at least thirty (30) calendar days after the delivery of written notice thereof by the other party (provided that, except with respect to the exercise of the Option, if the failure of performance cannot be cured within such thirty (30) day period but cure is commenced within that period and thereafter is diligently prosecuted to completion and such cure is actually completed within ninety (90) days of said notice of default;

(iii) The failure of either party to comply with the terms of any License Agreement into which Owner and Builder enter into pursuant hereto, and any such failure is not cured within the applicable cure period set forth therein;

(iv) Builder's inability, refusal or other failure to keep the Property free of all mechanics', materialmen's and other liens as required herein and such failure continues for a period of thirty (30) days; provided, however, no default shall be deemed to have occurred with respect to such liens which Builder, in good faith, is contesting and, at its expense, is defending itself and Owner against, so long as Builder (a) has agreed to pay and satisfy any adverse judgment that may be rendered thereon before the enforcement thereof against Owner or the Property within ninety (90) days of such judgment having been entered, or (b) has provided to Owner a surety bond or other acceptable security satisfactory to Owner in an amount at least equal to 110% of such contested lien, claim or demand indemnifying Owner and Owner Related Persons against liability for the same; and holding the Property free from the effect of any lien claim and there is no risk of forfeiture;

(v) Except as otherwise permitted herein, any attempt by either party to make or suffer to be made any encumbrance, assignment or other transfer of this Agreement or

any right or interest hereunder without the other party's written consent, whether voluntary or involuntary, or by, or pursuant to, court order or legal process or otherwise;

(vi) Any default by Builder or any of its affiliates under any other agreement with respect to the Property;

(vii) Whether voluntarily or involuntarily: (a) the placing of all or substantially all of a party's assets in the control of a receiver or trustee, and such receivership or trusteeship continues for a period of thirty (30) days, (b) any party or any of its affiliates making an assignment for the benefit of creditors or being adjudicated bankrupt, (c) any party or any of its affiliates instituting any proceedings under the federal bankruptcy laws or other laws relating to insolvency of debtors, whether existing as of the date of this Agreement or hereafter enacted, wherein such entity seeks to be adjudicated bankrupt or to be discharged of its debts, or to effect a plan of liquidation, composition or reorganization, or (d) the instituting by others of such proceedings against any party or any of its affiliates, and such entity consents thereto or acquiesces therein by pleading or default, or such proceedings are not contested and discharged within thirty (30) days;

(viii) The falsity of any material representations or warranty given by any party under this Agreement which is not cured within thirty (30) days after the non defaulting party has notified the defaulting party of such falsity;

(ix) A Material Adverse Change occurs, or is reasonably likely to occur, in Builder's business condition (financial or otherwise), operations, properties or prospects. For purposes of this Agreement, a "Material Adverse Change" means any circumstance or events which: (a) has any material adverse effect upon the validity, performance or enforceability of this Agreement or (b) materially impairs the ability of Builder to fulfill its obligations under this Agreement. The sale, title transfer or assignment of any stock, interest or beneficial interest in Builder in excess of forty-nine (49%) percent in the aggregate shall be deemed a Material Adverse Change;

(x) A Financial Covenant Default (as that term is defined in Section 26 hereof); or

(xi) Failure to comply with Section 17 or other indemnities contained herein; and.

(b) Remedies.

(i) Default. In the event of a default hereunder by Owner, Builder or Holdings, the non-defaulting party shall be entitled to pursue any right or remedy available hereunder, at law or in equity, including without limitation the right to terminate this Agreement, the right to recover damages for breach of this Agreement, and/or the right to specifically enforce the defaulting party's obligations hereunder, it being understood and agreed that the Lots are unique and that the right of specific performance is a just and equitable remedy on account of Owner's default. Moreover, in the event of a default by Builder or Holdings, in addition to any other remedies available to Owner at law or in equity, Owner shall have an express right of offset, whereby Owner may offset monies that Builder owes to Owner in connection with this

Project against monies that Owner or any affiliate of Owner owes to Builder or any affiliate of Builder or Holdings in connection with this Project or any other project. With respect to a default arising from the occurrence of a Material Adverse Change, Owner, in its sole discretion, may elect, to accelerate the dates by which some or all of the then remaining Lots must be purchased by Builder. Notwithstanding anything to the contrary in this Agreement, (a) in the event that Owner terminates the Option pursuant to any provision of this Agreement, unless otherwise specifically provided in this Agreement or unless Builder agrees and acknowledges that it is obligated to close its purchase of the Property for all cash, at the Purchase Prices set forth on Exhibit B, within sixty (60) days after Owner's termination of the Option, Builder's sole remedy in the event that Builder disputes such termination shall be to pursue an action against Owner for the recovery of damages resulting from such termination and Builder shall have no right to seek an action for specific performance or any lis pendens in connection with such termination, and (b) if Builder obtains a monetary judgment against Owner, Builder shall have no right to seek recovery of such judgment against any assets of Owner other than Owner's interest in the Lots unless Builder first diligently enforces such judgment and executes upon Owner's interest in the Lots and exhausts its remedies in respect to such enforcement and execution, and there remains a deficiency after Builder has done so.

(ii) Failure to Exercise Option. Irrespective of the foregoing, with respect to Builder's failure to exercise its Option and acquire Lots pursuant to Section 5 and the schedule set forth in Exhibit B, Owner's sole remedy shall be as set forth in this Subsection 18(b)(ii).

IN THE EVENT BUILDER FAILS OR IS PRECLUDED AS A RESULT OF ITS DEFAULT HEREUNDER TO EXERCISE ITS OPTION AND ACQUIRE LOTS IN ACCORDANCE WITH THE SCHEDULE SET FORTH IN EXHIBIT B PURSUANT TO SECTION 5 OF THIS AGREEMENT AND WITHOUT LIMITING THE REMEDIES OF OWNER DESCRIBED FOR ANY OTHER DEFAULT, INCLUDING AN IMPROVEMENT DEFAULT UNDER SECTION 11 ABOVE, OWNER SHALL BE ENTITLED, AS ITS EXCLUSIVE REMEDIES, TO TERMINATE THIS AGREEMENT AND ANY LICENSE AGREEMENT ENTERED INTO PURSUANT TO THIS AGREEMENT AND COLLECT SHORTFALLS UNDER THE INDEMNITIES IN SECTIONS 11(e) AND 4 WITH RESPECT TO IMPROVEMENT BUDGET SHORTFALLS AND REDUCTION IN THE TOTAL NUMBER OF LOTS, RESPECTIVELY, AND RETAIN THE BALANCE OF THE DEPOSIT, ANY INTEREST EARNED THEREON AND ANY OTHER AMOUNTS PAID BY BUILDER TO OWNER PURSUANT TO THIS AGREEMENT AND BUILDER (AND AFFILIATES) SHALL HAVE NO RIGHTS OR CLAIMS AGAINST OWNER, THE PROPERTY, LOTS, IMPROVEMENTS OR PRELIMINARY PLAN OR AGAINST OWNER OR ITS AFFILIATES. THE PARTIES HAVE AGREED THAT OWNER'S ACTUAL DAMAGES, IN THE EVENT OF A FAILURE BY BUILDER TO EXERCISE ITS OPTION AND ACQUIRE LOTS PURSUANT TO SECTION 5 OF THIS AGREEMENT, WOULD BE EXTREMELY DIFFICULT OR IMPRACTICABLE TO DETERMINE. THEREFORE, BY PLACING THEIR INITIALS BELOW, THE PARTIES ACKNOWLEDGE THAT THE AMOUNT OF THE DEPOSIT PAID TO OWNER HAS BEEN AGREED UPON, AFTER NEGOTIATION, AS THE PARTIES' REASONABLE ESTIMATE OF OWNER'S DAMAGES AND AS OWNER'S

EXCLUSIVE REMEDY AGAINST BUILDER, AT LAW OR IN EQUITY, IN THE EVENT BUILDER FAILS TO EXERCISE ITS OPTION AND ACQUIRE LOTS PURSUANT TO SECTION 5 OF THIS AGREEMENT, AND THAT PAYMENT OF SUCH AMOUNT TO OWNER AS LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY, BUT INSTEAD, IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO OWNER. THIS PARAGRAPH SHALL ONLY APPLY TO BUILDER'S FAILURE TO EXERCISE ITS OPTION AND ACQUIRE LOTS PURSUANT TO SECTION 5. NOTHING IN THIS PARAGRAPH SHALL IN ANY WAY LIMIT OR ABROGATE ANY RIGHT OWNER MAY HAVE IN CONNECTION WITH ALL INDEMNIFICATION PROVISIONS SET FORTH IN THIS AGREEMENT OR THE OBLIGATION THAT BUILDER MAY HAVE TO PAY ANY COSTS AND EXPENSES IN CONNECTION WITH THE PROPERTY, THE IMPROVEMENTS OR THE MODEL HOMES.

(INITIALS)

BUILDER

OWNER

(iii) Early Acquisition Option. In the event of Builder's default where such default is not cured within the applicable cure period, and as a result thereof, Owner gives Builder a written notice of Owner's intention to terminate the Option ("Default Termination Notice"), which notice shall cite this provision and state that Builder's failure to act in the specified time may result in a forfeiture of the right to acquire the Property pursuant to this Agreement, Builder shall have a one-time, limited duration right to buy all of the remaining Property from Owner on the following terms ("Early Acquisition Option"):

A. Builder shall notify Owner in writing within fifteen (15) business days of receipt of the Default Termination Notice whether Builder desires to exercise the Early Acquisition Option;

B. If Builder submits notice that Builder desires to exercise the Early Acquisition Option, Builder shall be obligated to purchase all remaining Lots in the Property for cash no later than thirty (30) days after Builder's receipt of the Default Termination Notice;

C. The purchase price for the Property shall be equal to the Purchase Price for each Lot on which Owner then holds title, less the total amount of Owner's Reimbursement Amount not actually funded by Owner as of the date of the calculation; and

D. If Builder does not notify Owner of its intention to exercise the Early Acquisition Option in the time set forth in Subsection 18(b)(iii)(A) above or fails to close on the purchase of all of the remaining Lots in the time set forth in Subsection 18(b)(iii)(B) above, the Option shall immediately terminate, Builder shall have no rights relating to the Property or Lots and Owner shall have all other rights and remedies set out in this Agreement.

(c) Costs and Fees. If there is any legal action or proceeding between the parties to enforce or interpret any provisions of this Agreement or to protect or establish any right or remedy of any of them hereunder, the unsuccessful party to such action or proceeding shall pay to the prevailing party all costs and expenses (including, but not limited to, reasonable attorneys' fees and disbursements) incurred by such prevailing party in such action or proceeding. If any party secures a judgment in any such action or proceeding, then any costs and expenses (including, but not limited to, reasonable attorneys' fees and disbursements) incurred by the prevailing party in enforcing such judgment, or any costs and expenses (including, but not limited to, reasonable attorneys' fees and disbursements) incurred by the prevailing party in any appeal from such judgment in connection with such appeal shall be recoverable separately from and in addition to any other amount included in such judgment. The preceding sentence is intended to be severable from the other provisions of this Agreement, and shall survive and not be merged into any such judgment.

(d) Default Interest. If any monies become payable by one party to the other pursuant to this Agreement and are not paid when due, then all sums unpaid shall bear interest at 12.55% per annum. Notwithstanding the foregoing, if such rate of interest, as provided above, exceeds the maximum permissible rate of interest allowed under applicable law, then the maximum rate of interest to be charged hereunder as default interest shall be the highest lawful contractual rate allowed by law.

(e) Waiver. Excuse or waiver of the performance by the other party of any obligation under this Agreement shall only be effective if evidenced by a written statement signed by the party so excusing or waiving. No delay in exercising any right or remedy shall constitute a waiver thereof, and no waiver by Owner or Builder of the breach of any covenant of this Agreement shall be construed as a waiver of any preceding or succeeding breach of the same or any other covenant or condition of this Agreement.

19. Representations, Warranties and Covenants of Owner. Owner hereby makes the following representations, warranties and covenants to Builder as of the date of this Agreement:

(a) Authority. Owner has the full right, power and authority to sell and convey the Lots to Builder as provided in this Agreement and Owner will have throughout the term of this Agreement the full right, power and authority to carry out its obligations hereunder.

(b) Individual Authority. The person executing this Agreement and all documents related thereto on behalf of Owner has and will have authority to do so.

(c) No Undisclosed Agreements. Except with respect to Owner's financing with Lender, Owner has not granted to any person or entity, other than Builder, any leases, options, rights of first refusal, or other legal or equitable interest in the Lots which have not expired or terminated, and Owner has no agreement with any taxing authority respecting the imposition or deferment of any taxes or assessments pertaining to the Lots.

(d) No Construction. During the term of the Option and so long as Builder is not in default on any obligation with respect to this Agreement, Owner shall not construct any houses or improvements in or on the Lots or within the Property.

(e) Cooperation. During the term of the Option and so long as Builder is not in default on any obligation with respect to this Agreement, Owner shall reasonably cooperate with Builder (provided such cooperation shall be at no cost to Owner) in conveying portion(s) of the Property comprising the common areas (including, but not limited to the club house and other amenities) to the homeowners association relating to the Property and all Owner's costs and expenses related thereto, including transfer taxes and legal fees shall be paid by Builder's. Owner acknowledges that such conveyances referred to herein shall not constitute the purchase of a Lot requiring the payment of the Purchase Price.

20) Representations, Warranties and Covenants of Builder. Builder hereby makes the following representations, warranties and covenants to Owner as of the date of this Agreement, which representations shall survive the Closing hereof:

(a) Authority. Builder has the full right, power and authority to purchase the Lots from Owner as provided in this Agreement and Builder will have throughout the term of this Agreement the full right, power and authority to carry out its obligations hereunder.

(b) Individual Authority. The persons executing this Agreement and all documents related thereto on behalf of Builder have and will have authority to do so.

(c) Due Diligence. Builder has conducted, prepared and performed such examinations of the Property and all improvements thereon as Builder has deemed necessary or appropriate for its intended use of the Property, including, but not limited to, the physical condition of the Property, the availability of access, water, sewer and other utilities and services to the Property and the costs of securing same, the existence of hazardous or toxic substances or pollutants, and the zoning and applicable governmental regulations, statutes and ordinances pertaining to the Property. Builder has conducted, prepared and performed such surveys, appraisals, and hydrological, topographical, environmental, traffic, feasibility and other engineering tests, studies and reports, and has examined such reports, surveys, studies, documents, approvals, drawings, subdivision maps, plans, specifications, filings or similar writings pertaining to drainage, soil, flood, hazardous or toxic substance or pollutants, archaeological or environmental conditions, or power or transmission lines on or adjacent to the Lots, as well as all topographical surveys, "as built" drawings, engineering drawings, plans and specifications for utilities or roadways, title reports, subdivision reports, and approvals received from any city or agency, as Builder has deemed necessary or appropriate, and, except as otherwise expressly provided in this Agreement, Owner has relied on Builder to do so and to fully satisfy itself regarding same.

(d) Purchase Agreement. Builder has delivered to Owner complete, and accurate copies of the Purchase Agreement. The Purchase Agreement is in full force and effect. Builder shall not amend the Purchase Agreement without Owner's prior consent which consent shall not be unreasonably withheld, conditioned or delayed. Builder posted a \$3,300,000.00 letter of credit with the Seller as a deposit under the Purchase Agreement which would be returned to Builder at closing and not credited against the purchase price. In connection with second amendment to Purchase Agreement dated July 15, 2005, \$2,200,000.00 of the letter of credit given to the Seller as a deposit was drawn down by Seller prior to Closing and credited against the purchase price. The balance payable to Seller at closing is \$19,868,750.00.

(e) Intentionally Omitted.

(f) Reports. Builder has delivered to Owner true and complete copies of all reports and agreements (including agreements with governmental and municipal agencies and offices) relating to the Property and Project of which Builder has knowledge.

(g) Information. All financials and Property information provided Owner are true, complete and correct in all material respects.

(h) Lots. The Property will consist of 535 Lots unless precluded by the County.

(i) Association Fees. To the extent any Association fees become due and payable during the Term of this Agreement on Lots owned by Owner, such Association fees will be paid by the Builder, at Builder's sole cost and expense, subject to Builder's reimbursement rights set forth in Section 11(i) hereof.

21. Condemnation. Following receipt by Owner or Builder of any written notice of an existing or threatened legal proceeding that could result in the taking of all or any portion of the Property under the power of eminent domain or the conveyance by Owner under the threat thereof (a "Condemnation"), the noticed party shall give the other written notice of such existing or threatened Condemnation action. Builder shall then have the right, within twenty (20) days from its receipt of notice of such condemnation proceeding to give written notice to Owner that Builder shall acquire the Lots affected by the existing or threatened Condemnation action for the full Purchase Price. If Builder fails to give notice within such twenty (20) day period, Builder shall be deemed to have elected not to acquire the affected Lots. If Builder gives notice that it shall acquire the Lots, Builder shall have sixty (60) days from the end of the twenty (20) day period within which to acquire and complete closing on the affected Lots. If Builder acquires the Lots affected by Condemnation, Builder shall be entitled to all Condemnation awards associated therewith and such awards shall be assigned to Builder, or if already paid to Owner, then the amounts paid to Owner (exclusive of any reimbursements made to Owner for expenses incurred by Owner in connection with the Condemnation) shall be applied as a credit toward the total consideration payable to Owner for such Lots. If Builder does not so acquire the affected Lots, then this Agreement shall terminate with respect to such Lots as of the end of the twenty (20) day period within which Builder had the right to elect to acquire the Lots. If the Agreement so terminates with respect to such Lots, Owner shall require the Lender to reduce the Letter of Credit to an amount equal to fifteen (15%) percent of the purchase price of the number of Lots then remaining to be purchased by Builder (in accordance with the terms of Section 1(a)(ii) hereof), and Builder waives any right to any other part of the Condemnation award, as damages or otherwise. Builder hereby waives any statutory rights of termination, which may arise by reason of any partial taking, of the Lots under the power of eminent domain, including, without limitation, any provisions of Virginia law.

22. Model Homes, Model Homes Parking Lot and Unfinished Homes. The parties acknowledge that, as described in Section 13 above, Builder intends to construct Model Homes to assist in the marketing of Builder's product to potential home buyers. The Model Homes shall be constructed on Lots designated by Builder and approved by Owner, which approval Owner

shall not unreasonably withhold (individually, "Model Home Lot" and collectively, "Model Home Lots") (unless otherwise indicated to the contrary, any reference to a "Model Home" shall include the corresponding "Model Home Lot"). Any Lot designated by Builder as a Model Home Lot shall remain so designated even if no Model Home has been constructed by Builder thereon, until Builder has acquired all of the Lots. The Model Homes will be owned by Builder on Model Home Lots purchased by Builder.

(a) Model Sale/Leaseback Transactions. Owner acknowledges and agrees that Builder may elect to sell the Model Homes and/or the Lots on which such Model Homes will be constructed on to GMAC or any other qualified purchaser (a "Model Home Investor") as part of a sale/leaseback arrangement. In such circumstance, Owner agrees that it shall consent to such conveyance, so long as the Model Home Investor provides Owner with a satisfactory letter of assurance, the form and substance of which are acceptable to Owner.

(b) Owner's Right to Purchase. If Builder fails to acquire all of the Lots prior to the expiration of the term of the Option, then Owner shall have the right to assume the Model Home Investor Model Sale/Leaseback, if any, or purchase the Model Home Lots, together with the Model Homes and all other Improvements located thereon, in accordance with the terms of this Subsection 22(b).

(i) At such time as the Option has expired without Builder having acquired all of the Lots and so long as Builder has not entered into a Model Home Investor Model Sale/Leaseback, Owner shall have the right to acquire all the Model Homes (including floor coverings, window coverings, lighting fixtures, built in appliances, and other fixtures therein, but excluding Personal Property, as defined in Subsection 22(b)(ii) below, which Personal Property shall be subject to Owner's rights to purchase as provided below) by written notice provided by Owner to Builder within thirty (30) days after the termination of Builder's rights to purchase the Lots. Owner shall complete the purchase by paying the purchase price for the Model Home(s) in cash within thirty (30) days after the purchase prices of the Model Homes are determined as hereinafter set forth. The purchase price for the Model Homes (exclusive of Personal Property, as defined in Subsection 22(b)(ii) below) shall equal the lesser of the appraised value of the Model Homes (such appraisal to be made by a mutually acceptable appraiser) or Builder's cost (excluding Builder general office overhead and fees and including only Builder's actual out-of-pocket costs) relating exclusively to each Model Home. Builder shall substantiate Builder's cost for the Model Homes by delivering to Owner, receipts or other written evidence of payment for all such costs.

(ii) Concurrently with the purchase of the Model Homes, Owner shall also have the option to acquire all of the furniture, furnishings and other personal property within the Model Homes (including any such property used in the sales office, if any, within a Model Home) (collectively, "Personal Property") for an additional total purchase price equal to the lesser of: (i) the product of Builder's actual cost of the Personal Property multiplied by a fraction, the numerator of which is the number of Lots not acquired by Builder and the denominator of which is the total number of Lots; and (ii) Ten Thousand and 00/100 Dollars (\$10,000.00); or, in the alternative, to assume any lease for such Personal Property. Builder shall deliver to Owner in writing a list of all Personal Property together with an itemization of the actual costs of such property, which list and itemization shall be delivered to Owner within thirty

(30) days after the Model Homes are furnished. Builder shall substantiate Builder's cost for the Personal Property by delivering to Owner receipts or other written evidence of payment for all such costs so substantiated.

(c) Owner's Right to Repurchase Lots. If Builder has not acquired all of the Lots prior to the expiration of the term of the Option, then, by written notice delivered to Builder by Owner between one hundred eighty (180) and two hundred seventy (270) days after the date of termination of the Option, Owner shall have the right to assume any Model Home Investor Model Sale/Leaseback and to purchase any Lots previously purchased by Builder from Owner, together with all improvements then located thereon, upon which homes have not been "substantially completed" (as defined below) within one hundred eighty (180) days after the date of termination of the Option. Owner shall complete the purchase of such Lots and all improvements then located thereon by paying the purchase price therefor within thirty (30) days after the date of Owner's written notice to Builder. The purchase price for such Lots and improvements thereon shall be the lesser of (i) the appraised value of such Lots, or (ii) Builder's cost (excluding Builder overhead, builder fees, interest and other carrying costs and including only Builder's actual out of pocket costs). Builder shall substantiate Builder's cost for such Lots by delivering to Owner, receipts or other written evidence of payment for all such costs. For purposes hereof, "substantially complete" or "substantial completion" shall mean that a final inspection by the appropriate governmental inspector has occurred with respect to the home constructed on the Lot. The repurchase option provided for in this Subsection 22(c) shall be reflected in the Deed for each Lot. This repurchase option shall survive the termination of this Agreement. Upon (i) substantial completion by Builder of a home on any Lot or (ii) concurrently with Builder's sale of a Lot to a third party buyer, upon Builder's request, Owner shall execute and deliver to Builder a duly executed and acknowledged quitclaim deed quitclaiming to Builder Owner's interests in such Lot.

23. Utility Deposits and Refunds. Subject to Builder's right to seek reimbursement to the extent such costs have been included in the Improvement Budget, during the term of this Agreement, Builder shall be responsible for all deposits, fees and charges (collectively, "Utility Deposits") required by any utility company or agency in connection with the construction or installation of the Improvements. Builder shall indemnify, defend and hold harmless Owner and Owner-Related Persons for, from and against all claims, demands, liabilities, losses, damages, costs and expenses, including but not limited to court costs and reasonable attorney's fees, arising out of or in connection with any claim by a utility company or agency for any Utility Deposits. The foregoing indemnity shall survive the sale of any or all of the Lots and the expiration or termination of the Option. Builder shall be entitled to all utility refunds, returned Utility Deposits, credits and discounts of any nature with respect to Utility Deposits paid by Builder or any affiliate of Builder.

24. Commissions. Each party represents and warrants to the other that it has not employed any broker or finder in connection with the transactions contemplated by this Agreement. Each party shall indemnify, defend and hold harmless the other (and Owner-Related Persons in the case of Builder's indemnity obligation) from all liability and expense, including without limitation reasonable attorneys' fees, arising from any claim by any broker, agent or finder for commissions, finder's fees or similar charges, because of any act of such party.

25. Miscellaneous.

(a) Notices. No notice, consent, approval or other communication provided for herein or given in connection herewith shall be validly given, made, delivered or served unless it is in writing and delivered personally, sent by overnight courier, sent by direct facsimile transmission, or sent by registered or certified United States mail, postage prepaid, with return receipt requested, to:

Owner at: CN Terra Nova Holdings, LLC
c/o Columbus Nova Partners, LLC
590 Madison Avenue, 38th Floor
New York, NY 10022
Attn: Michael Sloan
Phone: (212) 838-3330
Fax: (212) 308-6623

With a copy to: Hudson Capital Advisors, LLC
c/o Columbus Nova Partners, LLC
590 Madison Avenue, 38th Floor
New York, NY 10022
Attn: Marceau Schlumberger
Phone: (212) 838-3330
Fax: (646) 735-3661

With a copy to: Akin Gump Strauss Hauer & Feld LLP
590 Madison Avenue, 38th Floor
New York, NY 10022-2524
Attn: Joseph Ginsberg, Esq.
Phone: (212) 872-1031
Fax: (212) 872-1002

With a copy to: M&T Mortgage Corporation
1 Fountain Plaza
Buffalo, NY 14203
Attn: John R. Sigeti
Phone: 716-848-3516
Fax: 716-848-3635

With a copy to: Hofheimer Gartlir & Gross, LLP
530 Fifth Avenue
New York, NY 10036
Attn: Louis Sherman, Esq.
Phone: 212-897-7888
Fax: 212-869-4930

Builder at: K. Hovnanian's Four Seasons at Charlottesville, L.L.C.
4090-A Lafayette Drive
Chantilly, Virginia 20151
Attn: Mark Stemen
Phone: 703-631-0834 ext. 7273
Fax: 703-631-5877

With a copy to: K. Hovnanian Homes
1802 Brightseat Road, 6th Floor
Landover, Maryland 20785
Attn: Tom Pellerito, Group President
Phone: 301-772-8900
Fax: 301-772-1380

With a copy to: K. Hovnanian Homes
1802 Brightseat Road, 6th Floor
Landover, Maryland 20785
Attn: Stephen W. Pelz, Esq.
Phone: 301-772-8900
Fax: 301-772-1380

Holdings at: K. Hovnanian Companies, L.L.C.
10 Highway 35
Red Bank, New Jersey 07701
Attn: Kevin C. Hake
Phone: 732-747-7800
Fax: 732-747-6835

With a copy to: K. Hovnanian Companies, L.L.C.
10 Highway 35
Red Bank, New Jersey 07701
Attn: Michael Discafani, Esq.
Phone: 732-747-7800
Fax: 732-747-6835

Escrow Agent at: Founders Title Agency, Inc.
Founder's Title Agency of Maryland, LLC
3951 Pender Drive, Suite 105
Fairfax, VA 22030
Attn: Florence A. Reagle
Phone: 703-272-1364
Fax: 703-218-1069

or to such other addresses as any party hereto may from time to time designate in writing and deliver in a like manner to the other party and Escrow Agent. Notices, consents, approvals, and communications shall be deemed given and received upon the earlier of seventy two (72) hours

after deposit in the United States mail in the manner provided above, if given by mail, or upon delivery to the respective addresses set forth above, if delivered personally or sent by overnight courier, or upon direct facsimile transmission to the fax numbers set forth above.

(b) Memorandum. Simultaneously with the execution of this Agreement the parties shall execute and acknowledge a Memorandum of Option and Development Agreement in the form attached hereto as Exhibit G for the purpose of recording the same in the Official Records of the County. The Memorandum shall be recorded immediately upon Owner's acquisition of the Property.

The parties shall also execute and deliver to Escrow Agent a Notice of Termination of Option and Quitclaim Deed in the form attached hereto as Exhibit H releasing any and all interests of Builder in the Lots. If Builder does not acquire all of the Lots in accordance with this Agreement or in the event that Builder fails to comply with the Improvement Schedule, then within ten (10) business days from Builder's and Escrow Agent's receipt of notice from Owner terminating this Agreement, Escrow Agent is hereby irrevocably directed to automatically and without further direction, (i) attach to the Notice of Termination of Option and Quitclaim Deed the legal description of the Lots not acquired by Builder and (ii) record, on the first business day after the occurrence of such default, the Notice of Termination of Option and Quitclaim Deed, and the parties expressly and irrevocably release Escrow Agent from liability for doing so. In addition, at the time of the termination of the Option hereunder, at Owner's reasonable request, Builder shall also execute and record any other documents evidencing such termination.

(c) Interpretation. The captions of the sections of this Agreement are for convenience only and shall not govern or influence the interpretation hereof. This Agreement is the result of negotiations between the parties and, accordingly, shall not be construed for or against either party regardless of which party drafted this Agreement or any portion thereof.

(d) Successors and Assigns. All of the provisions hereof shall inure to the benefit of and be binding upon the personal representatives, heirs, successors and assigns of Owner and Builder. Except as required under the Loan documents with Lender, neither party hereto shall have the right to assign its interest hereunder without the prior written consent of Owner, and any such assignment without Owner's consent shall be void at Owner's sole discretion. If Builder is a limited liability company, corporation, partnership or trust, title transfer or assignment of any stock, interest or beneficial interest in such limited liability company, corporation, partnership or trust in excess of forty nine percent (49%) shall be deemed an assignment within the meaning of this Subsection 26(d). Notwithstanding anything herein to the contrary, Builder may assign its interests hereunder to any other wholly owned subsidiary of Builder, without Owner's consent, provided that (i) Builder shall promptly notify Owner of any such assignment, (ii) such assignment shall not relieve Builder or Holdings from any of its obligations hereunder. and (iii) such assignee assumes Builder's obligations hereunder pursuant to a written agreement approved by Owner.

(e) No Partnership, Third Person. The parties do not intend and nothing contained in this Agreement shall, create any partnership, joint venture or other arrangement between or among Owner and Builder. No term or provision of this Agreement is intended to, or shall, be for the benefit of any person, firm, corporation or other entity not a party hereto

(including, without limitation, any broker), and no such party shall have any right or cause of action hereunder.

(f) Entire Agreement. This Agreement, and the documents and instruments expressly contemplated herein to be executed in connection herewith, constitute the entire agreement between the parties pertaining to the subject matter hereof. All prior agreements, representations and understandings of the parties, oral or written, are hereby superseded and merged herein. No change or addition is to be made to this Agreement except by a written agreement executed by all of the parties.

(g) Further Documents. Builder and Owner shall execute and deliver all such documents and perform all such acts as reasonably requested by the other party from time to time, prior to and following each Closing, to carry out the matters contemplated by this Agreement.

(h) Incorporation of Exhibits. All exhibits attached to this Agreement are incorporated herein by this reference.

(i) Date of Performance. If the date of performance of any obligation or the last day of any time period provided for herein should fall on a Saturday, Sunday, legal holiday or a date upon which the applicable County Recorder's office is closed, then the obligation shall be due and owing, and the time period shall expire, on the first day thereafter which is not a Saturday, Sunday, legal holiday or a date upon which the applicable County Recorder's office is closed. Business days shall mean all days except Saturdays, Sundays and legal holidays. Except as may otherwise be set forth herein, any performance provided for herein shall be timely made if completed no later than 11:59 p.m., Eastern Time, on the day performance is due.

(j) Builder's Interest. The parties acknowledge and agree that Builder's interest in the Lots shall be strictly limited to the option interests expressly described herein and it is the intent of the parties that, unless and until Builder exercises its rights to purchase the Lots as described herein, Builder shall have no fee interest in the Lots, equitable or otherwise, and that fee title to the Lots shall be held by Owner.

(k) Architectural Control Committee. During the term of this Agreement and except as otherwise required by the terms and conditions of the Final Plats, Builder shall, to the extent within Builder's control, cause any architectural control committee formed under the Bylaws of the Association (the "Architectural Control Committee") to be composed solely of employees of Builder.

(l) Survival. Unless expressly provided to the contrary herein, it is agreed that all of the terms, conditions, provisions, obligations and indemnities contained in this Agreement shall survive the exercise of each and every Option hereunder, and the Closing, of the sale of any Lot and the recordation of any Deed pursuant thereto, and all obligations and indemnities contained herein, including in Sections 4, 6(b), 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 23 and 24 shall survive the expiration, cancellation or termination of this Agreement, so that all such obligations and indemnities shall continue to be binding upon the parties hereto and their respective successors and assigns.

(m) Time of the Essence. Time is of the essence of this Agreement.

(n) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State in which the Property is located.

(o) No Third Party Beneficiary. Builder's covenants set forth in this Agreement are solely for the benefit of Owner and shall be enforceable by no other person or entity.

(p) Counterparts. This Agreement shall be executed simultaneously or in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

(q) Confidentiality. Each party agrees to maintain in confidence, and not to disclose, the terms and conditions of this Agreement and the transaction contemplated hereby; provided, however, that each party, its agents and representatives may disclose such information and data (a) to such party's accountants, attorneys, prospective lenders, investors and their investment advisors, investment bankers, accountants, underwriters, ratings agencies, partners, consultants and other advisors in connection with the transactions contemplated by this Agreement (collectively "Representatives"); (b) to the extent required by any applicable statute, law, regulation or governmental authority or as instructed by government agency; and (c) in connection with any litigation that may arise between the parties in connection with the transactions contemplated by this Agreement.

(r) Recharacterization. It is recognized that Owner and Builder are sophisticated real estate entities with substantial experience in the residential home building industry and all such parties are advised by experienced legal counsel. It is the intent of Owner and Builder that the transaction described in this Agreement be treated as an option on the part of the Builder to acquire Lots. Nevertheless and without in any way consenting to a recharacterization of this Agreement, if this Agreement or the transaction described herein is ever characterized as a financing transaction such that Builder is deemed to have equitable title to the Lots held by Owner and Owner is deemed to have only a security interest therein, Builder hereby grants, transfers and assigns to Owner, its successors and assigns, in trust, with power of sale and right of reentry and possession, all of its equitable interest in such Lots (but not any Lots acquired by Builder pursuant to the terms hereof). The intent of this grant is that in the event of such recharacterization and in the event of a default by Builder hereunder, Owner will be entitled to foreclose pursuant to a nonjudicial trustee's sale procedure. Further, in the event of such recharacterization and notwithstanding anything to the contrary contained herein, all agreements between Builder and Owner are hereby expressly limited so that in no event whatsoever shall the total liability for payments in the nature of interest and other charges exceed the applicable limits imposed by the usury laws of the State. If any payments in the nature of interest and other charge made hereunder are held to be in excess of the applicable limits imposed by the usury laws of the State, it is agreed that an such amount held to be in excess shall be considered payment of principal hereunder, and any indebtedness evidenced hereby shall be reduced by such amount so that the total liability for payments in the nature of interest and other charges shall not exceed the applicable limits imposed by the usury laws of the State.

(s) Recitals. All Recitals set forth above are incorporated by reference herein as if set forth herein at length.

26. Financial Covenants: Financial Statements. Holdings shall maintain, at all times during the existence of this Agreement (including, without limitation, at all times after the expiration or sooner termination of the Term of the Option) a minimum net worth equal to One Hundred Million and 00/100 Dollars (\$100,000,000). Holdings shall deliver to Owner (i) not later than ninety (90) days after the end of Holdings' fiscal year an unaudited balance sheet as of the close of Holdings' last fiscal year. All such items provided by Holdings shall be in reasonable detail and in form and substance reasonably satisfactory to Owner. Either of Holdings' chief financial officer, chief accounting officer or treasurer shall certify in writing that the balance sheet provided by Holdings has been prepared in accordance with generally accepted accounting principles consistently applied and fairly present in all material respects the financial condition and results of operations of Holdings as of such date. Builder's failure to comply with any of its obligations and/or covenants contained in this Section 26 shall be referred to herein as a "Financial Covenant Default."

27. FASB's Interpretation of FIN No. 46R Compliance. In order to assist Builder in complying with FASB Interpretation No. 46R (Consolidation of Variable Interest Entities) ("FIN 46R"), Owner represents that at such time Owner is FIN 46R compliant, Owner will, at all times during the Option Term (as measured at the end of each calendar quarter), limit the fair value of all assets under option with Builder (and all affiliates of Builder) to less than fifty percent (50%) of the fair value of the total assets held by Owner. Owner will also provide a quarterly certification, within fifteen (15) business days after the end of each calendar quarter, certifying compliance with this provision.

[Remainder of page left intentionally blank]

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the date first set forth above.

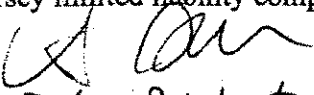
Builder:

K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, LLC,
a Virginia limited liability company

By:
Name: _____
Its: _____

Holdings:

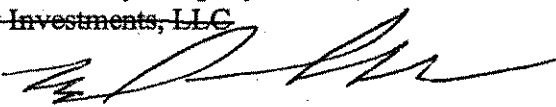
K. HOVNANIAN HOLDINGS NJ, L.L.C.
a New Jersey limited liability company

By: 
Name: Peter Reinhardt
Its: Senior Vice President

Owner:

CN Terra Nova Holdings, LLC,
a Delaware limited liability company

By: ~~Bounty Investments, LLC~~

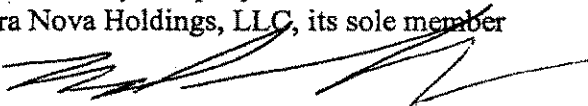
By: 
Name: Michael Sloan
Its: Authorized Signatory

NCD ACCEPTANCE:

The undersigned, a wholly owned subsidiary of Owner, hereby agrees to be bound by the obligations of the Owner under this Agreement.

North Charlottesville Development, LLC,
a Delaware limited liability company

By: CN Terra Nova Holdings, LLC, its sole member

By: 
Name: Michael Sloan
Its: Authorized Signatory

ESCROW AGENT ACCEPTANCE

The undersigned Escrow Agent hereby specifically accepts its responsibilities as set forth in the foregoing Agreement.

Founders Title Agency Inc.

By: _____
Name: Florence A. Reagle
Its: Escrow Officer

Exhibit A

Legal Description
(Tax Map No. 60-1-B - 203.905 acres)

All that certain tract or parcel of land with all improvements thereon and appurtenances thereunto belonging, lying and located in Ruckerville Magisterial District, Greene County, Virginia and more particularly described as 203.905 acres, as shown on plat dated September 23, 2004, prepared by Roudabush, Gale & Associates Inc., entitled "Subdivided Plat S.A. Reynolds property Tax Map 60 parcel (1)-A & (1)-B Tax Map 60 parcels (A)-0C1, (A)-9C2, (a)-9C3A, (A)-9C3B and portions of Tax Map 60 parcels (A)-62 and (A)-62A1 Ruckerville District, Greene County, Virginia" and recorded in the Clerk's Office of the Circuit Court of Greene County, Virginia on Plats Cards 3264 and 3265, and recorded together with Deeds recorded in Deed Book 917, at page 176, and in Deed Book 917, at page 183, among the land records of Greene County, Virginia.

TOGETHER WITH that certain 50' ingress/egress easement created by Deed of Dedication and Easements recorded in Deed Book 952, at page 239 and shown on Plat Cards 3701, 3702, 3703 and 3704.

TOGETHER WITH AND SUBJECT TO the use of 40' and 60' Access Easements as shown on Plat Card 2944.

EXHIBIT B

**CN TERRA NOVA HOLDINGS, LLC
LOT TAKEDOWN SCHEDULE**

Quarter Ending	# Lots	Cumulative Lots	Price Per Lot	Total Purchase Price	Cumulative Purchase Price
4/30/06	0	0	\$138,382	0	0
5/31/06	0	0	\$138,382	0	0
6/30/06	0	0	\$138,382	0	0
7/31/06	0	0	\$138,382	0	0
8/31/06	5	5	\$138,382	691,910	691,910
9/30/06	5	10	\$138,382	691,910	1,383,820
10/31/06	15	25	\$138,382	2,075,730	3,459,550
11/30/06	5	30	\$138,382	691,910	4,151,460
12/31/06	5	35	\$138,382	691,910	4,843,370
1/31/07	15	50	\$138,382	2,075,730	6,919,100
2/28/07	5	55	\$138,382	691,910	7,611,010
3/31/07	5	60	\$138,382	691,910	8,302,920
4/30/07	15	75	\$138,382	2,075,730	10,378,650
5/31/07	5	80	\$138,382	691,910	11,070,560
6/30/07	5	85	\$138,382	691,910	11,762,470
7/31/07	15	100	\$138,382	2,075,730	13,838,200
8/31/07	5	105	\$138,382	691,910	14,530,110
9/30/07	5	110	\$138,382	691,910	15,222,020
10/31/07	15	125	\$138,382	2,075,730	17,297,750
11/30/07	5	130	\$138,382	691,910	17,989,660
12/31/07	5	135	\$138,382	691,910	18,681,570
1/31/08	15	150	\$138,382	2,075,730	20,757,300
2/29/08	5	155	\$138,382	691,910	21,449,210
3/31/08	5	160	\$138,382	691,910	22,141,120
4/30/08	15	175	\$138,382	2,075,730	24,216,850
5/31/08	5	180	\$138,382	691,910	24,908,760
6/30/08	5	185	\$138,382	691,910	25,600,670
7/31/08	15	200	\$138,382	2,075,730	27,676,400
8/31/08	5	205	\$138,382	691,910	28,368,310
9/30/08	5	210	\$138,382	691,910	29,060,220
10/31/08	15	225	\$138,382	2,075,730	31,135,950
11/30/08	5	230	\$138,382	691,910	31,827,860
12/31/08	5	235	\$138,382	691,910	32,519,770
1/31/09	15	250	\$138,382	2,075,730	34,595,500
2/28/09	5	255	\$138,382	691,910	35,287,410
3/31/09	5	260	\$138,382	691,910	35,979,320
4/30/09	15	275	\$138,382	2,075,730	38,055,050
5/31/09	5	280	\$138,382	691,910	38,746,960

6/30/09	5	285	\$138,382	691,910	39,438,870
7/31/09	15	300	\$138,382	2,075,730	41,514,600
8/31/09	5	305	\$138,382	691,910	42,206,510
9/30/09	5	310	\$138,382	691,910	42,898,420
10/31/09	15	325	\$138,382	2,075,730	44,974,150
11/30/09	5	330	\$138,382	691,910	45,666,060
12/31/09	5	335	\$138,382	691,910	46,357,970
1/31/10	15	350	\$138,382	2,075,730	48,433,700
2/28/10	5	355	\$138,382	691,910	49,125,610
3/31/10	5	360	\$138,382	691,910	49,817,520
4/30/10	15	375	\$138,382	2,075,730	51,893,250
5/31/10	5	380	\$138,382	691,910	52,585,160
6/30/10	5	385	\$138,382	691,910	53,277,070
7/31/10	15	400	\$138,382	2,075,730	55,352,800
8/31/10	5	405	\$138,382	691,910	56,044,710
9/30/10	5	410	\$138,382	691,910	56,736,620
10/31/10	15	425	\$138,382	2,075,730	58,812,350
11/30/10	5	430	\$138,382	691,910	59,504,260
12/31/10	5	435	\$138,382	691,910	60,196,170
1/31/11	15	450	\$138,382	2,075,730	62,271,900
2/28/11	5	455	\$138,382	691,910	62,963,810
3/31/11	<u>80</u>	535	\$138,382	<u>11,070,560</u>	74,034,370

535

\$74,034,370

EXHIBIT C

ASSIGNMENT OF PLANS, CONTRACTS, WARRANTIES AND GUARANTIES AND OTHER INTANGIBLE PROPERTY

THIS ASSIGNMENT OF PLANS, CONTRACTS, WARRANTIES AND GUARANTIES AND OTHER INTANGIBLE PROPERTY (the "Assignment") is made and entered into as of _____, 200__ from K. Hovnanian's Four Seasons at Charlottesville, L.L.C., a Virginia limited liability company ("Assignor"), to CN Terra Nova Holdings LLC, a Delaware limited liability company ("Assignee").

RECITALS

A. Assignee, Assignor and K. Hovnanian Holdings NJ, L.L.C., a New Jersey limited liability company, an affiliate of Assignor, have executed that certain Option and Development Agreement ("Option Agreement") of even date herewith, pursuant to which Assignor has the option to acquire certain real property located in Greene County, Commonwealth of Virginia, and more particularly described therein (the "Option Property").

B. In accordance with the terms of Section 5 of the Option Agreement, Assignor hereby assigns to Assignee all of Assignor's rights in and to certain plans, contracts, warranties and guaranties, intangible property, and other rights, documents and instruments relating to the development of those portions of the Option Property other than the Lots then owned by Builder, as described on Exhibit A attached hereto (the "Property").

C. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Option Agreement.

NOW THEREFORE, in consideration of the foregoing, which are incorporated herein by reference, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Assignor hereby covenants and agrees as follows:

1. Assignor hereby assigns and transfers to Assignee, without warranty, all of Assignor's right, title, claim and interest in and under:

(A) The right to utilize all plans and plats prepared by Urban Engineering and Associates, Inc. and plans and specifications with respect to the Property (whether existing today or hereafter) and any improvements to be constructed thereon, other than the Lots then owned by Builder, including without limitation, the Preliminary Plan, Improvements Plans, Final Approvals and those plans and specifications listed on Schedule 1 attached hereto (the "Plans");

(B) All of the contracts with respect to the Property other than the Lots then owned by Builder, listed on Schedule 2 attached hereto (the "Contracts"); and

(C) All warranties and guaranties made by or received from any third party with respect to any goods, materials, supplies, chattels, fixtures, equipment, machinery, building materials and work in progress attached to or placed in or on any part of the Property, or used in connection with any construction on the Property, other than the Lots then owned by Builder,

including, without limitation, those warranties and guaranties listed on Schedule 3 attached hereto (the "Warranties and Guaranties"); and

(D) Any development entitlements or permits or other intangible property now or hereafter owned by Assignor or its Affiliates which arises from or relates to construction on the Property or to the ownership, use or operation of the Property, other than the Lots then owned by Builder, including without limitation, the right to use any governmental permits or licenses, agreements, utility contracts, other contract rights, development and use rights, applications, architectural and engineering plans, specifications and drawings, as built drawings, and any other rights relating to the ownership, use or operation of the Property other than the Lots then owned by Builder.

2. Should any litigation be commenced between the parties hereto or their representatives or should any party institute any proceeding in a bankruptcy or similar court which has jurisdiction over any other party hereto or any or all of such party's or parties' property or assets concerning any provision of this Assignment or the rights and duties of any person or entity in relation thereto, the party or parties prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to a reasonable sum as and for such party's or parties' attorneys' fees and court costs in such litigation which shall be determined by the court in such litigation or in a separate action brought for that purpose. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Assignment shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Assignment and to survive and not be merged into any such judgment.

3. This Assignment shall be binding on and inure to the benefit of the parties hereto, their heirs, executors, administrators, successors in interest and assigns.

4. Assignee agrees that the foregoing assignment of Assignor's right, title, claim and interest in and under the Plans, Contracts and Warranties and Guaranties shall remain effective for the duration of this project only and upon Assignor's purchase of all the Lots in accordance with the Option Agreement, Assignee shall assign all such rights and documents to Assignor.

IN WITNESS WHEREOF, Assignor has executed this Assignment the day and year first above written.

ASSIGNOR

K. HOVNANIAN'S FOUR SEASONS AT
CHARLOTTESVILLE, L.L.C.,
a Virginia limited liability company

By: _____
Name: _____
Its: _____

EXHIBIT A

DESCRIPTION OF PROPERTY

All of that certain real property, together with all appurtenances thereto and all improvements now or hereafter located thereon, situated in Greene County, Commonwealth of Virginia, and described as follows.

Being known and designated as Tax Lots __, Block _____ and Tax Lot _____, Block _____ as shown on the Tax Map of _____ and as further described as follows:

[To follow]

SCHEDULE 1

List of Plans

[to be supplied by Assignor]

SCHEDULE 2

List of Contracts

SCHEDULE 3

List of Warranties and Guaranties

(to be supplied by Assignor)

EXHIBIT D

Prepared by _____

Consideration: \$ _____

Tax Map #'s: _____

Grantee's Address: 4090-A Lafayette Drive, Chantilly, VA 20151

Return to: Founder's Title Agency, Inc., Suite 105, 3951 Pender Drive, Fairfax, VA 22030

DEED

THIS DEED, made and entered into this _____ day of ____, 200__, by and between **NORTH CHARLOTTESVILLE DEVELOPMENT LLC**, a Delaware limited liability company, Grantor, and **K. HOVNANIAN'S 4 SEASONS AT NORTH CHARLOTTESVILLE, L.L.C.**, a Delaware limited liability company, Grantee,

WITNESSETH:

That for and in consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration, the receipt of which is hereby acknowledged, Grantor does hereby grant, bargain, sell, and convey with Special Warranty of Title unto Grantee, in fee simple, all that certain real property, together with improvements thereon, situate and lying in Greene County, Virginia, and more particularly described on Exhibit A attached hereto.

This conveyance is made subject to all easements, conditions, restrictions and agreements of record, as they may lawfully apply to the real estate hereby conveyed or any part thereof.

WITNESS the following signature and seal:

**NORTH CHARLOTTESVILLE DEVELOPMENT,
LLC**, a Delaware limited liability company
By: **CN Terra Nova Holdings, LLC**, its sole
member

By : _____ (SEAL)

Name: _____

Title: _____

COMMONWEALTH OF VIRGINIA
CITT/COUNTY OF _____, to-wit:

The foregoing instrument was acknowledged before me this _____ day of _____, 200__, by _____, _____, of North Charlottesville Development, LLC, a Delaware limited liability company, on behalf of said limited liability company.

Notary Public

My commission expires:

EXHIBIT E

IMPROVEMENT SCHEDULE

	DUE DATE
Subdivision Bonds Prepared Phase I	May, 2006
Final Plat Recordation Phase I	May, 2006
First Building Permit Issuance	September, 2006
Street Improvements Completed	June, 2010
Water and Sewer Improvement Completed	July, 2001
Final Plat Recordation – Phase II	July, 2007
Final Plat Recordation – Phase III	August, 2008
Final Plat Recordation – Phase IV	March, 2009
Final Plat Recordation – Phase V	December, 2010

EXHIBIT E-1

MONTHLY LAND IMPROVEMENT BUDGET

CN TERRA NOVA HOLDINGS, LLC

Month Ending	Land Development	Recreational Building	Property Taxes	Other Expenses	Total Land Development
4/30/06	\$906,873	\$170,639	\$17,833	\$4,505,341	\$5,600,686
5/31/06	647,955	50,000	17,833	892	716,680
6/30/06	477,094	50,000	17,833	892	545,819
7/31/06	477,094	50,000	17,833	2,467	547,394
8/31/06	491,012	50,000	17,833	892	559,737
9/30/06	612,235	50,000	17,833	892	680,960
10/31/06	612,235	50,000	17,833	2,467	682,535
11/30/06	617,917	328,750	17,000	850	964,517
12/31/06	698,710	328,750	17,000	850	1,045,310
1/31/07	698,710	328,750	17,000	2,425	1,046,885
2/28/07	694,987	547,917	16,167	808	1,259,879
3/31/07	448,920	547,917	16,167	808	1,013,811
4/30/07	448,920	547,917	16,167	2,383	1,015,386
5/31/07	472,242	547,917	15,333	767	1,036,259
6/30/07	382,038	497,917	15,333	767	896,055
7/31/07	382,038	547,917	15,333	2,342	947,630
8/31/07	358,716	547,917	14,500	725	921,858
9/30/07	550,199	547,917	14,500	725	1,113,341
10/31/07	550,199	547,917	14,500	2,300	1,114,916
11/30/07	553,922	236,861	13,667	683	805,132
12/31/07	537,507	0	13,667	683	551,857
1/31/08	537,507	0	13,667	2,258	553,432
2/29/08	514,184	0	12,833	642	527,659
3/31/08	500,163	0	12,833	642	513,638
4/30/08	500,163	0	12,833	2,217	515,213
5/31/08	502,024	0	12,000	600	514,624
6/30/08	148,919	0	12,000	600	161,519
7/31/08	148,919	0	12,000	2,175	163,094
8/31/08	147,058	0	11,167	558	158,783
9/30/08	428,765	0	11,167	558	440,490
10/31/08	428,765	0	11,167	2,133	442,065
11/30/08	428,765	0	10,333	517	439,615
12/31/08	459,143	0	10,333	517	469,993
1/31/09	459,143	0	10,333	2,092	471,568
2/28/09	456,203	0	9,500	475	466,178

3/31/09	415,731	0	9,500	475	425,706
4/30/09	415,731	0	9,500	2,050	427,281
5/31/09	399,071	0	8,667	433	408,171
6/30/09	217,298	0	8,667	433	226,398
7/31/09	217,298	0	8,667	2,008	227,973
8/31/09	213,576	0	7,833	392	221,801
9/30/09	157,961	0	7,833	392	166,186
10/31/09	157,961	0	7,833	1,967	167,761
11/30/09	157,961	0	7,000	350	165,311
12/31/09	324,368	0	7,000	350	331,718
1/31/10	324,368	0	7,000	1,925	333,293
2/28/10	324,368	0	6,167	308	330,843
3/31/10	272,407	0	6,167	308	278,882
4/30/10	272,407	0	6,167	1,883	280,457
5/31/10	272,407	0	5,333	267	278,007
6/30/10	351,269	0	5,333	267	356,869
7/31/10	351,269	0	5,333	1,842	358,444
8/31/10	351,269	0	4,500	225	355,994
9/30/10	66,821	0	4,500	225	71,546
10/31/10	66,821	0	4,500	1,800	73,121
11/30/10	64,546	0	3,667	183	68,396
12/31/10	58,876	0	3,667	183	62,726
1/31/11	58,876	0	3,667	1,758	64,301
2/28/11	202,630	0	2,833	142	205,605
3/31/11	<u>821,765</u>	<u>0</u>	<u>50,334</u>	<u>1,357,125</u>	<u>2,229,223</u>
Total	<u>\$23,816,300</u>	<u>\$6,575,000</u>	<u>\$705,000</u>	<u>\$5,924,232</u>	<u>\$37,020,532</u>

EXHIBIT E-2

LINE-ITEM IMPROVEMENT BUDGET

CN Terra Nova Holdings, LLC

LAND ACQUISITION	\$22,068,750
LAND DEVELOPMENT	
CLEARING, EROSION-SILTATION CONTROLS	1,139,470
EARTHWORK AND GRADING	4,499,761
SANITARY SEWER	2,603,851
STORM SEWER	2,890,577
WATER MAIN	3,308,974
CONCRETE	1,075,152
ROADWAYS	2,570,902
STREET LIGHTS	168,000
CONDUIT CROSSINGS	88,200
CONSTRUCTION STAKEOUT	410,000
STREET TREES	390,550
LANDSCAPE ALLOWANCE	300,000
COMMON AREA SEEDING	102,000
COMMON AREA SODDING	162,500
PERIMETER FENCING ALLOWANCE	112,500
BOND RELEASE	267,500
ENGINEERING/GEOTECHNICAL	1,812,015
COUNTY REVIEW/INSPECTION FEE ALLOWANCE	140,000
MISC. PERMIT FEES	25,000
WETLANDS MITIGATION FEES	126,838
EROSION PERMIT	26,600
WETLANDS MITIGATION CREDIT TO SELLER	41,800
SEWER TAP FEES, FIRST SECTION	420,000
5% CONTINGENCY	<u>1,134,109</u>
TOTAL LAND DEVELOPMENT	<u>23,816,299</u>
RECREATIONAL BUILDING (INCLUDING 8.2% CONTINGENCY)	6,575,000
WATER PERMITS	4,012,500
THIRD PARTY EXPENSES	160,000
PROPERTY TAX	705,000
TITLE INSURANCE	81,419
TRANSFER TAX / OPTION RECORDING FEES	225,605
INSPECTION FEES	30,000
5% CONTINGENCY (Excl. Rec Building, Water Permits, Development Fee)	60,101
DEVELOPMENT FEE (5% of land development hard costs)	1,354,608
TOTAL TAXES, FEES, INSURANCE	<u>13,204,232</u>
TOTAL LAND DEVELOPMENT	<u>\$37,020,531</u>
TOTAL LAND ACQUISITION AND DEVELOPMENT	<u>\$59,089,281</u>

EXHIBIT F

RECORDING REQUESTED AND
WHEN RECORDED RETURN TO:

North Charlottesville Development, LLC
c/o Columbus Nova Partners, LLC
590 Madison Avenue, 38th Floor
New York, NY 10022
Attn: Michael Sloan

Space Above Line for Recorder's Use Only

CONSTRUCTION LICENSE AND INDEMNITY AGREEMENT

THIS CONSTRUCTION LICENSE AND INDEMNITY AGREEMENT (the "Agreement") is made and entered into as of this ___ day of ____, 200__ by and between North Charlottesville Development, LLC, a Delaware limited liability company ("Owner"), and K. Hovnanian's Four Seasons at Charlottesville, L.L.C., a Virginia limited liability company ("Builder").

RECITALS

A. Owner holds title to certain unimproved real property (the "Property") located in the County of Greene ("County"), Commonwealth of Virginia ("State") and as more particularly described as:

[Legal Description see attached Exhibit A]

B. The Property is or will be comprised of 535 single family detached age restricted homes (the "Lots").

C. CN Terra Nova Holdings, LLC, the sole member of Owner, Owner, Builder, and K. Hovnanian Holdings NJ, L.L.C., a New Jersey limited liability company, an affiliate of Builder, have entered into that certain Option and Development Agreement of even date herewith (the "Option Agreement") pursuant to which Owner has granted to Builder an option to purchase the Lots on certain terms and conditions. Capitalized terms used, but not otherwise defined, herein shall have the meanings given to them in the Option Agreement.

D. During the term of this Agreement, Builder desires the right to enter upon the Lots for the purpose of constructing the Improvements and dwelling units on the Lots.

E. Owner desires to grant a license to Builder for such purpose, subject to and in accordance with the terms and conditions set forth below.

F. All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Option Agreement.

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

AGREEMENT

1. Grant of License. Builder (and Builder's agents, employees, contractors and subcontractors) shall have the non exclusive right and license to enter upon the Lots for the limited purposes of constructing Model Homes and dwelling units thereon and related subdivision improvements appurtenant thereto, and for locating sales and construction trailers for use in connection therewith and work related thereto strictly in accordance with term of Option Agreement. All costs of such work and activity shall be borne solely by Builder and, except as expressly set forth in the Option Agreement, Builder shall have no right to recover such costs from Owner. This license shall expire upon the earlier of (i) termination or expiration of the Option Agreement (including a default under the Option Agreement), (ii) the purchase of all of the Lots by Builder pursuant to the Option Agreement (and the license shall expire with respect to a particular Lot upon the purchase of such Lot by Builder pursuant to the Option Agreement), or (iii) the failure by Builder to cure any default by Builder hereunder within thirty (30) days after Owner delivers written notice of such default to Builder. After expiration of this license and upon request from Owner, Builder shall execute, acknowledge and deliver to Owner an instrument in sufficient form for recording which shall give notice that the license created hereunder has been terminated and no longer is effect.

2. Covenants of Builder.

(a) Builder shall maintain throughout the term of the license and, upon request by Owner, shall deliver to Owner evidence, reasonably satisfactory to Owner, that Builder has in effect such insurance coverages (including, but not limited to, worker's compensation, employer's liability, automobile liability, commercial general liability and builder's risk coverage) all in form and issued by insurance companies reasonably acceptable to Owner and naming Owner, Owner's members or partners (and such other persons and entities as may be reasonably requested by Owner) as additional insureds or loss payees, as applicable, and providing that such insurance shall not be canceled except after thirty (30) days written notice to Owner. Owner agrees that Builder may satisfy the requirements of this Subsection 2(a) by complying with the provisions of Section 16 of the Option Agreement concerning insurance coverage.

(b) Builder shall not permit to attach to the Property, and Builder shall keep the Property free and clear of, any, liens and encumbrances (including without limitation any mechanic's or materialmen's lien). Builder shall indemnify, defend and hold harmless Owner and all Owner-Related Persons from and against any claims, demands, liabilities, losses, damages, costs and expenses, including but not limited to court costs and reasonable attorneys' fees, relating to or resulting from any such liens or encumbrances.

(c) Builder shall not purport to transfer title to any Lot that it has not acquired and upon which it has commenced construction nor otherwise encumber such Lot in any way whatsoever; provided, however, that Builder may market such Lots to prospective home buyers and enter into sales contracts provided that such contracts shall be contingent upon completion of

construction, exercise of the Option set forth in the Option Agreement with respect to such Lot and the acquisition of any such Lot from Owner.

(d) Prior to commencing any work on the Property pursuant to this Agreement, Builder shall obtain, at its sole cost, all governmental permits and authorizations required by any governmental agencies to perform such work. In the exercise of its rights under this Agreement, Builder shall comply with all applicable governmental laws, rules, regulations and requirements, including any and all environmental laws.

(e) If Builder fails to comply with its covenants under this Section 2, and such failure continues for a period of at least thirty (30) days after Builder's receipt of written notice thereof from Owner, then Builder shall be deemed to have breached its obligations under this Agreement. If such breach of this Agreement remains uncured for a period of at least thirty (30) calendar days after Builder's receipt of written notice of such breach from Owner, then Builder shall be deemed materially to have breached this Agreement and, without the necessity of providing any additional notice or opportunity to cure, said breach shall be deemed a Default under the Option Agreement entitling Owner to immediately exercise its remedies under the Option Agreement.

3. Effect of Termination of License or Option Agreement.

(a) Subject to the rights and obligations of the parties under Section 22 of the Option Agreement, upon the termination of this Agreement or the Option Agreement for any reason other than Owner's breach or default under the Option Agreement and if Builder has failed to acquire any Lot upon which it has commenced construction pursuant to this Agreement, then Owner shall become the owner of any improvements located in and on Property and in and on the Lot(s) not purchased by Builder, and, if requested by Owner, Builder shall: (i) assign to Owner all of the work Builder has performed on the Lots; and (ii) Builder shall execute such documentation reasonably necessary to convey such work to Owner; and (iii) Builder shall confirm that it has no right to recover from Owner its costs in performance of such work.

(b) Upon the termination of Builder's obligations under this Agreement or the Option Agreement as a result of Owner's breach or Default hereunder or under the Option Agreement, then Builder shall have none of the obligations set forth in Subsection 3(a) above, provided that Builder shall leave the Property, and any sidewalk, street or land adjacent thereto, in a safe condition.

4. Indemnity Regarding Builder's Activities. In consideration for the rights granted hereby, Builder covenants and agrees to indemnify, defend (with legal counsel reasonably acceptable to Owner) and hold Owner and Owner-Related Persons harmless for, from and against any and all claims, actions, demands, liabilities, costs and expenses which may be claimed or asserted against Owner or Owner Related Persons, the Lots, the Improvements, and any sidewalk, street or land adjacent thereto, including, without limitation, reasonable attorneys' fees, any mechanics or materialmen's liens or claims of liens, and any incidental or consequential damages, in connection with the loss of life, personal injury and damage to property arising out of or in any way relating to existence of the license granted hereby or the use, occupation and possession of the Property, the Improvements, and any sidewalk, street or land adjacent thereto,

by Builder or its officers, employees, agents, contractors, subcontractors, licensees, invitees, successors and assigns, unless such loss or damage was caused solely by Owner, its agents or employees. It is the express intent and understanding of the parties hereto that Owner would not have granted the license and rights granted herein to Builder without Builder's agreement to so indemnify, defend and hold Owner and Owner-Related Persons harmless. This Section 5 shall survive the termination or expiration of the license and termination of the Option Agreement.

5. Notices. All notices required hereunder shall be in writing, and shall be delivered in the manner specified in the Option Agreement.

6. Attorneys' Fees. In the event of any action by Owner or Builder under or pursuant to this Agreement, the prevailing party shall be entitled to recover from the nonprevailing party its costs and expenses of enforcing its rights hereunder, including actual attorneys' fees.

7. Binding on Successors: Obligations Survive. The terms and conditions herein contained shall be binding upon and inure to the benefit of the successors and assignees of the parties hereto. Notwithstanding the revocation or expiration of the license, for any reason, Builder's obligations under this Agreement shall continue in full force and effect until satisfied.

8. Applicable Law. This Agreement shall be construed in accordance with the laws of the State of where the Property is located.

9. Partial Invalidity. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the remainder of the Agreement shall continue in full force and effect and shall in no way be impaired or invalidated, and the parties agree to substitute for the invalid or unenforceable provision a valid and enforceable provision that most closely approximates the intent and economic effect of the invalid or unenforceable provision.

10. Entire Agreement. All exhibits referred to herein are attached hereto and incorporated herein by this reference. This instrument contains the entire agreement of the parties with respect to the subject matter hereof and cannot be amended or modified except by a written agreement, executed by each of the parties hereto.

11. Further Assurances. Each of the parties agrees to execute and deliver any and all additional documents and other assurances, and to do any and all acts and things reasonably necessary in connection with the performance of their obligations hereunder and to carry out the intent of the parties hereto.

IN WITNESS WHEREOF the parties hereto have entered into this Agreement as of the date first set forth above.

Builder:

K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE,
LLC,
a Virginia limited liability company

By: _____
Name: _____
Its: _____

Owner:

North Charlottesville Development, LLC,
a Delaware limited liability company
By: CN Terra Nova Holdings, LLC, a Delaware limited
liability company, its sole member

By: _____
Name: _____

Consent to Indemnifications:

K. Hovnanian Holdings NJ, L.L.C.,
a New Jersey limited liability company

By: _____
Name: _____
Its: _____

Exhibit A

Legal Description

All of that certain real property, together with all appurtenances thereto and all improvements now or hereafter located thereon, situated in Greene County, Commonwealth of Virginia, and described as follows.

[To follow].

State of _____)
County of _____)

On _____, 2005, before me, _____ (Notary Public), personally appeared _____, (name of signer(s)) personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signatures(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

(Seal)

Notary's Signature

State of _____)
County of _____)

On _____, 2005, before me, _____ (Notary Public), personally appeared _____, (name of signer(s)) personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signatures(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

(Seal)

Notary's Signature

EXHIBIT G

WHEN RECORDED, RETURN TO:

North Charlottesville Development, LLC
c/o Columbus Nova Partners, LLC
590 Madison Avenue, 38th Floor
New York, NY 10022
Attn: Michael Sloan

MEMORANDUM OF OPTION AND DEVELOPMENT AGREEMENT

BY THIS MEMORANDUM OF OPTION AND DEVELOPMENT AGREEMENT ("Memorandum") entered into as of the ___ day of ____, 200__, by and between North Charlottesville Development, LLC, a Delaware limited liability company ("Owner"), and K. Hovnanian's Four Seasons at Charlottesville, LLC, a Virginia limited liability company ("Builder"), declare and agree as follows:

A. Owner owns that certain real property located in Greene County, Commonwealth of Virginia, and described on the attached Exhibit A (the "Property").

B. Owner has granted to Builder, and does hereby grant to Builder, pursuant to that certain Option and Development Agreement between Builder and CN Terra Nova Holdings, LLC, the sole member of Owner, of even date herewith (the "Option and Development Agreement"), the Option to purchase the Lots as defined in, and in accordance with, the terms of the Option and Development Agreement.

C. The term of the Option and Development Agreement commenced upon the date of this Memorandum and shall expire on March 31, 2011.

D. All other terms, conditions and agreement contained within the Option Agreement are fully incorporated herein by reference as if fully set forth herein. This Memorandum is not intended to change any of the terms of the Option and Development Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum of Option and Development Agreement as of the date first set forth above.

Builder:

K. HOVNIANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, L.L.C.,
a Virginia limited liability company

By: _____
Name: _____
Its: _____

Owner:

North Charlottesville Development, LLC,
a Delaware limited liability company
By: CN Terra Nova Holdings, LLC, a Delaware
limited liability company, its sole member

By: _____
Name: _____
Its: _____

State of _____)
County of _____)

On _____, 2005, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed this instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

STATE OF _____)
County of _____)

On _____, 2005, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they, executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed this instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

(Seal)

EXHIBIT A

LEGAL DESCRIPTION

All of that certain real property, together with all appurtenances thereto and all improvements now or hereafter located thereon, situated in Greene County, Commonwealth of Virginia, and described as follows.

[To follow].

EXHIBIT H

WHEN RECORDED, RETURN TO:

North Charlottesville Development, LLC
c/o Columbus Nova Partners, LLC
590 Madison Avenue, 38th Floor
New York, NY 10022
Attn: Michael Sloan

NOTICE OF TERMINATION OF OPTION AND QUITCLAIM DEED

THIS NOTICE OF TERMINATION OF OPTION AND QUITCLAIM DEED is dated this ___ day of _____ between North Charlottesville Development, LLC, a Delaware limited liability company ("Owner"), and K. Hovnanian's Four Seasons at Charlottesville, LLC, a Virginia limited liability company ("Builder").

WHEREAS, CN Terra Nova Holdings, LLC, the sole member of Owner, and Owner granted to Builder a certain option pursuant to that certain Option and Development Agreement dated April __, 2006 between CN Terra Nova Holdings, LLC and Builder; and

WHEREAS, the option contained in the Option and Development Agreement has been fully terminated and the parties desire to evidence such termination by execution, delivery and recordation of this Notice of Termination of Option and Quitclaim Deed.

NOW, THEREFORE, in consideration of the agreements set forth herein, and Ten Dollars and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. The Option granted under the Option and Development Agreement has been fully terminated and Builder no longer has any rights whatsoever thereunder, and the parties acknowledge the full and complete termination of Builder's rights in the option property.

2. Builder hereby quitclaims to Owner all that certain real property situated in the County of Greene, Virginia, described on Exhibit A attached hereto and incorporated herein by this reference.

[Signatures to follow]

IN WITNESS WHEREOF, the undersigned have executed this Notice of Termination of Option and Quitclaim Deed as of the day and year first above written.

Builder:

K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, LLC,
a Virginia limited liability company

By: _____
Name: _____
Its: _____

Owner:

North Charlottesville Development, LLC,
a Delaware limited liability company
By: CN Terra Nova Holdings, LLC, a Delaware
limited liability company, its sole member

By: _____
Name: _____
Its: _____

STATE OF _____)
)
County of _____)

On _____, 2005, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signatures(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed this instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

STATE OF _____)
)
County of _____)

On _____, 2005, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they, executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed this instrument.

WITNESS my hand and official seal.

Notary Public

My Commission Expires:

(Seal)

STATE OF _____)
County of _____)

On _____, 2005, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they, executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed this instrument.

WITNESS my hand and official seal.

Notary Public

My Commission Expires:

(Seal)

EXHIBIT I
Preliminary Plan

EXHIBIT J

FORM OF LETTER OF CREDIT

(Charlottesville)

ISSUING BANK:
BANK OF AMERICA, N.A.

DATE: APRIL __, 2006

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: _____

BENEFICIARY:	APPLICANT:
M&T MORTGAGE CORPORATION ONE FOUNTAIN PLAZA BUFFALO, NEW YORK 14203 ATTN: MR. JOHN R. SIGETI	K. HOVNIANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, LLC C/O HOVNIANIAN ENTERPRISES, INC. 10 HIGHWAY 35 RED BANK, NEW JERSEY 07701

AMOUNT: \$ _____

EXPIRATION DATE: _____ AT OUR COUNTERS

WE, BANK OF AMERICA, N.A, HEREBY ESTABLISH OUR IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER ____, IN YOUR FAVOR, FOR THE ACCOUNT OF K. HOVNIANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, LLC, AN AFFILIATE OF HOVNIANIAN ENTERPRISES, INC., 10 HIGHWAY 35, P.O. BOX 500, RED BANK, NEW JERSEY 07701 ("APPLICANT"), AVAILABLE BY YOUR DRAFT(S) IN THE FORM OF ANNEX "A" ATTACHED HERETO, SIGNED, DRAWN ON BANK OF AMERICA, N.A. PAYABLE AT SIGHT FOR ANY SUM OF MONEY(IES) NOT TO EXCEED A TOTAL OF THE AMOUNT REFERENCED ABOVE WHEN ACCOMPANIED BY THE ORIGINAL OF THIS LETTER OF CREDIT AND ANY SUBSEQUENT AMENDMENTS, IF ANY, THERETO AND THE FOLLOWING DOCUMENT:

THIS IS AN INTEGRAL PART OF LETTER OF CREDIT NUMBER: _____

A CERTIFICATE SIGNED BY AN OFFICER OF M&T MORTGAGE CORPORATION IN THE FORM OF ANNEX "B" ATTACHED HERETO.

PARTIAL DRAWINGS ARE PERMITTED.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR A PERIOD OF ONE (1) YEAR FROM THE PRESENT OR ANY FUTURE EXPIRATION DATE, UNLESS AT LEAST SIXTY (60) DAYS PRIOR TO ANY EXPIRATION DATE WE SHALL NOTIFY YOU BY OVERNIGHT COURIER THAT WE ELECT NOT TO EXTEND THIS LETTER OF CREDIT FOR SUCH ADDITIONAL PERIOD.

IF CANCELLATION OF THIS LETTER OF CREDIT IS REQUIRED BEFORE THE CURRENT EXPIRATION DATE, THE ORIGINAL OF THIS LETTER OF CREDIT MUST BE RETURNED TO US ACCOMPANIED BY THE BENEFICIARY'S LETTER REQUESTING CANCELLATION IN THE FORM ATTACHED HERETO AS ANNEX "C".

THIS LETTER OF CREDIT MAY ALSO BE DECREASED WITHOUT AMENDMENT UPON RECEIPT OF BENEFICIARY'S LETTER REQUESTING SUCH DECREASE IN THE FORM ATTACHED HERETO AS ANNEX "C".

AMENDMENTS UNDER THIS LETTER OF CREDIT REQUIRING BENEFICIARY APPROVAL WILL REQUIRE ALL SUCH NAMED BENEFICIARY'S APPROVAL.

THIS LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES 1998, ICC PUBLICATION 590.

IF YOU REQUIRE ANY ASSISTANCE OR HAVE ANY QUESTIONS REGARDING THIS TRANSACTION, PLEASE CALL 213-345-0132.

DRAFT

AUTHORIZED SIGNATURE

DRAFT

AUTHORIZED SIGNATURE

THIS IS AN INTEGRAL PART OF LETTER OF CREDIT NUMBER: _____

ANNEX "A"

SIGHT DRAFT

DATE: _____

TO: BANK OF AMERICA, N.A.
333 SOUTH BEAUDRY AVENUE
19TH FLOOR, MAIL CODE CA-9-703-19-23
LOS ANGELES, CALIFORNIA 90017
ATTENTION: STANDBY LETTER OF CREDIT DEPARTMENT

DRAWN UNDER BANK OF AMERICA, N.A.'S IRREVOCABLE STANDBY LETTER OF CREDIT NO. _____ DATED APRIL __, 2006

AT SIGHT AND AT THE DIRECTION OF THE UNDERSIGNED PAY TO THE ORDER OF THE BENEFICIARY NAMED BELOW, THE SUM OF ___ (SPECIFY AMOUNT IN WORDS) ___ UNITED STATES DOLLARS USD ___ \$ (SPECIFY AMOUNT IN FIGURES) _____.

M&T MORTGAGE CORPORATION, A NEW YORK CORPORATION	
---	--

BY: _____ NAME: _____ TITLE: _____	
--	--

NOTE:

THIS SIGHT DRAFT ALSO NEEDS TO BE ENDORSED IN BLANK ON THE REVERSE HEREOF BY THE BENEFICIARY AS ABOVE.

THIS IS AN INTEGRAL PART OF LETTER OF CREDIT NUMBER: _____

ANNEX "B"

DATE: _____

TO: BANK OF AMERICA, N.A.
333 SOUTH BEAUDRY AVENUE
19TH FLOOR, MAIL CODE CA-9-703-19-23
LOS ANGELES, CALIFORNIA 90017
ATTENTION: STANDBY LETTER OF CREDIT DEPARTMENT

RE: IRREVOCABLE LETTER OF CREDIT NO. _____ (THE "LETTER OF CREDIT")

DEAR SIR OR MADAM:

THE UNDERSIGNED IS A NAMED BENEFICIARY UNDER THE ABOVE REFERENCED LETTER OF CREDIT ISSUED BY BANK OF AMERICA, N.A. (THE "BANK") FOR THE ACCOUNT OF K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, LLC, AN AFFILIATE OF HOVNANIAN ENTERPRISES, INC.

THE UNDERSIGNED HEREBY CERTIFIES TO THE BANK WITH RESPECT TO ITSELF AS FOLLOWS (SPECIFY EITHER "A" OR "B" WHICHEVER IS APPLICABLE):

A. "APPLICANT IS IN DEFAULT (BEYOND THE EXPIRATION DATE OF ANY APPLICABLE CURE PERIOD) UNDER THAT CERTAIN OPTION AND DEVELOPMENT AGREEMENT DATED AS OF APRIL __, 2006 (THE "OPTION AGREEMENT") BY AND BETWEEN THE APPLICANT AND CN TERRA NOVA HOLDINGS, LLC, OR BENEFICIARY OTHERWISE IS ENTITLED TO DRAW UPON LETTER OF CREDIT UNDER TERMS OF THE OPTION AGREEMENT."

OR

B. "WE HAVE RECEIVED BANK OF AMERICA, N.A.'S NOTICE OF THEIR ELECTION NOT TO EXTEND LETTER OF CREDIT NO. _____ AND HAVE NOT RECEIVED A REPLACEMENT LETTER OF CREDIT OR ANY OTHER FINANCIAL ASSURANCE SATISFACTORY TO BENEFICIARY WITHIN AT LEAST FORTY-FIVE (45) DAYS PRIOR TO THE PRESENT EXPIRATION DATE."

WE HEREBY REQUEST, AUTHORIZE AND INSTRUCT BANK OF AMERICA, N.A. TO
PAY TO THE ORDER OF BENEFICIARY THE SUM OF ___ (SPECIFY AMOUNT IN
WORDS) ___ UNITED STATES DOLLARS USD ___ \$ (SPECIFY AMOUNT IN FIGURES)
_____.

M&T MORTGAGE CORPORATION, A NEW YORK CORPORATION	
---	--

BY: _____ NAME: _____ TITLE: _____	
--	--

THIS IS AN INTEGRAL PART OF LETTER OF CREDIT NUMBER: _____

ANNEX "C"

DATE: _____

K. HOVNANIAN'S FOUR SEASONS AT CHARLOTTESVILLE, LLC C/O HOVNANIAN ENTERPRISES, INC. 10 HIGHWAY 35 RED BANK, NEW JERSEY 07701	BANK OF AMERICA, N.A. 333 SOUTH BEAUDRY AVENUE 19TH FLOOR, MAIL CODE CA-9-703-19-23 LOS ANGELES, CALIFORNIA 90017 ATTENTION: STANDBY LETTER OF CREDIT DEPARTMENT
--	---

RE: IRREVOCABLE LETTER OF CREDIT NO. _____ (THE "LETTER OF CREDIT")

AS BENEFICIARY UNDER THE ABOVE REFERENCED LETTER OF CREDIT, WE REQUEST THAT THE FOLLOWING ACTION(S) BE TAKEN AS EVIDENCED BY OUR INITIALS AND SIGNATURES BELOW:

PLEASE INITIAL:

_____ DECREASE BY THE AMOUNT OF USD \$ (SPECIFY AMOUNT) TO \$ (SPECIFY AMOUNT).

_____ CANCEL THIS LETTER OF CREDIT EFFECTIVE IMMEDIATELY. ENCLOSED HERewith ARE THE ORIGINAL LETTER OF CREDIT DOCUMENTS INCLUDING AMENDMENT(S) THERETO, IF ANY. (NOTE: IF ANY OF THESE DOCUMENTS ARE NOT INCLUDED WITH THIS LETTER, YOU MUST SPECIFY EACH MISSING DOCUMENT AND EXPLAIN THE REASON WHY IT IS NOT BEING RETURNED).

M&T MORTGAGE CORPORATION,
A NEW YORK CORPORATION

BY: _____
NAME: _____
TITLE: _____

EXHIBIT K
ACQUISITION PRO FORMA

EXHIBIT L

OWNER'S AUTHORIZATION AND CONSENT

The undersigned North Charlottesville Development, LLC, a Delaware limited liability company ("**Owner**"), hereby consents, designates and authorizes K. Hovnanian Four Seasons at Charlottesville, LLC, a Virginia limited liability company ("**Developer/Contractor**") to act on its behalf and for its benefit with respect only to certain matters relating to the physical development and construction of the real property held by Owner located in County of Greene, Virginia ("**Property**"). A definitive legal description of the Property is attached hereto as Exhibit "A".

Authorization/Right to Rely: This Authorization and Consent is intended to allow Developer/Contractor to obtain permits, prepare and submit plans, execute subdivision applications and agreements, obtain bonds and carry out various responsibilities and obligations normally required by or associated with the development of the Property. This includes the right to act on behalf of and for the benefit of Owner for the purpose of submitting, obtaining, authorizing or executing any and all: a) permits; b) development variances; c) waivers of conditions/standards; d) development/improvement plans; e) extensions of time; f) design reviews; g) bonds; h) governmental and quasi-governmental processing; and i) other similar permits/authorizations related to the foregoing. Owner expressly agrees that any governmental agency, employee or representative shall have the right to rely upon this Authorization and Consent in dealing with Developer/Contractor and accepting its authority with respect to the above described matters affecting the Property.

No Waiver: Notwithstanding anything to the contrary that may be contained herein, in no event shall this Authorization and Consent relieve Developer/Contractor of any obligations it currently has or which may arise to Owner or others pursuant to any other existing agreements, options, or other understandings related to or in respect of the Property, including, without limitation, the Option and Development Agreement dated April __, 2006 ("the Existing Agreement"). Likewise, nothing contained herein shall be deemed to modify, diminish or waive any terms or conditions of the Existing Agreement or rights which Owner may have thereunder. Developer/Contractor shall promptly forward to Owner a copy of each item executed by Developer/Contractor on behalf of Owner pursuant to the authority contained herein.

No Adverse Action/Indemnity: Developer/Contractor shall be obliged to act with all appropriate diligence and good faith with respect to any action taken pursuant to this Authorization and Consent. Nothing contained herein shall permit Developer/Contractor to take any action which may encumber the Property, diminish or adversely affect the Property or the value thereof, or obligate or expose Owner to any liability. Developer/Contractor agrees to indemnify and hold Owner harmless from and against any and all liability, costs, or damages of any kind in nature whatsoever, including attorney's fees, which arise out of or are related in any way to Developer/Contractor's misuse or breach of the terms of this Authorization and Consent.

[signatures appear on the following page]

NORTH CHARLOTTESVILLE DEVELOPMENT, LLC,
a Delaware limited liability company

By: CN Terra Nova Holdings, a Delaware limited
liability company, its sole Member

By: _____

Name: _____

Title: _____

Date: _____

AGREED AND ACCEPTED:

K. Hovnanian's Four Seasons at Charlottesville, LLC,
a Virginia limited liability company

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT "A"

LEGAL DESCRIPTION OF THE PROPERTY