



Legal Department
mmacaninch@khov.com
Direct Dial: (609) 570-4696
Fax: (609) 570-4726

Sent via UPS (tracking # 1Z8FF4341391550787)

August 25, 2008

Mary Beth Smedley
East Brandywine Township
1214 Horseshoe Pike
Downingtown, PA 19335

**RE: Four Seasons at East Brandywine --
Sewer Connection and Reservation Agreement**


Dear Mary Beth:

We are in receipt of a fully executed copy of the "Sewer Connection and Reservation Agreement" between K. Hovnanian at East Brandywine, LLC, East Brandywine Township and East Brandywine Township Municipal Authority.

Enclosed is the original Citibank Irrevocable Letter of Credit No. 63661882, in the amount of \$1,583,656.00.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,


Michael R. Macaninch
Area Counsel, DVD

Enclosures

Cc: Thomas F. Oeste, Esq.
Jim Flanagan, Vice President (via email)

5 COMMERCE WAY, SUITE 200, HAMILTON, NJ 08691
TEL: (609) 570-4700 KHOV.COM

Citibank, N.A.

DATE JUN 04 2008

BENEFICIARY:
EAST BRANDYWINE TOWNSHIP
MUNICIPAL AUTHORITY
1214 HORSESHOE PIKE
DOWNTOWN, PA 19335

APPLICANT:
K HOVNIANIAN AT EAST BRANDYWINE, LLC
1170 WHEELER WAY, SUITE 200
LANGHORNE, PA 19047

IRREVOCABLE LETTER OF CREDIT NO. 63661882

GENTLEMEN:

BY ORDER OF OUR CLIENT, K HOVNIANIAN AT EAST BRANDYWINE, LLC ("APPLICANT"), WE HEREBY OPEN OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. 63661882 IN YOUR FAVOR FOR AN AMOUNT NOT TO EXCEED IN AGGREGATE USD \$1,583,656.00 (ONE MILLION, FIVE HUNDRED EIGHTY-THREE THOUSAND, SIX HUNDRED FIFTY-SIX DOLLARS), EFFECTIVE IMMEDIATELY AND EXPIRING AT THE OFFICE OF OUR SERVICES, CITICORP NORTH AMERICA, INC. AT 3800 CITIBANK CENTER, BUILDING B, 3RD FLOOR, TAMPA, FLORIDA 22610 ATTN: STANDBY LETTER OF CREDIT UNIT OR SUCH OTHER OFFICE AS WE MAY ADVISE YOU FROM TIME TO TIME ("OFFICE"), ON JUNE 4, 2010.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR TWO YEARS EACH FROM THE EXPIRY DATE STATED HEREIN ABOVE, UNLESS, SIXTY DAYS PRIOR TO ANY EXPIRATION DATE, WE NOTIFY YOU, THE BENEFICIARY, BY REGISTERED MAIL OR VIA OVERNIGHT COURIER SERVICE THAT WE ELECT NOT TO CONSIDER THIS LETTER OF CREDIT RENEWED FOR ANY SUCH ADDITIONAL PERIOD.

FUNDS HEREUNDER ARE AVAILABLE TO YOU AGAINST PRESENTATION OF YOUR SIGHT DRAFT(S) DRAWN ON US, MENTIONING THEREOF OUR LETTER OF CREDIT NUMBER 63661882, ACCOMPANIED BY:

1. BENEFICIARY'S MANUALLY SIGNED CERTIFICATE ON ITS LETTERHEAD READING AS FOLLOWS:

"(I) THE AMOUNT REPRESENTED BY THE DRAFT ACCOMPANYING THIS STATEMENT IS THE AMOUNT REQUIRED TO BE PAID TO BENEFICIARY ON ACCOUNT OF THE DEFAULT OF K HOVNIANIAN AT EAST BRANDYWINE, LLC PURSUANT TO THE TERMS OF THE SEWER CONNECTION AND RESERVATION AGREEMENT DATED [DATE TBD], 2008 BY AND BETWEEN K HOVNIANIAN AT EAST BRANDYWINE, LLC, EAST BRANDYWINE TOWNSHIP AND THE EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY.

Citibank, N.A.

(II) THAT K. HOVNIANIAN AT EAST BRANDYWINE, L.L.C. HAS BEEN GIVEN WRITTEN NOTICE DESCRIBING THE EVENT OR CONDITION OF SUCH DEFAULT IN REASONABLE DETAIL; AND

(III) THAT THE DEFAULT HAS NOT BEEN CURED WITHIN THE CURE PERIOD PROVIDED FOR THEREIN, IF ANY."

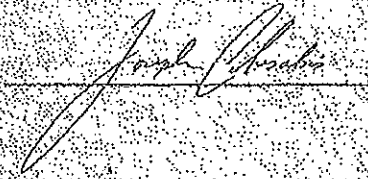
2. THE ORIGINAL OF THIS LETTER OF CREDIT AND SUBSEQUENT AMENDMENTS, IF ANY.

WE HEREBY AGREE WITH YOU TO HONOR EACH DRAFT DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT IF PRESENTED TOGETHER WITH THE DOCUMENTS SPECIFIED AT THIS OFFICE ON OR BEFORE THE STATED EXPIRATION DATE.

PRESENTATION MAY BE EFFECTED VIA OVERNIGHT COURIER OR REGISTERED MAIL.

SHOULD YOU HAVE OCCASION TO COMMUNICATE WITH US REGARDING THIS LETTER OF CREDIT, PLEASE DIRECT YOUR CORRESPONDENCE TO OUR OFFICE, MAKING SPECIFIC MENTION OF THE LETTER OF CREDIT NUMBER INDICATED ABOVE.

EXCEPT AS FAR AS OTHERWISE EXPRESSLY STATED HEREIN, THIS STANDBY LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES "ISP98" INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590, AND AS TO MATTERS NOT GOVERNED BY THE ISP98, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE U.S. FEDERAL LAW.



AUTHORIZED SIGNATURE(S)
CITIBANK, N.A.

EAST BRANDYWINE TOWNSHIP

1214 HORSESHOE PIKE
DOWNTOWN, PENNSYLVANIA 19335
Telephone (610) 269-8230 Fax (610) 269-4167

BOARD OF SUPERVISORS

Hudson L. Voltz, Esq.
Chairman

David A. Kirkner, CPA
Vice-Chairman

Jay G. Fischer, Esq.
Member

Scott T. Piersol, Township Manager
Mary Beth Smedley, Township Secretary/Treasurer

August 22, 2008

Michael R. Macaninch, Esq.
Area Counsel
K. Hovnanian Homes
5 Commerce Way, Suite 200
Hamilton, NJ 08691

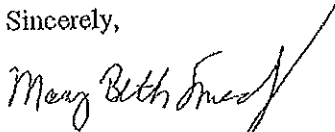
Re: Four Seasons at East Brandywine
Sewer Connection and Reservation Agreement

Dear Michael:

Enclosed is a fully executed agreement for your files. I understand that you will now forward the original Citibank Irrevocable Letter of Credit in the amount of \$1,583,656.00.

Thanks for your help. If I can be of any assistance or you need further information, please contact me.

Sincerely,



Mary Beth Smedley
Secretary/Treasurer
East Brandywine Township

Encl.

cc: East Brandywine Township Board of Supervisors, Scott T. Piersol, East Brandywine Township Municipal Authority, Thomas Oeste, Esq., Joseph Boldaz, Municipal Authority Engineer.

SEWER CONNECTION AND RESERVATION AGREEMENT

THIS SEWER CONNECTION AND RESERVATION AGREEMENT (hereinafter the "Agreement"), dated the 20th day of August, 2008, by and among K. Hovnanian at East Brandywine, LLC, having a mailing address of 1170 Wheeler Way, Langhorne, Pennsylvania, 19047 (hereinafter the "Applicant"); and

EAST BRANDYWINE TOWNSHIP ("Township"), having a mailing address of 1214 Horseshoe Pike, Downingtown, Pennsylvania, 19335; and

The EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY ("Authority"), having a mailing address of 1214 Horseshoe Pike, Downingtown, Pennsylvania, 19335; and

RECITALS

WHEREAS, the Authority and the Township have entered into an Agreement with Pulte Homes of Pennsylvania, L.P., ("Pulte") dated June 21, 2006 (the "Construction Agreement") for the construction of a sewage treatment plant (the "East Brandywine Facility") intended to provide sewer treatment service to users in areas of East Brandywine Township and such other areas as are approved by East Brandywine Township; and

WHEREAS, Applicant proposes to develop a parcel of land in East Brandywine Township known as the Weaver tract and apply for final plan approval for Phase 1 of a four phase community consisting of ~~273~~ active-adult, single-family dwellings and a clubhouse (hereinafter "Development"); and

WHEREAS, Phase 1 consists of 80 active-adult, single-family dwellings and a clubhouse (hereinafter "Phase 1 Development");

273 dwellings

WHEREAS, the Township has determined that the best interest of East Brandywine Township will be served by requiring Applicant to provide for the treatment of sewage generated by its Development at the East Brandywine Facility; and

WHEREAS, although the Applicant has requested that the Township defer approval of Phase I for a period of one year from the date of this Agreement, the Applicant desires to reserve sewage treatment capacity for the Development in the East Brandywine Facility; and

WHEREAS, the Authority does not have a specific, fixed sewage flow rate for residential users. Rather the Authority uses an assumed flow rate for single family dwellings of 225 gallons per day ("GPD") per unit, an assumed flow rate for townhouses and twins of 175 GPD/unit and an assumed flow rate for age restricted dwelling units of 150 GPD/unit. As a result of the foregoing assumptions, tapping fees and any reimbursement shall be based upon the per gallon assumed flow rate for each discrete residential user as well as flow projections for various commercial and non-residential users who may request connection to the East Brandywine Facility; and

WHEREAS, Applicant estimates that it will require 44,550 GPD¹ of sewer capacity which is comprised of 273 age restricted units at 150 GPD per unit (40,950 GPD), 2 connections for the existing Weaver home at 225 GPD per unit (450 GPD), 12 existing residential units at 225 GPD per unit (2,700 GPD), and a community center at 450 GPD; and

WHEREAS, the Applicant also agrees to purchase an additional 11,848 gallons¹ of unused capacity as set forth in this Agreement ("Excess Capacity"); and

WHEREAS, the Applicant agrees that it will purchase total capacity for the Development

44,550
11,848 unused capacity

Total Capacity = 56,398 GPD¹

of 56,398 GPD ("Total Capacity"); and

WHEREAS, the Authority has determined that the cost for the capacity as of the date of this Agreement is \$28.08 per gallon of capacity, or \$1,583,656 for the Total Capacity;

WHEREAS, the Applicant agrees to pay for this Total Capacity as it purchases the sewer capacity for each of the 277 units (the sewer capacity for a single unit is hereinafter sometimes referred to as an "EDU") which currently results in a per BDU charge of Five Thousand Seven Hundred Seventeen Dollars (\$5,717.17) (the "Sewer Fee(s)"); and

WHEREAS, the Applicant will pay the Authority for all the Sewer Fees for all of the units for each phase of the Development when each phase receives written final subdivision and land development approval from the Board of Supervisors of the Township (the "Phase Final Approval"); and

WHEREAS, the foregoing calculations which were prepared by the Authority and are accepted by the Applicant are set forth in more detail on the spreadsheet entitled "Overlook WWTP: Cost Sharing Alternatives", which is attached and made a part hereto as Exhibit "A"; and

WHEREAS, the Authority is willing to provide sewage treatment services to the Applicant and to reserve sewage treatment capacity as provided herein, subject to, and in accordance with, the terms of this Agreement.

AGREEMENTS

NOW THEREFORE, in consideration of the mutual promises, covenants and agreements contained herein, and intending to be legally bound, the parties do hereby agree as follows:

RESERVATION OF SEWER CAPACITY

1. The recitals are incorporated and made a part of this Agreement.
2. Under and subject to the provisions contained herein, Applicant requests and the Authority agrees to reserve 56,398 GPD for the Development.¹

FINANCIAL SECURITY FOR RESERVED CAPACITY

3. This reservation is contingent upon Applicant posting financial security to guarantee that the Applicant shall pay for all of the Total Capacity within seven (7) years from the date the East Brandywine Facility commences operation in accordance with the Construction Agreement. Applicant's Sewer Fees for all of the units approved in a phase will be paid prior to the Township's release for recording of the Phase Final Plan for the approved phase. Provided however, to the extent the Applicant has not obtained Phase Final Approval for all phases and paid for all of the Total Capacity by the expiration of seven (7) years from the date the East Brandywine Facility commences operation, Applicant shall pay all Sewer Fees for the Total Capacity that remain unpaid or for which final approval has not yet been obtained; and Applicant shall tender to Authority this lump sum payment of the Sewer Fees for the remaining Total Capacity within thirty (30) days of the expiration of the aforementioned seven (7) year period.

4. If Applicant does not pay the Sewer Fees for the capacity as each phase is finally approved as required by the Agreement, or the Applicant does not make the payment required at the end of the seven (7) year period as provided in paragraph 3 above, Authority shall provide Applicant with thirty (30) days written notice to cure. Upon the failure of Applicant to cure, the Authority shall have the right to present a sight draft to the Issuer for the amount of the delinquent payment against the financial security provided herein. In such event, Issuer shall promptly release to the Authority that amount required as payment.

5. The initial amount of financial security shall be based on the proposed 277 EDUs³ multiplied by the amount of the Sewer Fee, which results in required financial security of \$1,583,656. The financial security shall be a letter of credit in form and substance satisfactory to the Township and the Authority which shall be for a minimum term of two (2) years and automatically renew for two (2) year periods until the Applicant's obligations under this Agreement are fulfilled. The amount of the letter of credit shall be adjusted by the Applicant as required by Paragraph 14 of this Agreement.

6. A letter of credit has been issued by Citibank, N.A. (the "Issuer") in an amount not to exceed in aggregate USD \$1,583,656.00 (One Million, Five Hundred Eight-Three Thousand, Six Hundred Fifty-Six Dollars). Applicant acknowledges that the letter of credit will be held and maintained by the Issuer undiminished and unimpaired, unless modification thereof is approved in writing by the Authority in accordance with the provisions of this Agreement, and that no amount shall be released from the letter of credit except upon the order and sight draft of the Authority in accordance with the terms and conditions of this Agreement and the letter of

credit. A true and correct copy of the letter of credit is attached hereto, made a part hereof and marked as Exhibit "B".

7. If the number of dwelling units approved by the Township is different than what is proposed by the Applicant, the amount of the letter of credit referred to in paragraph 6 shall be revised based upon the actual number of Township approved dwelling units.

8. As the Sewer Fees referenced herein are paid, the Applicant may request that the Authority release or authorize the release, from time to time, of such portions of the letter of credit used to secure the Sewer Fees that have been paid. Any such request shall be made in writing addressed to the Authority. The Authority shall have forty-five (45) days from receipt of said request within which to review the application, confirm the accuracy of the calculation and authorize release in writing by the Issuer of the amount requested to be released.

9. The Issuer shall have no duty or responsibility for any of the obligations of this Agreement, provided only that the Issuer shall not release any funds or reduce the initial or revised amount of the letter of credit except upon written approval of the Authority or the written approval of the person designated by the Authority to act on its behalf in this regard.

10. Applicant hereby remises, releases and forever discharges the Issuer from any and all liability with respect to any sum or sums so paid or released.

11. Applicant hereby agrees that it shall purchase the capacity and pay the Sewer Fees prior to the Township's release for recording of the Phase Final Plan for the approved phase of the Development. Applicant anticipates receiving final approval for Phase 1 of the Development for 80 homes and the community center. As such, Applicant would pay to the Authority the sum

of \$468,804.66 which is the sewer fee of \$5,717.17 multiplied by the 82 connections. The Letter of Credit may then be reduced by that amount in accordance with the provisions of this Agreement.

12. If, thirty six (36) months after the date of this Agreement, unless otherwise extended in writing by the Authority (which extension shall not be unreasonably withheld), Applicant has not received the Phase I Final Approval from the Township and all other Township approvals necessary to allow the Applicant to obtain a building permit for a building in Phase I of its Development, after ninety (90) days prior written notice to Applicant, the Authority shall release Applicant and Issuer from the obligations of this Agreement, and thereafter the Authority shall be free to sell, assign, convey or transfer said capacity to any other party at the Authority's discretion. Not later than one (1) year from the date of this Agreement, Applicant shall diligently pursue Phase I Final Approval and the final approval of all subsequent phases; and diligently pursue the approval and issuance of all permits from all agencies and entities with jurisdiction over any aspect of Phase I and all subsequent phases of the Development.

13. The parties acknowledge that this Agreement requires the Applicant to purchase more gallons per day of sewage capacity than is necessary to treat the sewage generated by the Development. The Applicant is purchasing the Excess Capacity as part of its EDU charge for each home in the Development. The Authority shall have the right and shall use reasonable efforts to sell the Excess Capacity to other users within the East Brandywine Facility sewer service area. If the Authority sells any of the Excess Capacity, Applicant shall transfer ownership

of the Excess Capacity to Authority, and the Authority shall reimburse Applicant for the Excess Capacity in the amount per gallon paid by Applicant to the Authority for the Excess Capacity. The Applicant shall be reimbursed within thirty (30) days of the Authority's receipt of the proceeds of the sale of capacity. Further, if some or all of the twelve (12) existing residences on Bollinger Road and Horseshoe Pike connect to the East Brandywine Facility, Authority shall reimburse Applicant in the amount per gallon paid by the Applicant for said capacity.

14. The parties hereto acknowledge that the Construction Agreement requires the Authority and Township to reimburse Pulte for the cost of designing, permitting and constructing the East Brandywine Facility. The reimbursement amount is defined as "Project Cost" in the Construction Agreement and includes the payment of interest by the Authority to Pulte at the "Interest Rate" as defined in the Construction Agreement. Notwithstanding anything in this Agreement to the contrary, all payments of Sewer Fees for the Total Capacity will be increased by the amount of interest Authority is required to pay to Pulte under the Construction Agreement. The calculation of the amount of interest shall be based on the Interest Rate and shall be determined by the Authority on the date each payment of Sewer Fees is due by Applicant to Authority in accordance with this Agreement. In addition, Applicant shall pay Authority a reasonable administrative fee for services performed in calculating the interest due. The purpose of this paragraph 14 is to assure that the amount paid by Applicant for the Total Capacity is equivalent to the Authority's cost of the Total Capacity due and payable to Pulte in accordance with the Construction Agreement. Further, the amount of the letter of credit shall be adjusted within thirty (30) days of each payment of Sewer Fees, the adjusted amount to be

determined by multiplying the number of remaining EDUs of Total Capacity by the amount of the Sewer Fee per EDU adjusted for interest paid by the Applicant in the immediately preceding Sewer Fee payment.

15. The Project Cost has not been finalized since the East Brandywine Facility has not been bid or constructed. Therefore, the cost per gallon and Sewer Fee will be adjusted based on the final Project Cost using the methodology set forth in Exhibit "A" attached hereto. Notwithstanding anything in this Agreement to the contrary, all payments of Sewer Fees for the Total Capacity will be paid based on the final Project Cost. Sewer Fees that have been paid to the Authority prior to the determination of the final Project Cost will be adjusted as aforesaid and Applicant shall make a supplemental payment or receive a credit as the case may be. Sewer Fees paid after the determination of the final Project Cost will be paid based thereon. Further, the amount of the letter of credit shall be adjusted within thirty (30) days of each payment of Sewer Fees, the adjusted amount to be determined by multiplying the number of remaining EDUs of Total Capacity by the amount of the Sewer Fee per EDU adjusted for the amount of the final Project Cost.

MISCELLANEOUS PROVISIONS

16. Separate Agreement. This Sewer Connection and Reservation Agreement provides for the treatment of sewage generated at the Development identified in the recitals. Applicant's obligations to provide for the conveyance of sewage to the East Brandywine Facility, the conveyance of treated effluent for disposal, the payment of sewer treatment charges and the disposal of the treated effluent, are, or shall be, the subject of a separate agreement.

17. **Governing Law.** This Agreement shall be construed, interpreted and applied in accordance with the laws of the Commonwealth of Pennsylvania.

18. **Assignment of Agreement; Successors.** This Agreement and the terms, conditions, duties and obligations hereof shall bind Applicant's successors and assigns in legal and/or equitable ownership of the Property (the "Assignee"). The agreement of sale, assignment or other instrument conveying any ownership interest of the Property from Applicant to Assignee shall contain a provision whereby the Assignee agrees to be bound by the terms, conditions, duties and obligations of this Agreement, including but not limited to the purchase of all of the Total Capacity regardless of the number of units approved for or constructed by the Assignee. The assignee shall enter into an agreement with the Authority containing the same terms and conditions as this Agreement and post the financial security required by this Agreement, in which event Applicant's obligations, including but not limited to the financial security, shall be released by the Authority.

19. **Integration; Amendment.** This Agreement constitutes the entire Agreement of the parties with respect to the subject matter hereof, and shall not be modified except in a writing signed by the parties hereto.

20. **Counterparts.** This Agreement may be executed in multiple counterparts, each of which shall be regarded as an original and all of which together shall constitute one and the same instrument.

21. Notices. Every notice, demand, request or other communication which any party requires or desires to give or make or communicate upon the other, shall be in writing and shall be given, made or communicated by mailing the same by registered or certified mail, postage prepaid, return receipt requested, or hand delivered against receipt, or sent by Federal Express or similar overnight carrier, as follows:

If to Authority: East Brandywine Township Municipal Authority
1214 Horseshoe Pike
Downingtown, PA 19335

With a copy to: Thomas F. Oeste, Esquire
Parke, Barnes, Spangler, Oeste & Wood
126 West Miner Street
West Chester, PA 19382

If to Township: East Brandywine Township
1214 Horseshoe Pike
Downingtown, PA 19335

With a copy to: Stacy L. Fuller, Esquire
Gawthrop, Greenwood & Halsted, PC
P.O. Box 562
West Chester, PA 19381-0562

If to Applicant: K. Hovnanian at East Brandywine, LLC
1170 Wheeler Way
Langhorne, PA 19047

With a copy to: Michael Macaninch, Esquire
K. Hovnanian Homes
1170 Wheeler Way
Langhorne, PA 19047

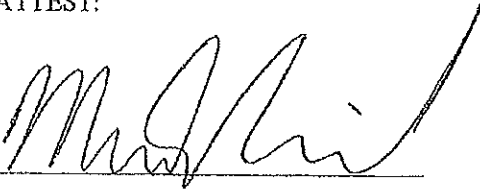
22. Breach. In the event Applicant violates any provision or fails to comply with any requirement of this Agreement, Authority shall provide Applicant with thirty (30) days written notice to cure. Upon failure of Applicant to cure, at the option of Authority, Authority may terminate this Agreement by sending written notice to Applicant, and the reservation of the remaining Total Capacity under this Agreement shall terminate, the Authority shall retain all Sewer Fees paid to the date of termination, and neither party hereto shall have any further obligation to the other.

23. Contingency. The terms, conditions and obligations of this Agreement are contingent on the construction and operation of the East Brandywine Facility in accordance with the Construction Agreement. In the event the East Brandywine Facility is not constructed and put into operation, or there is insufficient treatment capacity at the Facility to treat sewage flows from the Development, this Agreement shall be null and void and the parties hereto shall be released from all requirements and obligations hereof.

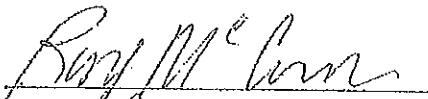
24. A memorandum of this Agreement shall be recorded in the Office of the Recorder of Deeds of Chester County, Pennsylvania.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

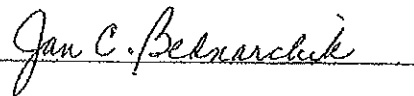
ATTEST:



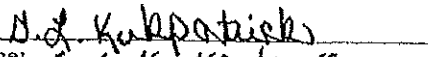
APPLICANT

By: 
Name: Barry McCarron
Title: Division President

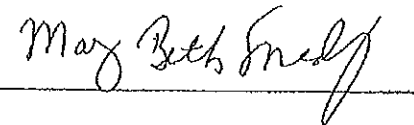
ATTEST:



EAST BRANDYWINE TOWNSHIP
MUNICIPAL AUTHORITY

By: 
Name: G. C. Kucipatich
Title: VICE CHAIRMAN

ATTEST:



EAST BRANDYWINE TOWNSHIP


By: 
Name: David A. Kirkner
Title: Vice Chairman

Exhibit "A"

Overlook WWTP: Cost Sharing Alternatives

Exhibit "B"
Letter of Credit