

Exhibit 12

The form of the Security Agreement to be entered into between DTSC and BKK

SECURITY AGREEMENT

This Security Agreement ("Security Agreement") is made between the BKK Corporation, a California corporation ("BKK"), and the State of California, Environmental Protection Agency, Department of Toxic Substances Control ("DTSC" or "Secured Party").

RECITALS

A. BKK is the owner and operator of a 583-acre site ("the Facility") located at 2210 South Azusa Avenue, West Covina, California, 91792. The Facility includes: a closed hazardous waste landfill ("Class I landfill"), consisting of approximately 190 acres; an adjacent inactive municipal solid waste landfill ("Class III landfill"), consisting of approximately 170 acres; a leachate treatment plant; and gas combustion and energy recovery facilities. DTSC regulates the leachate treatment plant and closed Class I landfill. BKK submitted its certification of closure of the Class I landfill in May, 1989 and DTSC provided acknowledgment of the closure certification in June, 1991. Pursuant to the California Code of Regulations, title 22, Chapter 14 section 66264.1 et seq. and Chapter 15, section 66265.1 et seq., BKK is required to carry out on-going closure and post-closure obligations at the Class I landfill, such as preserving the integrity of the cap over the landfill and conducting periodic monitoring and evaluation of leachate and groundwater (See Cal. Code Regs., Art. 7, § 66265.110 et seq.). BKK also has closure and post-closure obligations for the leachate treatment plant. BKK is required by Health and Safety Code, Chapter 6.5, Article 12, section 25245 et seq. and applicable sections of the California Code of Regulations, title 22, Chapter 14, Articles 7 and 8, sections 66264.110 et seq. and 66264.140

et seq. respectively, and Chapter 15, Articles 7 and 8, sections 66265.110 et seq. and 66265.140 et seq. respectively, to maintain adequate financial assurance for closure and post-closure care of the Class I landfill and the associated leachate treatment plant. Additionally, DTSC is required by a 1988 Stipulated Permanent Injunction (SPI), to oversee certain corrective action, including groundwater extraction within certain areas of the landfill. DTSC has also issued for public review and comment a combined Draft Operating Permit for the leachate treatment plant and a Draft Post-Closure Permit for the Class I landfill. DTSC is currently preparing the final version of the combined permits.

B. A "Remedy Decision for Contaminated Ground Water at the BKK Landfill in West Covina, California" was issued by the United States Environmental Protection Agency ("US EPA") in February 2000 (the "Remedy Decision") and required BKK, among other things, to submit to US EPA for review and approval certain land and water use restrictions, enforceable under the laws of the State of California. The Remedy Decision specified four land and water use prohibitions that were required to be included in the restrictions BKK submitted to US EPA, including:

"A prohibition that the 583-acre BKK facility shall not be used for residences, hospitals, schools, day-care centers, parks, playgrounds, or any permanently occupied human habitation . . ."

C. On September 14, 2000, US EPA and BKK entered into an Administrative Order on Consent (Docket No. RCRA-9-2000-0003) ("Order"), which provided for the

implementation of the Remedy Decision. The Order required BKK, among other things, to submit to US EPA for review and approval restrictive covenants that included the prohibition set forth directly above this paragraph. US EPA later approved the restrictive covenants submitted by BKK (the "Environmental Restrictions"). DTSC also reviewed and approved the Environmental Restrictions submitted by BKK and subsequently signed them.

D. On May 29, 2001, the 583-acre BKK Facility was divided by BKK into three separate legal parcels (commonly known as Parcels 1, 2, and 3) by the recording of a final parcel map with the Recorder's Office of Los Angeles County, California (the "County Recorder") and, also on May 29, 2001, the Environmental Restrictions, which were signed by DTSC, the City of West Covina (the "City"), and BKK, were recorded with the County Recorder on each parcel.

E. The Facility is part of a redevelopment project area duly established by the Redevelopment Agency of the City of West Covina (the "Agency"). The Agency desires to purchase from BKK Parcels 1 and 2 of the Facility and another parcel known as Lot 5, which is not part of the Facility (collectively, the "Property"). The Agency plans to develop a portion of Parcel 1 for sports park activities, plans to sell or license another portion of Parcel 1 for commercial development and plans to develop Parcel 2 (along with Lot 5 and a portion of Parcel 3) as a municipal golf course. The Agency also desires to enter into a licensing agreement with BKK in order to use a portion of Parcel 3, which is part of the Facility, for the golf course.

F. The City and BKK have requested that US EPA modify the Remedy Decision

and modify the Order to allow removal of the prohibition against parks and playgrounds for the northern seventy (70) acres of Parcel 1. The City and BKK have also requested DTSC to sign modifications of the Environmental Restrictions to remove the prohibition against parks and playgrounds for all or a portion of Parcel 1. US EPA and DTSC may exclude the area to be designated as habitat for the threatened California gnatcatcher and the areas designated for coastal sage scrub revegetation from any decision to lift the prohibition for these northern seventy (70) acres of Parcel 1.

G. In the First Modification to Administrative Order on Consent (U.S. EPA Docket No. RCRA-9-2000-0003) entered into between BKK and US EPA, effective January 22, 2002, (the "First Modification"), US EPA agreed to propose and provide public notice of a formal modification of the Remedy Decision for public comment and BKK agreed to implement a specific monitoring protocol attached to the First Modification upon the City's approval of a development involving a park or playground on any portion of or all of the northern seventy (70) acres of Parcel 1. US EPA's proposed modification to the Remedy Decision, which was issued on January 18, 2002, indicated US EPA's tentative decision to approve modification of the Remedy Decision to remove the prohibition against parks and playgrounds from the northern seventy (70) acres of Parcel 1.

H. The City has also requested that it enter into an agreement with DTSC whereby the City and DTSC agree to settle and resolve, subject to certain reservations and limitations contained in the agreement, the potential liability of the City for "Existing Contamination" (as that term is defined in the agreement) at Parcels 1 and 2, which could

otherwise result from the City becoming the owner of those parcels of land. That agreement is referred to as the "Prospective Purchaser Agreement."

I. BKK and the Agency have entered into an Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of June 27, 2002, which has subsequently been amended several times (the "Purchase Agreement"), for the purchase and sale of the Property. Pursuant to Section 10(d)(ii) of the Purchase Agreement, BKK has agreed to dedicate any monies received from the Agency's acquisition of these properties to remediation activities and other environmental obligations BKK has with respect to the Facility. The covenant not to sue the City provided by DTSC in the Prospective Purchaser Agreement is conditioned, among other things, on the dedication of the net proceeds from the sale of these properties being made in accordance with Section 10(d)(ii) of the Purchase and Sale Agreement.

J. BKK, the Agency and Wells Fargo Bank (the "Escrow Holder") are also entering into an escrow agreement (the "Escrow Agreement") pursuant to which BKK has agreed to relinquish control over the net proceeds of the sale of the Property and that such net proceeds are to be deposited into two (2) escrow accounts subject to the provisions of the Escrow Agreement. One account will contain an initial deposit amount of \$420,000 (the "First Account") and the other account will contain an initial deposit of the remainder of the net proceeds from the sale of the Property (the "Second Account"). The monies in the escrow accounts are to be used solely in accordance with the Escrow Agreement in the following manner: (1) as to the First Account, the monies are to be used to implement,

and/or purchase financial assurance to ensure implementation of, the monitoring protocol required by the First Modification; and (2) as to the Second Account, the monies are to be used to reimburse BKK for expenditures relating to its environmental obligations at the Facility in accordance with Section 10(d)(ii) of the Purchase Agreement. (In the Escrow Agreement, the monies in the First Account and the Second Account are referred to, collectively, as the "Funds" and the monies in the First Account are referred to as the "Monitoring Protocol Funds.")

K. The Escrow Agreement provides that the Escrow Holder will maintain and manage the funds in the First Account and in the Second Account for so long as such funds remain in those accounts. In accordance with the Escrow Agreement, the Escrow Holder's fees are to be paid from the Second Account and are to be paid from the First Account only if no funds remain in the Second Account for that purpose.

L. DTSC has requested that, consistent with Health and Safety Code, Chapter 6.5, Article 12, section 25245 et seq. and the California Code of Regulations, title 22, Chapter 14, Article 8, section 66264.140 and Chapter 15, Article 8, section 66265.140 that BKK provide DTSC with a security interest in the Second Account. In the event that DTSC enforces its right to take actual possession of the monies in the Second Account in an Event of Default in accordance with this Agreement, DTSC intends to use such monies to perform remediation activities, which may include, but are not limited to, environmental work at the Facility which would otherwise qualify as "Permitted Disbursements" as that term is defined in the Escrow Agreement.

NOW, THEREFORE, in consideration of the mutual terms, covenants and conditions herein contained, BKK and US EPA agree as follows:

AGREEMENT

SECTION 1. Defined Terms. Capitalized terms which are not specifically defined herein shall have the same meaning as is assigned to such terms in the California Uniform Commercial Code.

SECTION 2. Grant of Security Interest. As security for the due and prompt performance of all of its obligations under the First Modification, and in consideration of the covenant not to sue to be provided to the City of West Covina by the State of California; DTSC in the Prospective Purchaser Agreement between those two parties, which covenant not to sue will enable the City and BKK to finalize and close the purchase and sale of certain real property pursuant to the terms of the Purchase and Sale Agreement, BKK hereby authenticates, grants and creates in favor of DTSC, a lien and security interest in and to, any and all right, title, and interest of BKK in and to monies in the Second Account (Escrow Account Number 14641800) (hereinafter referred to as the "Collateral") and all proceeds thereof and all accessions to, substitutions and replacements for, and rents, profits, interest and products thereof, which Security Interest shall attach immediately upon the deposit of the remainder of the net proceeds into the Second Account but which shall be enforceable by DTSC only upon an Event of Default by BKK, as defined herein. It is expressly understood by the parties that any funds disbursed from the Second Account in accordance with the Escrow Agreement shall no longer be considered "Collateral."

SECTION 3. Affirmative Covenants by BKK. BKK shall:

- a. Consistent with 40 C.F.R. § sections 264.56 and 265.56 and the California Code of Regulations, title 22, sections 66265.56 and 66264.56, immediately notify the City, DTSC and US EPA of its intent to discontinue operation of the landfill gas control system and/or the leachate treatment plant at the Facility (for the purposes of this requirement, BKK shall provide such notice in writing to the City, DTSC and US EPA within 24 hours of becoming aware of circumstances that will necessitate any such discontinuation of such operations and in no event less than 30 days beforehand unless such discontinuation of operations or transfer of operational control is otherwise unforeseeable);
- b. Promptly notify DTSC of any attachment or other legal process levied against any of the Collateral and any information received by BKK relative to the Collateral, with respect to any persons obligated in connection therewith, which may in any way affect the value of the Collateral or the rights and remedies of DTSC in respect thereto;
- c. Provide to DTSC a reasonably detailed written accounting of all amounts disbursed from the Second Account during the immediate past calendar month, no later than the tenth (10th) day of the following month. The provision of such an accounting shall be deemed to have been effected through the submittal of monthly accountings required of BKK pursuant to Section 7 of the Escrow Agreement;
- d. Not encumber all or any part of the Collateral other than in accordance with this Agreement; and
- e. Deliver to DTSC an acknowledgment by the Escrow Holder that it will hold

possession of the Collateral for the benefit of DTSC with the understanding that DTSC has no right to enforce its right to actual possession or control of the Collateral absent an Event of Default as defined herein. Such acknowledgment may be in the form of the Escrow Agreement. BKK expressly acknowledges that the Escrow Holder's acknowledgment that it will hold possession of the Collateral for the benefit of DTSC, subject to DTSC's limited right to enforce only in an Event of Default, constitutes DTSC's possession of the Collateral under California Commercial Code Section 9313 and that this right of possession attaches and is perfected upon the deposit of the remainder of the net proceeds into the Second Account.

SECTION 4. Affirmative Covenants by DTSC. DTSC shall:

a. Forego any requirement that any portion of the funds disbursed from the Second Account to BKK in accordance with the Escrow Agreement be replaced into the Second Account consistent with DTSC's express acknowledgment herein of BKK's right to receive such disbursements and to use or dispose of all or any part of the funds it receives in connection with such disbursements;

b. ~~Relinquish~~ Relinquish its security interest in any portion of the funds that have been disbursed from the Second Account to BKK by the Escrow Holder in accordance with the Escrow Agreement and in any portion of the Collateral that is the subject of a pre-existing disbursement request under the Escrow Agreement at the time an Event of Default occurs in accordance with Section 6.a. of this Agreement;

c. Enforce its rights with respect to actual possession or control of the Collateral

in accordance with this Agreement only in the Event of Default, as defined herein; and

d. In the Event of Default, as defined herein, deposit any and all of the Collateral into a Removal and Remediation Activity Account managed by DTSC to be used solely for the purpose of remediation activities at the Facility, including but not limited to, environmental work at the Facility which would otherwise qualify as "Permitted Disbursements" as that term is defined in the Escrow Agreement.

SECTION 5. Events of Default. The occurrence of any of the following events or conditions shall be an Event of Default under this Agreement:

a. BKK providing notice to DTSC and/or US EPA, consistent with 40 C.F.R. sections 264.56 and 265.56 and the California Code of Regulations, title 22, sections 66264.56 and 66265.56, of BKK's intent to discontinue operation of the landfill gas control system and/or the leachate treatment plant at the Facility, provided that the temporary cessation of operation of the landfill gas control system and/or leachate treatment plant for repair, or cessation caused by an emergency (other than a fiscal emergency), act of God, or act of war or terrorism shall not constitute an Event of Default;

b. The chief of the Permitting Division for DTSC's Hazardous Waste Management Program and/or the director of US EPA's Waste Management Division issues a factual finding in writing that BKK has discontinued operation of the landfill gas control system and/or the leachate treatment plant at the Facility, provided that the temporary cessation of operation of the landfill gas control system and/or leachate treatment plant for repair, or cessation caused by an emergency (other than a fiscal emergency), act of God, or

act of war or terrorism shall not constitute an Event of Default and provided that any disputes between or among DTSC, US EPA and/or BKK regarding the proper operation of the landfill gas control system and/or the leachate treatment plant at the Facility shall not be deemed, in and of themselves, to constitute the discontinuation of the operation of such systems;

c. The attachment or other legal process levied against any of the Collateral by any entity, other than US EPA, DTSC or the City, which may in any way affect the value of the Collateral or the rights and remedies of DTSC in respect thereto; and

d. The further encumbrance of all or any part of the Collateral by BKK.

SECTION 6. Remedies Upon Default. Upon the occurrence of an Event of Default, DTSC, at its option and without notice or demand, may exercise any of its rights and remedies under the applicable law and, in addition, may do any of the following in such order as DTSC may elect and without regard to the adequacy of the Collateral:

a. After first notifying BKK and the City of its intention to do so, and, in the Event of Default under Sections 5.b., 5.c. or 5.d. of this Agreement, giving BKK 15 days to cure any such Event of Default, notify the Escrow Holder, and/or request that the City notify the Escrow Holder, that the right, title, and interest of BKK in and under the Second Account have been assigned to DTSC and that the monies remaining in the Second Account are to be transferred to a Removal and Remediation Account to be designated by DTSC. Upon the request of DTSC, BKK will also so notify such Escrow Holder. Any amounts in the Second Account for which a valid Disbursement Request for Permitted Disbursements

(as those terms are defined in the Escrow Agreement) has already been submitted by BKK shall be disbursed to BKK prior to transfer of the Second Account to the Removal and Remediation Account. Any amounts in the Second Account which are subject to a pending dispute resolution process as provided in the Escrow Agreement shall be held by the Escrow Holder until the neutral arbitrator has issued a final decision, at which time such amounts shall be disbursed to BKK or transferred to the Removal and Remediation Account in accordance with the arbitrator's decision.

b. Exercise any remedies of a secured party under the California Uniform Commercial Code.

SECTION 7. Limitation on Secured Party's Duty in Respect of Collateral.

Except as specifically set forth in this Agreement, DTSC shall not have any duty as to any Collateral in its possession or control or in the possession or control of any of its agents or nominees or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto.

SECTION 8. Election. DTSC shall have the right to enforce one or more remedies hereunder successively or concurrently, and any further remedy which it may have hereunder or by laws.

SECTION 9. Notification. Any notifications or other communications required pursuant to this Agreement shall be made by facsimile and U.S. mail, or by overnight express mail service with delivery confirmation, to the following persons:

If to BKK:

BKK Corporation
2210 South Azusa Avenue
West Covina, CA 91792
Attention: Kris L. Kazarian
Telecopier No. (626) 965-2665
Telephone No. (626) 965-0911

With a copy to:

Paul, Hastings, Janofsky & Walker
55 Second Street, 24th Floor
San Francisco, CA 94105
Attention: Peter Weiner, Esq. and
Elizabeth Deane, Esq.
Telecopier No. (415) 856-7100
Telephone No. (415) 856-7010 (Peter Weiner)
Telephone No. (415) 856-7029 (Elizabeth Deane)

If to US EPA:

United States Environmental Protection Agency Region 9
75 Hawthorne Street
San Francisco, California 94105
Attention: Carmen Santos (WST 5)
Telecopier No. (415) 947-3530
Telephone No. (415) 972-3360

With a copy to:

United States Environmental Protection Agency Region 9
75 Hawthorne Street
San Francisco, California 94105
Attention: Mimi Newton, Esq. (ORC 3)
Telecopier No. (415) 947-3370
Telephone No. (415) 972-3941

If to DTSC:

California Department of Toxic Substances Control
1011 North Grandview Avenue
Glendale, California 91201

Attention: Phil Chandler and Richard Allen
Telecopier No. (818) 551- 2901
Telephone No. (818) 551- 2921 (Phil Chandler)
Telephone No. (818) 551-2924 (Richard Allen)

With a copy to:

California Department of Toxic Substances Control
1001 "I" Street, 23rd Floor
P.O. Box 806
Sacramento, California 95812-0806
Attention: Marilee Hanson, Esq. and Jeff Mahan
Telecopier No. (916) 323-5542 (Marilee Hanson)
Telecopier No. (916) 322-3215 (Jeff Mahan)
Telephone No. (916) 327-0979 (Marilee Hanson)
Telephone No. (916) 322-5169 (Jeff Mahan)

If to the City:

Redevelopment Agency of the City of West Covina
1444 West Garvey Avenue South
West Covina, CA 91793
Attention: Executive Director
Telecopier No. (626) 939-8665
Telephone No. (626) 939-8417

With a copy to:

The City of West Covina
— 1444 West Garvey Avenue South
West Covina, CA 91793
Attention: City Manager
Telecopier No. (626) 939-8406
Telephone No. (626) 939-8401

And a copy to:

Fulbright & Jaworski L.L.P.
865 South Figueroa Street, 29th Floor
Los Angeles, CA 90017
Attention: Robert C. Barnes, Esq. and
Colin Lennard, Esq.
Telecopier No. (213) 680-4518
Telephone No. (213) 892-9308 (Robert Barnes)
Telephone No. (213) 892-9224 (Colin Lennard)

If to Escrow Holder:

Wells Fargo Bank, N.A.
Corporate Trust Services
707 Wilshire Boulevard, 17th Floor
Los Angeles, CA 90017
Attention: Kathy Valdivia
Telecopier No. (213) 614-3355
Telephone No. (213) 614-3350

SECTION 10. Effective Date. This Agreement is effective on the date that it

becomes fully executed by DTSC, i.e. the date upon which the DTSC representative signs this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed as of the respective days and year signed by the parties' representatives below.

BKK CORPORATION:

By: _____

Printed Name: _____

Its: _____

Date: _____

SECURED PARTY:

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

By: _____

Printed Name: _____

Its: _____

Date: _____