

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 28, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-12390

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054

500 McCarthy Blvd., Milpitas, California 95035

(408) 894-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 28, 1997: 136,166,230

QUANTUM CORPORATION

10-Q REPORT

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QUANTUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands except per share data)
(unaudited)

<CAPTION>

	Three Months Ended		Six Months Ended	
	September 28, 1997	September 29, 1996	September 28, 1997	September 29, 1996
<S>	<C>	<C>	<C>	<C>
Sales	\$ 1,553,491	\$ 1,124,144	\$ 2,999,635	\$ 2,277,646
Cost of sales	1,255,407	988,666	2,425,618	2,000,889
Gross profit	298,084	135,478	574,017	276,757
Operating expenses:				
Research and development	74,493	69,549	148,522	136,214
Sales and marketing	41,971	29,812	83,704	66,007
General and administrative	24,268	16,988	51,739	38,475
Income from operations	157,352	19,129	290,052	36,061
Other (income) expense:				
Interest expense	8,293	12,973	14,328	24,006
Interest income and other income and expense, net	8,818	(24)	5,060	682
Income before income taxes	140,241	6,180	270,664	11,373
Income tax provision	36,463	1,607	70,372	2,957
Net income	\$ 103,778	\$ 4,573	\$ 200,292	\$ 8,416
Net income per share:				
Primary	\$ 0.71	\$ 0.04	\$ 1.40	\$ 0.07
Fully diluted	\$ 0.62	\$ 0.04	\$ 1.23	\$ 0.07
Weighted average common and common equivalent shares:				
Primary	145,791	117,264	143,337	116,478
Fully diluted	172,501	117,264	167,506	116,478

<FN>
See accompanying notes to condensed consolidated financial statements.

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QUANTUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<CAPTION>

	September 28, 1997	March 31, 1997
	(unaudited) <C>	(Note 1) <C>
<S>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 637,744	\$ 345,125
Accounts receivable, net of allowance for doubtful accounts of \$ 10,194 and \$ 10,610	1,029,829	887,477
Inventories	386,525	252,802
Deferred taxes	122,899	122,899
Other current assets	42,713	80,116

Total current assets	2,219,710	1,688,419
Property and equipment, net of accumulated depreciation of \$ 188,231 and \$ 226,691	258,859	407,206
Purchased intangibles, net	15,017	42,131
Other assets	158,112	20,507
	-----	-----
	\$2,651,698	\$2,158,263
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 626,938	\$ 502,069
Accrued warranty expense	84,446	94,989
Accrued compensation	65,870	63,093
Income taxes payable	44,476	31,153
Current portion of long-term debt	893	44,229
Other accrued liabilities	82,782	80,045
	-----	-----
Total current liabilities	905,405	815,578
Deferred taxes	33,709	33,587
Convertible subordinated debt	528,850	241,350
Long-term debt	40,463	177,668
Redeemable preferred stock	3,888	3,888
Shareholders' equity:		
Common stock	512,700	459,800
Retained earnings	626,683	426,392
	-----	-----
Total shareholders' equity	1,139,383	886,192
	-----	-----
	\$2,651,698	\$2,158,263
	=====	=====

<FN>
See accompanying notes to condensed consolidated financial statements.
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<TABLE>
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<CAPTION>

	Six Months Ended	
	September 28,	September
	1997	1996
	-----	-----
29,		
--		
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 200,292	\$ 8,416
Items not requiring the current use of cash:		
Depreciation	39,553	46,134
Amortization	5,986	13,764
Compensation related to stock plans	1,733	851
Changes in assets and liabilities:		
Accounts receivable	(142,352)	
(40,550)		
Inventories	(133,723)	100,679
Accounts payable	124,869	
(135,858)		
Income taxes payable	13,323	
(2,989)		
Accrued warranty expense	(10,543)	(17,564)
Other assets and liabilities	42,122	
(110,788)		
	-----	-----
Net cash provided by (used in) operating activities	141,260	(137,905)
	-----	-----
-		
Cash flows from investing activities:		
Investment in property and equipment	(78,804)	(114,126)
Proceeds from disposition of property and equipment	23,785	11,134
Purchase of equity securities	(15,000)	--
Purchase of intangible assets	(10,000)	--
Proceeds from sale of interest in recording heads operations	94,000	--

-		-----	-----
	Net cash provided by (used in) investing activities	13,981	(102,992)
		-----	-----
-			
	Cash flows from financing activities:		
	Proceeds from long-term credit facilities	--	300,091
	Proceeds from issuance of convertible subordinated note	287,500	--
	Proceeds from mortgage loan	--	42,105
	Principal payments on credit facilities	(180,541)	(137,815)
	Proceeds from issuance of common stock	30,419	20,358
		-----	-----
-	Net cash provided by (used in) financing activities	137,378	224,739
		-----	-----
-			
	Net increase (decrease) in cash and cash equivalents	292,619	(16,158)
	Cash and cash equivalents at beginning of period	345,125	164,752
		-----	-----
-			
	Cash and cash equivalents at end of period	\$ 637,744	\$ 148,594
		=====	=====
	Supplemental disclosure of cash flow information:		
	Note received on disposition of property and equipment		\$ 18,000
	Cash paid during the period for:		
	Interest	\$ 10,504	\$ 24,899
	Income Taxes	\$ 21,517	\$ 6,003
	<FN>		
	See accompanying notes to condensed consolidated financial statements		
	</FN>		
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	</TABLE>		

QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. Certain prior period amounts have been reclassified to conform to the current period's presentation. The condensed consolidated balance sheet as of March 31, 1997 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum Corporation for the fiscal year ended March 31, 1997.

2. Inventories

Inventories consisted of the following:
(In thousands)

	September 28, 1997	March 31, 1997
	-----	-----
Materials and purchased parts	\$ 52,225	\$ 39,898
Work in process	35,058	48,005
Finished goods	299,242	164,899
	-----	-----
	\$386,525	\$252,802
	=====	=====

3. Net income per share

Net income per share amounts are computed by dividing net income amounts by the weighted average of common and common equivalent shares (when dilutive) outstanding during the period. Primary net income per share computations for the three and six month periods ended September 28, 1997 and September 29, 1996 were computed based on weighted average shares outstanding, including the dilutive

impact of common stock equivalents, which consist of outstanding stock options. Net income per share computed on a fully diluted basis for the three and six month periods ended September 28, 1997 assumes conversion of the Company's outstanding convertible subordinated debentures as of the beginning of the respective periods. Net income per share computed on a fully diluted basis for the three and six month periods ended

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September 29, 1996 did not assume conversion of the Company's outstanding convertible debt because the effect would have been anti-dilutive.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share," which is required to be adopted in the Company's fiscal quarter ending December 28, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements, primary earnings per share is replaced by basic earnings per share, for which the dilutive effect of stock options will be excluded. Under Statement 128, basic earnings per share will exceed previously computed primary earnings per share in periods with net income. The impact of Statement 128 on the calculation of fully diluted earnings per share is not expected to be material.

4. Debt & Capital

The previously outstanding revolving credit line, term loan, and equipment loan, which had carrying amounts of \$110 million, \$56 million, and \$14 million, respectively, as of March 31, 1997, were repaid and terminated in the first fiscal 1998 quarter.

In June 1997, the Company entered into an unsecured senior credit facility which provides a \$500 million revolving credit line and expires in June 2000. At the option of the Company, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio, or a base rate, with option periods of one to six months. As of September 28, 1997, there was no outstanding balance drawn on this line.

The Company extended until September 1998 an \$85 million unsecured Letter of Credit facility with certain banks to issue letters of credit to Matsushita-Kotobuki Electronics and its affiliates.

In July 1997, the Company issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into shares of the Company's common stock at a conversion price of \$46.325 per share. The notes are redeemable at the Company's option on or after August 1, 1999 and prior to August 1, 2001, under certain conditions related to the price of the Company's common stock. Subsequent to August 1, 2001, the notes are redeemable at the Company's option at any time. In the event of certain changes involving all or substantially all of the Company's common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of the Company.

5. Litigation

The Company and certain of its current and former officers and directors have been named as defendants in two class action lawsuits, one filed on August 28, 1996 in the Superior Court of Santa Clara County, California, and one filed on August 30, 1996 in the U.S. District Court for the Northern District of California. The plaintiff in both class actions purports to represent a class of all persons who purchased the Company's common stock between February 26, 1996 and June 13,

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1996. The complaints allege that the defendants violated various federal securities laws and California statutes by concealing and/or misrepresenting material adverse information about the Company and that individual defendants sold shares of the Company's stock based upon material nonpublic information.

On February 25, 1997, in the Santa Clara County action, the Court sustained defendants' demurrer to most of the causes of action in the complaint, with leave to amend. At a June 12, 1997 demurrer hearing in state court, the judge dismissed the action as to four of the individual defendants with prejudice and as to three of the individual defendants without prejudice. The demurrer as to the Company was overruled. Defendants' motion that the action not be permitted to proceed as a class action was denied without prejudice and the hearing on class certification has been continued for ninety days.

With respect to the federal action, defendants filed their motion to dismiss on April 16, 1997. The Court granted defendants' motion to dismiss without prejudice. On September 11, 1997, plaintiff filed an amended complaint. Defendants filed a motion to dismiss the complaint on October 24, 1997.

Certain of the Company's current and former officers and directors were also named as defendants in a derivative lawsuit, which was filed on November 8, 1996 in the Superior Court of Santa Clara County. The derivative complaint was based on factual allegations substantially similar to those alleged in the class action lawsuits. Defendants' demurrer to the derivative complaint was sustained without prejudice on April 14, 1997. Plaintiffs did not file an amended complaint. On August 7, 1997, the Court issued an order of dismissal and entered final judgment dismissing the complaint.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis includes:

- o Business overview.
- o Strategic developments.
- o A comparison of Quantum's results of operations in the three and six months ended September 28, 1997 with the results in the corresponding periods in fiscal 1997.
- o A discussion of Quantum's operating liquidity and capital resources.
- o A discussion of trends and uncertainties, which include those related to the information storage industry and those related to more specific characteristics of Quantum.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements usually contain the words "estimate," "anticipate," "expect" or similar expressions. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties. These uncertainties could cause actual results to differ materially from those expected for the reasons set forth below under Trends and Uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Overview

Founded in 1980, Quantum Corporation ("Quantum" or the "Company"), has developed leadership positions in both fixed and removable storage products. As one of the highest volume global suppliers of hard disk drives, and the leader in the mid-range tape market, Quantum is widely recognized as the storage industry's quality leader. The Company sells a broad range of storage products to original equipment manufacturers (OEM) and distribution customers worldwide.

Operating in a single business segment, Quantum designs, develops, and markets information storage products, including high-performance, high-quality hard disk drives, half-inch cartridge tape drives, tape media, and solid state disk drives. The half-inch cartridge tape drives and solid state disk drives are manufactured by the Company. The Company combines its engineering and design expertise with the high-volume manufacturing capabilities of its exclusive manufacturing partner, Matsushita-Kotobuki Electronics Industries, Ltd. ("MKE") of Japan, a subsidiary of Matsushita Electric Industrial Co., Ltd., to produce high-quality hard disk drives. Quantum is

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also involved in the research development and manufacture of magnetoresistive ("MR") recording heads that are used in hard disk drives produced for the Company.

The Company's strategy is to offer a diversified product portfolio that features leading-edge technology and high-quality manufacturing for a broad range of market applications. Inherent in this strategy is a focus on meeting and anticipating customers' information storage needs and on the research and development of storage product technology.

The Company markets its products worldwide to major original equipment manufacturers ("OEMs"), a broad range of distributors, resellers, and systems

integrators.

The Company's information storage business currently includes the following four components:

Desktop and Portable Storage Products. Quantum designs, develops, and markets hard disk drives designed to meet the storage needs of desktop systems. These products are designed for entry-level to high-end desktop personal computers ("PCs") for use in both home and business environments. The Company's current desktop product offerings include:

The Quantum Bigfoot family of 5.25-inch drives, with 1.2 to 6.4 gigabytes (GB) of storage. These drives give home PC users an economical high-capacity desktop storage solution.

The Company has announced and begun volume production of the Quantum Bigfoot TX series of 5.25-inch hard disk drives which will feature capacities of 4GB, 6GB, 8GB and 12GB; and will feature MR heads, a PRML read channel, high internal data rates and an Ultra ATA interface. The Bigfoot TX drive series is intended to meet the storage requirements of entry-level commercial systems, as well as mainstream PCs.

The Quantum Fireball family of 3.5-inch drives, including the Fireball TM series in capacities from 1.0GB to 3.8GB, the Fireball ST series in capacities from 1.6GB to 6.4GB and the Fireball SE in capacities of 2.1GB to 8.4GB. The Fireball family of drives are targeted for use in power and corporate business PCs, as well as entry-level workstations and servers. The Quantum Fireball drive family are intended to meet the storage requirements of powerful central processing units (CPUs), and complex operating systems and applications. By combining MR head and PRML read channel technologies, the Fireball drive family provides leading areal density and innovative technology for capacity-demanding desktop systems and servers.

The Quantum Pioneer SG drives are available in 1.0GB and 2.1GB capacities, and are Quantum's first drives with proximity recording head technology. The Pioneer SG drives fulfill the storage needs of corporate and small office/home office computer users.

Specialty Storage Products. Quantum designs, develops, manufactures, and markets half-inch cartridge tape drives based on DLT TM technology and solid state disk drives. Quantum also designs, develops and markets the DLT TM tape media. The DLT TM tape drives (30 GB to 70 GB) use advanced linear recording technology and a highly accurate tape guide system to perform data backup for mid-range and high-end computer systems. Quantum has exclusive worldwide manufacturing rights for the DLT TM technology and is the sole manufacturer of DLT TM tape drives. The Company believes that DLT TM tape drives have become the primary market standard in the mid-range segment of the storage tape market. The Company's solid state disk drives have high

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execution speeds required for applications such as imaging, multimedia, video-on-demand, on-line transaction processing, material requirements planning, and scientific modeling.

The Company's current DLT TM tape drives product offerings include:

Quantum DLT TM 2000XT, DLT TM 4000 and DLT TM 7000 tape drives. The Quantum DLT TM 2000XT tape drive features a native storage capacity of 15GB and a sustained data transfer rate of 1.25MB per second. The Quantum DLT TM 4000 features a formatted storage capacity of 20GB per cartridge and a sustained data transfer rate of 1.5MB per second. The Quantum DLT TM 7000 tape drive offers a combination of 35GB native capacity and a sustained data transfer rate of 5MB per second.

The Quantum DLTstor(TM) autoloader and libraries. Each library consists of an elevator mechanism that provides random or sequential cartridge access between a tape drive and cartridge magazines. The libraries and autoloaders are available as 5, 7 and 14 cartridge units.

The Company's current solid state disk drives product offerings include:

The Quantum ESP3000, ESP3053R-V (volatile), ESP3080R-V (volatile) and ESP5000 products which are 3.5-inch and 5.25-inch SCSI-2 Solid State Disks that provide fast data access time which is up to 15 times faster than magnetic disk drives. The solid state disk drives are available in megabyte (MB) capacities of 134MB, 268MB, 475MB, 536MB, 804MB and 950MB.

Workstation and Systems Storage Products. Quantum designs, develops, and markets technologically advanced hard disk drives for the demanding storage needs of high-end desktop systems, workstations, network servers, minicomputers, and storage subsystems. These products are designed for storage-intensive applications, such as graphics, disk arrays, desktop publishing systems, multimedia computing systems, and networked data bases and file servers. The Company's current high-end product offerings include:

The Quantum Viking (7,200 RPM) hard disk drive which is intended to meet the requirements of desktop workstations and PC-based servers. The Viking drives include capacities of 2.2GB and 4.5GB, MR heads, PRML read channels, a high internal data rate of 83 to 139 megabits per second, and a wide selection of Ultra SCSI-3 interfaces which provide burst data transfer rates up to 40MB per second.

The Company has announced but has not begun shipment of the Quantum Viking II (7,200 RPM) hard disk drive which will feature new Ultra-2 low voltage differential (LVD) SCSI-3 interface that doubles the burst data transfer rates up to 80MB per second. The Viking II drives will include capacities of 4.5GB and 9.1GB, and are intended to meet the requirements of high-end desktop computers, workstations and PC-based servers.

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The Quantum Atlas II (7,200RPM) hard disk drive includes the capacity, performance and reliability required by high-end systems such as video and database servers, RAID subsystems, mid-range workstations and mini-computers. Atlas II drives include capacities of 2.2GB, 4.5GB and 9.1GB, MR heads, Ultra SCSI-3 and fibre channel interfaces to meet the requirements of the high-end marketplace.

The Company has announced but has not yet begun shipment of the Quantum Atlas III (7,200 RPM) hard disk drive which will offer capacities up to 18.2GB for storage-intensive applications such as data warehousing. The Atlas III will have broad interface availability with new Ultra-2 LVD SCSI-3, Ultra single-ended SCSI-3 and Fibre Channel Arbitrated Loop (FC-AL).

The Quantum Viking and Quantum Atlas II products are Quantum's first high-end drives to be manufactured by MKE.

Quantum is also involved in the design, development, and manufacture of MR recording heads used in the Company's products. The Company believes that MR technology, which provides higher capacity per disk than conventional thin-film heads, is replacing thin-film heads as the leading recording head technology. The Company does not currently market thin-film or MR heads to other companies. Effective May 16, 1997, the Company's involvement in the design, development, and manufacture of recording heads is through a 49% ownership interest in a joint venture with MKE, MKE-Quantum Components LLC (MKQC).

Quantum operates in an industry characterized by rapid technological change. The Company is currently concentrating its product development efforts on broadening its existing disk and tape drive product lines through the introduction of new products, including new tape drives, new high-capacity hard disk drive products to be manufactured by MKE, as well as new products targeted specifically for the increasing storage needs of the desktop market. As discussed in the Strategic Developments section, efforts include developing optical drives based on Near Field Recording TM technology. The Company is also focusing its efforts on applying its MR technology to new generations of disk drives.

Strategic Developments

Quantum and TeraStor - Strategic Cooperation. In September 1997, Quantum and TeraStor entered into a strategic agreement involving Near Field Recording TM (NFR) disk drives and technology. Under the terms of the agreement, Quantum licensed TeraStor's initial removable disk drive products and related technology. Quantum and TeraStor will cooperate in the development of certain future products, including the development of a disk drive that is optimized for use in robotic libraries. Each company will manufacture, market, and sell the initial products resulting from this agreement. Quantum will also have the right to develop, manufacture, and market a variety of future products based on TeraStor's NFR technology. NFR technology is a combination of Solid Immersion Lens (which is an optical element), flying head and first surface recording technologies. To date, there are not yet NFR based products in production.

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High-end Disk Drives - Operating Considerations. Quantum is in the process of considering its alternatives to address the current operating losses associated with the Company's high-end disk drive products. The actions being contemplated revolve around transition planning for the Company's next generation of high-end disk drive products in light of the changing competitive dynamics in the high-end marketplace. Some actions being considered could, if selected, result in non-recurring charges in the third fiscal 1998 quarter. Such potential non-recurring charges that may result from future decisions and actions based on market conditions in the third fiscal 1998 quarter could range up to an estimated \$35 million, after tax.

Results of Operations

Sales. Sales for the three and six months ended September 28, 1997, were \$1.553 billion and \$3.000 billion, respectively, compared to \$1.124 billion and \$2.278 billion, respectively, for the corresponding periods in fiscal 1997. The sales increases reflect an increase in shipments of DLT TM tape drives, DLT TM tape drive-related products and desk top disk drives, as well as an increase in the average price. The increase in the average price reflected a change in the sales mix to a higher proportion of tape drives which have a higher unit price than hard disk drive products, as well as a desktop hard disk drive sales mix shift to higher capacity drives which have a higher unit price than the lower capacity hard disk drives sold in the prior year periods. Although the Company experienced a decline in unit sales and price erosion in the high-end portion of the Company's hard disk drive product line on a sequential quarterly basis, reflecting intense competition, the sales for this portion of the Company's business increased on a year-over-year basis. This increase reflects a larger current customer base and the impact of the transition of the high-end disk drive manufacturing to MKE during the three and six months ended September 29, 1996.

Sales of desktop hard drives for the three and six months ended September 28, 1997, represented 69% and 68% of total sales, respectively, and the Company anticipates that desktop products will continue to constitute a majority of sales in the future. Sales of DLT TM product continued to increase and represented 22% and 20% of sales in the three and six months ended September 28, 1997, respectively, compared to 14% and 12%, respectively, in the corresponding periods in fiscal 1997. The Company expects that sales of DLT TM product will continue to increase as a percentage of the Company's total sales and operating profits in the future. For the third quarter of fiscal 1998, the Company expects sales to follow seasonal trends and be higher than the sales level achieved in the second quarter of fiscal 1998.

Sales to the Company's top five customers for the three and six months ended September 28, 1997, represented 39% and 41% of sales, respectively, compared to 39% and 40% of sales, respectively, for the corresponding periods in fiscal 1997. Sales to Compaq Computer, Inc. were 11% and 10% of sales in the three and six months ended September 28, 1997, respectively, compared to 12% and 11% of sales, respectively, in the corresponding periods of fiscal 1997. Sales to Hewlett-Packard were 10% and 11% of sales in the three and six months ended September 28, 1997, respectively, and were less than 10% of sales for both of the corresponding periods in fiscal 1997.

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Gross Margin Rate. The gross margin rate increased 7.1 percentage points to 19.2% in the quarter ended September 28, 1997, from 12.1% in the quarter ended September 29, 1996. The gross margin rate for the first six months of fiscal 1998 was 19.1%, compared to 12.2% in the corresponding period in fiscal 1997. These margin rate increases reflected a higher proportion of tape drive and tape drive related product sales in the three and six months ended September 28, 1997, compared to the corresponding periods in fiscal 1997. This improved the margin rate as the tape products achieve a higher gross margin rate compared to sales of the Company's hard disk drive products. The gross margin rate increase also reflected an increase in storage capacity within the mix of desktop products sold in the three and six months ended September 28, 1997, compared to the corresponding periods in fiscal 1997. This improved the margin rate as the higher capacity drives earned a higher gross margin rate than the lower capacity drives. Although the Company experienced margin reduction stemming from sales erosion in the high-end portion of the Company's hard disk drive product line on a sequential quarterly basis, reflecting intense competition, the gross margin rate for this portion of the Company's business increased on a year-over-year basis. This increase reflected that the gross margin rate earned on high-end disk drives had largely been eroded during the three and six months ended September 29, 1996, while the Company transitioned high-end disk drive manufacturing to MKE. The margin rate increases also reflect a minor impact as a result of the application of the equity method of accounting to the Company's involvement in the recording heads operations, effective May 16, 1997.

Research and Development Expenses. In the three and six months ended September 28, 1997, the Company's research and development expenses were \$74 million, or

4.8% of sales, and \$149 million, or 5.0% of sales, respectively; compared to \$70 million, or 6.2% of sales, and \$136 million, or 6.0% of sales, respectively, in the corresponding periods of fiscal 1997. These decreases in research and development expense as a percentage of sales reflect the timing of certain pre-production activity which varies from quarter to quarter. The decrease also reflects the impact of applying the equity method of accounting to the Company's involvement in the recording heads operations, effective May 16, 1997. For the third fiscal 1998 quarter, the Company expects increased expenditures associated with pre-production activity for hard drive and tape drive products in development. Reflecting management's continued focus on the development and timely introduction of new information storage products and technologies, research and development expenses for the third fiscal 1998 quarter are expected to increase over the level achieved in the second fiscal 1998 quarter.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended September 28, 1997, were \$42 million, or 2.7% of sales, and \$84 million, or 2.8% of sales, respectively; compared to \$30 million, or 2.7% of sales, and \$66 million, or 2.9% of sales, respectively, in the corresponding periods in fiscal 1997. The increases in sales and marketing expenses were related to the costs of supporting the Company's higher volumes of sales.

General and Administrative Expenses. General and administrative expenses in the three and six months ended September 28, 1997, were \$24 million, or 1.6% of sales, and \$52 million, or 1.7% of sales, respectively; compared to \$17 million, or 1.5% of sales, and \$38 million, or 1.7% of sales,

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respectively, in the corresponding periods in fiscal 1997. The increases in general and administrative expenses reflected expansion of the Company's infrastructure.

Interest and Other Income/Expense. Net interest income and other income and expense in the three and six months ended September 28, 1997 was a net expense of \$17 million and \$19 million, respectively, compared to \$13 million and \$25 million, respectively, in the corresponding periods in fiscal 1997. The change in net expense reflects decreases in interest expense corresponding to a decrease in the average amount of debt outstanding and an increase in interest income corresponding to an increase in the average cash balances. Effective May 16, 1997, the Company's involvement in the recording heads operations is through its investment in the MKE/Quantum joint venture and this investment is accounted for under the equity method. Prior to May 16, 1997, the recording head operations were fully consolidated by Quantum. Comparing the year-over-year second fiscal quarter net expense, the increase reflects a full quarter's impact of the Company's equity loss related to its investment in the MKE/Quantum joint venture. This equity loss reflects the adverse impact on the MKE/Quantum joint venture of sequential quarterly sales erosion in the high-end portion of the Company's hard disk drive product line for which the joint venture is a supplier.

Income Taxes. The effective tax rate for the three and six months ended September 28, 1997, at 26% was flat compared to the rate in the corresponding periods ended September 29, 1996.

Liquidity and Capital Resources

At September 28, 1997, the Company had \$638 million in cash and cash equivalents, compared to \$345 million at March 31, 1997. For the six month period ended September 28, 1997, cash was provided by operating and financing activities. Operating activities included cash provided from net income and an increase in accounts payable, which were partially offset by an increase in inventory and accounts receivable. Financing activities included \$288 million of proceeds from the issuance of 7% convertible subordinated notes in the second quarter of fiscal 1998. The financing proceeds were partially offset by the repayment of the outstanding senior credit facility in the first fiscal 1998 quarter. Cash provided by investing activities, including a \$94 million payment from MKE as part of the formation of the recording heads joint venture company, were largely offset by investments in property and equipment and other activity.

In the second fiscal 1998 quarter, the Company extended until September 1998 an \$85 million unsecured Letter of Credit facility with certain banks to issue letters of credit to Matsushita-Kotobuki Electronics and its affiliates.

The Company has filed a registration statement which became effective on July 24, 1997, pursuant to which the Company may issue debt or equity securities, in one or more series or issuances, limited to \$450 million aggregate public offering price. Under the registration statement, in July 1997, the Company issued \$288 million of 7% convertible subordinated notes. The notes mature on August 1, 2004, and are convertible at the option of the holder at any time

unless previously redeemed, into shares of the Company's common stock at a conversion price of \$46.325 per share. The notes are redeemable at the Company's option on or after August 1, 1999 and prior to August 1, 2001, under certain conditions related to the price of the Company's common stock. Subsequent to August 1, 2001, the notes are redeemable at the Company's option at any time. In the event of certain changes involving all or substantially all of the Company's common stock, the notes would become redeemable at the option of the holder. Redemption prices range from 107% of the principal to 100% at maturity. The notes are unsecured obligations subordinated in right of payment to all existing and future senior indebtedness of the Company.

The revolving credit line, term loan, and equipment loan, which were paid off and terminated in the first fiscal 1998 quarter had carrying amounts of \$110 million, \$56 million, and \$14 million, respectively, as of March 31, 1997.

In June 1997, the Company entered into an unsecured senior credit facility which provides a \$500 million revolving credit line and expires in June 2000. At the option of the Company, borrowings under the revolving credit line bear interest at either LIBOR plus a margin determined by a total funded debt ratio, or a base rate, with option periods of one to six months. As of September 28, 1997, there was no outstanding balance drawn on this line.

The Company expects to spend approximately \$185 million for capital equipment, expansion of the Company's facilities, and leasehold improvements in fiscal 1998. These capital expenditures will support the tape business, research and development, and general corporate operations. Refer to the Future Capital Needs section of the Trends and Uncertainties section for additional discussion of capital.

The Company believes that its existing and available capital resources, including its unsecured senior credit facility and any cash generated from operations will be sufficient to meet all currently planned expenditures and sustain operations for the remainder of the fiscal year. However, this belief assumes that operating results and cash flow from operations will meet the Company's expectations, and actual results could vary due to certain of the factors described in the Trends and Uncertainties section that follows.

Trends and Uncertainties

Operating in the information storage industry, Quantum is affected by numerous trends and uncertainties, some of which are specific to the industry while others relate more specifically to Quantum. These are discussed below.

Trends and Uncertainties - Information Storage Industry

Key trends and uncertainties inherent in the information storage industry and how these trends and uncertainties specifically impact the Company are summarized below.

- o Intense competition - The information storage products industry in general, and the disk drive market in particular, is characterized by intense competition that results in rapid price erosion; short product life cycles; and continuous introduction of new, more cost-effective products offering increased levels of capacity and performance.
- o Rapid technological change - Technology advancement in the information storage industry is increasingly rapid.
- o Customer concentration - High-purchase-volume customers for information storage products are concentrated within a small number of computer system manufacturers, distribution channels, and system integrators.
- o Fluctuating product demand - The demand for hard disk drive products depends on the demand for the computer systems in which hard disk drives are used, which in turn is affected by computer system product cycles and by prevailing economic conditions.
- o Intellectual property conflicts - The hard disk drive industry has been characterized by significant litigation relating to patent and other intellectual property rights.

Intensely Competitive Industry. To compete within the information storage

industry, Quantum frequently introduces new products and transitions to newer versions of existing products. Product introductions and transitions are significant to the operating results of Quantum, and if they are not successful, the Company would be materially and adversely affected. The hard disk drive market, in particular, also tends to experience periods of excess product inventory and intense price competition. If price competition intensifies, the Company may be forced to lower prices more than expected, which could materially adversely affect the Company. In addition, the Company's customers could commence the manufacture of disk and tape drives for their own use or for sale to others. Any such loss of customers could have a material adverse effect on the Company.

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Quantum faces direct competition from a number of companies, including Seagate, Western Digital, IBM, Maxtor, Exabyte and Sony. In the event that the Company is unable to compete effectively with these or any other company, the Company would be materially adversely affected. The Company's information storage product competition can be further broken down as follows:

Desktop Storage Products. In the market for desktop products, Quantum competes primarily with Seagate, Western Digital, Maxtor, IBM and Fujitsu. Quantum and its competitors have developed and are developing a number of products targeted at particular segments of this market, such as business users and home PC buyers, and factors such as time to market can have a significant effect on the success of any particular product. The desktop market is characterized by more competitiveness and shorter product life cycles than the information storage industry in general.

Specialty Storage Products. In the market for tape drives, the Company competes with other companies that have tape drive product offerings and alternative formats, including Hewlett Packard, Exabyte, Storage Technology, and Sony. The Company targets a market segment that requires a mission critical backup system and competes in this segment based on the reliability, data integrity, performance, capacity and scalability of its tape drives. Although the Company has experienced excellent market acceptance of its tape drive products, the market may become more competitive as other companies broaden their product line in this market. As a result, the Company could experience increased price competition. If price competition occurs, the Company may be forced to lower prices, in which case the Company could be materially adversely affected.

Workstation and System Storage Products. The Company faces competition in the high-capacity disk drive market primarily from Seagate, IBM and Fujitsu. Seagate has the largest share of the market for high-capacity disk drives. Although the same competitive factors identified above as being generally applicable to the overall disk drive industry apply to high-capacity disk drives, the Company believes that the performance, quality and reliability of its products are even more important to the users in this market than to users in the desktop market. However, this does not lessen the intensely competitive nature of the high-end of the hard disk drive market. For example, in the second fiscal 1998 quarter, intense competition resulted in approximately \$20 million of after tax operating losses associated with the Company's high-end disk drive products. The Company does not anticipate that the high-end disk drive products will return to profitability prior to shipping next generation products and there can be no assurance as to the profitability of next generation products. The Company's operating results in the high-capacity market during the foreseeable future is dependent on the successful development, timely introduction, market acceptance, and product transition of key new products, as to which there can be no positive assurance.

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Rapid Technological Change, New Product Development, and Qualification. The combination of an environment of rapid technological changes, short product life cycles and competitive pressures results in gross margins on specific products decreasing rapidly. Accordingly, any delay in the introduction of more advanced and more cost-effective products can result in significantly lower sales and gross margins. The Company's future is therefore dependent on its ability to anticipate what customers will demand and to develop the new products to meet this demand. The Company must also qualify new products with its customers, successfully introduce these products to the market on a timely basis, and commence volume production to meet customer demands. Due to these factors, the Company expects that sales of new products will continue to account for a significant portion of its future sales and that sales of older products will decline accordingly.

The Company is frequently in the process of qualifying new products with its customers. The customer qualification process for disk drive products,

particularly high-capacity products, can be lengthy, complex, and difficult. In addition, the Company transitioned the manufacturing of its high capacity products to MKE during the first half of fiscal 1997, and MKE has been in volume production of high-end products since the completion of the transition. In the event that the Company is unable to obtain additional customer qualifications for new products in a timely manner, or at all, or in the event that MKE is unable to continue to manufacture such products in volume and with consistent high quality, the Company would be materially adversely affected.

There can be no assurance that the Company will be successful in the development and marketing of any new products and components in response to technological change or evolving industry standards, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products and components; or that the Company's new products and components will adequately meet the requirements of the marketplace and achieve market acceptance. In addition, technological advances in magnetic, optical or other technologies, or the development of new technologies, could result in the introduction of competitive products with superior performance to and substantially lower prices than the Company's products. Further, the Company's new products and components are subject to significant technological risks. If the Company experiences delays in the commencement of commercial shipments of new products or components, the Company could experience delays or loss of product sales. If the Company is unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, the Company would be materially adversely affected.

As part of the Company's strategy to remain technologically competitive, the Company has invested in technologies, such as in NFR through a strategic alliance with and investment in TeraStor, and its investment in MR recording heads through the joint venture, MKQC. There can be no assurance that the technologies, companies and ventures in which the Company has invested will be profitable in the information storage industry. Adverse technological or operating outcomes could result in impairment and write down of associated investments which could have a material adverse impact on the Company.

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Customer Concentration. In addition to the information storage industry and the Company's customer base being concentrated, the customers generally are not obligated to purchase any minimum volume of the Company's products, and the Company's relationships with its customers are generally terminable at will by its customers.

Sales of the Company's desktop and tape products, which together comprise a majority of its overall sales, were concentrated with several key customers in the six months ended September 28, 1997, and the fiscal year ended March 31, 1997. Sales to the Company's top five customers for the six months ended September 28, 1997, represented 41% of sales, and 38% of sales for the fiscal year ended March 31, 1997. In the six month period ended September 28, 1997, revenue from the top five customers was derived from both the OEM and Distribution sales channel, 30% and 11% respectively. Two OEMs, Hewlett Packard and Compaq represented 11% and 10%, respectively, of total revenue. No single distribution channel customer represented 10% or more of total revenue. Because of the rapid and unpredictable changes in market conditions, the Company is unable to predict whether or not there will be any significant change in demand for any of its customers' products in the future. In the event that any such changes result in decreased demand for the Company's products, whether by loss of or delays in orders, the Company could be materially adversely affected.

Fluctuation in Product Demand. Fluctuation in demand for the Company's products generally results in fluctuations in the Company's operating results. Demand for computer systems-especially in the PC market segment, where the Company derives a significant amount of its disk drive sales has historically been subject to significant fluctuations. Such fluctuations in end-user demand have in the past, and may in the future, result in the deferral or cancellation of orders for the Company's products, each of which could have a material adverse effect on the Company. During the past several years, there has been significant growth in the demand for PCs, a portion of which represented sales of PCs for use in the home. However, many analysts predict that future growth may be at a moderately slower rate than the rate experienced in recent years.

Sales of tape drives and tape drive-related products have tended to be more stable and have become a significant component of sales for the Company. Beginning in the second quarter of fiscal 1998, sales of DLT TM tape drives and DLT TM tape drive-related products achieved gross margin and profitability roughly comparable to that achieved from the sale of the Company's desktop hard drive products. In this regard the company expects sales of DLT TM products, which represented 20% of sales and a much higher percentage of operating profits for the six months ended September 28, 1997, will continue to increase as a percentage of the Company's total sales and operating profits in the future. On a sequential quarterly basis in Fiscal 1998, the Company expects the rate of sales growth to lessen significantly as compared to the rates achieved over the

past year. However, there can be no assurance that any growth expectations will be achieved or that current market conditions will continue.

The Company has experienced longer product cycles for its tape drives and tape drive-related products, compared with the short product cycles of disk drive products. However, there is no assurance that this trend will continue.

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The Company could experience decreases in demand for any of its products in the future, which could have a material adverse effect on the Company. For the third fiscal 1998 quarter, the Company expects to experience continued gross margin pressure with respect to its high-end hard disk drive products.

The hard disk drive industry has also been subject, from time to time, to seasonal fluctuations in demand. The Company has typically experienced increasing demand in the quarter ending December 31 compared with the quarter ending September 30. The Company expects this trend to continue with respect to the quarter ended December 28, 1997. In addition, the Company's shipments tend to be highest in the third month of each quarter, which occurred in the quarter ended September 28, 1997 and which the Company expects to occur again in the quarter ending December 28, 1997. As a result, and because the Company has no long-term purchase commitments from its customers, future demand is difficult to predict. The failure by the Company to complete shipments in the final month of a quarter due to a decline in customer demand, manufacturing problems or other factors would adversely affect the Company's operating results for that quarter.

Intellectual Property Matters. From time to time, the Company is approached by companies and individuals alleging Quantum's need for a license under patented technology that Quantum assertedly uses. If required, there can be no assurance that licenses to any such technology could be obtained or obtained on commercially reasonable terms. Adverse resolution of any intellectual property litigation could subject the Company to substantial liabilities and require it to refrain from manufacturing certain products. In addition, the costs of engaging in such litigation may be substantial, regardless of the outcome.

Trends and Uncertainties More Specific to Quantum

Certain trends and uncertainties relate more specifically to Quantum and are not necessarily indicative of the information storage industry as a whole. These trends and uncertainties include dependence on MKE for the manufacture of the disk drives that Quantum develops and markets, costs associated with the MR recording head development and manufacture, the recording heads joint venture with MKE, dependence on suppliers, component shortages, future capital needs, warranty costs, foreign manufacturing, and price volatility of Quantum common stock. For information regarding litigation refer to Note 5 of the Notes to Condensed Consolidated Financial Statements.

Dependence on MKE Relationship. Quantum is dependent on MKE for the manufacture of its disk drive products. Approximately 80% of the Company's sales in the six months ended September 28, 1997, and 81% of the sales in year ended March 31, 1997, were derived from products manufactured by MKE. In addition, the formation of the joint venture with MKE to produce recording heads used in disk drive production in combination with the transition of the manufacturing of the Company's high-capacity products to MKE in fiscal 1997 has resulted in an increased dependence on MKE. The Company's relationship with MKE is therefore critical to the Company's business and financial performance.

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In May 1997, Quantum completed renegotiation of its master agreement with MKE, which covers the general terms of the business relationship. The agreement was extended for a period of 10 years, unless terminated sooner as a result of certain specified events including a change-in-control of either Quantum or MKE. MKE currently manufactures all of the hard disk drives developed and marketed by Quantum. Quantum's relationship with MKE, which dates from 1984, is built on Quantum's engineering and design expertise and MKE's high-volume, high-quality manufacturing expertise.

The Company's dependence on MKE entails, among others, the following principal risks:

Quality and Delivery. The Company relies on MKE's ability to bring new products rapidly to volume production at low cost, to meet the Company's stringent quality requirements, and to respond quickly to changing product delivery schedules from the Company. This requires, among other things, close and continuous collaboration between the Company and MKE in all phases of design, engineering, and production. The Company's business and

financial results would be adversely affected if products manufactured by MKE fail to satisfy the Company's quality requirements or if MKE is unable to meet the Company's delivery commitments. In the event MKE is unable to satisfy Quantum's production requirements, the Company would not have an alternative manufacturing source to meet the demand without substantial delay and disruption of the Company's operations. As a result, the Company would be materially adversely affected.

Volume and Pricing. MKE's production schedule is based on the Company's forecasts of its product purchase requirements, and the Company has limited contractual rights to modify short-term purchase orders issued to MKE. Further, the demand in the desktop business is inherently volatile, and there is no assurance that the Company's forecasts are accurate. In addition, the Company periodically negotiates pricing arrangements with MKE. The failure of the Company to accurately forecast its requirements or successfully adjust MKE's production schedule, which could lead to inventory shortages or surpluses, or the failure to reach pricing agreements reasonable to the Company would have a material adverse effect on the Company.

Manufacturing Capacity and Capital Commitment. The Company believes that MKE's current and committed manufacturing capacity should be adequate to meet the Company's requirements at least through the end of fiscal 1998. The Company's future growth will require, however, that MKE continue to devote substantial financial resources to property, plant and equipment and working capital to support manufacture of the Company's products, as to which there can be no assurance. In the event that MKE is unable or unwilling to meet the Company's manufacturing requirements, there can be no assurance that the Company would be able to obtain an alternate source of supply. Any such failure to obtain an alternative source would have a material adverse effect on the Company.

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MR Recording Heads Development and Manufacturing. Since the fiscal 1995 acquisition of MR recording heads technology as part of the acquisition of certain businesses of the Storage Business Unit of Digital Equipment Corporation, Quantum has made significant efforts to advance the development of its MR recording heads capability. To further this effort, MKE and Quantum formed a joint venture, MKQC in the first quarter of fiscal 1998 to partner in the research, development, and production of MR heads and technology. However, MR technology is relatively complex and, to date, the Company and MKQC's manufacturing yields for its MR heads have been lower than would be necessary for cost effective production of MR recording heads. The Company does not expect cost-effective production of MR recording heads to be realized in the near term. Until that time, the Company will incur losses based on its pro rata ownership interest in the new joint venture. However, there can be no assurance that the anticipated benefits of the joint venture will be realized on a timely basis or at all. The Company currently obtains 80% to 85% of its MR heads from outside sources.

Dependence on Suppliers of Components and Sub-Assemblies; Component Shortages. Each of the Company and its manufacturing partner, MKE, are dependent on qualified suppliers for components and sub-assemblies, including recording heads, media, and integrated circuits, which are essential to the manufacture of the Company's disk drive and tape drive products. In connection with certain products, the Company and MKE qualify only a single source for certain components and sub-assemblies, which can magnify the risk of shortages. Component shortages have constrained the Company's sales growth in the past, and the Company believes that the industry will periodically experience component shortages. For example, during the quarter ended September 28, 1997, the Company's ability to meet customer demand for its tape drive products was somewhat constrained by component availability and manufacturing capacity. If component shortages occur, or if the Company experiences quality problems with component suppliers, shipments of products could be significantly delayed or costs significantly increased, which would have a material adverse effect on the Company.

Future Capital Needs. The information storage industry is capital and research and development intensive and the Company will need to maintain adequate financial resources for capital expenditures, working capital, and research and development, in order to remain competitive in the information storage business. The Company believes that it will be able to fund these capital requirements at least through fiscal 1998. However, if the Company decides to increase its capital expenditures further, or sooner than presently contemplated, or if results of operations do

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not meet the Company's expectations, the Company could require additional debt or equity financing. There can be no assurance that such additional funds will

be available to the Company or will be available on favorable terms. The Company may also require additional capital for other purposes not presently contemplated. If the Company is unable to obtain sufficient capital, it could be required to curtail its capital equipment and research and development expenditures, which could adversely affect the Company.

Warranty. Quantum generally warrants its products against defects for a period of one to five years. A provision for estimated future costs relating to warranty expense is recorded when products are shipped. The actual warranty expenditures could have a material unfavorable impact on the Company if the actual rate of unit failure or the cost to repair a unit is greater than what the Company has used in estimating the warranty expense accrual.

Risks Associated with Foreign Manufacturing. Many of the Company's products are currently manufactured outside the United States. As a result, the Company is subject to certain risks associated with contracting with foreign manufacturers, including obtaining requisite United States and foreign governmental permits and approvals, currency exchange fluctuations, currency restrictions, political instability, labor problems, trade restrictions, and changes in tariff and freight rates.

Foreign Exchange Contracts. The Company manages the impact of foreign currency exchange rate changes on certain foreign currency receivables and payables using foreign currency forward exchange contracts. With this approach the Company expects to minimize the impact of changing foreign exchange rates on the Company's net income. However, there can be no assurance that all foreign currency exposures will be adequately managed, and the Company could incur material charges as a result of changing foreign exchange rates.

Volatility of Stock Price. The market price of the Company's common stock has been, and may continue to be, extremely volatile. Factors such as new product announcements by the Company or its competitors; quarterly fluctuations in the operating results of the Company, its competitors, and other technology companies; and general conditions in the computer market may have a significant impact on the market price of the common stock. In particular, if the Company were to report operating results that did not meet the expectations of the analysts, the market price of the common stock could be materially adversely affected.

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QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

Refer to Note 5 of the Notes to Condensed Consolidated Financial Statements.

Item 2. Changes in securities - Not Applicable.

Item 3. Defaults upon senior securities - Not Applicable

Item 4. Submission of matters to a vote of security holders

The 1997 Annual Meeting of Shareholders was held on July 22, 1997. The matters voted on were management's candidates for the Board of Directors; an amendment to Quantum's Employee Stock Purchase Plan for the purpose of increasing the number of shares reserved for issuance thereunder by 5,800,000 shares; an amendment to the 1993 Long-Term Incentive Plan for the purpose of adding stock option grant limitations in order to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended; and the appointment of Ernst & Young LLP to serve as Quantum's independent auditors for the fiscal year ending March 31, 1998.

The shareholders approved management's candidates for the Board of Directors. The votes were as follows:

	For ---	Withheld Authority -----
Stephen M. Berkley	109,975,924	2,545,514
David A. Brown	112,014,612	506,826
Michael A. Brown	112,022,134	499,304
Robert J. Casale	112,023,406	498,032
Edward M. Esber, Jr.	112,023,924	497,514
Steven C. Wheelwright	112,017,806	503,632

The shareholders approved and ratified the amendment to Quantum's Employee Stock Purchase Plan for the purpose of increasing the number of shares reserved for

issuance thereunder by 5,800,000 shares. The number of votes For were 89,188,652; the number of votes Against were 20,363,118; the number of votes Abstained were 529,664; and the number of Broker Non-Votes were 2,440,004.

The shareholders approved and ratified the amendment to the 1993 Long-Term Incentive Plan for the purpose of adding stock option grant limitations in order to comply with Section 162(m) of the

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Internal Revenue Code of 1986, as amended. The number of votes For were 103,740,316; the number of votes Against were 5,859,942; the number of votes Abstained were 481,176; and the number of Broker Non-Votes were 2,440,004.

The shareholders approved the appointment of Ernst & Young LLP to serve as Quantum's independent auditors for the fiscal year ending March 31, 1998. The number of votes For were 112,357,792; the number of votes Against were 63,942; the number of votes Abstained were 99,704; and there were zero Broker Non-Votes.

Item 5. Other information - Not Applicable

Item 6. Exhibits and reports on Form 8-K.

(a) Exhibits. The exhibits listed on the accompanying index to exhibits immediately following the signature page are filed as part of this report.

(b) Reports on Form 8-K.

(1) Form 8-K dated July 28, 1997

(2) Form 8-K dated August 6, 1997

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

QUANTUM CORPORATION
(Registrant)

Date: October 29, 1997

By: /s/ Richard L. Clemmer

Richard L. Clemmer
Executive Vice President, Finance
and Chief Financial Officer

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QUANTUM CORPORATION

INDEX TO EXHIBITS

Exhibit
Number

10.1 MASTER LEASE dated as of August 22, 1997 between LEASE PLAN NORTH AMERICA, INC., as the Lessor and Quantum Corporation, as the Lessee.

10.2 PARTICIPATION AGREEMENT dated as of August 22, 1997 among Quantum Corporation, as Lessee, LEASE PLAN NORTH AMERICA, INC., as Lessor

and as a Participant, ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH, as a Participant, and ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH, as Agent.

- 10.3 APPENDIX 1 to Participation Agreement, Master Lease and Construction Deed of Trust each dated as of August 22, 1997 (Specialty Storage Product Group Facilities)
- 10.4 Second Extension and Modification of Credit Agreement, dated September 18, 1997, among Quantum Corporation and the Banks and THE SUMITOMO BANK, LIMITED, acting through its San Francisco Branch, as agent for the Banks and as Issuer.
- 11.1 Statement of Computation of Net Income Per Share
- 27 Financial Data Schedule

Prepared by and upon recording return to:

John R. Grier, Esq.
Winston & Strawn
35 West Wacker Drive
Chicago, Illinois 60601

=====

MASTER LEASE

dated as of August 22, 1997

between

LEASE PLAN NORTH AMERICA, INC.,
as the Lessor

and

QUANTUM CORPORATION,
as the Lessee

=====

Specialty Storage Product Group Facilities

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This Lease is superior to a deed of trust in favor of ABN AMRO Bank N.V., San Francisco International Branch, as Agent (the "Agent") under the Participation Agreement, dated as of August 22, 1997, among the Lessee, the Lessor, the Agent and the Participants. This Lease has been executed in counterparts. To the extent, if any, that this Lease constitutes chattel paper (as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction), no lien on this Lease may be created through the transfer or possession of any counterpart other than the original counterpart containing the receipt therefor executed by the Agent on the signature page hereof.

THIS LEASE IS NOT INTENDED TO CONSTITUTE A TRUE LEASE FOR INCOME TAX PURPOSES. SEE ARTICLE VII.

MASTER LEASE

THIS MASTER LEASE (including all Lease Supplements and Equipment Schedules from time to time executed and delivered, this "Lease"), dated as of August 22, 1997,

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APPENDICES

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EXHIBITS

EXHIBIT A	Form of Lease Supplement
EXHIBIT B	Form of Equipment Schedule

SCHEDULE

APPENDIX I	Definitions and Interpretation
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between LEASE PLAN NORTH AMERICA, INC., an Illinois corporation, having its principal office at 135 S. LaSalle Street, Chicago, Illinois 60603, as the lessor (the "Lessor"), and QUANTUM CORPORATION, a Delaware corporation, having a principal office at 500 McCarthy Boulevard, Milpitas, California 95305, as the lessee (the "Lessee").

W I T N E S S E T H:

A. WHEREAS, the Lessor will purchase the Land Interest from the Existing Owner on the Land Interest Acquisition Date;

B. WHEREAS, the Lessor desires to lease to the Lessee, and the Lessee desires to lease from the Lessor, such Property; and

C. WHEREAS, with respect to such Property the Lessee, as Construction Agent, will construct certain Improvements which as constructed will be the property of the Lessor and will become part of such Property and subject to the terms of this Lease;

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

ARTICLE I

1.1. Definitions; Interpretation. Capitalized terms used but not otherwise defined in this Lease have the respective meanings specified in Appendix 1 to this Lease; and the rules of interpretation set forth in Appendix 1 to this Lease shall apply to this Lease.

ARTICLE II

2.1. Acceptance and Lease of Property. Effective as of the Effective Date, the Lessor, subject to the satisfaction or waiver of the conditions set forth in Section 6 of the Participation Agreement, hereby agrees to accept delivery of the Land Interest to be delivered on the Land Interest Acquisition Date pursuant to the terms of the Participation Agreement, and simultaneously to lease to the Lessee hereunder for the Term (as defined in Section 2.3), the Lessor's interest in such Land Interest and the Lessor's interest in any Improvements existing thereon, and to lease to the Lessee any Improvements which thereafter may be constructed thereon and any Equipment, if any, which may be purchased, utilizing proceeds of an Advance, for use in connection therewith pursuant to the Construction Agency Agreement, this Lease or the Participation Agreement, and the Lessee hereby agrees, expressly for the direct benefit of the Lessor, to lease commencing on the Land Interest Acquisition Date from the Lessor for the Term, the Lessor's interest in such Land Interest to be delivered on such Land Interest Acquisition Date and any Improvements existing thereon and to lease any Improvements which thereafter may be

constructed thereon and such Equipment pursuant to the Construction Agency Agreement, this Lease and the Participation Agreement.

2.2. Acceptance Procedure. (a) The Lessor hereby authorizes one or more employees of the Lessee, to be designated by the Lessee, as the authorized representative or representatives of the Lessor to accept delivery on behalf of the Lessor of the Property identified on the Acquisition Request or an Equipment Schedule.

(b) The Lessee hereby agrees that such acceptance of delivery by such authorized representative or representatives and the execution and delivery by the Lessee on the Land Interest Acquisition Date of a Lease Supplement in the form of Exhibit A hereto (appropriately completed) shall, without further act, constitute the irrevocable acceptance by the Lessee of the Property which is the subject thereof for all purposes of this Lease and the other Operative Documents on the terms set forth therein and herein, and that the Property (including the Improvements constructed thereon) shall be deemed to be included in the leasehold estate of this Lease and shall be subject to the terms and conditions of this Lease as of the Land Interest Acquisition Date.

(c) The Lessee hereby agrees that such acceptance of delivery by such authorized representative or representatives and the execution and delivery by the Lessee of an Equipment Schedule in the form of Exhibit B hereto (appropriately completed) on or prior to the applicable Funding Date with respect to the acquisition of Equipment shall, without further act, constitute the irrevocable acceptance of the Equipment which is the subject thereof for all purposes of this Lease and the other Operative Documents on the terms set forth therein and herein, and that the Equipment shall be deemed to be included in the leasehold estate of this Lease and shall be subject to the terms and conditions of this Lease as of such Funding Date.

2.3. Lease Term. The term of this Lease (the "Term") shall begin on the Land Interest Acquisition Date and shall end on the fifth anniversary of the Effective Date, unless the Term is renewed or earlier terminated in accordance with the provisions of this Lease.

2.4. Title. The Property is leased to the Lessee without any representation or warranty of title, condition of the Improvements or permitted uses, express or implied, by the Lessor and subject to the rights of parties in possession, the existing state of title (including, without limitation, the Permitted Exceptions) and all applicable Requirements of Law. The Lessee shall in no event have any recourse against the Lessor for any defect in or exception to title to the Property, other than for any such defect or exception constituting a Lessor Lien. The Lessee expressly waives and releases the Lessor from any common law or statutory covenant of quiet enjoyment, provided that the Lessor shall be obligated to remove Lessor Liens.

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ARTICLE III

3.1. Rent. (a) During the Term, the Lessee shall pay Basic Rent on each Payment Date, on the date required under Section 22.1(i) in connection with the Lessee's exercise of the Remarketing Option and on any date on which this Lease shall terminate.

(b) Basic Rent shall be due and payable (i) during the Construction Period, in the manner set forth in Section 3.8(d) of the Participation Agreement and (ii) thereafter, in lawful money of the United States and shall be paid by wire transfer of immediately available funds on the due date therefor to such account or accounts at such bank or banks or to the Agent or in such other manner as the Agent shall from time to time direct.

(c) Neither the Lessee's inability or failure to take possession of all or any portion of the Property when delivered by the Lessor, nor the Lessor's inability or failure to deliver all or any portion of the Property to the Lessee on or before the Land Interest Acquisition Date or the applicable Funding Date, whether or not attributable to any act or omission of the Lessee or any act or omission of the Lessor, or for any other reason whatsoever, shall delay or otherwise affect the Lessee's obligation to pay Rent for the Property from and after commencement of the Term.

3.2. Payment of Basic Rent. Basic Rent shall be paid absolutely net to the Lessor, so that this Lease shall yield to the Lessor the full amount thereof, without setoff, deduction or reduction, whether or not the Lessee's quiet possession of the Property is disturbed, except as otherwise expressed herein and in Section 13.5(e) of the Participation Agreement.

3.3. Supplemental Rent. The Lessee shall pay to the Lessor or the Person entitled thereto any and all Supplemental Rent promptly as the same shall become due and payable, and if the Lessee fails to pay any Supplemental Rent, the Lessor shall have all rights, powers and remedies provided for herein or by law or equity or otherwise in the case of nonpayment of Basic Rent. The Lessee shall pay to the Lessor, as Supplemental Rent, among other things, on demand, to the extent permitted by Applicable Law, interest at the applicable Overdue Rate on any installment of Basic Rent not paid when due for the period for which the same shall be overdue and on any payment of Supplemental Rent not paid when due or demanded by the Lessor for the period from the due date or the date of any such demand, as the case may be, until the same shall be paid. The expiration or other termination of the Lessee's obligations to pay Basic Rent hereunder shall not limit or modify the obligations of the Lessee with respect to Supplemental Rent. Unless expressly provided otherwise in this Lease, in the event of any failure on the part of the Lessee to pay and discharge any Supplemental Rent as and when due, the Lessee shall also promptly pay and discharge any fine, penalty, interest or cost which may be assessed or added under any agreement with a third party for nonpayment or late payment of such Supplemental Rent, all of which shall also constitute Supplemental Rent.

3.4. Method of Payment. Each payment of Rent shall be made by the Lessee to the Agent by 12:00 noon, San Francisco time at the place of payment in funds consisting of lawful currency of the United States of America which shall be immediately available on the scheduled date when such payment shall be due, unless such scheduled date shall not be a Business Day,

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in which case such payment shall be made on the next succeeding Business Day or as otherwise required by the definition of the term "Interest Period" set forth in Appendix 1 hereto. Payments initiated after 12:00 noon, San Francisco time shall be deemed received on the next succeeding Business Day.

ARTICLE IV

4.1. Utility Charges. The Lessee shall pay or cause to be paid all charges for electricity, power, gas, oil, water, telephone, sanitary sewer service and all other rents and utilities used in or on the Property during the Term. The Lessee shall be entitled to receive any credit or refund with respect to any utility charge paid by the Lessee and the amount of any credit or refund received by the Lessor on account of any utility charges paid by the Lessee, net of the costs and expenses reasonably incurred by the Lessor in obtaining such credit or refund, shall be promptly paid over to the Lessee. All charges for utilities imposed with respect to the Property for a billing period during which this Lease expires or terminates shall be adjusted and prorated on a daily basis between the Lessor and the Lessee, and each party shall pay or reimburse the other for each party's pro rata share thereof, except that if the Lessee retains possession of the Property after termination or expiration of this Lease, no such adjustment and proration shall be made.

ARTICLE V

5.1. Quiet Enjoyment. Subject to the rights of the Lessor contained in Section 17.2 and the other terms of this Lease and so long as no Event of Default shall have occurred and be continuing, the Lessee shall peaceably and quietly have, hold and enjoy the property for the Term, free of any claim or other action by the Lessor or anyone rightfully claiming by, through or under the Lessor (other than the Lessee) with respect to any matters arising from and after the first day of the Lease Term.

ARTICLE VI

6.1. Net Lease. This Lease shall constitute a net lease. It is the further express intent of Lessor and Lessee that the obligations of Lessor and Lessee hereunder shall be separate and independent covenants and agreements and that the Basic Rent and Supplemental Rent, and all other charges and sums payable by Lessee hereunder, shall commence at the times provided herein and shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to an express provision in this Lease. Any present or future law to the contrary notwithstanding, this Lease shall not terminate, nor shall the Lessee be entitled to any abatement, suspension, deferment, reduction, setoff, counterclaim, or defense with respect to the Rent, nor shall the obligations of the Lessee hereunder be affected (except as expressly herein permitted and by performance of the obligations in connection therewith) by reason of: (i) any defect in the condition, merchantability, design, construction, quality or fitness for use of the Property or any part thereof, or the failure of the Property to comply with all Requirements of Law, including any inability to occupy or use the Property by reason of such

non-compliance; (ii) any damage to, removal, abandonment, salvage, loss, contamination of or Release from, scrapping or destruction of or any requisition or taking of the Property or any part thereof; (iii) any restriction, prevention or curtailment of or interference with any use of the

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Property or any part thereof including eviction; (iv) any defect in title to or rights to the Property or any Lien on such title or rights or on the Property (other than Lessor Liens); (v) any change, waiver, extension, indulgence or other action or omission or breach in respect of any obligation or liability of or by the Lessor, the Agent or any Participant; (vi) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceedings relating to the Lessee, the Lessor, the Agent, any Participant, or any other Person, or any action taken with respect to this Lease by any trustee or receiver of the Lessee, the Lessor, the Agent, any Participant or any other Person, or by any court, in any such proceeding; (vii) any claim that the Lessee has or might have against any Person, including without limitation the Lessor, any vendor, manufacturer, contractor of or for the Property, the Agent or any Participant; (viii) any failure on the part of the Lessor to perform or comply with any of the terms of this Lease, any other Operative Document or any other agreement; (ix) any invalidity or unenforceability or illegality or disaffirmance of this Lease or against or by the Lessee or any provision hereof or any of the other Operative Documents or any provision of any thereof; (x) the impossibility or illegality of performance by the Lessee, the Lessor or both; (xi) any action by any court, administrative agency or other Governmental Authority; (xii) any restriction, prevention or curtailment of or interference with the construction on or any use of the Property or any part thereof; or (xiii) any other cause or circumstances whether similar or dissimilar to the foregoing and whether or not the Lessee shall have notice or knowledge of any of the foregoing. The parties intend that the obligations of the Lessee hereunder shall be covenants and agreements that are separate and independent from any obligations of the Lessor hereunder or under any other Operative Documents and the obligations of the Lessee shall continue unaffected unless such obligations shall have been modified or terminated in accordance with an express provision of this Lease.

6.2. No Termination or Abatement. The Lessee shall remain obligated under this Lease in accordance with its terms and shall not take any action to terminate, rescind or avoid this Lease, notwithstanding any action for bankruptcy, insolvency, reorganization, liquidation, dissolution, or other proceeding affecting the Lessor, the Agent or any Participant, or any action with respect to this Lease or any Operative Document which may be taken by any trustee, receiver or liquidator of the Lessor, the Agent or any Participant or by any court with respect to the Lessor, the Agent or any Participant. The Lessee hereby waives all right (i) to terminate or surrender this Lease (except as provided herein) or (ii) except as otherwise provided in this Lease or the Participation Agreement with regard to withholding taxes, to avail itself of any abatement, suspension, deferment, reduction, setoff, counterclaim or defense (other than the defense of payment) with respect to any Rent. The Lessee shall remain obligated under this Lease in accordance with its terms and the Lessee hereby waives any and all rights now or hereafter conferred by statute or otherwise to modify or to avoid strict compliance with its obligations under this Lease. Notwithstanding any such statute or otherwise, the Lessee shall be bound by all of the terms and conditions contained in this Lease.

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ARTICLE VII

7.1. Ownership of the Property. (a) It is the intent of the parties hereto that: (i) this Lease constitutes an "operating lease" pursuant to Statement of Financial Accounting Standards No. 13, as amended, for purposes of Lessee's financial reporting, and (ii) for purposes of federal, state, and local income or franchise taxes and for any other tax imposed on or measured by income, the transaction contemplated hereby is a financing arrangement and preserves ownership in the Property in the Lessee. Nevertheless, the Lessee and the Lessor acknowledge and agree that none of the Lessee, the Agent, the Lessor nor any Participant has made any representations or warranties to the Lessee concerning the tax, accounting or legal characteristics of the Operative Documents and that they have obtained and relied upon such tax, accounting and legal advice concerning the Operative Documents as they deem appropriate. Accordingly, and notwithstanding any provision of this Lease to the contrary,

the Lessor and the Lessee agree and declare that: (i) the transactions contemplated hereby are intended to have a dual, rather than a single, form; and (ii) all references in this Lease to the "lease" of the Property which fail to reference such dual form do so as a matter of convenience only and do not reflect the intent of the Lessor and the Lessee as to the true form of such arrangements.

(b) Anything to the contrary in the Operative Documents notwithstanding, the Lessor and the Lessee intend and agree that with respect to the nature of the transactions evidenced by this Lease in the context of the exercise of remedies under the Operative Documents, including, without limitation, in the case of any insolvency or receivership proceedings or a petition under the United States bankruptcy laws or any other applicable insolvency laws or statute of the United States of America or any State or Commonwealth thereof affecting the Lessee, the Lessor, or any Participant or any enforcement or collection actions, (i) the transactions evidenced by this Lease are loans made by the Lessor and the Participants as unrelated third party lenders to the Lessee secured by the Property, (ii) the obligations of the Lessee under this Lease to pay Basic Rent and Supplemental Rent or Asset Termination Value in connection with a purchase of the Property pursuant to this Lease shall be treated as payments of interest on and principal of, respectively, loans from the Lessor and the Participants to the Lessee, and (iii) this Lease grants a security interest and mortgage or deed of trust or lien, as the case may be, in the Property and the collateral described in the Mortgage to the Lessor, the Agent and the Participants to secure the Lessee's performance under and payment of all amounts under this Lease and the other Operative Documents.

(c) Specifically, without limiting the generality of subsection (b) of this Section 7.1, the Lessor and the Lessee further intend and agree that, for the purpose of securing the Lessee's obligations for the repayment of the above-described loans from the Lessor and the Participants to the Lessee, (i) this Lease shall also be deemed to be a security agreement and financing statement within the meaning of Article 9 of the Uniform Commercial Code (and specifically, a construction mortgage, as said term is defined in Section 9-313(1)(c) of the Uniform Commercial Code) and a real property mortgage or deed of trust; (ii) the conveyance provided for in Article II shall be deemed to be a grant by the Lessee to the Lessor, the Agent and the Participants of a mortgage lien and security interest in all of the Lessee's right, title and interest

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in and to the Property and the collateral described in the Mortgage and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, investments, securities or other property, whether in the form of cash, investments, securities or other property (it being understood that the Lessee hereby mortgages and warrants and grants a security interest in the Property and the collateral described in the Mortgage to the Lessor, the Agent and the Participants to secure such loans); (iii) the possession by the Lessor or any of its agents of notes and such other items of property as constitute instruments, money, negotiable documents or chattel paper shall be deemed to be "possession by the secured party" for purposes of perfecting the security interest pursuant to Section 9-305 of the Uniform Commercial Code; and (iv) all Accounts established with Defeasance Depositary Bank pursuant to the Cash Collateral Agreement shall be "Security Accounts" within the meaning of Section 8501 of the UCC, all Collateral from time to time on deposit in any such Account shall be deemed to be a "Financial Asset" within the meaning of Section 8102(a)(9) of the UCC, and the execution and delivery by Lessee and Agent of the Notice of Security Interest attached to the Cash Collateral Agreement as Attachment No. 2 and the execution and delivery of the Acknowledgement and Agreement of Depositary Bank attached to the Notice of Security Interest shall be deemed to grant to Agent "control" of the Collateral within the meaning of Section 8106 of the UCC for the purpose of perfecting a security interest in a Financial Asset pursuant to Section 9115(1)(e) of the UCC; provided however, if any Account is determined to be a deposit account within the meaning of Section 9302(1)(g) of the UCC, the Notice of Security Interest delivered pursuant to the Cash Collateral Agreement constitutes notice for the purpose of perfecting a security interest in a deposit account pursuant to that Section. The Lessor and the Lessee shall, to the extent consistent with this Lease, take such actions and execute, deliver, file and record such other documents, financing statements, mortgages and deeds of trust as may be necessary to ensure that, if this Lease were deemed to create a security interest in the Property in accordance with this Section, such security interest would be deemed to be a perfected security interest of first priority under Applicable Law and will be maintained as such throughout the Term.

(d) Specifically, without limiting the generality of anything contained in this Section 7.1, the Lessor and the Lessee further intend and agree that, for purposes of filing federal, state and local returns, reports and other statements relating to income or franchise taxes, or any other taxes imposed upon or measured by income, (i) the Lessee shall be entitled to take any deduction, credit, allowance or other reporting position consistent with its

status as owner of the Property; and (ii) neither the Lessor nor the Participants shall take a position on their respective federal, state and local returns, reports and other statements relating to income or franchise taxes that is inconsistent with the Lessee's status as owner of the Property, provided that the Lessor and any Participant may take a position that is inconsistent with the Lessee's status as owner of the Property if: (x) there has been a change in law or regulation so requiring as supported by an opinion of counsel reasonably acceptable to the Lessee that there is not substantial authority for such a consistent reporting position; or (y) (A) there has been an administrative or judicial holding that the Lessee is not the owner of the Property for such tax purposes, (B) the Lessee has no right to contest such holding pursuant to Section 13.5 of the Participation Agreement, and (C) the Lessee's lack of right to contest is not the result of an Indemnitee's waiver of its right to indemnification pursuant to Section 13.5(f)(iii) of the Participation Agreement or failure of

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the amount at issue to exceed the minimum amount set forth in Section 13.5(f)(iv)(B) of the Participation Agreement.

ARTICLE VIII

8.1. Condition of the Property. THE LESSEE ACKNOWLEDGES AND AGREES THAT ALTHOUGH THE LESSOR WILL HOLD FEE TITLE TO THE PROPERTY, THE LESSEE IS SOLELY RESPONSIBLE FOR THE IMPROVEMENTS AND ANY ALTERATIONS OR MODIFICATIONS. THE LESSEE FURTHER ACKNOWLEDGES AND AGREES THAT IT IS LEASING THE PROPERTY "AS IS" WITHOUT REPRESENTATION, WARRANTY OR COVENANT (EXPRESS OR IMPLIED) BY THE LESSOR, THE AGENT OR ANY PARTICIPANT AND IN EACH CASE SUBJECT TO (A) THE EXISTING STATE OF TITLE, (B) THE RIGHTS OF ANY PARTIES IN POSSESSION THEREOF, (C) ANY STATE OF FACTS WHICH AN ACCURATE SURVEY OR PHYSICAL INSPECTION MIGHT SHOW, AND (D) VIOLATIONS OF REQUIREMENTS OF LAW WHICH MAY EXIST ON THE DATE HEREOF. NEITHER THE LESSOR, THE AGENT NOR ANY PARTICIPANT HAS MADE OR SHALL BE DEEMED TO HAVE MADE ANY REPRESENTATION, WARRANTY OR COVENANT (EXPRESS OR IMPLIED) OR SHALL BE DEEMED TO HAVE ANY LIABILITY WHATSOEVER AS TO THE TITLE (INCLUDING BUT NOT LIMITED TO ANY IMPLIED LIABILITY RELATING TO A COVENANT OF QUIET ENJOYMENT, WHICH THE LESSEE HEREBY EXPRESSLY WAIVES), VALUE, HABITABILITY, USE, CONDITION, DESIGN, OPERATION, OR FITNESS FOR USE OF THE PROPERTY (OR ANY PART THEREOF), OR ANY OTHER REPRESENTATION, WARRANTY OR COVENANT WHATSOEVER, EXPRESS OR IMPLIED, WITH RESPECT TO THE PROPERTY (OR ANY PART THEREOF) AND NEITHER THE LESSOR, THE AGENT NOR ANY PARTICIPANT SHALL BE LIABLE FOR ANY LATENT, HIDDEN, OR PATENT DEFECT THEREIN OR THE FAILURE OF THE PROPERTY, OR ANY PART THEREOF, TO COMPLY WITH ANY REQUIREMENT OF LAW. THE FOREGOING IS SUBJECT TO THE PROVISIONS OF SECTION 5.1 HEREOF AND SECTION 10.3(a) OF THE PARTICIPATION AGREEMENT.

8.2. Possession and Use of the Property. The Property may be used only for such purposes as are permitted by Applicable Law and consistent with all Insurance Requirements and in compliance with any covenants, conditions and restrictions of record and any ordinance or law affecting the use and occupancy of the Property; and provided that such uses do not materially increase the liability, directly or indirectly, of the Lessor or materially adversely affect the value, utility or remaining useful life of the Property from that which would obtain if the Property were to be used as administration, manufacturing, design, research and development and warehouse facilities. The Lessee shall pay, or cause to be paid, all charges and costs required in connection with the use of the Property as contemplated by this Lease and the Construction Agency Agreement. The Lessee shall not commit or permit any waste of the Property or any part thereof (provided, that waste shall not include ordinary wear and tear and damage by fire or other peril).

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ARTICLE IX

9.1. Compliance with Requirements of Law and Insurance Requirements. Subject to the terms of Article XIII relating to permitted contests, the Lessee, at its sole cost and expense, shall (a) comply with all Requirements of Law (including all Environmental Laws) and comply with all Insurance Requirements relating to the Property, including the construction, use, operation, maintenance, repair and restoration thereof and the remarketing thereof pursuant to Article XXII, whether or not compliance therewith shall require structural or extraordinary changes in the Improvements or interfere with the use and enjoyment of the Property, and (b) procure, maintain and comply with all licenses, permits, orders, approvals, consents and other authorizations required for the construction, use, maintenance and operation of the Property and for the use, operation, maintenance, repair and restoration of the Improvements.

ARTICLE X

10.1. Maintenance and Repair; Return. (a) Except for ordinary wear and tear, the Lessee, at its sole cost and expense, shall maintain the Property in good working order, mechanical condition and repair and make all necessary repairs thereto, of every kind and nature whatsoever, whether interior or exterior, ordinary or extraordinary, structural or nonstructural or foreseen or unforeseen, in each case as required by all Requirements of Law and Insurance Requirements and on a basis consistent with the operation and maintenance of commercial properties comparable in type and location to the Property and in compliance with prudent industry practice.

(b) The Lessor shall under no circumstances be required to build any improvements on the Property, make any repairs, replacements, alterations or renewals of any nature or description to the Property, make any expenditure whatsoever in connection with this Lease (except for Advances required under the Participation Agreement) or maintain the Property in any way. The Lessor shall not be required to maintain, repair or rebuild all or any part of the Property, and the Lessee waives any right to (i) require the Lessor to maintain, repair, or rebuild all or any part of the Property, or (ii) make repairs at the expense of the Lessor pursuant to any Requirement of Law, Insurance Requirement, contract, agreement, or covenant, condition or restriction in effect at any time during the Term.

(c) The Lessee shall, upon the expiration or earlier termination of this Lease, vacate and surrender the Property to the Lessor in its then-current, "AS IS" condition, subject to Sections 9.1, 10.1(a), 11.1, 12.1, 15.1(e), 15.2, 20.1, 22.1 and 23.1.

(d) The Lessee warrants that it shall cause the Improvements currently under construction or currently planned to be constructed on the Property to be designed and constructed in a workmanlike manner and in accordance with all Requirements of Law, prior to the Outside Completion Date so that, prior to such date, such Improvements will be fit for their intended purpose.

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ARTICLE XI

11.1. Modifications, Substitutions and Replacements. (a) The Lessee, at its sole cost and expense, may at any time and from time to time make alterations, renovations, improvements and additions to the Property or any part thereof and substitutions and replacements therefor (collectively, "Modifications"); provided that: (i) no Modification shall materially impair the value, utility or useful life of the Property or any part thereof from that which existed immediately prior to such Modification; (ii) the Modification shall be done expeditiously and in a good and workmanlike manner; (iii) subject to the provisions of Article XIII concerning contests, the Lessee shall comply with all Requirements of Law (including all Environmental Laws) and comply with all Insurance Requirements applicable to the Modification, including the obtaining of all permits and certificates of occupancy, and the structural integrity of the Property shall not be adversely affected; (iv) subject to the terms of Article XIII relating to permitted contests, the Lessee shall pay all costs and expenses and shall discharge (or cause to be insured or bonded over) within sixty (60) days after the same shall be filed (or otherwise become effective) any Liens arising with respect to the Modification; and (v) such Modifications shall comply with Sections 8.2 and 10.1. All Modifications required to be made pursuant to a Requirement of Law generally applicable to buildings comparable to the Property or an Insurance Requirement ("Required Modification") and all Modifications which are replacements or substitutions of the Property, all Modifications of the utility and building services Equipment and sections of the Improvements which are not readily removable without impairing the utility or remaining useful life of the Property shall remain part of the realty and shall be subject to this Lease, and title thereto shall immediately vest in the Lessor. All other Modifications and all trade fixtures, machinery, equipment or other tangible personal property (other than Equipment or replacements or substitutions for Equipment) shall at all times be Lessee's property ("Lessee's Property") and Lessee may remove the same at any time during the Term, subject, however, to the terms of Section 10.1(a); provided that such trade fixtures, machinery, equipment or other property do not impair the value, utility or remaining useful life of the Property; provided, further, that the Lessee shall keep and maintain at the Property and shall not remove from the Property any Equipment.

(b) The Lessee shall deliver to the Lessor and the Agent a brief written narrative of any Modification, other than as described in the Plans and Specifications delivered by the Lessee to the Lessor and the Agent on the Land Interest Acquisition Date, to be done in connection with any Modification to the Property the cost of which is anticipated to exceed \$500,000 in the aggregate.

ARTICLE XII

12.1. Warranty of Title. (a) The Lessee agrees that except as otherwise provided herein and subject to the terms of Article XIII relating to permitted contests, the Lessee shall not directly or indirectly create or allow to remain, and shall promptly discharge at its sole cost and expense, any Lien, defect, attachment, levy, title retention agreement or claim upon the Property (or the Lessor's interest therein) or any Modifications or any Lien, attachment, levy or claim with respect

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to the Rent or with respect to any amounts held by the Agent pursuant to the Participation Agreement or the other Operative Documents, other than Permitted Exceptions and Lessor Liens.

(b) Nothing contained in this Lease shall be construed as constituting the consent or request of the Lessor, expressed or implied, to or for the performance by any contractor, mechanic, laborer, materialman, supplier or vendor of any labor or services or for the furnishing of any materials for any construction, alteration, addition, repair or demolition of or to the Property or any part thereof. NOTICE IS HEREBY GIVEN THAT NEITHER THE LESSOR, ANY PARTICIPANT NOR THE AGENT IS OR SHALL BE LIABLE FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED OR TO BE FURNISHED TO THE LESSEE OR TO ANYONE HOLDING THE PROPERTY OR ANY PART THEREOF THROUGH OR UNDER THE LESSEE AND THAT NO MECHANIC'S OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES OR MATERIALS SHALL ATTACH TO OR AFFECT THE INTEREST OF THE LESSOR IN AND TO THE PROPERTY.

12.2. Grants and Releases of Easements. Provided that no Lease Event of Default shall have occurred and be continuing and subject to the provisions of Articles VIII, IX, X and XI, the Lessor hereby consents in each instance to the following actions by the Lessee, in the name and stead of the Lessor, but at the Lessee's sole cost and expense: (a) the granting of easements, licenses, rights-of-way and other rights and privileges in the nature of easements reasonably necessary or desirable for the completion of construction of the Improvements, use, repair, operation or maintenance of the Property as herein provided; (b) the release of existing easements or other rights in the nature of easements which are for the benefit of the Property; (c) the execution of petitions to have the Property annexed to any municipal corporation or utility district; and (d) the execution of amendments to any covenants and restrictions affecting the Property; provided, however, in each case the Lessee shall have delivered to the Lessor a Responsible Officer's Certificate stating that (i) such grant, release, dedication or transfer does not materially impair the value, utility and remaining useful life of the Property, (ii) such grant, release, dedication or transfer is reasonably necessary in connection with the completion of construction of the Improvements, use, operation maintenance, alteration or improvement of the Property, (iii) the Lessee shall remain obligated under this Lease and under any instrument executed by the Lessee consenting to the assignment of the Lessor's interest in this Lease as security for indebtedness, in each such case in accordance with their terms, as though such grant, release, dedication or transfer, had not been effected, and (iv) the Lessee shall pay and perform any obligations of the Lessor under such grant, release, dedication or transfer, and (v) such easements, rights-of-way and other rights shall be subordinate and subject to the Lien of the Mortgage. Without limiting the effectiveness of the foregoing, provided that no Lease Event of Default shall have occurred and be continuing, the Lessor shall, upon the request of the Lessee, and at the Lessee's sole cost and expense, execute and deliver any instruments necessary or appropriate to confirm any such grant, release, dedication or transfer to any Person permitted under this Section 12.2.

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ARTICLE XIII

13.1. Permitted Contests Other Than in Respect of Indemnities. Except to the extent otherwise provided for in Section 13 of the Participation Agreement, the Lessee, on its own or on the Lessor's behalf but at the Lessee's sole cost and expense, may contest, by appropriate administrative or judicial proceedings conducted in good faith and with due diligence, the amount, validity or application, in whole or in part, of any Requirement of Law, or utility charges payable pursuant to Section 4.1 or any Lien, attachment, levy, encumbrance or encroachment, and the Lessor agrees not to pay, settle or otherwise compromise any such item, provided that (a) the commencement and continuation of such proceedings shall suspend the collection thereof from, and suspend the enforcement thereof against, the Property, the Lessor, the Agent and

the Participants or the Lessee shall have bonded or otherwise secured such amount in a manner satisfactory to the Lessor and the Agent; (b) there shall be no risk of the imposition of a Lien (other than Permitted Exceptions or Liens for which adequate security (in the opinion of the Lessor) for payments in the event of an unsuccessful contest has been posted) on the Property and no part of the Property nor any Rent would be in any danger of being sold, forfeited, lost or deferred; (c) at no time during the permitted contest shall there be a risk of the imposition of criminal liability or material civil liability on the Lessor, the Agent or any Participant for failure to comply therewith (unless, in the case of civil liability, the Lessee shall have bonded or otherwise secured such amount in a manner satisfactory to the Lessor and the Agent); and (d) in the event that, at any time, there shall be a material risk of extending the application of such item beyond the end of the Term, then the Lessee shall deliver to the Lessor a Responsible Officer's Certificate certifying as to the matters set forth in clauses (a), (b) and (c) of this Section 13.1. The Lessor, at the Lessee's sole cost and expense, shall execute and deliver to the Lessee such authorizations and other documents as may reasonably be required in connection with any such contest and, if reasonably requested by the Lessee, shall join as a party therein at the Lessee's sole cost and expense.

ARTICLE XIV

14.1. Public Liability and Workers' Compensation Insurance. During the Term, the Lessee shall procure and carry, at the Lessee's sole cost and expense, commercial general liability insurance, including contractual liability, for claims for injuries or death sustained by persons or damage to property while on the Property and such other public liability coverages as are ordinarily procured by Persons who own or operate similar properties and consistent with prudent business practice, which policies shall include contractual liability endorsements covering the Lessee's indemnification obligations in Section 14.4. Such insurance shall be on terms and in amounts (which shall be reasonably acceptable to the Lessor and in the event of liability insurance shall not require coverage in excess of \$10,000,000) that are no less favorable than insurance maintained by the Lessee with respect to similar properties that it owns and that are in accordance with prudent business practice and may be provided under blanket policies maintained by or on behalf of the Lessee. The policy shall be endorsed to name the Lessor, the Agent and each Participant as additional insureds. The policy shall also

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specifically provide that the policy shall be considered primary insurance which shall apply to any loss or claim before any contribution by any insurance which the Lessor, the Agent or the Participants may have in force. The Lessee shall, in the construction of the Improvements and the operation of the Property (including in connection with any Modifications thereof) comply with the applicable workers' compensation laws and protect the Lessor, the Agent and the Participants against any liability under such laws.

14.2. Hazard and Other Insurance. During the Term, the Lessee shall keep, or cause to be kept, the Property insured against loss or damage by fire, flood, and other risks typically included in policies in the state of Colorado for facilities similar to the Property in an amount not less than the then current replacement cost of the buildings and improvements on the Property (provided, that the Lessee's flood insurance may have a sublimit of not less than \$50,000,000) and on terms that are no less favorable than insurance covering other similar properties owned or leased by the Lessee or any of its Affiliates and that are in accordance with prudent business practice. The Lessee may provide such coverage under blanket policies maintained by the Lessee. During the construction of any Improvements the Lessee shall also maintain builders' risk insurance. Each policy of insurance maintained by the Lessee pursuant to this Section 14.2 shall provide that all insurance proceeds in respect of any loss or occurrence shall be paid to and adjusted solely by the Lessee except from and after the date on which the insurer receives written notice from the Lessor or the Agent that a Lease Event of Default exists (and unless and until such insurer receives written notice from the Lessor or the Agent that all Lease Events of Default have been cured), all losses shall be adjusted solely by, and all insurance proceeds shall be paid solely to, the Agent (or the Lessor if the Participation Interests have been fully paid) for application pursuant to Article XV.

14.3. Coverage. (a) The Lessee shall furnish the Lessor and the Agent with certificates showing the insurance required under Sections 14.1 and 14.2 to be in effect and naming the Lessor, the Agent and each Participant as additional insureds and, with respect to the insurance required under Section 14.2, loss payees along with the Lessee, as their respective interests may appear, and showing the mortgagee endorsement required by Section 14.3(c). All such insurance shall be at the cost and expense of the Lessee. Such certificates shall include a provision for thirty (30) days' advance written notice by the

insurer to the Lessor and the Agent in the event of cancellation of or any reduction to less than 90% of Replacement Value (or, in the case of Flood insurance, less than 90 percent of the sublimit specified in Section 14.2) in the coverage provided by such insurance.

(b) The Lessee agrees that the insurance policy or policies required by Sections 14.1 and 14.2 shall include (i) a clause in substantially the following form pursuant to which such policy shall provide that it will not be invalidated should the Lessee waive, in writing, prior to a loss, any or all rights of recovery against any party for losses covered by such policy, and that the insurance in favor of the Lessor, the Agent and the Participants, and their respective rights under and interests in said policies shall not be invalidated or reduced by any act or omission or negligence of the Lessee or any other Person having any interest in the Property, and (ii) a so-called "Waiver of Subrogation Clause". The Lessee hereby waives any and all such rights against the Lessor, the Agent and the Participants to the extent of payments

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made under such policies. The Lessor, the Agent and the Participants hereby waive all such rights against the Lessee to the extent of payments made to the Lessor under any of such policies.

(c) All such insurance shall be written by reputable insurance companies that are financially sound and solvent and otherwise reasonably appropriate considering the amount and type of insurance being provided by such companies. Any insurance company selected by the Lessee which is rated in Best's Key Rating Guide or any successor thereto (or if there be none, an organization having a similar national reputation) shall have a general policyholder rating of "A-" and a financial rating of at least 10 in Best's Key Rating Guide or be otherwise acceptable to the Lessor, the Agent and the Required Participants. All insurance policies required by Section 14.2 shall include a standard form mortgagee endorsement in favor of the Agent.

(d) The Lessor shall not carry separate insurance concurrent in kind or form or contributing in the event of loss with any insurance required under this Article XIV except that the Lessor may carry separate liability insurance (at its sole cost) so long as (i) the Lessee's insurance is designated as primary and in no event excess or contributory to any insurance the Lessor may have in force which would apply to a loss covered under the Lessee's policy and (ii) each such insurance policy will not cause the Lessee's insurance required under this Article XIV to be subject to a coinsurance exception of any kind.

(e) The Lessee shall pay as they become due all premiums for the insurance required by Section 14.1 and Section 14.2, and shall renew or replace each policy prior to the expiration date thereof. Throughout the Term, at the time each of the Lessee's insurance policies is renewed (but in no event less frequently than once each year), the Lessee shall deliver to the Lessor and the Agent certificates of insurance evidencing that all insurance required by this Article XIV is being maintained by the Lessee with respect to the Property and is in effect.

(f) Notwithstanding the other provisions of this Article XIV, the Lessee may provide the insurance coverage required under this Article XIV through its self-insurance program, so long as the Lessee remains in compliance with the Tangible Net Worth covenant in Section 10.1(r)(ii) of the Participation Agreement.

(g) Notwithstanding anything to the contrary contained in the Operative Documents: (A) the Lessee hereby waives, releases and discharges the Lessor, the Agent and each Participant and their agents and employees from all claims whatsoever arising out of loss, claim, expense or damage to or destruction covered or coverable by insurance required under this Article XIV notwithstanding that such loss, claim, expense or damage may have been caused by the Lessor, the Agent or any Participant or any of their agents or employees, and the Lessee agrees to look to the insurance coverage only in the event of such loss; and (B) the Lessor, the Agent and the Participants hereby waive, release and discharge the Lessee and its agents and employees from all claims whatsoever arising out of loss, claim, expense, or damage to or destruction covered by insurance required under this Article XIV to the

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extent of payments made to the Lessor notwithstanding that such loss, claim, expense or damage may have been caused by the Lessee or any of its agents or employees.

14.4. Indemnification. In addition to the indemnification provisions

provided for in Section 13 of the Participation Agreement, to the fullest extent allowed by law, the Lessee shall at all times during the Term, and to the extent resulting from acts or events occurring prior to or during the Term or during any other period when the Lessee is in possession and control of the Property, indemnify, defend and hold each Indemnitee harmless against and from any and all Claims by or on behalf of any Person arising from the construction of the Improvements or conduct or management, or from any work or things whatsoever done in or about the Property, and will further indemnify, defend and hold each Indemnitee harmless against and from any and all Claims arising during the Term of this Lease, from any condition of the Property, the Improvements or any street, curb or sidewalk adjoining the Property, or of any passageways or space therein or appurtenant thereto, or arising from any breach or default on the part of the Lessee in the performance of any covenant or agreement on the part of the Lessee to be performed, pursuant to the terms of this Lease or the Construction Agency Agreement, or arising from any act or negligence of the Lessee, its agents, servants, employees or licensees, or arising from any accident, injury or damage whatsoever caused to any Person occurring during the term of this Lease, in or about the Property, or upon the sidewalk and the land adjacent thereto, other than in any of the foregoing cases (a) any Claim resulting from a voluntary act or omission of the Indemnitee not in compliance with any of the terms of the Operative Documents not caused by or attributable to acts or omissions of the Lessee or any third party who is not an Affiliate or an employee, agent or contractor of an Indemnitee or its Affiliates, and (b) any Claim resulting from the gross negligence or willful misconduct of an Indemnitee. Any action, suit or proceeding in respect of any such Claim shall be handled in the manner set forth in Section 13.4 of the Participation Agreement.

ARTICLE XV

15.1. Casualty and Condemnation. (a) Subject to the provisions of this Article XV and Article XVI (in the event the Lessee delivers, or is obligated to deliver, a Termination Notice), and except during the occurrence and continuation of a Lease Default, the Lessee shall be entitled to receive (and the Lessor shall pay over to the Lessee, if received by the Lessor, and hereby irrevocably assigns to the Lessee all of the Lessor's right, title and interest in) any award, compensation or insurance proceeds to which the Lessee or the Lessor may become entitled by reason of their respective interests in the Property (i) if all or a portion of the Property is damaged or destroyed in whole or in part by a Casualty or (ii) if the use, access, occupancy, easement rights or title to the Property or any part thereof, is the subject of a Condemnation; provided, however, if a Lease Default shall have occurred and be continuing, such award, compensation or insurance proceeds shall be paid directly to the Agent or, if received by the Lessee, shall be held in trust for the Agent, and shall be paid over by the Lessee to the Agent (or, if the Participation Interests have been fully paid, to the Lessor) and held in accordance with the terms of this paragraph (a). If, contrary to such

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provision, any such award, compensation or insurance proceeds are paid to the Lessor or the Lessee, rather than to the Agent, the Lessor and the Lessee, as the case may be, hereby agree to transfer any such payment to the Agent. All amounts held by the Lessor or the Agent when a Lease Default exists hereunder on account of any award, compensation or insurance proceeds either paid directly to the Lessor or the Agent or turned over to the Lessor or the Agent shall either be (i) paid to the Lessee for the repair of damage caused by such Casualty or Condemnation in accordance with paragraph (e) of this Section 15.1, or (ii) held in an interest bearing account reasonably acceptable to the Lessor and the Lessee until applied to the purchase price of the Property on the Termination Date, with any Excess Proceeds being payable to the Lessee.

(b) The Lessee may appear in any proceeding or action to negotiate, prosecute, adjust or appeal any claim for any award, compensation or insurance payment on account of any such Casualty or Condemnation and shall pay all expenses thereof. At the Lessee's reasonable request, and at the Lessee's sole cost and expense, the Lessor and the Agent shall participate in any such proceeding, action, negotiation, prosecution or adjustment. The Lessor and the Lessee agree that this Lease shall control the rights of the Lessor and the Lessee in and to any such award, compensation or insurance payment.

(c) If the Lessor or the Lessee shall receive notice of a Casualty or of an actual, pending or threatened Condemnation of the Property or any interest therein, the Lessor or the Lessee, as the case may be, shall give notice thereof to the other and to the Agent promptly after the receipt of such notice.

(d) In the event of a Casualty or receipt of notice by the Lessee or the Lessor of a Condemnation, the Lessee may deliver to the Lessor and the Agent a Termination Notice with respect to the Property pursuant to Section 16.1. If the Lessee does not deliver a Termination Notice within seventy-five (75) days after such occurrence, then this Lease shall (subject to the terms and conditions thereof) remain in full force and effect, and the Lessee shall, at

the Lessee's sole cost and expense, promptly and diligently restore the Property pursuant to paragraph (e) of this Section 15.1 and otherwise in accordance with this Lease. If the Lessee delivers a Termination Notice within seventy-five (75) days after such occurrence, a Significant Event shall irrevocably be deemed to have occurred with respect to the Property, and, in such event, this Lease shall terminate and the Lessee shall purchase the Property on the next Payment Date (but in no event later than seventy-five (75) days after such occurrence) (a "Termination Date") pursuant to Article XVI hereof.

(e) If pursuant to this Section 15.1 this Lease shall continue in full force and effect following a Casualty or Condemnation, the Lessee shall, at its sole cost and expense (and, without limitation, if any award, compensation or insurance payment is not sufficient to restore the Property in accordance with this paragraph, the Lessee shall pay the shortfall), promptly and diligently repair any damage to the Property caused by such Casualty or Condemnation or substitute new Equipment for the affected Equipment in conformity with the requirements of Sections 10.1 and 11.1 using the as-built Plans and Specifications for the Property (as modified to give effect to any subsequent Modifications, any Condemnation

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affecting the Property and all applicable Requirements of Law) so as to restore the Property to at least the same condition, operation, function and value as existed immediately prior to such Casualty or Condemnation; provided, the substitution of any Equipment for any such affected Equipment previously financed with an Advance shall, at the Lessor's reasonable request, be subject to delivery of an independent third-party appraisal reasonably satisfactory to the Lessor and the Required Participants by an appraiser satisfactory to the Lessor and the Required Participants showing both (i) a current Fair Market Sales Value and (ii) expected Fair Market Sales Value as of the then current Expiration Date and the dates on which any potential Renewal Term would expire, in each case equal to or greater than such values at such dates for the Equipment being replaced. In the event of such restoration, title to the Property shall remain with the Lessor; provided, that (i) title to any such substituted equipment shall vest in the Lessor in the event that such equipment replaces Equipment previously financed with an Advance and such equipment shall constitute Equipment thereafter for all purposes of this Lease, and (ii) the Lessor shall assign all of its right, title and interest to the Lessee in any such replaced equipment in the event that such equipment replaces Equipment previously financed with an Advance without representation or warranty of any kind other than that such equipment is free of Lessor Liens. Upon completion of such restoration, the Lessee shall furnish the Lessor an architect's certificate of substantial completion and a Responsible Officer's Certificate confirming that such restoration has been completed pursuant to this Lease.

(f) In no event shall a Casualty or Condemnation with respect to which this Lease remains in full force and effect under this Section 15.1 affect the Lessee's obligations to pay Rent pursuant to Section 3.1 or to perform its obligations and pay any amounts due on the Expiration Date or pursuant to Articles XIX and XX.

(g) Any Excess Proceeds received by the Lessor or the Agent in respect of a Casualty or Condemnation shall be turned over to the Lessee, provided that no Lease Event of Default or Lease Default has occurred and is continuing. Any Excess Proceeds which are not turned over to the Lessee due to the existence of a Lease Event of Default or a Lease Default shall be applied against the Lessee's obligations under the Lease, and any excess remaining after such obligations have been satisfied shall be paid to the Lessee.

15.2. Environmental Matters. Promptly upon the Lessee's actual knowledge of the presence of Hazardous Substances in any portion of the Property in concentrations and conditions that constitute an Environmental Violation, the Lessee shall notify the Lessor in writing of such condition. In the event of such Environmental Violation, the Lessee shall, not later than thirty (30) days after the Lessee has actual knowledge of such Environmental Violation, either, if such Environmental Violation is a Significant Event, deliver to the Lessor and the Agent a Responsible Officer's Certificate and a Termination Notice with respect to the Property pursuant to Section 16.1, or, if such Environmental Violation is not a Significant Event, at the Lessee's sole cost and expense, promptly and diligently commence any Response Actions necessary to investigate, remove, clean up or remediate the Environmental Violation in accordance with the terms of Section 9.1. If the Lessee does not deliver a Termination Notice with respect to the Property pursuant to Section 16.1, the Lessee shall, upon

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completion of Response Actions by the Lessee, cause to be prepared by an environmental consultant reasonably acceptable to the Lessor a report describing the Environmental Violation and the Response Actions taken by the Lessee (or its agents) for such Environmental Violation, and a statement by the consultant that the Environmental Violation has been remedied in compliance in all material respects with applicable Environmental Law. Each such Environmental Violation shall be remedied prior to the Expiration Date. Nothing in this Article XV shall reduce or limit the Lessee's obligations under Sections 13.1, 13.2 or 13.3 of the Participation Agreement.

15.3. Notice of Environmental Matters. Promptly, but in any event within the thirty (30) Business Days from the date the Lessee has actual knowledge thereof, the Lessee shall provide to the Lessor written notice of any material pending or threatened claim, action or proceeding involving any Environmental Law or any Release on or in connection with the Property. All such notices shall describe in reasonable detail the nature of the claim, action or proceeding and the Lessee's proposed response thereto. In addition, the Lessee shall provide to the Lessor, within thirty (30) Business Days of receipt, copies of all material written communications with any Governmental Authority relating to any Environmental Law in connection with the Property. The Lessee shall also promptly provide such detailed reports of any such Material environmental claims as may reasonably be requested by the Lessor and the Agent.

ARTICLE XVI

16.1. Termination by the Lessee upon Certain Events. If either: (i) the Lessee or the Lessor shall have received notice of a Condemnation, and the Lessee shall have delivered to the Lessor a Responsible Officer's Certificate that such Condemnation is a Significant Condemnation; or (ii) a Casualty occurs, and the Lessee shall have delivered to the Lessor a Responsible Officer's Certificate that such Casualty is a Significant Casualty; or (iii) an Environmental Violation occurs or is discovered and the Lessee shall have delivered to the Lessor a Responsible Officer's Certificate stating that, in the reasonable, good-faith judgment of the Lessee, the cost to remediate the same will cause the same to be a Significant Event, or (iv) if the Lessee shall not have delivered a Termination Notice with respect to such Environmental Violation described in clause (iii) but the requirements of Section 16.4 are met with respect to such Environmental Violation; then, (A) the Lessee shall, simultaneously with the delivery of the Responsible Officer's Certificate pursuant to the preceding clause (i), (ii) or (iii) deliver a written notice in the form described in Section 16.2(a) (a "Termination Notice"), or (B) if clause (iv) is applicable, the Lessor may deliver a Termination Notice pursuant to Section 16.4; provided, that if such Environmental Violation was not caused by nor within the control of the Lessee, the Lessee may exercise either its Purchase Option or Remarketing Option pursuant to Section 17.2(h).

16.2. Procedures. (a) A Termination Notice shall contain: (i) notice of termination of this Lease with respect to the Property or the affected portion thereof on a date that is no later than thirty (30) days after the occurrence of the applicable event described in clause (i), (ii) or

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(iii) of Section 16.1 (the "Termination Date"), such termination to be effective upon the Lessee's payment of the Asset Termination Value (or portion thereof representing the Property Cost of the affected portion of the Property); and (ii) a binding and irrevocable agreement of the Lessee to pay the Asset Termination Value and purchase the Property on the Termination Date.

(b) On the Termination Date, the Lessee shall pay to the Lessor the Asset Termination Value (or such portion thereof, as applicable), plus all other amounts owing in respect of Rent for the Property (including Supplemental Rent) theretofore accruing, and the Lessor shall convey the Lessor's interest in the Property or such portion thereof to the Lessee (or the Lessee's designee) all in accordance with Section 19.1, as well as any Net Proceeds with respect to the Casualty or Condemnation giving rise to the termination of this Lease with respect to the Property theretofore received by the Lessor.

16.3. Termination by the Lessor upon Certain Events. If the Lessor reasonably determines that any change in, or change by a Governmental Authority in the interpretation of, any applicable law after the date hereof would result in it or any Participant being unable to continue to hold legal or beneficial title to all or any portion of the Property or, except as provided in Section 16.4 hereof, subject it or any Participant to onerous regulations or onerous liability on account thereof, the Lessor may deliver a Termination Notice with respect to the Lease to the Agent, the Participants and the Lessee, such termination to be effective on the Termination Date specified therein, which date shall not be earlier than 30 days following the date the notice is delivered to the Lessee. In the event the Lessor exercises its termination

option, the Lessee may exercise the Remarketing Option provided in Section 22.1 hereof by giving notice to the Lessor within ten (10) Business Days of receipt of the notice from the Lessor. If the Lessee does not exercise its Remarketing Option, the Lessee shall be obligated to purchase the Property in accordance with Section 20.2 hereof on the Termination Date for the purchase price set forth therein.

16.4. Purchase of Property. Upon receipt of any notice pursuant to Section 15.2 or 15.3, the Lessor or the Required Participants, at the Lessee's expense, shall have the right to select an independent environmental consultant acceptable to the Lessee, which acceptance shall not be unreasonably withheld or delayed, to determine the estimated cost of conducting any clean-up or remediation required as a result of the Environmental Violation disclosed in such notice. If such independent environmental consultant determines that the cost of any such clean-up or remediation would exceed \$5,000,000, the Lessor shall, subject to the proviso at the end of Section 16.1, at the direction of the Required Participants, by written notice require the Lessee to purchase, or arrange for an Affiliate or other third party to purchase, the Property on the Expiration Date by delivering a Termination Notice following the requirements of Section 16.2 hereof, unless the Environmental Violation was not caused by nor within the control of the Lessee, in which later case the provisions of Section 17.2(h) shall apply.

ARTICLE XVII

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17.1. Lease Events of Default. The occurrence of any one or more of the following events (whether such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall constitute a "Lease Event of Default":

(a) the Lessee shall fail to make payment of (i) any Basic Rent (other than a payment of Basic Rent due on the Expiration Date or Termination Date) within five (5) Business Days after the same has become due and payable or (ii) Basic Rent, Purchase Option Price, Asset Termination Value or Residual Value Guarantee Amount or other amounts due on the Expiration Date or the Termination Date, including, without limitation, amounts due pursuant to Sections 16.2, 16.3, 16.4, 20.1, 20.2, 20.3 or 22.1, after the same has become due and payable;

(b) the Lessee shall fail to make payment of any Supplemental Rent (other than Supplemental Rent referred to in clause (a) of this Section) due and payable within thirty (30) days after written notice thereof;

(c) the Lessee shall fail to maintain insurance as required by Article XIV of this Lease, and such failure is either a failure to have in force a policy of insurance substantially meeting the requirements of Article XIV, or if such policy is in effect, then any deviation of such policy from the requirements of Article XIV is not cured within twenty(20) days after the earlier of (i) receipt of written notice thereof or (ii) the Lessee having knowledge thereof;

(d) the Lessee shall fail to observe or perform any term, covenant or condition of the Lessee under this Lease, the Participation Agreement or any other Operative Document to which it is a party (other than those described in Section 17.1(a), (b), or (c) hereof), or any representation or warranty set forth in this Lease or in any other Operative Document or in any document entered into in connection herewith or therewith or in any document, certificate or financial or other statement delivered in connection herewith or therewith shall be false or inaccurate in any Material way, and such failure or misrepresentation or breach of warranty shall remain uncured for a period of thirty (30) days after receipt of written notice thereof; provided, that if such failure to perform is not capable of being cured within such period but is capable of being cured within one hundred eighty (180) days after the occurrence of such default and the Lessee is proceeding diligently to cure such default, the Lessee shall be entitled to request an additional period (not to exceed one hundred eighty (180) days from the date of such default) to cure such default;

(e) the Lessee or any of the Lessee's Subsidiaries (A) shall fail to make a payment or payments in an aggregate amount of \$2,500,000 or more when due under the terms of any Funded Debt to be paid by such Person (excluding this Lease or any intercompany indebtedness between the Lessee and any of its Subsidiaries, but including any other evidence of indebtedness of the Lessee or any of its Subsidiaries to any Participant) and such failure shall continued beyond any period of grace provided with respect thereto, or (B) shall fail to make any other payment or payments when due under or otherwise default in the observance

or performance of any other agreement, term or condition contained in any such Funded Debt, and the effect of such failure or default is to cause, or permit the holder or holders thereof to cause, indebtedness in an aggregate amount of \$10,000,000 or more to become due prior to its stated date of maturity; or (ii) there shall occur to exist any other event or condition which causes, or permits the holder or holders of such indebtedness to cause, indebtedness in an aggregate amount of \$10,000,000 or more to become due prior to its stated date of maturity (whether through holder puts, mandatory redemptions or prepayments or otherwise);

(f) the Lessee or any of Lessee's Material Subsidiaries (except with respect to clause (v) below) shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of it or any of its creditors, (iv) be dissolved or liquidated in full or in part, (v) no longer be Solvent; (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing;

(g) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Lessee or any of the Lessee's Material Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Lessee or any of the Lessee's Material Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within sixty (60) days of commencement;

(h) a final nonappealable judgment or order for the payment of money in excess of \$10,000,000 (exclusive of amounts which are covered by insurance issued by an insurer satisfying the requirements set forth in Section 10.1(d) of the Participation Agreement) shall be rendered against the Lessee or any of its Subsidiaries and the same shall remain undischarged and unpaid for a period of thirty (30) days during which execution shall not be effectively stayed;

(i) any Reportable Event occurs which constitutes grounds for the termination of any Employee Benefit Plan by the PBGC or for the appointment of a trustee by the PBGC to administer any Employee Benefit Plan, or any Employee Benefit Plan shall be terminated with unfunded liabilities within the meaning of Title IV of ERISA or a trustee shall be appointed by the PBGC to administer any Employee Benefit Plan, in each case which could reasonably be expected to have a Material Adverse Effect;

(j) any Change of Control shall occur;

(k) a Guarantee Event of Default shall have occurred and be continuing;

(l) if the Lessee shall not have exercised its Purchase Option pursuant to Section 20.1 hereof and the Lessee shall have validly exercised its Remarketing Option pursuant to Section 22.1 hereof, the Lessee shall have failed (A) to consummate a sale of the Property in the manner provided therein on the Expiration Date and to pay to the Agent (or such other Person as the Agent may direct) pursuant to such Section the Residual Value Guarantee Amount and the other amounts required thereby, or (B) to purchase the Lessor's interest in the Property on the Expiration Date as provided in Section 20.2 hereof and to pay to the Lessor the Asset Termination Value therefor on the Expiration Date as required thereby;

(m) a Construction Agency Agreement Event of Default shall have occurred and be continuing;

(n) the Lessee shall have abandoned or constructively abandoned all or any material portion of the Property for a period of thirty (30) consecutive days; or

(o) an Environmental Violation shall occur that, in the reasonable opinion of the Lessor and the Required Participants, based on an Environmental Audit, constitutes a Significant Event and the Lessee shall not, within thirty

(30) days after notice from the Lessor, have delivered a Termination Notice with respect thereto pursuant to Section 16.1 hereof or, if so delivered, repurchase of the Property shall not have been consummated on the Termination Date pursuant to Section 16.2 hereof; or

(p) the Lessee shall have elected to or be required to purchase the Property pursuant to Sections 16.3 or 16.4 hereof and such purchase shall not have been consummated on the Termination Date pursuant to either such Section.

17.2. Remedies. Upon the occurrence of any Lease Event of Default and at any time thereafter, the Lessor may, so long as such Lease Event of Default is continuing, do one or more of the following as the Lessor in its sole discretion shall determine, without limiting any other right or remedy the Lessor may have on account of such Lease Event of Default (including, without limitation, the obligation of the Lessee to purchase the Property as set forth in Section 20.3) upon notice to the Lessee (if not otherwise provided for below):

(a) The Lessor may, by notice to the Lessee, rescind or terminate this Lease only as to all of the Property as of the date specified in such notice; however, (i) no reletting, reentry or taking of possession of the Property (or any portion thereof) by the Lessor will be construed as an election on the Lessor's part to terminate this Lease unless a written notice of such intention is given to the Lessee, (ii) notwithstanding any reletting, reentry or taking of possession, the Lessor may at any time thereafter elect to terminate this Lease for a continuing Lease Event of Default, (iii) no act or thing done by the Lessor or any of its agents, representatives or employees and no agreement accepting a surrender of the Property shall be valid unless the same be made in writing and executed by the Lessor and (iv) no termination pursuant to this Section shall terminate Lessee's right to cure such Lease Event of

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Default set forth in Section 17.6 hereof by purchasing the Property pursuant to Section 20.1 hereof prior to such time as a foreclosure upon or sale of the Property has been completed.

(b) The Lessor may (i) demand that the Lessee, and the Lessee shall upon the written demand of the Lessor, return the Property promptly to the Lessor in the manner and condition required by, and otherwise in accordance with all of the provisions of, Articles VIII, IX and X hereof as if the Property were being returned at the end of the Term, and the Lessor shall not be liable for the reimbursement of the Lessee for any costs and expenses incurred by the Lessee in connection therewith and (ii) without prejudice to any other remedy which the Lessor may have for possession of the Property, and to the extent and in the manner permitted by Applicable Law, enter upon the Property and take immediate possession of (to the exclusion of the Lessee) the Property or any part thereof and expel or remove the Lessee and any other Person who may be occupying the Property, by summary proceedings or otherwise, all without liability to the Lessee for or by reason of such entry or taking of possession, whether for the restoration of damage to property caused by such taking or otherwise and, in addition to the Lessor's other damages, to the extent and in the manner permitted by Applicable Law with respect to remedies for a breach of a real estate lease, the Lessee shall be responsible for all costs and expenses incurred by the Lessor and/or the Agent or the Participants in connection with any reletting, including, without limitation, brokers' fees and all costs of any alterations or repairs made by the Lessor;

(c) The Lessor may (i) sell all or any part of the Property at public or private sale, as the Lessor may determine, free and clear of any rights of the Lessee and without any duty to account to the Lessee with respect to such action or inaction or any proceeds with respect thereto (except to the extent required by clause (ii) below if the Lessor shall elect to exercise its rights thereunder) in which event the Lessee's obligation to pay Basic Rent hereunder for periods commencing after the date of such sale shall be terminated or proportionately reduced, as the case may be; and (ii) if the Lessor shall so elect, demand that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty (the parties agreeing that the Lessor's actual damages would be difficult to predict, but the aforementioned liquidated damages represent a reasonable approximation of such amount) (in lieu of Basic Rent due for periods commencing on or after the Payment Date coinciding with such date of sale (or, if the sale date is not a Payment Date, the Payment Date next preceding the date of such sale)), an amount equal to (A) the excess, if any, of (1) the Asset Termination Value calculated as of such Payment Date (including all Rent due and unpaid to and including such Payment Date), over (2) the net proceeds of such sale, if any (that is, after deducting all costs and expenses incurred by the Lessor, the Agent and the Participants incident to such conveyance, including, without limitation, repossession costs, brokerage commissions, prorations, transfer taxes, fees and expenses for counsel, title

insurance fees, survey costs, recording fees, and any repair or alteration costs); plus (B) interest at the Overdue Rate on the foregoing amount from such Payment Date until the date of payment, and any excess of the sale proceeds over such Asset Termination Value and any other sums owing by the Lessee under the Operative Documents shall be remitted to the Lessee;

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(d) The Lessor may, at its option, not terminate the Lease with respect to the Property, and continue to collect all Basic Rent, Supplemental Rent, and all other amounts due the Lessor (together with all costs of collection) and enforce the Lessee's obligations under this Lease as and when the same become due, or are to be performed, and at the option of the Lessor, upon any abandonment of the Property by the Lessee or re-entry of same by the Lessor, the Lessor may, in its sole and absolute discretion, elect not to terminate this Lease and may make such reasonable alterations and necessary repairs in order to relet the Property, and relet the Property or any part thereof for such term or terms (which may be for a term extending beyond the Term of this Lease) and at such rental or rentals and upon such other terms and conditions as the Lessor in its reasonable discretion may deem advisable; and upon each such reletting all rentals actually received by the Lessor from such reletting shall be applied to the Lessee's obligations hereunder and the other Operative Documents in such order, proportion and priority as the Lessor may elect in the Lessor's sole and absolute discretion. If such rentals received from such reletting during any period be less than the Rent with respect to the Property to be paid during that period by the Lessee hereunder, the Lessee shall pay any deficiency, as calculated by the Lessor, to the Lessor on the next Payment Date;

(e) Unless the Property has been sold in its entirety, the Lessor may, whether or not the Lessor shall have exercised or shall thereafter at any time exercise any of its rights under paragraph (b), (c) or (d) of this Section 17.2 with respect to the Property or portions thereof, demand, by written notice to the Lessee specifying a date (a "Termination Date") not earlier than 10 days after the date of such notice, that the Lessee purchase, on such Termination Date, the Property (or the remaining portion thereof) in accordance with the provisions of Article XIX and Section 20.3;

(f) The Lessor may exercise any other right or remedy that may be available to it under the Operative Documents or otherwise under Applicable Law, or proceed by appropriate court action (legal or equitable) to enforce the terms hereof or to recover damages for the breach hereof. Separate suits may be brought to collect any such damages for any period(s), and such suits shall not in any manner prejudice the Lessor's right to collect any such damages for any subsequent period(s), or the Lessor may defer any such suit until after the expiration of the Term, in which event such suit shall be deemed not to have accrued until the expiration of the Term; or

(g) The Lessor may retain and apply against the Lessor's damages all sums which the Lessor would, absent such Lease Event of Default, be required to pay to, or turn over to, the Lessee pursuant to the terms of this Lease.

(h) Notwithstanding anything contained in this Lease to the contrary, in the event that (A) the Lease Event of Default resulting in the exercise of remedies by the Lessor hereunder is solely the result of a Construction Agency Agreement Event of Default pursuant to Section 5.1(b) or (c) of the Construction Agency Agreement or is a Lease Event of Default under Section 17.1(o) where the occurrence of such Environmental Violation was not caused by or within the control of the Lessee or under Section 10.1(d) (each, a "Specified Event of Default"), or (B) the

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proviso at the end of Section 16.1 applies, the Lessee shall have the option to (i) remarket the Property for one hundred eighty (180) days after the occurrence of such Specified Event of Default in accordance with Article XXII (which period shall constitute the Remarketing Period), with the purchase of the Property to be consummated no later than the date that is one hundred eighty (180) days following the occurrence of such Specified Event of Default (which date shall constitute the Expiration Date if such option is exercised), or (ii) exercise its Purchase Option under Section 20.1, with the purchase of the Property by the Lessee to be consummated, and the other payments required thereunder to be made to the Lessor, on the next Payment Date following the occurrence of such Specified Event of Default (which date shall constitute the Expiration Date if such option is exercised). The Lessee shall notify the Lessor within ten (10) days after the occurrence of such Specified Event of Default which option it is exercising. If the Lessee elects to remarket the Property the Lessee shall pay to the Lessor (i) the maximum Residual Value Guarantee Amount on the date it

furnishes such notice of exercise of the Remarketing Option (the "Option Notice Date"), (ii) all breakage costs incurred by the Participants for the duration of all then current Interest Periods under the Participation Agreement with respect to the amount so paid following notices thereof by the Agent, (iii) Basic Rent with respect to the Tranche A Participation Interests on the amount so paid accrued to and payable on the Option Notice Date, (iv) Basic Rent when due with respect to the unpaid portion of the Tranche B Participation Interests and/or Tranche C Participation Interests to the date of sale of the Property and (v) the other payments required under Section 22.1 when required thereunder and no later than the Expiration Date. If the Lessee exercises neither of such options or, if one of such options is exercised but the Lessor does not receive the payments required above or by such Article or Section on the dates referred to above, such failure to exercise or failure to receive payment shall constitute a Lease Event of Default that is not a Specified Event of Default and the Lessor shall be entitled to exercise any of its remedies set forth in Sections 17.2(a) - (g). If the Lessee properly exercises its Remarketing Option under this Section 17.2(h), pays the Residual Value Guarantee Amount as required above and is unable to arrange for the sale of the Property on the new Expiration Date, such failure to sell the Property shall constitute a Lease Event of Default that is not a Specified Event of Default and the Lessor shall be entitled to exercise any of its remedies set forth in Sections 17.2(a) - (g); provided that in such event the portion of Asset Termination Value which may be recovered from the Lessee under any of such Sections shall not exceed, in addition to any other payments required by such Sections, that portion of the Asset Termination Value that remains unpaid after payment of the Residual Value Guarantee Amount as provided in this Section 17.2(h).

17.3. Waiver of Certain Rights. If this Lease shall be terminated pursuant to Section 17.2, the Lessee waives, to the fullest extent permitted by law, (a) any notice of re-entry or the institution of legal proceedings to obtain re-entry or possession; (b) any right of redemption, re-entry or repossession; (c) the benefit of any laws now or hereafter in force exempting property from liability for rent or for debt or limiting the Lessor with respect to the election of remedies; and (d) any other rights which might otherwise limit or modify any of the Lessor's rights or remedies under this Article XVII.

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17.4. Power of Sale and Foreclosure. In the event that a court of competent jurisdiction rules that this Lease constitutes a mortgage, deed of trust or other secured financing as is the intent of the parties pursuant to Section 7.1, and subject to the availability of such remedy under applicable law, then the Lessor and the Lessee agree that (i) the Lessee hereby grants a Lien against the Property WITH POWER OF SALE, and that, upon the occurrence of any Lease Event of Default the Lessor shall have the power and authority, to the extent provided by law, after proper notice and lapse of such time as may be required by law, to sell the Property at the time and place of sale fixed by the Lessor in said notice of sale, either as a whole, or in separate lots or parcels or items and in such order as the Lessor may elect, at auction to the highest bidder for cash in lawful money of the United States payable at the time of sale; accordingly, it is acknowledged that A POWER OF SALE HAS BEEN GRANTED IN THIS INSTRUMENT; A POWER OF SALE MAY ALLOW THE LESSOR TO TAKE THE PROPERTY AND SELL IT WITHOUT GOING TO COURT IN A FORECLOSURE ACTION UPON DEFAULT BY THE LESSEE UNDER THIS INSTRUMENT, and (ii) upon the occurrence of a Lease Event of Default, the Lessor, in lieu of or in addition to exercising any power of sale hereinabove given, may proceed by a suit or suits in equity or at law, whether for a foreclosure hereunder, or for the sale of the Property, or against the Lessee on a recourse basis for the Asset Termination Value, or the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for the appointment of a receiver pending any foreclosure hereunder or the sale of the Property, or for the enforcement of any other appropriate legal or equitable remedy. The parties hereto intend that, in addition to any other debt or obligation secured by the Lien granted pursuant to this Section 17.4, such Lien shall secure unpaid balances of Rent and Supplemental Rent and other extensions of credit made by the Lessor to the Lessee after this Lease is delivered to the appropriate recording offices of Colorado, whether made pursuant to an obligation of the Lessee or otherwise, and such Rent and Supplemental Rent shall be secured to the same extent as if such future payment obligations of Rent and Supplemental Rent were on account of obligatory advances to be made under a construction loan; provided such obligations secured hereby at any one time shall not exceed the lesser of : (i) the maximum principal sum permitted by the laws of Colorado; or (ii) one hundred thirty-two million Dollars (\$132,000,000) together with interest or Yield thereon calculated at the rates provided in the Participation Agreement.

17.5. Remedies Cumulative. The remedies herein provided shall be cumulative and in addition to (and not in limitation of) any other remedies available at law, equity or otherwise, including, without limitation, any mortgage foreclosure remedies.

17.6. Lessee's Right to Cure. Notwithstanding any provision contained

in the Lease or any other Operative Agreement, if a Lease Event of Default has occurred and is continuing, the Lessee shall have the right to cure such Lease Event of Default by exercising its Purchase Option at any time prior to such time as a foreclosure upon or sale of the Property has been completed.

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ARTICLE XVIII

18.1. The Lessor's Right to Cure the Lessee's Lease Defaults. The Lessor, without waiving or releasing any obligation or Lease Event of Default, may (but shall be under no obligation to) remedy any Lease Default or Lease Event of Default (other than those described in Sections 7.1(g), (h) and (i)) for the account and at the sole cost and expense of the Lessee, including the failure by the Lessee to maintain the insurance required by Article XIV, and may, to the fullest extent permitted by law, and notwithstanding any right of quiet enjoyment in favor of the Lessee, enter upon the Property for such purpose and take all such action thereon as may be necessary or appropriate therefor. No such entry shall be deemed an eviction of the Lessee. All out-of-pocket costs and expenses so incurred (including fees and expenses of counsel), together with interest thereon at the Overdue Rate from the date on which such sums or expenses are paid by the Lessor, shall be paid by the Lessee to the Lessor on demand, as Supplemental Rent.

ARTICLE XIX

19.1. Provisions Relating to the Lessee's Termination of this Lease or Exercise of Purchase Option or Obligation and Conveyance Upon Remarketing and Conveyance Upon Certain Other Events. (a) In connection with any termination of this Lease pursuant to the terms of Article XVI (if the Lessee is obligated to purchase the Property), or in connection with the Lessee's exercise of its Purchase Option, Remarketing Option or Expiration Date Purchase Obligation, upon the date on which this Lease is to terminate or upon the Expiration Date, and upon tender by the Lessee of the amounts set forth in Sections 16.2(b), 17.2(h), 20.1, 20.2, 20.3, or 22.1 as applicable, the Lessor shall execute and deliver to the Lessee (or to the Lessee's designee) at the Lessee's cost and expense a quitclaim or warranty deed to the extent required by local custom and by the Lessee's title insurance company to the extent necessary to enable the Lessee to obtain customary title insurance at closing of the Lessor's right, title and interest in the Property (which shall include a release, quitclaim and assignment of all of the Lessor's right, title and interest in and to any Net Proceeds not previously received by the Lessor), subject to the Permitted Liens and the Permitted Exceptions (other than Lessor Liens) and any encumbrance caused by the fault, neglect or intention of the Lessee, in recordable form and otherwise in conformity with local custom and free and clear of the Mortgage and any Lessor Liens attributable to the Lessor; provided that in the event a warranty deed is required, the Lessee shall defend, indemnify and hold harmless the Lessor from and against any and all Claims relating to title to the Property other than Lessor Liens. The Improvements and the Equipment shall be conveyed to the Lessee "AS IS" and in their then present condition of title and physical condition.

(b) If the Lessee properly exercises the Remarketing Option, then the Lessee shall, on the Expiration Date, and at its own cost, transfer possession of the Property to the independent purchaser thereof, by surrendering the same into the possession of the Lessor or such purchaser, as the case may be, free and clear of all Liens other than Lessor Liens, in good condition (as modified by Modifications permitted by this Lease), ordinary wear and tear

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excepted, in compliance with Applicable Law, and in "broom-swept clean" condition. The Lessee shall cooperate reasonably with the Lessor and the independent purchaser of the Property in order to facilitate the purchase by such purchaser of the Property which cooperation shall include the following, all of which the Lessee shall do on or before the Expiration Date: providing all books and records regarding the maintenance and ownership of the Property and all know-how, data and technical information relating thereto, providing a current copy of the "as built" Plans and Specifications for the Property, granting or assigning all licenses necessary for the operation and maintenance of the Property and cooperating reasonably in seeking and obtaining all necessary Governmental Action. The obligations of the Lessee under this paragraph shall survive the expiration or termination of this Lease.

ARTICLE XX

20.1. Purchase Option. Without limitation of the Lessee's purchase obligation pursuant to Sections 20.2 or 20.3, unless the Lessee shall have given notice of its intention to exercise the Remarketing Option and the Lessor shall have entered into a binding contract to sell the Property, the Lessee shall have the option (exercisable by giving the Lessor irrevocable written notice (the "Purchase Notice") of the Lessee's election to exercise such option) to purchase, or to designate a third party to purchase, the Property on the date specified in such Purchase Notice, which date shall be a Payment Date. The purchase price shall be equal to the Asset Termination Value plus all other amounts owing in respect of Rent (including Supplemental Rent) theretofore accruing (the "Purchase Option Price"). The Lessee shall deliver the Purchase Notice to the Lessor not less than thirty (30) days prior to the purchase date or as otherwise provided pursuant to Section 17.2(h). If the Lessee exercises its option to purchase the Property pursuant to this Section 20.1 (the "Purchase Option"), the Lessor shall transfer to the Lessee all of the Lessor's right, title and interest in and to the Property as of the date specified in the Purchase Notice upon receipt of the Purchase Option Price and all Rent and other amounts then due and payable under this Lease and any other Operative Document, in accordance with Section 19.1(a). The Lessee may assign the Purchase Option to a third party separately from any permitted assignment by the Lessee of its rights and obligations under Section 25.1 hereof without the consent of the Lessor; provided that the Lessee shall remain primarily liable for the performance of any such assignees in connection with the exercise of the Purchase Option in accordance with the provisions of Section 25.1 hereof.

20.2. Expiration Date Purchase Obligation. Unless (a) the Lessee shall have properly exercised the Purchase Option pursuant to Section 20.1 and purchased the Property pursuant thereto, (b) the Lessee shall have properly exercised the Remarketing Option and shall have fulfilled all of the conditions of clauses (a) through (k) of Section 22.1 hereof and the Lessor shall have sold its interest in the Property pursuant thereto, or (c) the Lessee shall have properly exercised the Renewal Option pursuant to Section 21.1 and the terms and conditions of a Renewal Term shall have been agreed upon pursuant to such Section, then, subject to the terms, conditions and provisions set forth in this Article, and in accordance with the terms of Section 19.1(a), the Lessee shall purchase from the Lessor, and the Lessor shall assign to the

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Lessee without recourse, on the Expiration Date of the Term (as such Term may be renewed pursuant to Section 21.1) all of the Lessor's right, title and interest in the Property (subject to all existing Liens, other than the Mortgage and Lessor Liens) for an amount equal to the Asset Termination Value. The Lessee may designate, in a notice given to the Lessor not less than ten (10) Business Days prior to the closing of such purchase (time being of the essence), the transferee or transferees to whom the conveyance shall be made (if other than to the Lessee), in which case such conveyance shall (subject to the terms and conditions set forth herein) be made to such designee; provided, however, that such designation of a transferee or transferees shall not cause the Lessee to be released, fully or partially, from any of its obligations under this Lease, including, without limitation, the obligation to pay the Lessor an amount equal to the Asset Termination Value that was not fully and finally paid by such designee on such Expiration Date.

20.3. Acceleration of Purchase Obligation. (a) The Lessee shall be obligated to purchase for an amount equal to the Asset Termination Value, the Lessor's interest in the Property (notwithstanding any prior election to exercise its Purchase Option pursuant to Section 20.1) (i) automatically and without notice upon the occurrence of any Lease Event of Default specified in clause (f) or (g) of Section 17.1, and (ii) as provided for at Section 17.2(e) immediately upon written demand of the Lessor upon the occurrence of any other Lease Event of Default.

(b) The Lessee shall be obligated to purchase for an amount equal to the Asset Termination Value (plus all other amounts owing in respect of Rent (including Supplemental Rent) theretofore accruing), immediately upon written demand of the Lessor, the Lessor's interest in the Property at any time during the Term when the Lessor's interest in the Property is foreclosed due to an event arising out of a violation of the warranty of title contained in Section 12.1 hereof and the Lessor ceases to have title as contemplated by Section 12.1.

20.4. Cash Collateral. To the extent the Depository Bank holds any Collateral pursuant to the Cash Collateral Agreement and if, under the Cash Collateral Agreement or any Attachment thereto or Notice thereunder, the Lessor is entitled to give notice to the Depository Bank to apply such Collateral to any of its obligations hereunder or under the Operative Documents, whether in connection with the exercise of its Purchase Option, any purchase obligation or the exercise of its Remarketing Option, the Lessor or the Agent shall, upon

receipt of such notice from the Lessee, direct the Depository Bank to apply such Cash Collateral to such obligations of the Lessee to the extent so directed by the Lessee.

ARTICLE XXI

21.1. Renewal.

(a) Subject to the conditions set forth herein, the Lessee, at any time after the first anniversary of the Effective Date, shall have the option (the "Renewal Option") by written

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request (the "Renewal Request") to the Lessor, each Participant and the Agent given not later than 90 days prior to the then Expiration Date to renew the Term for a one-year period commencing on the date following the Expiration Date then in effect. No later than the date (the "Renewal Response Date") which is thirty (30) days after such request has been delivered to each of the Lessor, each Participant and the Agent, the Lessor will notify the Lessee in writing (with a copy to the Agent) whether or not it consents to such Renewal Request (which consent may be granted or denied in its sole discretion and may be conditioned on receipt of such financial information or other documentation as may be specified by the Lessor including without limitation a satisfactory appraisal of the Property), provided that if the Lessor shall fail to notify the Lessee on or prior to the Renewal Response Date, it shall be deemed to have denied such Renewal Request. The renewal of the Term contemplated by any Renewal Request shall become effective as of the Expiration Date then in effect on or after the Renewal Response Date on which the Lessor shall have consented to such Renewal Request; provided that such renewal shall be subject to and conditioned upon the following:

(A) on both the Expiration Date then in effect and the date of the Renewal Request, (i) no Lease Default or Lease Event of Default shall have occurred and be continuing, and (ii) the Lessor and the Agent shall have received a Responsible Officer's Certificate of the Lessee as to the matters set forth in clause (i) above,

(B) the Lessee shall not have exercised the Remarketing Option, and

(C) the Participants shall have agreed to extend the Maturity Date contemporaneously therewith pursuant to Section 3.6 of the Participation Agreement such that the Renewal Term will expire on the same date as the extended Maturity Date.

(b) The renewal of this Lease shall be on the same terms and conditions as are set forth in this Lease for the original Term, with such modifications thereto, if any, as the parties hereto and to the other Operative Documents may negotiate based upon the current credit information regarding the Lessee, interest rates and such other factors as the Lessor may consider relevant.

ARTICLE XXII

22.1. Option to Remarket. Subject to the fulfillment of each of the conditions set forth in this Section 22.1, the Lessee shall have the option (the "Remarketing Option") to market for the Lessor and complete the sale of all, but not less than all, of the Lessor's interest in the Property on the Expiration Date for the Lessor or in the event the conditions specified in Section 17.2(h) have occurred.

The Lessee's effective exercise and consummation of the Remarketing Option shall be subject to the due and timely fulfillment of each of the following provisions as of the dates set forth below.

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(a) Not later than one hundred eighty (180) days prior to the Expiration Date, the Lessee shall give to the Lessor written notice of the Lessee's exercise of the Remarketing Option, which exercise shall be irrevocable (except by delivery of a Purchase Notice and consummation of the exercise of the Purchase Option prior to the earlier of (i) the Expiration Date or (ii) the date

on which the Lessor enters into a binding contract to sell the Property pursuant to the exercise of the Remarketing Option).

(b) The Lessee shall deliver to the Lessor an Environmental Audit of the Property together with its notice of exercise of the Remarketing Option. Such Environmental Audit shall be prepared by an environmental consultant selected by the Lessor in the Lessor's reasonable discretion and shall contain conclusions reasonably satisfactory to the Lessor as to the environmental status of the Property. If such Environmental Audit indicates any material exceptions reasonably requiring remedy or further investigation, the Lessee shall have also delivered a Phase Two environmental assessment by such environmental consultant prior to the Expiration Date showing the completion of the remedying of such exceptions in compliance with Applicable Law.

(c) On the date of the Lessee's notice to the Lessor of the Lessee's exercise of the Remarketing Option (other than pursuant to Section 17.2(h)), no Lease Event of Default or Lease Default shall exist, and thereafter, no uncured Lease Event of Default or Lease Default shall exist.

(d) The Lessee shall have completed in all Material respects all Modifications, restoration and rebuilding of the Property pursuant to Sections 11.1 and 15.1 (as the case may be) and shall have fulfilled in all Material respects all of the conditions and requirements in connection therewith pursuant to said Sections, in each case by the date on which the Lessor receives the Lessee's notice of the Lessee's exercise of the Remarketing Option (time being of the essence), regardless of whether the same shall be within the Lessee's control. The Lessee shall have also paid the cost of all Modifications commenced prior to the Expiration Date. The Lessee shall not have been excused pursuant to Section 13.1 from complying with any Applicable Law that involved the extension of the ultimate imposition of such Applicable Law beyond the last day of the Term. Any Liens (other than Lessor Liens) on the Property that were contested by the Lessee shall have been removed before the Expiration Date.

(e) During the Marketing Period, the Lessee shall, as nonexclusive agent for the Lessor, use commercially reasonable efforts to sell the Lessor's interest in the Property on or prior to the Expiration Date (without diminishing the Lessee's obligation to consummate the sale on the Expiration Date) and will attempt to obtain the highest purchase price therefor and for not less than the Fair Market Sales Value. The Lessee will be responsible for hiring and compensating brokers and making the Property available for inspection by prospective purchasers. The Lessee shall promptly upon request permit inspection of the Property and any maintenance records relating to the Property by the Lessor, any Participant and any potential purchasers, and shall otherwise do all things necessary to sell and deliver possession of the Property to any purchaser. All such marketing of the Property shall be at the Lessee's

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sole expense. The Lessee shall allow the Lessor and any potential qualified purchaser reasonable access to the Property for the purpose of inspecting the same.

(f) The Lessee shall submit all bids to the Lessor, the Agent and the Participants, and the Lessor will have the right to review the same and the right to submit any one or more bids. All bids shall be on an all-cash basis unless the Lessor, the Agent and the Participants shall otherwise agree in their sole discretion. The Lessee shall procure bids from one or more bona fide prospective purchasers and shall deliver to the Lessor, the Agent and the Participants not less than ninety (90) days prior to the Expiration Date a binding written unconditional (except as set forth below), irrevocable offer by such purchaser or purchasers offering the highest bid to purchase the Property. No such purchaser shall be the Lessee, or any Subsidiary or Affiliate of the Lessee. The written offer must specify the Expiration Date as the closing date unless the Lessor, the Agent and the Participants shall otherwise agree in their sole discretion.

(g) In connection with any such sale of the Property, the Lessee will provide to the purchaser all customary "seller's" indemnities, representations and warranties regarding title, absence of Liens (except Lessor Liens) and the condition of the Property, as well as such other terms and conditions as may be negotiated between the Lessee and the purchaser. The Lessee shall have obtained, at its cost and expense, all required governmental and regulatory consents and approvals and shall have made all filings as required by Applicable Law in order to carry out and complete the transfer of the Property and the Lessor shall reasonably cooperate, at the Lessee's expense, with the Lessee to obtain said items. As to the Lessor, any such sale shall be made on an "as is, with all faults" basis without representation or warranty by the Lessor other than the absence of Lessor Liens. Any agreement as to such sale shall be made subject to the Lessor's rights under this Section 22.1.

(h) The Lessee shall pay directly, and not from the sale proceeds, all prorations, credits, costs and expenses of the sale of the Property, whether incurred by the Lessor or the Lessee, including without limitation, the cost of all title insurance, surveys, environmental reports, appraisals, transfer taxes, the Lessor's and the Agent's reasonable attorneys' fees, the Lessee's attorneys' fees, commissions, escrow fees, recording fees, and all applicable documentary and other transfer taxes.

(i) The Lessee shall pay to the Agent on or prior to the Expiration Date (or to such other Person as the Agent shall notify the Lessee in writing, or in the case of Supplemental Rent, to the Person entitled thereto) an amount equal to the Residual Value Guarantee Amount, plus all Rent and all other amounts under this Lease and the other Operative Documents which have accrued or will accrue prior to or as of the Expiration Date, in the type of funds specified in Section 3.4 hereof.

(j) If the selling price of the Property is less than the difference between (A) the Asset Termination Value minus (B) the Residual Value Guarantee Amount, then the Lessee shall have caused to be delivered to the Lessor, the Agent and each Participant the appraisal required by Section 13.2 of the Participation Agreement thirty (30) Business Days prior to the

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Expiration Date and shall pay to the Agent on or prior to the Expiration Date (or to such other person as the Agent shall notify the Lessee in writing) the amounts required to be paid pursuant to Section 13.2 of the Participation Agreement.

(k) The purchase of the Property shall be consummated on the Expiration Date following the payment by the Lessee pursuant to paragraphs (i) and (j) above and contemporaneously with the Lessee's surrender of the Property pursuant to Section 19.1(b) and the gross proceeds (the "Gross Proceeds") of the sale of the Property (i.e., without deduction for any marketing, closing or other costs, prorations or commissions) shall be paid directly to the Agent; provided, however, that if the sum of the Gross Proceeds from such sale plus the Residual Value Guarantee Amount paid by the Lessee pursuant to paragraph (i) above and the proceeds of the collateral applied thereto under Section 20.4 exceeds the Asset Termination Value, then the excess shall be paid to the Lessee on the Expiration Date.

(l) The Lessee shall not be entitled to exercise or consummate the Remarketing Option if a circumstance that would permit the Lessor to require the Lessee to repurchase the Property under Section 16.3 exists and is continuing.

If one or more of the foregoing provisions shall not be fulfilled as of the date set forth above, or the Property is not purchased as aforesaid, then the Lessor shall declare by written notice to the Lessee the Remarketing Option to be null and void as to the Property, in which event all of the Lessee's rights under this Section 22.1 shall immediately terminate and the Lessee shall be obligated to purchase all of the Lessor's interest in the Property pursuant to Section 20.2 on the Expiration Date. Notwithstanding the foregoing, the Lessee may at any time during the Marketing Period exercise its Purchase Option in accordance with Section 20.2 hereof, provided, that the Lessee shall bear all costs arising out of or attributable to the cessation of remarketing efforts, including any costs, expenses, damages or liability which may be alleged by any prospective purchaser of the Property.

Except as expressly set forth herein, the Lessee shall have no right, power or authority to bind the Lessor in connection with any proposed sale of the Property.

22.2. Certain Obligations Continue. During the Marketing Period, the obligation of the Lessee to pay Rent (including the installment of Basic Rent due on the fifth anniversary of the Effective Date or at the end of a Renewal Term, or on the Expiration Date, as the case may be) shall continue undiminished until payment in full to the Agent of the Gross Proceeds, the Residual Value Guarantee Amount, and all other amounts due to the Lessor with respect to the Property under the Operative Documents. The Lessor shall have the right, but shall be under no duty, to solicit bids, to inquire into the efforts of the Lessee to obtain bids or otherwise to take action in connection with any such sale, other than as expressly provided in this Article XXII.

22.3. Support Obligations. In the event that the Lessee does not elect to purchase the Property on the Expiration Date or, pursuant to the Lessor's exercise of remedies under Article XVII, this Lease is terminated, the Lessee shall provide the Lessor, effective on the

Expiration Date, with (i) all permits, certificates of occupancy, governmental licenses and authorizations necessary to use and operate the Property for its intended purposes (to the extent such items are transferable or may be obtained by the Lessee on behalf of another party), (ii) such easements, licenses, rights-of-way and other rights and privileges in the nature of an easement as are reasonably necessary or desirable in connection with the use, repair, access to or maintenance of the Property as the Lessor shall request, and (iii) a services agreement covering such services as the Lessor may request in order to use and operate the Property for its intended purposes at such rates (not in excess of arm's length fair market rates) as shall be acceptable to the Lessor and the Lessee. All assignments, licenses, easements, agreements and other deliveries required by clauses (i) and (ii) of this Section 22.3 shall be in form satisfactory to the Lessor and shall be fully assignable (including both primary assignments and assignments given in the nature of security) without payment of any fee, cost or other charge.

ARTICLE XXIII

23.1. Holding Over. If the Lessee shall for any reason remain in possession of the Property after the expiration or earlier termination of this Lease (unless the Property is conveyed to the Lessee), such possession shall be as a tenancy at sufferance during which time the Lessee shall continue to pay Supplemental Rent that would be payable by the Lessee hereunder were the Lease then in full force and effect and the Lessee shall continue to pay Basic Rent at an annual rate equal to 110% of the average rate of Basic Rent payable hereunder during the Term. Such Basic Rent shall be payable from time to time upon demand by the Lessor. During any period of tenancy at sufferance, the Lessee shall, subject to the second preceding sentence, be obligated to perform and observe all of the terms, covenants and conditions of this Lease, but shall have no rights hereunder other than the right, to the extent given by law to tenants at sufferance, to continue its occupancy and use of the Property. Nothing contained in this Article XXIII shall constitute the consent, express or implied, of the Lessor to the holding over of the Lessee after the expiration or earlier termination of this Lease (unless the Property is conveyed to the Lessee), and nothing contained herein shall be read or construed to relieve the Lessee of its obligations to purchase or remarket the Property on the Expiration Date pursuant to Article XX or Article XXII or as preventing the Lessor from maintaining a suit for possession of the Property or exercising any other remedy available to the Lessor at law or in equity or hereunder.

ARTICLE XXIV

24.1. Risk of Loss. During the Term the risk of loss of or decrease in the enjoyment and beneficial use of the Property as a result of the damage or destruction thereof by fire, the elements, casualties, thefts, riots, wars or otherwise is assumed by the Lessee, and the Lessor shall in no event be answerable or accountable therefor.

ARTICLE XXV

25.1. Subletting and Assignment. The Lessee may assign with recourse this Lease or any of its rights or obligations hereunder in whole or in part to any Person, in which case the Lessee shall guarantee performance of the obligations of such assignee under this Lease by a guaranty in form and substance reasonably acceptable to the Lessor and the Required Participants. The Lessee may, without the consent of the Lessor, sublease the Property or portion thereof to any Person, provided, that no such sublease shall, materially and adversely affect any of the Lessor's interests, rights or remedies under the Lease or the Lessor's title to the Property. No assignment, sublease or other relinquishment of possession of the Property shall in any way discharge or diminish any of the Lessee's obligations to the Lessor hereunder and the Lessee shall remain directly and primarily liable under this Lease as to the Property, or portion thereof, so assigned or sublet. Any sublease of the Property shall be made subject to and subordinated to this Lease and to the rights of the Lessor hereunder, and shall expressly provide for the surrender of the Property (or portion thereof) if, after a Lease Event of Default has occurred, the Lease is terminated. All such subleases shall expressly provide for termination at or prior to the earlier of the applicable Expiration Date or other date of termination of this Lease unless either (x) the Lessee shall purchase the Property pursuant to Article XX or (y) the Lessor shall have (i) received a true and correct copy of the relevant sublease agreement which shall be in form and

substance, and on terms and conditions, acceptable to the Lessor, and (ii) received an agreement of the Lessee, in form and substance reasonably acceptable to the Lessor, to remain liable for any diminution of the market value in the Property as a consequence of the sublease between the Expiration Date or other date of termination of this Lease and the later expiration of the sublease agreement. If requested by the Lessee, the Lessor and the applicable sublessee shall, at the Lessee's expense, execute and deliver a subordination, nondisturbance and attornment agreement with respect to any such sublease extending beyond the Expiration Date or other date of termination of this Lease in form reasonably satisfactory to the Lessor, the Lessee and the sublessee. No assignee or sublessee shall be permitted to engage in any activities on the Property to the extent they are substantially different from those engaged in by the Lessee without the prior written consent of the Lessor, which consent shall not be unreasonably withheld, except that any Assignee or Sublessee may use the Property for light manufacturing, research and development, office, storage, warehouse and related uses and for any other lawful use that is not more burdensome than Lessee's intended use as administration, manufacturing, design research and development and warehouse facilities so long as such use is permitted by Applicable Law, is approved by Lessor, which approval shall not be unreasonably withheld, and does not adversely affect the value, utility or remaining useful life of the Property.

ARTICLE XXVI

26.1. Estoppel Certificates. At any time and from time to time upon not less than twenty (20) days' prior request by the Lessor or the Lessee (the "Requesting Party"), the other party (whichever party shall have received such request, the "Certifying Party") shall furnish to the Requesting Party (but not more than four times per year unless required to satisfy the

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requirements of any sublessees and only to the extent that the required information has been provided to the Certifying Party by the other party) a certificate signed by an individual having the office of vice president or higher in the Certifying Party certifying that this Lease is in full force and effect (or that this Lease is in full force and effect as modified and setting forth the modifications); the dates to which the Basic Rent and Supplemental Rent have been paid; to the best knowledge of the signer of such certificate, whether or not the Requesting Party is in default under any of its obligations hereunder (and, if so, the nature of such alleged default); and such other matters under this Lease as the Requesting Party may reasonably request. Any such certificate furnished pursuant to this Article XXVI may be relied upon by the Requesting Party, and any existing or prospective mortgagee, purchaser or lender, and any accountant or auditor, of, from or to the Requesting Party (or any Affiliate thereof).

ARTICLE XXVII

27.1. Right to Inspect. During the Term, the Lessee shall upon reasonable notice from the Lessor (except that no notice shall be required if a Lease Event of Default has occurred and is continuing), permit the Lessor, the Agent and their respective authorized representatives to inspect the Property during normal business hours, provided that such inspections shall not unreasonably interfere with the Lessee's business operations at the Property.

27.2. No Waiver. No failure by the Lessor or the Lessee to insist upon the strict performance of any term hereof or to exercise any right, power or remedy upon a default hereunder, and no acceptance of full or partial payment of Rent during the continuance of any such default, shall constitute a waiver of any such default or of any such term. To the fullest extent permitted by law, no waiver of any default shall affect or alter this Lease, and this Lease shall continue in full force and effect with respect to any other then existing or subsequent default.

ARTICLE XXVIII

28.1. Acceptance of Surrender. No surrender to the Lessor of this Lease or of all or any portion of any Property or of any part of any thereof or of any interest therein shall be valid or effective unless agreed to and accepted in writing by the Lessor and, prior to the payment or performance of all obligations owed to the Participants under the Participation Agreement or the other Operative Documents and termination of the Participants' Commitments, the Agent, and no act by the Lessor or the Agent or any representative or agent of the Lessor or the Agent, other than a written acceptance, shall constitute an acceptance of any such surrender.

ARTICLE XXIX

29.1. No Merger of Title. There shall be no merger of this Lease or of the leasehold estate created hereby by reason of the fact that the same Person may acquire, own or hold, directly or indirectly, in whole or in part, (a) this Lease or the leasehold estate created hereby or any interest in this Lease or such leasehold estate, or (b) the fee estate in the Property, except as may expressly be stated in a written instrument duly executed and delivered by the appropriate Person.

ARTICLE XXX

30.1. Notices. All notices, demands, requests, consents, approvals and other communications hereunder shall be in writing and delivered (i) personally, (ii) by a nationally recognized overnight courier service, (iii) by mail (by registered or certified mail, return receipt requested, postage prepaid) or (iv) by facsimile, addressed to the respective parties, as follows:

If to the Lessee:

Quantum Corporation
500 McCarthy Boulevard
Milpitas, California 95305
Attention: Ed McClammy
Telephone: (408) 894-5703
Facsimile: (408) 894-4562

If to the Lessor:

Lease Plan North America, Inc.
135 S. LaSalle Street, Suite 711
Chicago, Illinois 60603
Attention: David M. Shipley
Telephone: (312) 904-2183
Facsimile: (312) 904-6217

If to the Agent:

ABN AMRO Bank N.V., San Francisco International Branch
101 California Street
Suite 4550
San Francisco, California 94111
Attention: Robin Yim
Telephone: (415) 984-3712
Facsimile: (415) 362-3524;

or such additional parties and/or other address as such party may hereafter designate (provided, however, in no event shall either party be obligated to notify, in the aggregate, more than five (5) designees of the other party), and shall be effective upon receipt or refusal thereof.

ARTICLE XXXI

31.1. Miscellaneous. Anything contained in this Lease to the contrary notwithstanding, all claims against and liabilities of the Lessee or the Lessor arising from events commencing prior to the expiration or earlier termination of this Lease shall survive such expiration or earlier termination. If any term or provision of this Lease or any application thereof shall be declared invalid or unenforceable, the remainder of this Lease and any other application of such term or provision shall not be affected thereby. If any right or option of the Lessee provided in this Lease, including any right or option described in Articles XV, XVI, XX, XXI or XXII, would, in the absence of the limitation imposed by this sentence, be invalid or unenforceable as being in violation of the rule against perpetuities or any other rule of law relating to the vesting of an interest in or the suspension of the power of alienation of property, then such right or option shall be exercisable only during the period which shall end twenty-one (21) years after the date of death of the last survivor of the descendants of Franklin D. Roosevelt, the former president of the United States, Henry Ford, the deceased automobile manufacturer, and John D. Rockefeller, the

founder of the Standard Oil Company, known to be alive on the date of the execution, acknowledgment and delivery of this Lease.

31.2. Amendments and Modifications. Subject to the requirements, restrictions and conditions set forth in the Participation Agreement, neither this Lease, any Lease Supplement nor any provision hereof may be amended, waived, discharged or terminated except by an instrument in writing in recordable form signed by the Lessor and the Lessee. In the event of any conflict or inconsistency between the terms hereof and the terms of the Participation Agreement, the Participation Agreement shall control.

31.3. Successors and Assigns. All the terms and provisions of this Lease shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

31.4. Headings and Table of Contents. The headings and table of contents in this Lease are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

31.5. Counterparts. This Lease may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

31.6. GOVERNING LAW. THIS LEASE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE

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STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES, EXCEPT AS TO MATTERS RELATING TO THE CREATION OF THE LEASEHOLD ESTATE HEREUNDER AND THE EXERCISE OF RIGHTS AND REMEDIES WITH RESPECT THERETO, WHICH SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE IN WHICH SUCH ESTATE IS LOCATED. WITHOUT LIMITING THE FOREGOING, IN THE EVENT THAT THIS LEASE IS DEEMED TO CONSTITUTE A FINANCING, WHICH IS THE INTENTION OF THE PARTIES, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, SHALL GOVERN THE CREATION, TERMS AND PROVISIONS OF THE INDEBTEDNESS EVIDENCED HEREBY, BUT THE LIEN CREATED HEREBY AND THE ENFORCEMENT OF SAID LIEN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE IN WHICH SUCH ESTATE IS LOCATED.

31.7. Limitations on Recourse. The parties hereto agree that the Lessor shall have no personal liability whatsoever to the Lessee or its respective successors and assigns for any claim based on or in respect of this Lease or any of the other Operative Documents or arising in any way from the transactions contemplated hereby or thereby; provided, however, that the Lessor shall be liable in its individual capacity (a) for its own willful misconduct or gross negligence (or negligence in the handling of funds), (b) for liabilities that may result from the incorrectness of any representation or warranty expressly made by it in Section 8.1 of the Participation Agreement or (c) for any Taxes based on or measured by any fees, commission or compensation received by it for acting as the Lessor as contemplated by the Operative Documents. It is understood and agreed that, except as provided in the preceding proviso: (i) the Lessor shall have no personal liability under any of the Operative Documents as a result of acting pursuant to and consistent with any of the Operative Documents; (ii) all obligations of the Lessor to the Lessee are solely nonrecourse obligations except to the extent that it has received payment from others and are enforceable solely against the Lessor's interest in the Property; and (iii) all such personal liability of the Lessor is expressly waived and released as a condition of, and as consideration for, the execution and delivery of the Operative Documents by the Lessor. Notwithstanding anything contained herein, the restriction stated in the preceding provisions of this Section 31.7 shall not apply to liability of the Lessor arising because of a breach of the Lessor's obligation to remove Lessor Liens or because of its receiving Advances and failing to disburse Advances to Lessee in accordance with the Operative Documents, or failure to disburse proceeds from sale of the Property in accordance with this Lease.

31.8. Original Lease. The single executed original of this Lease marked "THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART" on the signature page thereof and containing the receipt of the Agent therefor on or following the signature page thereof shall be the Original Executed Counterpart of this Lease (the "Original Executed Counterpart"). To the extent that this Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Lease may be created through the transfer or possession of any counterpart other than the Original Executed Counterpart.

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31.9. Usury Savings Clause. Nothing continued in this Lease or the other Operative Documents shall be deemed to require the payment of interest or other charges by the Lessee or any other Person in excess of the amount which may lawfully be charged under any applicable usury laws. In the event that the Lessor or any other Person shall collect moneys under this Lease or any other Operative Document which are deemed to constitute interest (including, without limitation, the Basic Rent or Supplemental Rent) which would increase the effective interest rate to a rate in excess of that permitted to be charged by applicable law, all such sums deemed to constitute interest in excess of the legal rate shall, upon such determination, at the option of the Person to whom such payment was made, be returned to the Person making such payment or credited against other amounts owed by the person making such payment.

[signature page follows]

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IN WITNESS WHEREOF, the parties have caused this Lease be duly executed and delivered as of the date first above written.

LEASE PLAN NORTH AMERICA, INC.,
an Illinois corporation, as Lessor

By: /s/ DAVID M. SHIPLEY

Name: DAVID M. SHIPLEY
Title: VICE PRESIDENT

STATE OF ILLINOIS)
) SS.:
COUNTY OF COOK)

Before me, the undersigned, a Notary Public within and for the State and County aforesaid, personally appeared David Shipley, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged himself to be a Vice President of LEASE PLAN NORTH AMERICA, INC., the within named bargainer, a corporation, and that he as such Vice President, being duly authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such Vice President.

WITNESS my hand and seal, at office, on this the 21 day of August, 1997.

"OFFICIAL SEAL"
CHARLES A. DERBIGNY IV
Notary Public, State of Illinois
My Commission Expires 9-4-2000

/s/ Charles A. Derbigny IV

Notary Public

My Commission Expires:
9/4/00

QUANTUM CORPORATION,
a Delaware corporation, as Lessee

By: /s/ G.E. McCLAMMY

Name: G.E. McCLAMMY

CALIFORNIA ALL-PURPOSE ACKNOWLEDGEMENT

State of California
County of Santa Clara

On August 20, 1997 before me, Kim L. Armstrong

DATE NAME, TITLE OF OFFICER - E.G., JANE DOE, NOTARY PUBLIC

personally appeared G.E. McClammy

NAME(S) OF SIGNER(S)

[X] proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal

/s/ Kim L. Armstrong

SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER DESCRIPTION OF ATTACHED DOCUMENT

- [] INDIVIDUAL
[X] CORPORATE OFFICER
VP FINANCE & TREASURER

MASTER LEASE

TITLE(S)

TITLE OR TYPE OF DOCUMENT

- [] PARTNER(S) [] LIMITED
[] GENERAL

NUMBER OF PAGES

- [] ATTORNEY-IN-FACT
[] TRUSTEE(S)
[] GUARDIAN/CONSERVATOR
[] OTHER:

8/22/97

DATE OF DOCUMENT

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)
QUANTUM CORPORATION

SIGNER(S) OTHER THAN NAMED ABOVE

(C) 1993 NATIONAL NOTARY ASSOCIATION-8236 REMMET AVE, P.O. BOX 7184-CANOGA PARK, CA 91309-7184

THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART

Receipt of this original counterpart of the foregoing Lease is hereby acknowledged as of August 22, 1997

ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH, as Agent

By: /s/ Robin S. Yim

Name: Robin S. Yim
Title: Group Vice President

By: /s/ Robert N. Hartinger

Name: Robert N. Hartinger
Title: Senior Vice President

SCHEDULE 1
TO THE LEASE

Amortization of Property Improvements Cost

None

Prepared by and upon recording return to:
John R. Grier, Esq.
Winston & Strawn
35 West Wacker Drive
Chicago, Illinois 60601

EXHIBIT A TO
THE LEASE

LEASE SUPPLEMENT NO. 1
(And Memorandum of Lease)

THIS LEASE SUPPLEMENT NO. 1 (And Memorandum of Lease) (this "Lease Supplement") dated as of August 22, 1997, between Lease Plan North America, Inc., an Illinois corporation, not in its individual capacity but solely as lessor (the "Lessor"), and Quantum Corporation, a Delaware corporation, as lessee (the "Lessee").

WHEREAS, the Lessor is the fee owner of the Land Interest described on Schedule 1 hereto and wishes to lease the Land Interest and all Improvements thereon or which may thereafter be constructed thereon pursuant to the Construction Agency Agreement or the Lease to the Lessee (the Land Interest and such Improvements being collectively called the "Property");

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions; Interpretation. For purposes of this Lease Supplement, capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in Appendix 1 to the Master Lease, dated as of August 22, 1997, between the Lessee and the Lessor; and the rules of interpretation set forth in Appendix 1 to the Lease shall apply to this Lease Supplement.

SECTION 2. The Property. Attached hereto as Schedule I is the description of a certain Land Interest. Effective upon the execution and delivery of this Lease Supplement by the Lessor and the Lessee, the Property shall be subject to the terms and provisions of the Lease. Subject to the terms and conditions of the Lease, the Lessor hereby leases to the Lessee for the Term (as defined below) of the Lease, the Lessor's interest in the Property, and the Lessee hereby agrees, expressly for the direct benefit of the Lessor, to lease from the Lessor for the Term, the Lessor's interest in the Property.

SECTION 3. Parties and Addresses. The Lease is dated as of August 22, 1997, between the Lessor, whose principal office is at 135 S. LaSalle Street, Chicago, Illinois 60603 and the Lessee, whose principal office is 500 McCarthy Boulevard, Milpitas, California 95305.

SECTION 4. Lease Term. The term of this Lease (the "Term") shall begin on August 22, 1997, and shall end on August 22, 2002, unless the Term is renewed or earlier terminated in accordance with the provisions of the Lease. The Lease contains option periods of one year each, which give Lessee the right, subject to the terms thereof, to extend the term of the Lease.

SECTION 5. Ownership of the Property. (a) It is the intent of the parties hereto that: (i) the Lease constitutes an "operating lease" pursuant to Statement of Financial Accounting Standards No. 13, as amended, for purposes of Lessee's financial reporting, and (ii) for purposes of Federal and state income

tax, the transaction contemplated hereby and by the Lease is a financing arrangement and preserves ownership in the Property in the Lessee. Nevertheless, the Lessee acknowledges and agrees that neither the Agent, the Lessor nor any Participant has made any representations or warranties to the Lessee concerning the tax, accounting or legal characteristics of the Operative Documents and that the Lessee has obtained and relied upon such tax, accounting and legal advice concerning the Operative Documents as it deems appropriate. Accordingly, and notwithstanding any provision of this Lease to the contrary, the Lessor and the Lessee agree and declare that: (i) the transactions contemplated hereby are intended to have a dual, rather than a single, form; and (ii) all references in this Lease to the "lease" of the Property which fail to reference such dual form do so as a matter of convenience only and do not reflect the intent of the Lessor and the Lessee as to the true form of such arrangements.

(b) Anything to the contrary in the Operative Documents notwithstanding, the Lessor and the Lessee intend and agree that with respect to the nature of the transactions evidenced by the Lease in the context of the exercise of remedies under the Operative Documents, including, without limitation, in the case of any insolvency or receivership proceedings or a petition under the United States bankruptcy laws or any other applicable insolvency laws or statute of the United States of America or any State or Commonwealth thereof affecting the Lessee, the Lessor or any Participant or any enforcement or collection actions, (i) the transactions evidenced by the Lease are loans made by the Lessor and the Participants as unrelated third party lenders to the Lessee secured by the Property, (ii) the obligations of the Lessee under the Lease to pay Basic Rent and Supplemental Rent or Asset Termination Value in connection with any purchase of the Property pursuant to the Lease shall be treated as payments of interest on and principal of, respectively, loans from the Lessor and the Participants to the Lessee, and (iii) the Lease grants a security interest and mortgage or deed of trust or lien, as the case may be, in the Property and the collateral described in the Mortgage to the Lessor, the Agent and the Participants to secure the Lessee's performance under and payment of all amounts under the Lease and the other Operative Documents.

(c) Specifically, but without limiting the generality of subsection (b) of this Section 5, the Lessor and the Lessee further intend and agree that, for the purpose of securing the Lessee's obligations for the repayment of the above-described loans from the Certificate Purchaser and the Lenders to the Lessee, (i) the Lease shall also be deemed to be a security agreement and financing statement within the meaning of Article 9 of the Uniform Commercial Code and a real property mortgage or deed of trust; (ii) the conveyance provided for hereby and in Article II of the Lease shall be deemed to be a grant by the Lessee to the Lessor, the Agent

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and the Participants of a mortgage lien and security interest in all of the Lessee's right, title and interest in and to the Property and the collateral described in the Mortgage and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, investments, securities or other property, whether in the form of cash, investments, securities or other property (it being understood that the Lessee hereby mortgages and warrants and grants a security interest in the Property and the collateral described in the Mortgage to the Lessor, the Agent and the Participants to secure the loans); (iii) the possession by the Lessor or any of its agents of notes and such other items of property as constitute instruments, money, negotiable documents or chattel paper shall be deemed to be "possession by the secured party" for purposes of perfecting the security interest pursuant to Section 9-305 of the Uniform Commercial Code; and (iv) notifications to Persons holding such property, and acknowledgments, receipts or confirmations from financial intermediaries, bankers or agents (as applicable) of the Lessee shall be deemed to have been given for the purpose of perfecting such security interest under Applicable Law. The Lessor and the Lessee shall, to the extent consistent with the Lease, take such actions and execute, deliver, file and record such other documents, financing statements, mortgages and deeds of trust as may be necessary to ensure that, if the Lease and this Lease Supplement were deemed to create a security interest in the Property in accordance with this Section, such security interest would be deemed to be a perfected security interest of first priority under Applicable Law and will be maintained as such throughout the Term.

(d) Specifically, without limiting the generality of anything contained in this Section 5, the Lessor and the Lessee further intend and agree that, for purposes of filing federal, state and local returns, reports and other statements relating to income or franchise taxes, or any other taxes imposed upon or measured by income, (i) the Lessee shall be entitled to take any deduction, credit, allowance or other reporting position consistent with its status as owner of the Property; and (ii) neither the Lessor nor the Participants shall take a position on their respective federal, state and local returns, reports and other statements relating to income or franchise taxes that

is inconsistent with the Lessee's status as owner of the Property, provided that the Lessor and any Participant may take a position that is inconsistent with the Lessee's status as owner of the Property if: (x) there has been a change in law or regulation so requiring as supported by an opinion of counsel reasonably acceptable to the Lessee that there is not substantial authority for such a consistent reporting position; or (y) (A) there has been an administrative or judicial holding that the Lessee is not the owner of the Property for such tax purposes, (B) the Lessee has no right to contest such holding pursuant to Section 13.5 of the Participation Agreement, and (C) the Lessee's lack of right to contest is not the result of an Indemnitee's waiver of its right to indemnification pursuant to Section 13.5(f) (iii) of the Participation Agreement or failure of the amount at issue to exceed the minimum amount set forth in Section 13.5(f) (iv) (B) of the Participation Agreement.

SECTION 6. Remedies. Without limiting any other remedies set forth in the Lease, in the event that a court of competent jurisdiction rules that the Lease constitutes a mortgage, deed or trust or other secured financing as is the intent of the parties, then the Lessor and the Lessee agree that (i) the Lessee hereby grants a Lien against the Property WITH POWER OF SALE, and that upon the occurrence of a Lease Event of Default, the Lessor shall have the power and authority, to the extent provided by law, after proper notice and lapse of such time as may be

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required by law, to sell the Property at the time and place of sale fixed by the Lessor in said notice of sale, either as a whole, or in separate lots or parcels or items and in such order as the Lessor may elect, at auction to the highest bidder for cash in lawful money of the United States payable at the time of sale; accordingly, it is acknowledged that A POWER OF SALE HAS BEEN GRANTED IN THIS INSTRUMENT; A POWER OF SALE MAY ALLOW THE LESSOR TO TAKE THE PROPERTY AND SELL IT WITHOUT GOING TO COURT IN A FORECLOSURE ACTION UPON DEFAULT BY THE LESSEE UNDER THIS INSTRUMENT, and (ii) upon the occurrence of a Lease Event of Default, the Lessor, in lieu of or in addition to exercising any power of sale hereinabove given, may proceed by a suit or suits in equity or at law, whether for a foreclosure hereunder, or for the sale of the Property, or against the Lessee on a recourse basis for the Asset Termination Value, or for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for the appointment of a receiver pending any foreclosure hereunder or the sale of the Property, or for the enforcement of any other appropriate legal or equitable remedy. The parties hereto intend that, in addition to any other debt or obligation secured by the Lien granted pursuant to this Section 6, such Lien shall secure unpaid balances of Rent and Supplemental Rent and other extensions of credit made by the Lessor to the Lessee after this Lease is delivered to the appropriate recording offices of Colorado, whether made pursuant to an obligation of the Lessee or otherwise, and such Rent and Supplemental Rent shall be secured to the same extent as if such future payment obligations of Rent and Supplemental Rent were on account of obligatory advances to be made under a construction loan; provided such obligations secured hereby at any one time shall not exceed the lesser of : (i) the maximum principal sum permitted by the laws of Colorado; or (ii) [one hundred thirty-two million dollars (\$132,000,000)] together with interest or Yield thereon calculated at the rates provided in the Participation Agreement.

SECTION 7. Purchase Option. Sections 17.2(h), 19 and 20 of the Lease contain various purchase options which may be exercised by Lessee during the term of the Lease subject to the terms and conditions of said Sections 19 and 20 of the Lease.

SECTION 8. Liens. (a) THIS LEASE IS SUPERIOR TO A DEED OF TRUST IN FAVOR OF ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH, AS AGENT (THE "AGENT") UNDER THE PARTICIPATION AGREEMENT, DATED AS OF AUGUST 22, 1997, AMONG THE LESSEE, THE LESSOR, THE AGENT AND THE PARTICIPANTS, EXCEPT AS AMENDED OR SUPPLEMENTED.

(b) NOTICE IS HEREBY GIVEN THAT NEITHER THE LESSOR, ANY PARTICIPANT NOR THE AGENT IS OR SHALL BE LIABLE FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED OR TO BE FURNISHED TO THE LESSEE, OR TO ANYONE HOLDING THE PROPERTY OR ANY PART THEREOF THROUGH OR UNDER THE LESSEE, AND THAT NO MECHANICS'S OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES OR MATERIALS SHALL ATTACH TO OR AFFECT THE INTEREST OF THE LESSOR IN AND TO THE PROPERTY.

SECTION 9. Ratification. Except as specifically modified hereby, the terms and provisions of the Lease are hereby ratified and confirmed and remain in full force and effect.

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SECTION 10. Original Lease Supplement. The single executed original of this Lease Supplement marked "THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART" on the signature page thereof and containing the receipt of the Agent therefor on or following the signature page thereof shall be the Original Executed Counterpart of this Lease Supplement (the "Original Executed Counterpart"). To the extent that this Lease Supplement constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Lease Supplement may be created through the transfer or possession of any counterpart other than the Original Executed Counterpart.

SECTION 11. GOVERNING LAW. THE LEASE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES, EXCEPT AS TO MATTERS RELATING TO THE CREATION OF THE LEASEHOLD ESTATE THEREUNDER AND THE EXERCISE OF RIGHTS AND REMEDIES WITH RESPECT THERETO, WHICH SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE IN WHICH THE ESTATE IS LOCATED. WITHOUT LIMITING THE FOREGOING, IN THE EVENT THAT THE LEASE IS DEEMED TO CONSTITUTE A FINANCING, WHICH IS THE INTENTION OF THE PARTIES, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, SHALL GOVERN THE CREATION, TERMS AND PROVISIONS OF THE INDEBTEDNESS EVIDENCED HEREBY, BUT THE LIEN CREATED HEREBY AND THE ENFORCEMENT OF SAID LIEN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE IN WHICH THE ESTATE IS LOCATED.

SECTION 12. Counterpart Execution. This Lease Supplement may be executed in any number of counterparts and by each of the parties hereto in separate counterparts, all such counterparts together constituting but one and the same instrument.

[signature page follows]

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IN WITNESS WHEREOF, each of the parties hereto has caused this Lease Supplement to be duly executed by an officer thereunto duly authorized as of the date and year first above written.

LEASE PLAN NORTH AMERICA, INC.,
an Illinois corporation, as Lessor

By: /s/ David M. Shipley

Name: David M. Shipley
Title: Vice President

STATE OF ILLINOIS)
) SS.:
COUNTY OF COOK)

Before me, the undersigned, a Notary Public within and for the State and County aforesaid, personally appeared David Shipley, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged himself to be a Vice President of LEASE PLAN NORTH AMERICA, INC., the within named bargainor, a corporation, and that he as such Vice President, being duly authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such Vice President.

WITNESS my hand and seal, at office, on this the 21 day of August, 1997.

"OFFICIAL SEAL"
CHARLES A. DERBIGNY IV
Notary Public, State of Illinois
My Commission Expires 9-4-2000

/s/ Charles A. Derbigny IV

Notary Public

My Commission Expires:

9/4/00

QUANTUM CORPORATION,
a Delaware corporation, as Lessee

By: /s/ G. E. McClammy

Name: G. E. McClammy
Title: VP Finance & Treasurer

CALIFORNIA ALL-PURPOSE ACKNOWLEDGEMENT

State of California
County of Santa Clara

On August 20, 1997 before me, Kim L. Armstrong

DATE NAME, TITLE OF OFFICER - E.G., JANE DOE, NOTARY PUBLIC

personally appeared G.E. McClammy

NAME(S) OF SIGNER(S)

[X] proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal

/s/ Kim L. Armstrong

SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER DESCRIPTION OF ATTACHED DOCUMENT

[] INDIVIDUAL
[X] CORPORATE OFFICER
VP FINANCE & TREASURER

LEASE SUPPLEMENT NO. 1

TITLE(S)

TITLE OR TYPE OF DOCUMENT

[] PARTNER(S) [] LIMITED
[] GENERAL

[] ATTORNEY-IN-FACT

NUMBER OF PAGES

[] TRUSTEE(S)

[] GUARDIAN/CONSERVATOR

[] OTHER:

8/22/97

DATE OF DOCUMENT

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)
QUANTUM CORPORATION

SIGNER(S) OTHER THAN NAMED ABOVE

=====
(C) 1993 NATIONAL NOTARY ASSOCIATION-8236 REMMET AVE, P.O. BOX 7184-CANOGA PARK,
CA 91309-7184

THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART.

Receipt of this original counterpart of the foregoing Lease is hereby
acknowledged as of August 22, 1997.

ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH, as Agent

By: /s/ Robin S. Yim

Name: Robin S. Yim
Title: Group Vice President

By: /s/ Robert N. Hartinger

Name: Robert N. Hartinger
Title: Senior Vice President

SCHEDULE I
TO THE LEASE SUPPLEMENT NO. 1

Property Description

[SEE ATTACHED]

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EXHIBIT "A"
LEGAL DESCRIPTION OF THE PROPERTY

A portion of the Southwest 1/4 of Section 21 and a portion of the Northwest
Quarter of Section 28 and a portion of the Northeast Quarter of Section 29,
Township 12 South, Range 66 West of the 6th P.M., El Paso County, Colorado, more
particularly described as follows:

BEGINNING, at the northeast corner of Lot 1, Fairlane Technology Park Filing No.
3, as recorded in Plat Book H-6 at Page 35 of the records of said El Paso
County, thence S82 degrees 54'39"E on the south Right-of-Way line of Federal
Drive, a distance of 319.33 feet to a point of curve; thence continuing on said
south Right-of-Way line on said curve to the left having a central angle of 48
degrees 00'00", a radius of 732.00 feet for a distance of 613.24 feet; thence
continuing on said south Right-of-Way line N49 degrees 05'21"E for a distance of
380.00 feet to a point of curve; thence continuing on said south Right-of-Way
line on said curve to the left having a central angle of 15 degrees 33'55", a
radius of 1632.00 feet for a distance of 443.36 feet; thence S47 degrees 30'55"E
a distance of 795.09 feet to the north Right-of-Way line of Kettle Creek Road as
shown on the plat of Pendleton Subdivision recorded in Plat Book N-2 at Page 31
of the records of said El Paso County; thence S42 degrees 29'05"W on said north
Right-of-Way line of Kettle Creek Road, a distance of 1411.35 feet to the north
Right-of-Way line of Old Ranch Road; thence S87 degrees 21'45"W on the north
Right-of-Way line of said Old Ranch Road, a distance of 945.63 feet; thence S89
degrees 13'55"W on said north Right-of-Way line, a distance of 147.13 feet to
the southeast corner of said Fairlane Technology Park Filing No. 3; thence N00
degrees 26'11"W on the east line of said Filing No. 3, a distance of 908.64 feet
to the Point of Beginning.

EXHIBIT B TO THE LEASE

[FORM OF EQUIPMENT SCHEDULE]
EQUIPMENT SCHEDULE NO.

Forming a part of Master Lease dated as of August 22, 1997 (the "Lease"), between Lease Plan North America, Inc., as Lessor (the "Lessor"), and Quantum Corporation, a Delaware corporation, as Lessee (the "Lessee").

1. EQUIPMENT. The Equipment leased hereunder shall be as set forth in the schedule attached hereto as Annex A.

TOTAL PROPERTY IMPROVEMENTS COST: \$ _____

2. TERM. Upon and after the date of execution hereof, the Equipment shall be subject to the terms and conditions provided herein and in the Lease (which is incorporated herein by reference).

3. RENT. From and after the date hereof, the Basic Rent for said Equipment during the Basic Lease Term shall be payable on the dates and in the amounts set forth in Article III of the Lease which is incorporated herein by reference.

4. LESSEE CONFIRMATION. Lessee hereby confirms and warrants to Lessor that the Equipment: (a) was duly delivered to Lessee on or prior to the date hereof at the locations specified in Section 5 hereof; (b) has been received, inspected and determined to be in compliance with all applicable specifications and that the Equipment is hereby accepted for all purposes of the Lease; and (c) is a part of the "Equipment" referred to in the Lease and is taken subject to all terms and conditions therein and herein provided.

5. LOCATION OF EQUIPMENT. The locations of the Equipment are specified on the Schedule of Equipment attached hereto as Annex A.

6. FINANCING STATEMENTS. Annex B attached hereto specifies the location of all UCC financing statements or other similar documents under applicable law covering the Equipment.

Date of Execution: _____, ____

LEASE PLAN NORTH AMERICA, INC.,
an Illinois corporation

QUANTUM
CORPORATION, a Delaware corporation

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

ANNEX A TO
EQUIPMENT SCHEDULE

<TABLE>
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EQUIPMENT

Approved by _____ Page No. ____ of ____ total pages
(Lessee to initial each page)

<S> Attached Bill of Sale dated _____ <C> Equipment located at:

_____ and _____
Street No.

Equipment Schedule No. ____.

City

County

State

Zip

</TABLE>

This location is ____ owned, leased, mortgaged.

Manufacturer and/or Vendor Name & Invoice No.	Description	Equipment Cost
---	-------------	----------------

See Schedule 1 Attached

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ANNEX B TO
EQUIPMENT SCHEDULE

FINANCING STATEMENTS COVERING
EQUIPMENT

Secured Party -----	Statement No. -----	Filing Date -----	Filing Location -----
------------------------	------------------------	----------------------	--------------------------

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PARTICIPATION AGREEMENT

dated as of August 22, 1997

among

QUANTUM CORPORATION,

as Lessee

LEASE PLAN NORTH AMERICA, INC.,

as Lessor and as a Participant,

ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH,

as a Participant,

and

ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH,

as Agent

Specialty Storage Product Group Facilities

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APPENDICES

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EXHIBITS

EXHIBIT A	Form of Acquisition Request
EXHIBIT B	Form of Funding Request
EXHIBIT C	Form of Environmental Certificate
EXHIBIT D	Opinion of Special Counsel to Lessee
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EXHIBIT R	Form of Subordinated Debt Terms
EXHIBIT S	Form of Cash Collateral Agreement

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PARTICIPATION AGREEMENT

THIS PARTICIPATION AGREEMENT, dated as of August 22, 1997 (this "Participation Agreement"), is entered into by and among QUANTUM CORPORATION, a Delaware corporation, as Lessee (together with its permitted successors and assigns, the "Lessee"); LEASE PLAN NORTH AMERICA, INC., an Illinois corporation, as Lessor (together with its permitted successors and assigns, the "Lessor") and as a Participant; ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH, as a Participant (together with its permitted successors and assigns and Lease Plan North America, Inc., in its capacity as a Participant, each a "Participant" and collectively the "Participants"); and ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH, as Agent (in such capacity, together with its successors in such capacity, the "Agent") for the Participants.

PRELIMINARY STATEMENT

In accordance with the terms of this Participation Agreement, the Lease and the other Operative Documents,

A. the Lessor contemplates purchasing certain parcels of land designated by the Lessee located in Colorado Springs, Colorado;

B. using Advances from the Lessor, the Lessee contemplates building, as Construction Agent, administration, manufacturing, design, research and development and warehouse facilities on such parcels of

land for the Lessor, acquiring certain items of Equipment to be used in connection with such Improvements and leasing, as Lessee, such Equipment, Improvements and Land Interest from the Lessor under the Lease; and

C. the Lessor wishes to obtain, and the Participants are willing to provide, financing of the funding of the costs of acquisition of such Land Interest, the construction of the Improvements and the acquisition of such Equipment through the purchase of Participation Interests in the Lease and the Rent.

In consideration of the mutual agreements contained in this Participation Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1

DEFINITIONS; INTERPRETATION

Unless the context shall otherwise require, capitalized terms used and not defined herein shall have the meanings assigned thereto in Appendix 1 hereto for all purposes hereof; and the rules of interpretation set forth in Appendix 1 hereto shall apply to this Participation Agreement.

SECTION 2

CLOSING DATE

The closing date (the "Closing Date") shall occur on the earliest date on which all the conditions precedent thereto set forth in Sections 6.1 and 6.2 hereof shall have been satisfied or waived by the applicable parties as set forth therein.

SECTION 3

ACQUISITION OF THE PROPERTY; FUNDING OF ADVANCES

SECTION 3.1 Lessor Commitment. Subject to the conditions and terms hereof, the Lessor shall take the following actions at the written request of the Lessee from time to time during the Commitment Period:

(a) make Advances (out of funds provided by the Participants) for the purpose of financing the acquisition of the Land Interest and the Equipment and construction of the Improvements;

(b) acquire the Land Interest and the Equipment (using funds provided by the Participants); and

(c) lease the Property as lessor to the Lessee under the Lease.

SECTION 3.2 Participants' Commitments. Subject to the terms and conditions hereof, each Participant severally shall purchase a Participation Interest in the Advances being made by the Lessor at the request of the Lessee from time to time during the Commitment Period by making available to the Lessor on each Funding Date an amount in immediately available funds equal to such Participants' Commitment Percentage of the amount of the Advance being funded on such Funding Date. Notwithstanding any other provision hereof, no Participant shall be obligated to purchase its Participation Interest in any Advance if (i) the amount of such purchase would exceed its Available Commitment, or (ii) if, after giving effect to the proposed Advance, the outstanding aggregate amount of such Participant's Participation Interest in the Advances would exceed such Participant's Commitment. Notwithstanding the foregoing, until the conditions precedent set forth

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in Section 6.3 have been satisfied, the Lessee shall not be permitted to request, and the Participants and the Lessor shall not be obligated to fund, Advances exceeding \$38,348,000 in aggregate.

SECTION 3.3 Procedures for Acquisition of the Land Interest. The Lessee shall give the Lessor and the Agent prior written notice not later than 10:00

a.m., San Francisco time, on the proposed Land Interest Acquisition Date, pursuant to an Acquisition Request substantially in the form of Exhibit A (an "Acquisition Request"), specifying with respect to such Land Interest: (i) the proposed Land Interest Acquisition Date, (ii) the Land Interest to be acquired, (iii) the Existing Owner of the Land Interest and the Land Interest Acquisition Cost, and (iv) the date on which the Lessee will request the Lessor to fund the Land Interest Acquisition Cost of such Land Interest. The Agent shall promptly forward a copy of such Acquisition Request to each Participant.

SECTION 3.4 Procedures for Advances. With respect to each funding of an Advance, the Lessee shall give the Lessor and the Agent prior written notice not later than 10:00 a.m., San Francisco time, three Business Days prior to (or, in the case of the initial Advance made on the Land Interest Acquisition Date, on the day of) the proposed Funding Date, pursuant, in each case, to a Funding Request substantially in the form of Exhibit B (a "Funding Request"), specifying (i) the proposed Funding Date, (ii) the amount and purpose of the Advance requested, (iii) the Type of Advance, (iv) the initial Interest Period for such Advance, (v) the payee of such Advance, and (vi) the allocation of such Advance to the respective Land Interest Acquisition Cost and Property Improvements Costs of the Property (and pro rata portions of the related remittances from the Participants shall likewise be deemed to be so allocated). The Agent shall promptly forward a copy of such Funding Request to each Participant. The Lessee shall not request more than one Funding Date during any calendar month. Each Advance (other than an Interest Payment Advance) shall be in a minimum amount of \$1,000,000 or in amounts of \$100,000 in excess thereof. Subject to the satisfaction or waiver of the conditions precedent to such Advance set forth in Section 6, each Participant shall purchase its Participation Interest in such Advance by making available to the Lessor its proportionate share of such Advance in immediately available federal funds by wire transfer to the Agent for deposit to the Lessee's demand deposit account with the Agent not later than 12:00 noon, San Francisco time, on the applicable Funding Date. Upon (i) the Lessee's receipt of the funds provided by the Participants with respect to an Advance, and (ii) satisfaction or waiver of the conditions precedent to such Advance set forth in Section 6, the Lessee shall (1) in the case of an Advance for the acquisition of the Land Interest, pay the acquisition price for such Land Interest to the Existing Owner, and (2) in the case of other Advances, pay or retain as payment or reimbursement of, Property Improvements Costs, in each case from the funds provided by the Participants for such Advance.

SECTION 3.5 Allocation of Commitments. Schedule I hereto contains an allocation for each Participant of (i) the amount of its Commitment representing its Tranche A Participation Interest ("Tranche A Participation Interest Commitment"), (ii) the amount of its Commitment representing its Tranche B Participation Interest ("Tranche B Participation Interest Commitment"), (iii) the amount of its Commitment representing its Tranche C Participation Interest ("Tranche C Participation Interest Commitment"), (iv) the amount of its Commitment (and allocation to its Tranche A Participation Interest Commitment, Tranche B Participation Interest Commitment and Tranche C Participation Interest Commitment) allocated to the 364 Day Commitment, (v) the

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amount of its Commitment (and allocation to its Tranche A Participation Interest Commitment, Tranche B Participation Interest Commitment and Tranche C Participation Interest Commitment) allocated to the Two Year Commitment, and (vi) the percentage referred to in the definition of the term "Participation Interest". The Lessee, the Lessor and the Participants have approved all such allocations and percentages. Schedule I shall be amended as required to reflect changes in the allocations set forth thereon due to the addition of additional Participants pursuant to Section 12.1.

SECTION 3.6 Use of Commitments. (a) All remittances by each Participant to the Lessor to fund Advances shall be allocated first, to the 364 Day Commitment of such Participant, and second, to the Two Year Commitment of such Participant. Unless extended as provided in this Section 3.6, the 364 Day Commitment shall terminate on the day which is 364 days after the Effective Date and the unused portion thereof shall not be available to the Lessor thereafter. The Lessee shall notify the Lessor, the Agent and each Participant not less than forty-five (45) days prior to the expiration date of the 364 Day Commitment whether it wishes to extend the availability of the unused portion of the 364 Day Commitment to the Six Month Extension Termination Date. The availability of the unused portion of the 364 Day Commitment shall not be extended unless the Agent and each Participant, in its sole discretion, has notified the Lessor within fifteen (15) days prior to such termination date that it will permit the unused portion of its 364 Day Commitment to be extended to the Six Month Extension Termination Date commencing on the Extension Date. The Agent and each Participant may make such decision based upon such credit information regarding the Lessee, interest rates, market conditions and such other factors as the Agent and such Participant may consider relevant. The Lessor shall notify the Lessee whether the Agent and the Participants have agreed to permit the extension of such unused portion of the 364 Day Commitment to the Six Month

Extension Termination Date. Any portion that is so extended shall bear Commitment Fees from and after the Extension Date at a rate applicable to the 364 Day Commitment. The parties hereto shall amend Schedule I hereto in connection with any such extension. The Lessee shall have the right, upon not less than three Business Days' written notice to the Agent, to reduce the 364 Day Commitment and/or the Two Year Commitment; provided, that after giving effect to such notification, the aggregate outstanding amount of the Advances shall not exceed the aggregate Commitments as so reduced.

(b) If the 364 Day Commitment is extended pursuant to Section 3.6(a), the Lessee shall pay to each Participant its pro rata share of the Extension Fee on the Extension Date.

SECTION 3.7 Termination, Extension or Reduction of Participants' Commitments. (a) The Lessor shall have the right, upon not less than three Business Days' written notice to the Agent, to terminate the Participants' Commitments or, from time to time, to reduce the amount of the Participants' Commitments, provided that (i) after giving effect to such reduction, the aggregate outstanding principal amount of the Tranche A Participation Interests shall not exceed the aggregate Tranche A Participation Interest Commitments, (ii) after giving effect to such reduction, the aggregate outstanding principal amount of the Tranche B Participation Interests shall not exceed the aggregate Tranche B Participation Interest Commitments, (iii) after giving affect to such reduction, the aggregate outstanding equity investment of the Tranche C Participation Interests shall not exceed the aggregate Tranche C Participation Interest Commitments, and (iv) any such reduction shall be made pro rata among the Participants' Commitments within each Tranche. As long as there

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exists no Event of Default that has occurred and is continuing, the Lessor shall exercise such right only as directed by the Lessee, and after the occurrence and during the continuance of an Event of Default the Lessor shall exercise such right only as directed by the Required Participants. In the event that, after the occurrence and during the continuance of an Event of Default, the Lessor and the Participants exercise such right, the Lessee may exercise its Purchase Option under Section 20.1 of the Lease upon not less than ten (10) days' written notice to the Lessor.

(b) The Lessee may, at any time after the first anniversary of the Effective Date, by written request to the Lessor and Agent (which the Agent shall promptly forward to each Participant) given not later than 90 days prior to the then current Maturity Date, request (an "Extension Request") that the Maturity Date be extended to the date that is one (1) year after such Maturity Date. No later than the date (the "Extension Response Date") which is 30 days after such request has been delivered to each of the Participants, each Participant will notify the Lessor in writing (with a copy to the Agent and the Lessee) whether or not it consents to such Extension Request (which consent may be granted or denied by each Participant in its sole discretion and may be conditioned on receipt of such financial information or other documentation as may be specified by such Participant including without limitation satisfactory appraisals of the Property), provided that any Participant that fails to so advise the Lessor on or prior to the Extension Response Date shall be deemed to have denied such Extension Request. The extension of the Maturity Date contemplated by any Extension Request shall become effective as of the Maturity Date then in effect (the "Extension Effective Date") on or after the Extension Response Date on which all of the Participants (other than Non-Consenting Participants which have been replaced by Replacement Participants in accordance with Section 3.7(c)) shall have consented to such Extension Request; provided that:

(A) on both the date of the Extension Request and the Extension Effective Date, (x) each of the representations and warranties made by the Lessee and the Lessor in or pursuant to the Operative Documents shall be true and correct in all material respects as if made on and as of each such date, except for representations and warranties made as of a specific date, which shall be true and correct in all material respects as of such date and matters waived by the Required Participants or all of the Participants, as applicable, (y) no Event of Default shall have occurred and be continuing, and (z) on each of such dates the Agent shall have received a certificate of the Lessee and the Lessor, each as to itself, as to the matters set forth in clause (x) above and from the Lessee as to the matters set forth in clause (y) above;

(B) on the date that is 90 days prior to the date of the Extension Effective Date that is the fifth anniversary of the Closing Date (and on each Extension Effective Date, if any, that is every fifth anniversary thereafter), the Lessee shall deliver to the Lessor and the Agent (with sufficient copies for each Participant) an Appraisal of the Property in form and substance satisfactory to the Lessor and the Agent; and

(C) the Agent and the Required Participants shall have received satisfactory evidence that the Expiration Date shall, after giving effect to any extension thereof which

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has become effective on or prior to such Extension Effective Date, occur on the Maturity Date as so extended.

(c) The Lessee shall be permitted to replace any Non-Consenting Participant with a replacement bank or other financial institution (a "Replacement Participant") at any time on or prior to the date which is 30 days after the relevant Extension Response Date; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) the Replacement Participant shall purchase, at par, all of the Participation Interest of such Non-Consenting Participant on or prior to the date of replacement, (iii) the Lessee shall be liable to such Non-Consenting Participant under Section 13 of this Agreement if any Advance (or Participation Interest therein) shall be prepaid (or purchased) other than on the last day of the Interest Period or Interest Periods relating thereto, (iv) the Replacement Participant, if not already a Participant, shall be reasonably satisfactory to the Required Participants, (v) such replacement shall be made in accordance with the provisions of Section 12 of this Agreement (provided that the relevant Replacement Participant (or the Lessee for the benefit of such Replacement Participant) shall be obligated to pay the Transaction Expenses arising in connection therewith), (vi) the Replacement Participant shall have agreed to be subject to all of the terms and conditions of this Agreement (including the extension of the Maturity Date contemplated by the relevant Extension Request) and other Operative Documents, and (vii) during the continuation of an Event of Default, the Lessee shall have the exclusive right to designate the Replacement Participant. The Agent hereby agrees to cooperate with the Lessee in the Lessee's efforts to arrange one or more Replacement Participants as contemplated by this Section 3.7(c).

SECTION 3.8 Interest Rates; Yield and Payment Dates. (a) The Tranche A Participation Interest and the Tranche B Participation Interest in each Advance shall bear interest at a rate of interest equal to (i) the Alternate Base Rate, or (ii) at the Lessee's election in accordance with Section 3.4 or this Section 3.8, for each day during each Interest Period with respect thereto at a rate per annum for such Interest Period equal to the Eurodollar Rate determined for such day plus the Applicable Margin. The Tranche A Participation Interest and the Tranche B Participation Interest in the initial Advance shall bear interest at a rate equal to the Alternate Base Rate until commencement of the initial Interest Period with respect thereto. The Lessee shall give irrevocable notice to the Agent, in accordance with the applicable provisions of Section 3.4 or this Section 3.8, of the length of each Interest Period to be applicable to each portion of each Advance. There shall not be more than twelve Interest Periods outstanding under Sections 3.8(a) and (b) at any time.

(b) The equity portion of each Advance (represented by the Tranche C Participation Interest in such Advance) shall accrue equity yield (the "Yield") at a rate equal to (i) the Alternate Base Rate, or (ii) at the Lessee's election in accordance with Section 3.4 or this Section 3.8, for each day during each Interest Period with respect thereto, the Eurodollar Rate determined for such day plus the Applicable Margin. This Tranche C Participation Interest in the initial Advance shall accrue Yield at a rate equal to the Alternate Base Rate until commencement of the initial Interest Period with respect thereto.

(c) If all or a portion of (i) the principal amount or equity portion of any Advance, (ii) any interest or Yield payable thereon or (iii) any other amount payable hereunder shall not be

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paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum which is equal to the Overdue Rate.

(d) Interest and Yield shall be payable in cash (except as provided in paragraph (e) below) in arrears on each Scheduled Payment Date, provided that (i) interest or Yield accruing pursuant to paragraph (c) of this Section 3.8 shall be payable from time to time on demand and (ii) each prepayment of Advances shall be accompanied by accrued interest and Yield to the date of such prepayment on the amount of Advances so prepaid.

(e) On each date which is three Business Days prior to any Scheduled Payment Date during the Construction Period, the Lessee shall be deemed to have requested an Advance comprised of an Interest Payment Advance pursuant to Section 3.4 and the Lessor shall be deemed to have requested a purchase pursuant to Section 3.2 of Participation Interests in such Advance in an amount equal to the aggregate amount of the Basic Rent due and payable on such date with respect to accrued interest and accrued Yield on outstanding

Advances. The Funding Date with respect to any such Interest Payment Advance and purchase of Participation Interests therein shall be the relevant Scheduled Payment Date (provided that such Advance and the purchase of such Participation Interests shall be subject to satisfaction of the applicable conditions precedent set forth in Section 6) and the proceeds of such payment shall be applied to pay such accrued interest and accrued Yield. On each such Funding Date, the Property Cost shall be increased by an amount equal to the Basic Rent paid on such date with respect to such Property with the proceeds of such payment, and the Land Interest Acquisition Cost and Property Improvements Costs shall be increased by their pro rata portions of such Advance.

SECTION 3.9 Computation of Interest and Yield. (a) Whenever it is calculated on the basis of the Alternate Base Rate, interest and Yield shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed; and, otherwise, interest and Yield shall be calculated on the basis of a 360-day year for the actual days elapsed. The Agent shall as soon as practicable after the commencement of each Interest Period notify the Lessor, the Lessee and the Participants of each determination of a Eurodollar Rate. Any change in the interest rate or Yield rate on an Advance resulting from a change in the Alternate Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Agent shall as soon as practicable notify the Lessor, the Lessee and the Participants of the effective date and the amount of each such change in interest rate or Yield rate.

(b) Each determination of an interest rate or Yield rate by the Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Lessor, the Lessee and the Participants in the absence of manifest error. The Agent shall, at the request of such parties, deliver to such parties a statement showing the quotations used by the Agent in determining any interest rate pursuant to Section 3.9(a).

SECTION 3.10 Pro Rata Treatment and Payments. (a) Each participation in the Advances by the Participants hereunder and each reduction of the Commitments of the Participants shall be made pro rata among the Tranche A Participants, Tranche B Participants and Tranche C Participants according to the respective Commitment Percentages of each such Participant. Except as otherwise

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provided in Sections 3.11 - 3.21, each payment (including each prepayment) by the Lessor on account of Participation Interests representing the principal amount of or equity investment in and interest or Yield on the Advances shall be made pro rata among the Tranche A Participants, Tranche B Participants and Tranche C Participants according to the respective Participation Interests of each such Participant. All payments (including prepayments) to be made by the Lessor hereunder to the Participants with respect to their Participation Interests, whether on account of principal, equity investment, interest, Yield or otherwise, shall be payable to the extent received by the Lessor from or on behalf of the Lessee and shall be made without setoff or counterclaim and shall be made prior to 12:00 noon, San Francisco time, on the due date thereof to the Agent, for the account of the Participants, at the Agent's office referred to in Section 15.3 of this Agreement, in Dollars and in immediately available funds. The Agent shall distribute such payments to the Participants promptly upon receipt in like funds as received. If any payment hereunder (other than payments of Participation Interests in the Advances) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment of Participation Interests in an Advance becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension or shortening of the due date of any payment pursuant to the preceding two sentences, interest or Yield thereon shall be payable at the then applicable rate during such extension or until such shortened due date, as the case may be.

(b) Unless the Agent shall have been notified in writing by any Participant prior to funding its Participation Interest in an Advance that such Participant will not make its share of such Advance available to the Agent, the Agent may assume that such Participant is making such amount available to the Agent, and the Agent may, in reliance upon such assumption, make available to the Lessor a corresponding amount. If such amount is not made available to the Agent by the required time on the Funding Date therefor, such Participant, without right of reimbursement from the Lessee to such Participant, shall pay to the Agent, on demand, such amount with interest thereon at a rate equal to the daily average Federal Funds Effective Rate for the period until such Participant makes such amount immediately available to the Agent. A certificate of the Agent submitted to any Participant with respect to any amounts owing under this Section 3.10(b) shall be conclusive in the absence of manifest error. If such Participant's share of such Advance is not made available to the Agent by such Participant within three Business Days of such Funding Date, the Agent shall also be entitled to recover such amount with interest thereon at the rate borne by such Advance, on demand, from the Lessee, to the extent the Agent has made a

corresponding amount of the Advance to the Lessee.

SECTION 3.11 The Account. The Agent may if it so desires establish an account (the "Account") into which the Agent shall deposit all payments, receipts and other consideration of any kind whatsoever paid under the Lease and received by the Agent pursuant to this Agreement, the Lease and any other Operative Document. The Agent shall make distributions of such payments, receipts and other consideration (and, if an Account is used, from the Account) pursuant to the requirements of Sections 3.12 -3.21 hereof.

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SECTION 3.12 Basic Rent. (a) Each payment (or portion thereof) of Basic Rent comprising interest or Yield on the Advances (and any payment of interest on overdue installments of such component of Basic Rent) received by the Agent shall be distributed by the Agent as promptly as possible (it being understood that any payments of such component of Basic Rent received by the Agent on a timely basis and in accordance with the provisions of the Lease shall be distributed on the date received in the funds so received) to the Participants pro rata in accordance with, and for application to, the portion of their Participation Interests in such portion of Basic Rent, as well as in any overdue interest due to such Participant (to the extent permitted by applicable law).

(b) Each payment (or portion thereof) of Basic Rent comprising principal of, or a redemption of the equity investment in, the Advances (and any payment of interest on overdue installments of such component of Basic Rent) received by the Agent shall be distributed as promptly as possible (it being understood that any payments of such component of Basic Rent received by the Agent on a timely basis and in accordance with the provisions of the Lease shall be distributed on the date received in the funds so received) to the Participants pro rata in accordance with, and for application to, the portion of their Participation Interests in such portion of Basic Rent then due each Participant.

SECTION 3.13 Purchase Payments by Lessee. Any payment received (or offset against the Cash Collateral) by the Agent as a result of:

(a) the purchase of the Lessor's interest in the Property in connection with the Lessee's exercise of its Purchase Option under Section 20.1 of the Lease, or

(b) the Lessee's compliance with its obligation to purchase the Lessor's interest in the Property in accordance with Section 20.2 of the Lease, or

(c) the payment of the Asset Termination Value in accordance with Sections 16.2(b), 16.3 or 16.4 of the Lease, or

(d) the Lessee failing to fulfill one or more of the conditions to exercise of the Remarketing Option pursuant to Section 22.1 of the Lease and the Agent's receipt pursuant to the next-to-last paragraph of Section 22.1 of the Lease of the Asset Termination Value in accordance with Section 20.2 of the Lease,

shall be distributed by the Agent as promptly as possible (it being understood that any such payment received by the Agent on a timely basis and in accordance with the provisions of the Lease shall be distributed on the date on which such funds are so received) to pay in full or redeem the Participant Balance of each Participant and in the case that the amount so distributed shall be insufficient to pay in full as aforesaid, then pro rata among the Participants without priority of one over the other, in the proportion that the Participant Balance of each bears to the aggregate of all of the Participant Balances.

(e) Notwithstanding any other provision in this Agreement, the Lease or any other Operative Document to the contrary, the Lessee, the Agent, the Participants and the Lessor

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agree that upon the maturity or acceleration of the Lessee's obligation to pay the Asset Termination Value, Residual Value Guarantee Amount or Purchase Option Price, any and all amounts of Cash Collateral that have been deposited by the Lessee pursuant to the Cash Collateral Agreement and that have not been withdrawn by the Lessee or offset or applied by the Lessor, the Agent or any Participant (in accordance with the terms of the Cash Collateral Agreement) as of such maturity or acceleration date, shall be required to be applied by the Agent and the Lessor to satisfy the Lessee's obligation to pay the unpaid amount of such portion of the Asset Termination Value, Purchase Option Price or Residual Value Guarantee represented by the Cash Collateral, notwithstanding the fact that such amounts may not then be actually available, for any reason attributable to the Lessor, the Agent or any Participant. Such reasons include, without limitation, any fraud or misapplication of funds by the Lessor, the Agent or any Participant, decline in value of the Collateral or the filing by or

against the Lessor, the Agent or any Participant of any insolvency, bankruptcy, dissolution, liquidation, reorganization or similar proceeding, but except to the extent resulting from a proceeding involving the solvency of the Lessee).

SECTION 3.14 Residual Value Guarantee Amount Payment by Lessee. The payment by the Lessee of the Residual Value Guarantee Amount to the Agent in accordance with Article XXII of the Lease upon the Lessee's exercise of the Remarketing Option shall be distributed by the Agent as promptly as possible (it being understood that any such payment received by the Agent on a timely basis in accordance with the provisions of the Lease shall be distributed on the date on which such funds are so received) in the following order of priority:

first, to the Tranche A Participants for application to pay in full the Tranche A Participation Interest Balance of each Tranche A Participant;

second, to the Tranche B Participants for application to pay in full the Tranche B Participation Interest Balance of each Tranche B Participant, and in the case where the amounts so distributed shall be insufficient to pay in full as aforesaid, then pro rata among the Tranche B Participants without priority of one Tranche B Participant over the other in the proportion that each such Tranche B Participant's Tranche B Participation Interest Balance bears to the aggregate Tranche B Participation Interest Balances of all Tranche B Participants; and

third, to the Tranche C Participants for application to redeem the Tranche C Participation Interest Balance of each Tranche C Participant, and in the case where the amounts so distributed shall be insufficient to fully redeem as aforesaid, then pro rata among the Tranche C Participants without priority of one Tranche C Participant over the other in the proportion that each such Tranche C Participant's Tranche C Participation Interest Balance bears to the aggregate Tranche C Participation Interest Balances of all Tranche C Participants.

SECTION 3.15 Sales Proceeds of Remarketing of Property. Any payments received by the Agent as proceeds from the sale of the Property sold pursuant to the Lessee's exercise of the Remarketing Option pursuant to Article XXII of the Lease, together with any payment made by the Lessee as a result of an appraisal pursuant to Section 13.2 of this Agreement, shall be distributed by

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the Agent as promptly as possible (it being understood that any such payment received by the Agent on a timely basis and in accordance with the provisions of the Lease shall be distributed on the date received) in the funds so received in the following order of priority:

first, to the Tranche B Participants for application to pay in full the Tranche B Participation Interest Balance of each Tranche B Participant, and in the case where the amount so distributed shall be insufficient to pay in full as aforesaid, then pro rata among the Tranche B Participants without priority of one Tranche B Participant over the other in the proportion that each Tranche B Participant's Tranche B Participation Interest Balance bears to the aggregate Tranche B Participation Interest Balances of all Tranche B Participants;

second, to the Tranche C Participants for application to redeem the Tranche C Participation Interest Balance of each Tranche C Participant, and in the case where the amount so distributed shall be insufficient to fully redeem as aforesaid, then pro rata among the Tranche C Participants without priority of one Tranche C Participant over the other in the proportion that each Tranche C Participant's Tranche C Participation Interest Balance bears to the aggregate Tranche C Participation Interest Balances of all Tranche C Participants;

third, to the Tranche A Participants for application to pay in full the Tranche A Participation Interest Balance of each Tranche A Participant, and in the case where the amount so distributed shall be insufficient to pay in full as aforesaid, then pro rata among the Tranche A Participants without priority of one Tranche A Participant over the other in the proportion that each Tranche A Participant's Tranche A Participation Interest Balance bears to the aggregate Tranche A Participation Interest Balances of all Tranche A Participants; and

fourth, the balance, if any, shall be promptly distributed to, or as directed by, the Lessee.

SECTION 3.16 Supplemental Rent. All payments of Supplemental Rent received by the Agent (excluding any amounts payable pursuant to the preceding provisions of this Section 3) shall be distributed promptly by Agent upon receipt thereof to the Persons entitled thereto pursuant to the Operative Documents.

SECTION 3.17 Excepted Payments. Notwithstanding any other provision of

this Agreement or the Operative Documents, any Excepted Payment received at any time by the Agent shall be distributed promptly to the Person entitled to receive such Excepted Payment pursuant to the Operative Documents.

SECTION 3.18 Distribution of Payments After Event of Default. (a) All payments received and amounts realized by the Lessor or the Agent after an Event of Default exists, including under the Guarantee, the Deed of Trust or the Cash Collateral Agreement, and proceeds from the sale of any of the Property, proceeds of any amounts from any insurer or any Governmental

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Authority in connection with any Casualty or Condemnation during the continuation of an Event of Default, or from Lessee as payment in accordance with the Lease, including any payment received from Lessee pursuant to Section 17 of the Lease, shall, if received by Lessor, be paid to the Agent as promptly as possible and shall be distributed by the Agent as promptly as possible (it being understood that any such payment received by the Agent on a timely basis and in accordance with the provisions of the Operative Documents shall be distributed on the date received in the funds so received) in the following order of priority:

first, so much of such payment or amount as shall be required to reimburse the Lessor or the Agent for any tax, expense or other loss incurred by the Lessor or the Agent (including, to the extent not previously reimbursed, those incurred in connection with any duties of the Agent as the Agent) and any unpaid ongoing fees of the Lessor and the Agent shall be distributed to each of them for its own account;

second, so much of such payments or amounts as shall be required to reimburse the then existing or prior Participants for payments made by them to the Lessor pursuant to Section 18.1 of the Lease (to the extent not previously reimbursed) and to pay such then existing or prior Participants the amounts payable to them pursuant to any expense reimbursement or indemnification provisions of the Operative Documents shall be distributed to each such Participant without priority of one over the other in accordance with the amount of such payment or payments payable to each such Person;

third, in the case of a sale of the Property, receipt of Cash Collateral or application of the Cash Collateral, in the order of priority set forth in Section 3.15;

fourth, to the Tranche B Participants for application to pay in full the Tranche B Participation Interest Balance of each Tranche B Participant, and in the case where the amount so distributed shall be insufficient to pay in full as aforesaid, then pro rata among the Tranche B Participants without priority of one Tranche B Participant over the other in the proportion that each Tranche B Participant's Tranche B Participation Interest Balance bears to the aggregate Tranche B Participation Interest Balances of all Tranche B Participants:

fifth, to the Tranche C Participants for application to redeem the Tranche C Participation Interest Balance of each Tranche C Participant, and in the case where the amount so distributed shall be insufficient to fully redeem as aforesaid, then pro rata among the Tranche C Participants without priority of one Tranche C Participant over the other in the proportion that each Tranche C Participant's Tranche C Participation Interest Balance bears to the aggregate Tranche C Participation Interest Balances of all Tranche C Participants;

sixth, to the Tranche A Participants for application to pay in full the Tranche A Participation Interest Balance of each Tranche A Participant, and in the case where the amount so distributed shall be insufficient to pay in full as aforesaid, then pro rata among the Tranche A Participants without priority of one Tranche A Participant over the other in

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the proportion that each Tranche A Participant's Tranche A Participation Interest Balance bears to the aggregate Tranche A Participation Interest Balances of all Tranche A Participants; and

seventh, the balance, if any, of such payment or amounts remaining thereafter shall be promptly distributed to, or as directed by, the Lessee.

SECTION 3.19 Other Payments. (a) Except as otherwise provided in Sections 3.12, 3.13, 3.18 and paragraph (b) below,

(i) any payment received by the Agent for which no provision as to the application thereof is made in the Operative Documents or elsewhere in this Section 3, and

(ii) all payments received and amounts realized by the Agent under the Lease or otherwise with respect to the Property, the Deed of Trust or the Cash Collateral to the extent received or realized at any time after indefeasible payment in full or redemption of the Participant Balances of all of the Participants and any other amounts due and owing to the Lessor, the Participants or the Agent,

shall be distributed forthwith by the Agent in the order of priority set forth in Section 3.13 (in the case of any payment described in clause (i) above) or in Section 3.18 hereof (in the case of any payment described in clause (ii) above), except, that (i) in the case of any payment described in clause (ii) above, such payment shall be distributed omitting clause third of such Section 3.18; and the balance, if any (in the case of any payment described in clause (i) or (ii) above), shall be distributed to, or as directed by, the Lessee, and (ii) any payments received under the Guaranty shall be distributed solely to the Participants in accordance with the priorities set forth in Section 3.18.

(b) Except as otherwise provided in Sections 3.12 and 3.13 hereof, any payment received by the Agent for which provision as to the application thereof is made in an Operative Document but not elsewhere in this Section 3 shall be distributed forthwith by the Agent to the Person and for the purpose for which such payment was made in accordance with the terms of such Operative Document.

SECTION 3.20 Casualty and Condemnation Amounts. Any amounts payable to the Lessor as a result of a Casualty or Condemnation pursuant to Section 15.1 of the Lease (but excluding any amounts payable pursuant to Section 16.2 of the Lease) shall, if no Lease Event of Default exists, be paid over to Lessee for the rebuilding or restoration of that portion of the Property to which such Casualty or Condemnation applied, and any excess proceeds shall be paid to the Lessee. If a Lease Event of Default exists, then during the continuance of such Lease Event of Default, all such amounts shall be held by the Agent as Cash Collateral and upon exercise of the Lessor's remedies hereunder shall be distributed pursuant to Section 3.18.

SECTION 3.21 Order of Application. To the extent any payment made to any Participant pursuant to Sections 3.13, 3.14, 3.15 or 3.16 is insufficient to pay in full the Participant Balance of

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such Participant, then each such payment shall first be applied to its Participation Interest in accrued interest and then to its Participation Interest in principal of the Advances.

SECTION 4

FEES

SECTION 4.1 Commitment Fees. The Lessee shall pay to the Agent for the account of each Participant a commitment fee (the "Commitment Fees") for the period from and including the Closing Date to the earlier of (i) the Completion Date or (ii) the Outside Completion Date, computed in the case of each Participant at a rate per annum equal to the Commitment Fee Rate applicable to the 364 Day Commitment or the Two Year Commitment, as the case may be, in each case during the period for which payment is made, payable on each Commitment Fee Payment Date. Commitment Fees shall be calculated on the basis of a 360 day year for the actual days elapsed.

SECTION 4.2 Lease Arrangement Fee. The Lessee shall pay to the Arranger the lease arrangement fee (the "Lease Arrangement Fee") referred to in, and at such times as provided in, the Agent/Arranger Fee Letter.

SECTION 4.3 Administrative Fee. The Lessee shall pay an administrative fee (the "Administrative Fee") to the Arranger for its own account as referred to in, and at such times as provided in, the Agent/Arranger Fee Letter.

SECTION 4.4 Extension Fee. The Lessee shall pay the Extension Fee to the Agent for the account of each Participant agreeing to an extension of the 364 Day Commitment if any portion of the 364 Day Commitment is extended pursuant to Section 3.6. The Extension Fee shall be payable on the Extension Date.

SECTION 4.5 Overdue Fees. If all or a portion of any fee due hereunder shall not be paid when due, such overdue amount shall bear interest, payable by the Lessee on demand, at a rate per annum equal to the Overdue Rate from the date of such nonpayment until such amount is paid in full (as well after as before judgment).

SECTION 5

CERTAIN INTENTIONS OF THE PARTIES

SECTION 5.1 Nature of Transaction. (a) It is the intent of the parties hereto that: (i) the Lease constitutes an "operating lease" pursuant to Statement of Financial Accounting Standards No. 13, as amended, for purposes of Lessee's financial reporting, and (ii) for purposes of federal, state and local income or franchise taxes and for any other tax imposed on or measured by income, the transaction contemplated hereby is a financing arrangement and preserves ownership in the Property in the Lessee. Nevertheless, the Lessee acknowledges and agrees that neither the Agent, the Lessor

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nor any Participant has made any representations or warranties to the Lessee concerning the tax, accounting or legal characteristics of the Operative Documents and that the Lessee has obtained and relied upon such tax, accounting and legal advice concerning the Operative Documents as it deems appropriate.

Notwithstanding any provision of this Participation Agreement to the contrary, the parties hereto agree and declare that: (i) the transactions contemplated by the Lease are intended to have a dual, rather than single, form; and (ii) all references in this Participation Agreement to the "lease" of the Property which fail to reference such dual form do so as a matter of convenience only and do not reflect the intent of the parties hereto as to the true form of such arrangements. The parties hereto agree that, in accordance with their intentions expressed herein and the substance of the transactions contemplated hereby, Lessee (and not Lessor) shall be treated as the owner of the Property for federal, state, and local income and property tax purposes and the Lease shall be treated as a financing arrangement. Lessee shall be entitled to take any deduction, credit, allowance or other reporting, filing or other tax position consistent with such characterizations. The Lessor and the Participants shall file any federal, state or local income tax returns, reports or other statements in a manner which is consistent with the foregoing provisions of this Section 5.1; provided, that the Lessor and any Participant may take a position that is inconsistent with the Lessee's status as owner of the Property if: (x) there has been a change in law or regulation so requiring as supported by an opinion of counsel reasonably acceptable to the Lessee that there is not substantial authority for such a consistent reporting position; or (y) (A) there has been an administrative or judicial holding that the Lessee is not the owner of the Property for such tax purposes, (B) the Lessee has no right to contest such holding pursuant to Section 13.5 of the Participation Agreement, and (C) the Lessee's lack of right to contest is not the result of an Indemnitee's waiver of its right to indemnification pursuant to Section 13.5(f)(iii) of the Participation Agreement or failure of the amount at issue to exceed the minimum amount set forth in Section 13.5(f)(iv)(B) of the Participation Agreement.

(b) Specifically, without limiting the generality of subsection (a) of this Section 5.1, the parties hereto intend and agree that with respect to the nature of the transactions evidenced by the Lease in the context of the exercise of remedies under the Operative Documents, including, without limitation, in the case of any insolvency or receivership proceedings or a petition under the United States bankruptcy laws or any other applicable insolvency laws or statute of the United States of America or any State or Commonwealth thereof affecting the Lessee, the Lessor or any Participant or any enforcement or collection actions, (i) the transactions evidenced by the Operative Documents are loans made by the Lessor and the Participants as unrelated third party lenders to the Lessee secured by the Property, (ii) the obligations of the Lessee under the Lease to pay Basic Rent and Supplemental Rent or Asset Termination Value in connection with any purchase of the Property pursuant to the Lease shall be treated as payments of interest on and principal of, respectively, loans from the Lessor and the Participants to the Lessee, (iii) the Lease grants a security interest and mortgage or deed of trust or lien, as the case may be, in the Property and the collateral described in the Mortgage to the Lessor, the Agent and the Participants to secure the Lessee's performance and payment of all amounts under the Lease and the other Operative Documents.

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SECTION 5.2 Amounts Due Under Lease. Anything else herein or elsewhere to the contrary notwithstanding, it is the intention of the Lessee, the Lessor, the Participants and the Agent that: (i) the amount and timing of installments of Basic Rent due and payable from time to time from the Lessee under the Lease shall be equal to the aggregate payments due to the Participants in respect of their Participation Interests on each Payment Date; (ii) if the Lessee elects the Purchase Option or becomes obligated to purchase the Property under the Lease, the Participation Interests, all fees and all of the interest on overdue amounts thereon and all other obligations of the Lessee owing to the Lessor, the Participants and the Agent shall be paid in full by the Lessee; (iii) if the Lessee properly elects the Remarketing Option, the Lessee shall only be required to pay to the Lessor the proceeds of the sale of the Property, the Residual Value Guarantee Amount and any amounts due pursuant to Section 13 of this Participation Agreement and Section 22.2 of the Lease (which aggregate amounts may be less than the Asset Termination Value); and (iv) upon an Event of Default resulting in an acceleration of the Lessee's obligation to purchase the Property

under the Lease, the amounts then due and payable by the Lessee under the Lease shall include all amounts necessary to pay in full the Asset Termination Value, plus all other amounts then due from the Lessee to the Participants, the Agent and the Lessor under the Operative Documents.

SECTION 6

CONDITIONS PRECEDENT TO ACQUISITION OF LAND INTEREST AND ADVANCES

SECTION 6.1 Conditions Precedent -- Documentation. The obligation of the Lessor to acquire the Land Interest on the Land Interest Acquisition Date and to make the Advance in respect of such Property on the Funding Date applicable thereto, the obligation of the Lessor to make an Advance to finance the acquisition of Equipment or the construction of any Improvements or the funding of any Interest Payment Advance on any Funding Date, and the obligation of each Participant to purchase its Participation Interest in, and to make available to the Lessor its related portion of, each such Advance on such Funding Date are subject to satisfaction or waiver of the following conditions precedent and the conditions precedent set forth in Section 6.2 (it being understood that the Lessor's obligation to acquire such Land Interest or to finance such Equipment, if any, or Improvements shall not be subject to the conditions precedent set forth in this Section 6.1 or Section 6.2 to the extent such conditions are actions required of the Lessor) on or prior to the Closing Date, the Land Interest Acquisition Date or such Funding Date, as the case may be:

(a) Acquisition and Funding Request. Prior to the Land Interest Acquisition Date or the applicable Funding Date, the Agent and the Lessor shall have received a fully executed counterpart of the Acquisition Request or Funding Request, as the case may be, appropriately completed by the Lessee, in accordance with Sections 3.3 and 3.4, respectively; provided, that this condition shall be deemed to have been satisfied in connection with an Interest Payment Advance pursuant to Section 3.8(d) hereof.

(b) Closing Date; Operative Documents. The Closing Date shall have occurred or shall occur simultaneously with the earlier of the initial Funding Date or Land Interest

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Acquisition Date and each of the Operative Documents to be entered into on the Closing Date shall have been duly authorized, executed and delivered by the parties thereto, and shall be in full force and effect, including, without limitation, (i) this Participation Agreement, (ii) the Lease, (iii) the Lease Supplement; (iv) the Guarantee, (v) the Construction Agency Agreement, (vi) the Construction Agency Agreement Assignment, (vii) the Mortgage, (viii) the Assignment of Lease and Supplement to Assignment of Lease, (ix) the Consent to Assignment, (x) the Assignment of Property Purchase Agreement, (xi) the Deed and (xii) the Cash Collateral Agreement. No Default or Event of Default shall exist thereunder and be continuing (both before and after giving effect to the transactions contemplated by the Operative Documents), and the Lessor, the Agent and each Participant shall each have received a fully executed copy of each of such Operative Documents (other than the Lease and Lease Supplement, of which the Agent shall receive the original and the Lessor and the Participants shall receive specimens). On or prior to the Closing Date or the Land Interest Acquisition Date, as applicable, the Operative Documents (or memoranda thereof), any supplements thereto and any financing statements in connection therewith required under the Uniform Commercial Code shall have been recorded, registered and filed, if necessary, in such manner as to enable the Lessee's counsel to render its opinion referred to in clauses 1(i)(A) and (B) below.

(c) Environmental Certificate. The Agent, each Participant and the Lessor shall have received an Environmental Certificate substantially in the form of Exhibit C (an "Environmental Certificate") with respect to the Property, provided that such Environmental Certificate shall be delivered not less than five (5) Business Days prior to the Land Interest Acquisition Date and shall have been approved by the Agent, the Required Participants and the Lessor, and accompanied by the Environmental Audit for the Property prepared by Harding Lawson Associates, dated August 13, 1997.

(d) Preliminary Letter of Value. On or prior to the Land Interest Acquisition Date, the Agent, the Lessor and the Participants shall have received a Preliminary Letter of Value of the Property prepared by the appraiser preparing the Appraisal referred to in Section 10.1(s), which Preliminary Letter of Value shall (i) show that the Fair Market Sales Value of the Land Interest with respect to such Property as of the projected Completion Date shall not exceed 25% of the Fair Market Sales Value of such Land Interest and the Improvements to be constructed thereon in accordance with the Plans and Specifications for Property, and (ii) show as of the projected Completion Date the Fair Market Sales Value of such Land Interest and the Improvements to be constructed thereon in accordance with the Plans and Specifications, and (iii) meet the other applicable requirements set forth in clauses (i) and (ii) of the definition of the "Appraisal" contained in Appendix 1.

(e) Deed. On or prior to the Land Interest Acquisition Date, the Lessor shall have received a special warranty deed (the "Deed"), in conformity with Applicable Law and appropriate for recording with the applicable Governmental Authorities, with respect to the Land Interest (and all Improvements located thereon), conveying fee simple title to the Land Interest (and all Improvements located thereon) to the Lessor, subject only to Permitted Exceptions.

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(f) Lease Supplement; Equipment Schedule. The Lessee and the Lessor shall have delivered (i) on or prior to the Land Interest Acquisition Date, the original counterpart of the Lease Supplement executed by the Lessee and the Lessor to the Agent and (ii) on or prior to the applicable Funding Date, a duly executed Equipment Schedule covering any Equipment, if any, being acquired with the proceeds of such Advance by the Lessor, together with invoices or appraisals in form and substance satisfactory to the Agent, the Lessor and the Participants.

(g) Survey and Title Insurance. On or prior to the Land Interest Acquisition Date, the Lessee shall have delivered (i) an ALTA/ACSM (1992) (Urban) Survey of the Property, including Table A numbers 1, 2, 3, 4, 6, 8, 9, 10 and 11, certified to the Lessor, the Participants and the title company and otherwise in form reasonably acceptable to the Participants, (ii) an ALTA (1992) owners title insurance policy with extended coverage over the general exceptions, insuring fee title in the Lessor to the Property, subject only to the Permitted Exceptions, (iii) an ALTA (1992) Loan Policy insuring the Agent that the Lien of the Mortgage is a first and primary lien in the Lessor's interest in the Master Lease and in the fee title to the Property, subject only to pending disbursements for construction and the Permitted Exceptions, and (iv) an ALTA (1992) Loan Policy insuring the Agent that the Lien of the Master Lease is a first and primary Lien in the Lessee's interest in the Property; such policies each in an amount not less than the estimated Property Cost and to be reasonably satisfactory to the Lessor, the Agent and the Participants with extended coverage, access, tax parcel, survey identity, variable rate, future advances, usury, comprehensive, fraudulent conveyances, doing business, mechanics liens and zoning endorsements and such other endorsements as and to the extent available in such jurisdiction where the Property is located, if requested by the Agent.

(h) Evidence of Recording and Filing. On or prior to the Land Interest Acquisition Date, the Agent shall have received evidence reasonably satisfactory to it that each of the Deed, the Lease Supplement, the Assignment of Lease and Supplement to Assignment of Lease, the Consent to Assignment and the Mortgage shall have been or are being recorded with the appropriate Governmental Authorities in the order in which such documents are listed in this clause, and the UCC Financing Statements with respect to the Property being acquired shall have been or are being filed with the appropriate Governmental Authorities.

(i) Evidence of Insurance. On or prior to the Land Acquisition Date, the Agent, the Lessor and each Participant shall have received evidence of insurance with respect to the Property required to be maintained pursuant to the Lease, setting forth the respective coverages, limits of liability, carrier, policy number and period of coverage.

(j) Evidence of Use of Proceeds. On or prior to the Land Interest Acquisition Date or the applicable Funding Date, the Agent and each Participant shall have received evidence reasonably satisfactory to the Agent and each Participant as to the use of the proceeds of the Advance in accordance with the provisions of Section 8.1(g), which conditions shall be satisfied by delivery of the applicable duly executed Funding Request with respect thereto.

(k) Taxes. On or prior to the Land Interest Acquisition Date, all taxes, fees and other charges in connection with the execution, delivery, recording, filing and registration of the

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Operative Documents shall have been paid or provisions for such payment shall have been made to the satisfaction of the Agent, each Participant and the Lessor.

(l) Opinions of Counsel. On or prior to the Land Interest Acquisition Date, (i) the Lessee shall have delivered to the Agent, each Participant and the Lessor (A) an opinion of Wilson, Sonsini, Goodrich & Rosati, counsel to the Lessee, as to the matters set forth in Exhibit D; and (B) an opinion of local counsel licensed to practice in the jurisdiction where the Property is located as to the matters set forth in Exhibit E; and (ii) the Lessor shall have delivered to the Agent and each Participant (A) an opinion of special counsel in the form set forth on Exhibit F; and (B) an opinion of internal counsel to the Lessor to the effect and in the form set forth in Exhibit G.

(m) Approvals. All necessary (or, in the reasonable opinion of the Lessor, the Participants or the Agent or any of their respective counsel, advisable) Governmental Actions and covenants and approvals of or by any Governmental Authority or other Person, in each case required by any Requirement of Law, covenant or restriction affecting the Property or the transactions contemplated thereby to have been obtained by such date shall have been obtained or made and be in full force and effect.

(n) Litigation. No action or proceeding shall have been instituted, nor shall any action or proceeding be threatened, before any Governmental Authority, nor shall any order, judgment or decree have been issued or proposed to be issued by any Governmental Authority (i) to set aside, restrain, enjoin or prevent the full performance of this Participation Agreement, the Lease or any other Operative Document or any transaction contemplated hereby or thereby or (ii) which is reasonably likely to have a Material Adverse Effect.

(o) Requirements of Law. In the reasonable opinion of the Lessor, the Participants, the Agent and their respective counsel, the transactions contemplated by the Operative Documents do not and will not violate any Requirement of Law and do not and will not subject the Lessor, the Agent or any Participant to any adverse regulatory or tax prohibitions or constraints.

(p) Responsible Officer's Certificate of the Lessee. On or prior to the earlier of the initial Funding Date or the Land Interest Acquisition Date, the Lessor, each Participant and the Agent shall each have received a Responsible Officer's Certificate, dated as of the Land Interest Acquisition Date, of the Lessee stating that (i) each and every representation and warranty of the Lessee contained in the Operative Documents to which it is a party is true and correct on and as of the Closing Date; (ii) no Default or Event of Default under the Lease, the Property Purchase Agreement or the Construction Agency Agreement has occurred and is continuing; (iii) each Operative Document to which the Lessee is a party is in full force and effect with respect to it; and (iv) the Lessee has duly performed and complied with all covenants, agreements and conditions contained herein or in any Operative Document required to be performed or complied with by it on or prior to the earlier of the initial Funding Date or the Land Interest Acquisition Date.

(q) The Lessee's Resolutions and Incumbency Certificate, etc. On or prior to the earlier of the initial Funding Date or the Land Interest Acquisition Date, the Lessor, each Participant and the Agent shall each have received (i) a certificate of the Secretary or an Assistant Secretary of

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the Lessee attaching and certifying as to (A) the resolutions of the Board of Directors of the Lessee, duly authorizing the execution, delivery and performance by the Lessee of documents and agreements of the type represented by each Operative Document to which it is or will be a party, (B) its articles of incorporation and bylaws, and (C) the incumbency and signature of persons authorized to execute and deliver on its behalf the Operative Documents to which it is a party, and (ii) a good standing certificate from the appropriate officer of the state in which the Property is located.

(r) Responsible Officer's Certificate of the Guarantor. On or prior to the earlier of the initial Funding Date or the Land Interest Acquisition Date, the Lessor, each Participant and the Agent shall each have received a Responsible Officer's Certificate, dated as of the Land Interest Acquisition Date, of the Guarantor stating that (i) each and every representation and warranty of the Guarantor contained in the Operative Documents to which it is a party is true and correct on and as of the Closing Date; (ii) no Default or Event of Default under the Guarantee has occurred and is continuing; (iii) each Operative Document to which the Guarantor is a party is in full force and effect with respect to it; and (iv) the Guarantor has duly performed and complied with all covenants, agreements and conditions contained herein or in any Operative Document required to be performed or complied with by it on or prior to the earlier of the initial Funding Date or the Land Interest Acquisition Date.

(s) The Guarantor's Resolutions and Incumbency Certificate, etc. On or prior to the earlier of the initial Funding Date or the Land Interest Acquisition Date, the Lessor, each Participant and the Agent shall each have received a certificate of the Secretary or an Assistant Secretary of the Guarantor attaching and certifying as to (i) the resolutions of its Board of Directors duly authorizing the execution, delivery and performance by the Guarantor of documents and agreements of the type represented by each Operative Document to which it is or will be a party (ii) its articles of incorporation and by-laws, and (iii) the incumbency and signature of persons authorized to execute and deliver on its behalf the Operative Documents to which it is a party.

(t) Land Interest Acquisition Date. The Land Interest Acquisition Date shall occur on or prior to September 30, 1997.

(u) No Material Adverse Effect. As of each Funding Date, there shall not have occurred any Material adverse change in the Lessee's, the Guarantor's and their respective subsidiaries capital structure, ownership or consolidated assets, liabilities, results of operations, or financial condition taken as a whole from that set forth or contemplated in the most recent financial statements referred to in Section 8.3(m), and no event or condition shall have occurred that would result in a Material Adverse Effect.

(v) Responsible Officer's Certificate of the Lessor. On or prior to the Land Interest Acquisition Date, the Lessee, the Agent and each Participant shall have received a certificate of an authorized officer of the Lessor, dated as of the Land Interest Acquisition Date, stating that (i) each and every representation and warranty of the Lessor contained in the Operative Documents to which it is a party is true and correct on and as of the Closing Date, (ii) each Operative Document to which the Lessor is a party is in full force and effect with respect to it, and (iii) the Lessor has duly performed and complied with all covenants, agreements and conditions contained herein or in

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any Operative Document required to be performed or complied with by it on or prior to the Land Interest Acquisition Date.

(w) The Lessor's Resolutions and Incumbency Certificate, etc. On or prior to the Land Interest Acquisition Date, the Lessee, the Agent and each Participant shall have received a certificate of the Secretary or an Assistant Secretary of the Lessor attaching and certifying as to (i) the resolutions of the Board of Directors duly authorizing the execution, delivery and performance by the Lessor of documents and agreements of the type represented by each Operative Document to which it is or will be a party, (ii) the pertinent provisions of its by-laws and (iii) the incumbency and signature of persons authorized to execute and deliver on its behalf the Operative Documents to which it is a party.

(x) Construction Budget. On or prior to the Land Interest Acquisition Date, the Lessor, the Agent and each Participant shall have received a construction budget with respect to the Property reasonably satisfactory to each of them.

(y) Termination of Liens. On or prior to the Land Interest Acquisition Date, the Agent, each Participant and the Lessor shall have received a pay-off letter from each Existing Lender, together with duly executed UCC-3 termination statements, mortgage releases and such other instruments, in form and substance satisfactory to the Agent, each Participant and the Lessor, as shall be necessary to terminate and satisfy all Liens created pursuant to the Existing Financing and all other Liens except Permitted Exceptions.

(z) Property Purchase Agreement Conditions. On or prior to the Land Interest Acquisition Date, the Lessor, the Agent and the Participants shall have received a copy of the Property Purchase Agreement; the Property Purchase Agreement shall be in full force and effect and shall have been validly assigned to the Lessor pursuant to the Assignment of Property Purchase Agreement; and the conditions to closing under the Property Purchase Agreement shall have been satisfied to satisfaction of, or waived by, the Lessor, the Agent and the Participants.

SECTION 6.2 Further Conditions Precedent. The obligation of the Lessor to acquire the Land Interest on the Land Acquisition Date or to make an Advance on any Funding Date and the obligation of each Participant to purchase its Participation Interest in, and to make available its related portion of, such Advance on such Funding Date are subject to satisfaction or waiver of the following conditions precedent and to satisfaction on or before the Closing Date, Land Interest Acquisition Date or such Funding Date of the conditions precedent set forth in Section 6.1 (it being understood that the Lessor's obligations to acquire the Land Interest and to make Advances to the Lessee and each Participant's obligation to fund the purchase of its Participation Interest in an Advance shall not be subject to the conditions precedent set forth in Section 6.1 and this Section 6.2 to the extent such conditions are actions required of the Lessor or such Participant):

(a) Representations and Warranties. (i) On the Closing Date, the representations and warranties of the Lessee, the Guarantor, the Lessor and each Participant contained herein and in each of the other Operative Documents shall be true and correct as though made on and as of such date, except to the extent such representations or warranties relate solely to an earlier date, in which

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case such representations and warranties shall have been true and correct on and as of such earlier date; and (ii) on the Land Interest Acquisition Date (if such date occurs after the Closing Date) and each other Funding Date, the representations and warranties of the Lessee contained herein and in each of the Operative Documents shall be true and correct as though made on and as of such

date; in each case except to the extent such representations or warranties relate solely to an earlier date, in which case such representations and warranties shall have been true and correct on and as of such earlier date.

(b) Performance of Covenants. (i) On the Closing Date the parties hereto shall have performed their respective agreements contained herein and in the other Operative Documents to be performed by them on or prior to such date, and (ii) on the Land Interest Acquisition Date (if such date occurs after the Closing Date) and each other Funding Date the Lessee shall have performed its respective agreements contained herein and in the other Operative Documents to be performed by it on or prior to such date.

(c) Title. Title to the Property shall conform to the representations and warranties set forth in Section 8.4(c).

(d) No Default. There shall not have occurred and be continuing any Default or Event of Default under any of the Operative Documents, and no Default or Event of Default under any of the Operative Documents will have occurred after giving effect to the acquisition of the Property and/or the making of the Advance requested by such Funding Request, as the case may be.

SECTION 6.3 Further Condition Precedent. The obligation of the Lessor to make any Advance in respect of the Property on a Funding Date after the Land Interest Acquisition Date, the obligation of the Lessor to make the initial Advance to finance the acquisition of Equipment or the construction of any Improvements or the funding of any Interest Payment Advance on any Funding Date, and the obligation of each Participant to purchase its Participation Interest in, and to make available to the Lessor its related portion of, each such Advance on such Funding Date are subject to satisfaction or waiver of the following condition precedent and the conditions precedent set forth in Section 6.1 and Section 6.2 (it being understood that the Lessor's obligation to finance such Equipment, if any, or Improvements shall not be subject to the conditions precedent set forth in this Section 6.3 or Section 6.1 or Section 6.2 to the extent such conditions are actions required of the Lessor) on or prior to such Funding Date:

(a) Appraisal. On or prior to such Funding Date, the Agent, the Lessor and the Participants shall have received an Appraisal of that portion of the Property not subject to the Appraisal referred to in Section 10.1(s) and prepared by the appraiser preparing the Appraisal referred to in Section 10.1(s), which Appraisal shall (i) show that the Fair Market Sales Value of that portion of the Land Interest with respect to such Property as of the projected Completion Date shall not exceed 25% of the Fair Market Sales Value of such portion of the Land Interest and the Improvements to be constructed thereon in accordance with the Plans and Specifications for such Property, and (ii) show as of the projected Completion Date the Fair Market Sales Value of such Land Interest and the Improvements to be constructed thereon in accordance with the Plans and

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Specifications, and (iii) meet the other applicable requirements set forth in the definition of the "Appraisal" contained in Appendix 1.

If any of the conditions precedent set forth in this Section 6.3 or in Section 6.1 or Section 6.2 (if such conditions apply to subsequent Funding Dates) shall not have been satisfied on any Funding Date subsequent to the initial Funding Date and the Lessor and the Participants refuse to fund the requested Advance, the Lessee may exercise its Purchase Option under Section 20.1 of the Lease upon not less than ten (10) days' written notice to the Lessor, the Agent and the Participants.

SECTION 7

COMPLETION DATE CONDITIONS

SECTION 7.1 Conditions. The occurrence of the Completion Date shall be subject to the fulfillment to the satisfaction of, or waiver by, the Required Participants of the following conditions precedent:

(a) Architect's Certificate. The Lessee shall have furnished to the Lessor and Agent a (i) certificate of the Architect (substantially in the form of Exhibit H) dated at or about the Completion Date and stating that (a) the Improvements have been completed substantially in accordance with the Plans and Specifications and the Property is ready for occupancy, (b) the Property, as so completed, complies in all material respects with all Applicable Laws, and certifying that attached thereto are true and complete copies of an "as built" or "record" set of the Plans and Specifications, and a plat of survey of the Property "as built" showing all paving, driveways, fences and exterior improvements; and (ii) a date-down endorsement to or amendment and restatement of the title insurance policies described in Section 6.1(g).

(b) Construction Completion. The construction of the Improvements shall have been completed substantially in accordance with the

Plans and Specifications and all Applicable Law, and such Property shall be ready for occupancy and operation. All Fixtures, Equipment and other Improvements contemplated under the Plans and Specifications to be incorporated into or installed in the Property shall have been incorporated or installed free and clear of all Liens except for Permitted Liens.

(c) Lessee Certification. The Lessee shall have furnished the Lessor and the Agent with a certification of the Lessee (substantially in the form of Exhibit I) as follows:

(i) The representations and warranties of the Lessee with respect to the Property set forth in Section 8.4(b) are true and correct as of the Completion Date. All amounts owing to third parties for the construction of the Improvements have been paid in full.

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(ii) No changes or modifications were made to the related Plans and Specifications after the Closing Date that have had a Material adverse effect on the value, use or useful life of the Property.

SECTION 8

REPRESENTATIONS

SECTION 8.1 Representations of the Lessor. The Lessor represents and warrants to each of the other parties hereto as follows:

(a) Due Organization, etc. It is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois and has the corporate power and authority to enter into and perform its obligations under each of the Operative Documents to which it is or will be a party and each other agreement, instrument and document to be executed and delivered by it in connection with or as contemplated by each such Operative Document to which it is or will be a party.

(b) Authorization; No Conflict. The execution, delivery and performance of each Operative Document to which it is or will be a party has been duly authorized by all necessary action on its part and neither the execution and delivery thereof, nor the consummation of the transactions contemplated thereby, nor compliance by it with any of the terms and provisions thereof (i) does or will require any approval or consent of any trustee or holders of any of its indebtedness or obligations, (ii) does or will contravene any current United States or Illinois law, governmental rule or regulation, (iii) does or will contravene or result in any breach of or constitute any default under, or result in the creation of any Lien upon any of its property under, its articles of incorporation or by-laws, or any indenture, mortgage, deed of trust, conditional sales contract, credit agreement or other agreement or instrument to which it is a party or by which it or its properties may be bound or affected or (iv) does or will require any Governmental Action by any Governmental Authority, except such as have been obtained on the Lessee's or the Lessor's behalf.

(c) Enforceability, etc. Each Operative Document to which the Lessor is or will be a party has been, or on or before the Closing Date or applicable Funding Date or Land Interest Acquisition Date will be, duly executed and delivered by the Lessor and each such Operative Document to which the Lessor is a party constitutes, or upon execution and delivery will constitute, a legal, valid and binding obligation enforceable against the Lessor in accordance with the terms thereof, except as the same may be limited by insolvency, bankruptcy, reorganization or other laws relating to or affecting creditors' rights or by general equitable principles.

(d) Litigation. There is no action or proceeding pending or, to its knowledge, threatened to which it is a party, before any Governmental Authority that, if adversely determined, would materially and adversely affect its ability to perform its obligations under the Operative Documents to which it is a party, would have a material adverse effect on the financial condition of

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the Lessor or would question the validity or enforceability of any of the Operative Documents to which it is or will become a party.

(e) Assignment. It has not assigned or transferred any of its right, title or interest in or under the Lease except to the Agent, for the benefit of the Participants, in accordance with this Agreement and the other Operative Documents.

(f) Defaults. No Default or Event of Default under the Operative Documents attributable to it has occurred and is continuing.

(g) Use of Proceeds. The proceeds of the purchase of the Participation Interests shall be applied by the Lessor solely in accordance with the provisions of the Operative Documents.

(h) Securities Act. Neither the Lessor nor any Person authorized by the Lessor to act on its behalf has offered or sold any interest in the Lease, or in any similar security relating to the Property, or in any security the offering of which for the purposes of the Securities Act would be deemed to be part of the same offering as the offering of the aforementioned securities to, or solicited any offer to acquire any of the same from, any Person other than the Agent and the Participants, and neither the Lessor nor any Person authorized by the Lessor to act on its behalf will take any action which would subject the issuance or sale of any interest in the Lease or the Property to the provisions of Section 5 of the Securities Act or require the qualification of any Operative Document under the Trust Indenture Act of 1939, as amended.

(i) Chief Place of Business. The Lessor's chief place of business, chief executive office and office where the documents, accounts and records relating to the transactions contemplated by this Participation Agreement and each other Operative Document are kept are located at 135 South LaSalle Street, Chicago, Illinois 60603.

(j) Federal Reserve Regulations. The Lessor is not engaged principally in, and does not have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U of the Board), and no part of the proceeds of the purchase of the Participation Interests will be used by it to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock or for any purpose that violates, or is inconsistent with, the provisions of Regulation G, T, U, or X of the Board.

(k) Investment Company Act. The Lessor is not an "investment company" or a company controlled by an "investment company" within the meaning of the Investment Company Act.

(l) No Plan Assets. The Lessor is not acquiring its interests in the Property with the assets of any "employee benefit plan" (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA, or "plan" (as defined in Section 4975(e)(1) of the Code).

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(m) Equity Source. (i) The source of its 3.50% initial minimum equity investment in the Tranche C Participation Interest is full recourse debt the obligee of which is ABN AMRO, the ultimate parent of the Lessor; (ii) the Lessor will not obtain residual insurance or any other residual guarantee to ensure recovery of its equity investment; and (iii) the Lessor will be liable for any decline in the fair value of the residual interest and has, and is expected to continue to have during the term of the Lease, other significant assets, in addition to and of a value that exceeds its equity investment, that are at risk.

SECTION 8.2 Representations of the Participants. Each Participant represents and warrants to the Lessor, each of the other Participants and the Lessee as follows:

(a) No Plan Assets. Such Participant is not and will not be funding its Participation Interest hereunder, and is not performing its obligations under the Operative Documents, with the assets of an "employee benefit plan" (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA, or "plan" (as defined in Section 4975(e)(1) of the Code). The advancing of any amount with respect to its Participation Interest on any Funding Date shall constitute an affirmation by the subject Participant of the preceding representation and warranty.

(b) Due Organization, etc. It is either (i) a duly organized and validly existing corporation in good standing under the laws of the state of its incorporation, or (ii) a national banking association duly organized and validly existing under the laws of the United States or (iii) a banking corporation duly organized and validly existing under the laws of the jurisdiction of its organization, and, in each case, has the corporate power and authority to execute, deliver and carry out the terms and provisions of the Operative Documents to which it is a party.

(c) Authorization; No Conflict. The execution, delivery and performance of each Operative Document to which it is or will be a party has been duly authorized by all necessary action on its part and neither the execution and delivery thereof, nor the consummation of the transactions contemplated thereby, nor compliance by it with any of the terms and provisions thereof (i) does or will require any approval or consent of any trustee or holders of any of its indebtedness or obligations, (ii) does or will contravene any current law, governmental rule or regulation of the United States or the state or country of its organization, (iii) does or will contravene or result in

any breach of or constitute any default under, or result in the creation of any Lien upon any of its property under, its certificate of incorporation or bylaws, articles of association or other organizational documents or any indenture, mortgage, deed of trust, conditional sales contract, credit agreement or other agreement or instrument to which it is a party or by which it or its properties may be bound or affected or (iv) does or will require any Governmental Action by any Governmental Authority.

(d) Enforceability, etc. Each Operative Document to which it is a party has been, or on or before the Closing Date or applicable Funding Date or Land Interest Acquisition Date will be, duly executed and delivered by it and each such Operative Document to which it is a party constitutes, or upon execution and delivery will constitute, a legal, valid and binding obligation enforceable against it in accordance with the terms thereof, except as the same may be limited by

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insolvency, bankruptcy, reorganization or other laws relating to or affecting creditors' rights or by general equitable principles.

(e) Litigation. There is no action or proceeding pending or, to its knowledge, threatened to which it is or will be a party before any Governmental Authority that is reasonably likely to be adversely determined and, if adversely determined, would materially and adversely affect its ability to perform its obligations under the Operative Documents to which it is a party.

SECTION 8.3 Representations of the Lessee. The Lessee represents and warrants to each of the other parties hereto that:

(a) Corporate Status. The Lessee (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and (ii) has duly qualified and is authorized to do business and has obtained a certificate of authority to transact business as a foreign corporation in the States of California and Colorado and in each other jurisdiction where the failure to so qualify is reasonably likely to be Material.

(b) Corporate Power and Authority. The Lessee has corporate power and authority to execute, deliver and carry out the terms and provisions of the Operative Documents to which it is or will be a party and has taken all necessary corporate action to authorize the execution, delivery and performance of the Operative Documents to which it is or will be a party and has or will have duly executed and delivered each Operative Document required to be executed and delivered by it and, assuming the due authorization, execution and delivery thereof on the part of each other party thereto, each such Operative Document constitutes or will constitute a legal, valid and binding obligation enforceable against it in accordance with its terms, except as the same may be limited by insolvency, bankruptcy, reorganization or other laws relating to or affecting the enforcement of creditors' rights or by general equitable principles.

(c) No Violation. Neither the execution, delivery and performance by the Lessee of the Operative Documents to which it is or will be a party nor compliance with the terms and provisions thereof, nor the consummation by the Lessee of the transactions contemplated therein (i) will result in a violation by the Lessee of any applicable provision of any law, statute, rule, regulation, order, writ, injunction or decree of any court or governmental instrumentality having jurisdiction over the Lessee or the Property that would (x) adversely affect the validity or enforceability of the Operative Documents to which the Lessee is a party, or the title to, or value or condition of, the Property, or (y) have a Material Adverse Effect on the consolidated financial position, business or consolidated results of operations of the Lessee, or (z) have an adverse effect on the ability of the Lessee to perform its obligations under the Operative Documents, (ii) will conflict with or result in any breach under, or (other than pursuant to the Operative Documents) result in the creation or imposition of (or the obligation to create or impose) any Lien upon any of the property or assets of Lessee pursuant to the terms of, any indenture, loan agreement or other agreement for borrowed money to which the Lessee is a party or by which it or any of its property or assets is bound or to which it may be subject (other than Permitted Liens), or (iii) will violate any provision of the certificate or articles of incorporation or bylaws of the Lessee.

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(d) Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Lessee, threatened (i) that are reasonably likely to have a Material Adverse Effect or (ii) that question the validity of the Operative Documents or the rights or remedies of the Lessor, the Agent or the Participants with respect to the Lessee or the Property under the Operative Documents.

(e) Governmental Approvals. No Governmental Action by any Governmental Authority having jurisdiction over the Lessee or the Property is required to authorize or is required in connection with (i) the execution,

delivery and performance by the Lessee of any Operative Document or (ii) the legality, validity, binding effect or enforceability against the Lessee of any Operative Document, except for the filing or recording of the Operative Documents listed in Section 8.4(f) hereof with the appropriate Governmental Authorities, all of which will have been completed on or prior to the Land Interest Acquisition Date.

(f) Investment Company Act. The Lessee is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act.

(g) Public Utility Holding Company Act. The Lessee is not a "holding company," or a "subsidiary company," or an "affiliate" of a "holding company," or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(h) Accuracy of Information Furnished. None of the Operative Documents and none of the other certificates, statements or information furnished to the Lessor, the Agent or any Participant by or on behalf of the Lessee or any of its Subsidiaries in connection with the Operative Documents or the transactions contemplated thereby (taken together with all such Operative Documents, certificates, statements or information) contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood by the Lessor, the Agent or any Participant that the projections and forecasts provided by the Lessee are not to be viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

(i) Taxes. All United States federal income tax returns and all other Material tax returns which are required to have been filed have been or will be prepared in accordance with applicable law and filed by or on behalf of the Lessee by the respective due dates, including extensions, and all taxes due with respect to the Lessee pursuant to such returns or pursuant to any assessment received by the Lessee have been or will be paid. The charges, accruals and reserves on the books of the Lessee in respect of taxes or other governmental charges are, in the opinion of the Lessee, adequate.

(j) Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and is in compliance in all Material respects with the presently applicable provisions of ERISA

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and the Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

(k) Environmental and Other Regulations. Except as set forth in Schedule III attached hereto, the Lessee and the Property are in compliance with all Environmental Laws relating to pollution and environmental control or employee safety in the jurisdiction in which the Property is located and in all other domestic jurisdictions, other than, with respect to such other jurisdictions, those Environmental Laws the non-compliance with which would not have a Material Adverse Effect.

(l) Offer of Securities, etc. Neither the Lessee nor the Guarantor nor any Person authorized to act on their behalf has, directly or indirectly, offered any interest in the Property or the Lease or any other interest similar thereto (the sale or offer of which would be integrated with the sale or offer of such interest in the Property or the Lease), for sale to, or solicited any offer to acquire any of the same from, any Person other than the Participants, the Lessor and other "accredited investors" (as defined in Regulation D of the Securities and Exchange Commission).

(m) Financial Statements. The audited consolidated statement of financial position of the Lessee and its consolidated Subsidiaries as of March 31, 1997 and the related consolidated statements of income, shareholder's equity and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, a copy of which has been delivered to each of the Lessor, the Participants and the Agent, present fairly in all material respects, in conformity with generally accepted accounting principles, the financial position of the Lessee as of such date and its results of operations and cash flows for such fiscal year.

(n) No Violation or Default. Neither the Lessee nor any of the Lessee's Subsidiaries is in violation of or in default with respect to (i) any Requirement of Law applicable to such Person or (ii) any Contractual Obligation

of such Person, where, in each case, such violation or default is reasonably likely to have a Material Adverse Effect. Without limiting the generality of the foregoing, neither the Lessee nor any of the Lessee's Subsidiaries (A) is in violation of any Environmental Laws, (B) to the best of the Lessee's knowledge, has any liability or potential liability under any Environmental Laws or (C) has received written notice or other written communication of an investigation or is under investigation by any Governmental Authority having jurisdiction over the Lessee or any of the Lessee's Subsidiaries having authority to enforce Environmental Laws, where, in each case, such violation, liability or investigation could reasonably be expected to have a Material Adverse Effect, nor, to the best of the Lessee's knowledge, have any Hazardous Materials been released or disposed of on any of the properties owned by the Lessee or the Lessee's Subsidiaries which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect. No Event of Default or Default has occurred and is continuing.

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(o) Title; Possession Under Leases. The Lessee and the Lessee's Subsidiaries (i) own and have good title (without regard to minor defects of title), or leasehold interests in, all their other respective properties and assets which are material to the business of the Lessee and its Subsidiaries taken as a whole as reflected in the most recent Financial Statements delivered to the Agent (except those assets and properties disposed of since the date of such Financial Statements in compliance with this Agreement) and (ii) own and have good title (without regard to minor defects of title) to, or leasehold interests in, all respective properties and assets acquired by the Lessee and the Lessee's Subsidiaries since such date which are material to the business of the Lessee and its Subsidiaries taken as a whole (except those assets and properties disposed of in compliance with this Agreement). Such assets and properties are subject to no Lien, except for Permitted Liens.

(p) Patent and Other Rights. The Lessee and the Lessee's Subsidiaries own or license under validly existing agreements (or could obtain such ownership, possession or license on terms not materially adverse to the Lessee and its Subsidiaries, taken as a whole, and under circumstances that could not reasonably be expected to have a Material Adverse Effect), and have the full right to license without the consent of any other Person, all patents, licenses, trademarks, trade names, trade secrets, service marks, copyrights and all rights with respect thereto, which are material to conduct the businesses of the Lessee and its Subsidiaries (taken as a whole) as now conducted.

(q) Solvency, Etc. The Lessee and each of its Material Subsidiaries is Solvent and, after the execution and delivery of the Operative Documents and the consummation of the transactions contemplated thereby, will be Solvent.

(r) Catastrophic Events. Neither the Lessee nor any of the Lessee's Subsidiaries and none of their properties is affected by any fire, explosion, strike, lockout or other labor dispute, earthquake, embargo or other casualty that is reasonably likely to have a Material Adverse Effect. As of the Closing Date, there are no disputes presently subject to grievance procedure, arbitration or litigation under any of the collective bargaining agreements, employment contracts or employee welfare or incentive plans to which the Lessee or any of the Lessee's Subsidiaries is a party, and there are no strikes, lockouts, work stoppages or slowdowns, or, to the best knowledge of the Lessee, jurisdictional disputes or organizing activities occurring or threatened which alone or in the aggregate are reasonably likely to have a Material Adverse Effect.

SECTION 8.4 Representations of the Lessee With Respect to the Property on the Land Interest Acquisition Date. The Lessee hereby represents and warrants as follows:

(a) Representations. The representations and warranties of the Construction Agent and the Lessee set forth in the Operative Documents are true and correct. The Construction Agent and the Lessee are in compliance in with their respective obligations under the Operative Documents and there exists no Default or Event of Default.

(b) Property. Such Property consists of the Land Interest on which administration, manufacturing design and warehouse facilities will be constructed pursuant to the Construction Agency Agreement. Such Property is located in the State of Colorado. Such Property

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as improved in accordance with the related Plans and Specifications and the use thereof by the Lessee and its agents, assignees, employees, invitees, lessees, licensees, contractors and tenants will comply in all material respects with all Requirements of Law (including, without limitation, Title III of the Americans with Disabilities Act, all zoning and land use laws and Environmental Laws) and Insurance Requirements, except for such Requirements of Law as the Lessee shall

be contesting in good faith by appropriate proceedings. The related Plans and Specifications have been or will be prepared in all material respects in accordance with applicable Requirements of Law (including, without limitation, Title III of the Americans with Disabilities Act, applicable Environmental Laws and building, planning, zoning and fire codes) and upon completion of the facility in accordance with the Plans and Specifications, such facility and the other Improvements on such Property will not encroach in any manner onto any adjoining land (except as permitted by express written easements or as insured by appropriate title insurance) and such facility and other Improvements will comply in all Material respects with all applicable Requirements of Law (including, without limitation, Title III of the Americans with Disabilities Act, all applicable Environmental Laws and building, planning, zoning and fire codes). Upon completion of such facility in accordance with the related Plans and Specifications, the Improvements including, without limitation, structural members, the plumbing, heating, air conditioning and electrical systems thereof, and all water, sewer, electric, gas, telephone and drainage facilities will be completed in a workmanlike manner and in accordance with the Plans and Specifications and will be in first class working condition and fit for use as administration, manufacturing design and warehouse facilities, and all other utilities required to adequately service the Improvements for their intended use are or will be available and "tapped on" and hooked up pursuant to adequate permits (including any that may be required under applicable Environmental Laws). There is no action, suit or proceeding (including any proceeding in condemnation or eminent domain or under any Environmental Law) pending or, to the best of the Lessee's knowledge, threatened with respect to the Lessee, its Affiliates or such Property which adversely affects the title to, or the use, operation or value of, the Property. As of the Land Interest Acquisition Date, no fire or other casualty with respect to the Property shall have occurred, and as of each other Funding Date, no fire or other casualty with respect to the Property shall have occurred that constitutes a Significant Casualty with respect to which the Lessee shall have delivered a Termination Notice under Section 16.1 of the Lease. The Property has or will have available all material services of public facilities and other utilities necessary for use and operation of such facility and the other Improvements for their primary intended purposes, including, without limitation, adequate water, gas and electrical supply, storm and sanitary sewerage facilities, telephone, other required public utilities and means of access to such facility from publicly dedicated streets and public highways for pedestrians and motor vehicles. All utilities serving such Property, or proposed to serve such Property in accordance with the related Plans and Specifications, are located in, and vehicular access to the Improvements on such Property is provided by, either public rights-of-way abutting such Property or Appurtenant Rights. All material licenses, approvals, authorizations, consents, permits (including, without limitation, building, demolition and environmental permits, licenses, approvals, authorizations and consents), easements and rights-of-way, including proof and dedication, required for (x) the use, treatment, storage, transport, disposal or disposition of any Hazardous Substance on, at, under or from such Property during the construction of the Improvements thereon, and (y) construction of such Improvements in accordance with the related Plans and Specifications and the Construction Agency Agreement have either been obtained from the appropriate Governmental Authorities having jurisdiction or from private parties,

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as the case may be, or will be obtained from the appropriate Governmental Authorities having jurisdiction or from private parties, as the case may be, prior to commencing any such construction or use and operation, as applicable and will in each case be maintained by the Lessee during the periods for which they are required by Applicable Law or such Governmental Authorities.

(c) Title. The Deed providing for the acquisition of the Property is sufficient to convey title to the Property in fee simple, subject only to Permitted Exceptions. Upon conveyance of the Deed on the Land Interest Acquisition Date, the Lessor will own fee simple title in the Land Interest and any Improvements and will have the right to grant the Mortgage on the Property. The Lessor will at all times during the Term have good title to all Equipment wherever located and to any Improvements.

(d) Insurance. The Lessee has obtained insurance coverage covering the Property which meets the requirements of Article XIV of the Lease, and such coverage is in full force and effect.

(e) Lease. Upon the execution and delivery of the Lease Supplement to the Lease, (i) the Lessee will have unconditionally accepted the Property and will be bound by the terms of the Lease Supplement and will have a valid leasehold interest in the Property, subject only to the Permitted Exceptions; (ii) the Lessee's obligation to pay Rent will be an independent covenant and no right of deduction or offset will exist with respect to any Rent or other sums payable under the Lease; and (iii) no Rent under the Lease will have been prepaid and the Lessee will have no right to prepay the Rent, except as specifically set forth therein.

(f) Protection of Interests. (i) On the Land Interest

Acquisition Date, the Lease Supplement, the Assignment of Lease, the Supplement to Assignment of Lease, the Consent to Assignment and the Mortgage are each in a form sufficient, and have been recorded in all recording offices necessary, to grant perfected first priority liens on the Property to the Agent or the Lessor, as the case may be, (ii) the Agent Financing Statements are each in a form sufficient, and have been filed in all filing offices necessary, to create a valid and perfected first priority security interest in the Lessor's interest in all Equipment, if any, to be located on the Property and the Improvements; and (iii) the Lessor Financing Statements are each in a form sufficient, and have been filed in all filing offices necessary, to perfect the Lessor's interest under the Lease to the extent the Lease is a security agreement.

(g) Flood Hazard Areas. No portion of the Property is located in an area identified as a special flood hazard area by the Federal Emergency Management Agency or other applicable agency, or if any portion of the Property is located in an area identified as a special flood hazard area by the Federal Emergency Management Agency or other applicable agency, then flood insurance has been obtained for the Property or such portion thereof in accordance with Section 14.2(b) of the Lease and in accordance with the National Flood Insurance Act of 1968, as amended.

(h) Conditions Precedent. All conditions precedent contained in this Agreement and in the other Operative Documents relating to the acquisition and leasing of the Property by the Lessor have been satisfied in full or waived.

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SECTION 8.5 Representations of the Lessee With Respect to Each Advance. The Lessee hereby represents and warrants as of each Funding Date on which an Advance is made as follows:

(a) Representations. The representations and warranties of the Construction Agent and the Lessee set forth in the Operative Documents (including the representations and warranties set forth in Sections 8.3 and 8.4) are true and correct in all Material respects on and as of such Funding Date, except to the extent such representations or warranties relate solely to an earlier date, in which case such representations and warranties shall have been true and correct in all Material respects on and as of such earlier date. The Construction Agent and the Lessee are in compliance in all Material respects with their respective obligations under the Operative Documents and there exists no Default or Event of Default which is continuing. No Default or Event of Default will occur as a result of, or after giving effect to, the Advance requested by the Acquisition Request or the Funding Request on such date.

(b) Improvements. Construction of the Improvements to date has been performed in a good and workmanlike manner, substantially in accordance with the Plans and Specifications and in compliance with all Insurance Requirements and Requirements of Law.

(c) No Liens. There have been no Liens against the Property since the recordation of the Deed, the Lease Supplement, the Assignment of Lease, the Consent to Assignment or the Mortgage other than Permitted Exceptions and Liens that have been removed or bonded by or on behalf of the Lessee to the satisfaction of the Lessor and the Agent. The Participation Interests funding such Advance are secured by the Lien of the Mortgage.

(d) Advance. The amount of the Advance requested represents amounts owing in respect of the acquisition price of the Land Interest or amounts that the Lessee reasonably believes will be due in the sixty (60) days following such Advance from the Lessee to third parties in respect of Property Improvements Costs, or amounts paid by the Lessee to third parties in respect of Property Costs for which the Lessee has not previously been reimbursed by an Advance. The conditions precedent to such Advance and the related remittances by the Participants with respect thereto set forth in Section 6 have been satisfied.

(e) Lease. Upon the execution and delivery of each Equipment Schedule to the Lease, the Lessee will have unconditionally accepted the Equipment, if any, subject to the Lease Supplement and will have good and marketable title to a valid and subsisting leasehold interest in such Equipment, subject only to Permitted Exceptions.

(f) Protection of Interests. On each Funding Date for the acquisition of Equipment, (i) the Lease Supplement, the applicable Equipment Schedule and the Mortgage are each a form sufficient to grant perfected Liens on the Lessee's and the Lessor's interests, respectively, in the Equipment to the Lessor and Agent, respectively, (ii) the Agent Financing Statements are each in a form sufficient, and have been filed in all filing offices necessary, to create a valid and perfected first priority security interest in such interest in such Equipment, and (iii) the Lessor Financing Statements are each in a form sufficient, and have been filed in all filing offices necessary, to perfect

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the Lessor's interest in such Equipment under the Lease to the extent the Lease is a security agreement.

(g) Title Insurance Date Down Endorsement. Prior to each Advance during the Construction Period and prior to an Advance following the Construction Period for Property Improvement Costs to which a mechanics' lien could take priority over the lien of the Mortgage or the lien of the Lease, the Lessee shall furnish the Lessor at the Lessee's expense an endorsement or other coverage reasonably acceptable to the Agent from the title insurance company issuing the policies pursuant to Section 6.1, insuring the Lessor and the Agent that (i) all mechanics' or similar liens and claims for such liens which could arise from that part of the Property Improvements Costs previously paid for, if any, or to be paid for with the then proposed Advance, have been waived and (ii) there has not been filed with respect to all or any parts of the Land Interest and Improvements any mechanics' or similar liens or claims of such liens that are not discharged of record, or insured over by the title insurance company, in respect of any part of the Land Interest and Improvements.

SECTION 9

PAYMENT OF CERTAIN EXPENSES

The Lessee agrees, for the benefit of the Lessor, the Agent and the Participants, that:

SECTION 9.1 Transaction Expenses. (a) The Lessee shall pay, or cause to be paid, from time to time all Transaction Expenses in respect of the transactions consummated on the Closing Date, the Land Interest Acquisition Date or any Funding Date, it being understood and agreed that neither the Agent, the Lessor nor any Participant shall be required to advance any Transaction Expenses in connection with the closing. Such Transaction Expenses and the Lease Arrangement Fee may be added to the Property Cost to the extent supported by the Appraisal and agreed by the Agent and the Participants.

(b) The Lessee shall pay or cause to be paid (i) all Transaction Expenses of the Lessor, (ii) the Commitment Fees, (iii) the Lease Arrangement Fee, (iv) the Administrative Fee, (v) all Transaction Expenses reasonably incurred by the Lessee, the Agent, ABN AMRO or the Lessor in entering into any future amendments or supplements with respect to any of the Operative Documents, whether or not such amendments or supplements are ultimately entered into, or giving or withholding of waivers or consents hereto or thereto, in each case (except after the occurrence of an Event of Default) which have been requested by or approved by the Lessee, (vi) all Transaction Expenses incurred by the Lessor, the Lessee, ABN AMRO or the Agent in connection with any purchase of the Property by the Lessee or other Person pursuant to Articles XVI, XVII, XX or XXII of the Lease, and (vii) all Transaction Expenses incurred by any of the other parties hereto in respect of enforcement of any of their rights or remedies against the Lessee in respect of the Operative Documents.

SECTION 9.2 Brokers' Fees and Stamp Taxes. The Lessee shall pay or cause to be paid any brokers' fees and any and all stamp, transfer and other similar taxes, fees and excises, if any,

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including any interest and penalties, which are payable in connection with the transactions contemplated by this Participation Agreement and the other Operative Documents.

SECTION 9.3 Obligations. The Lessee shall pay, on or before the due date thereof, all costs, expenses and other amounts required to be paid by the Mortgage and the Assignment of Lease.

SECTION 10

OTHER COVENANTS AND AGREEMENTS

SECTION 10.1. Covenants of the Lessee. The Lessee hereby agrees that so long as this Participation Agreement is in effect:

(a) Financial Statements, Reports, etc. The Lessee shall furnish to the Agent (and the Agent shall promptly thereupon furnish to each Participant) the following, each in such form and such detail as the Agent shall reasonably request:

(i) As soon as available and in no event later than forty-five (50) days after the last day of each fiscal quarter of the Lessee which is not a fiscal year end, a copy of the unaudited Financial Statements of the Lessee for such quarter and for the fiscal year to date (excluding statements of shareholders' equity), certified by an Executive Officer of the Lessee to present fairly the financial condition, results

of operations and other information reflected therein and to have been prepared in accordance with GAAP (subject to normal year-end audit adjustments);

(ii) As soon as available and in no event later than ninety (105) days after the close of each fiscal year of the Lessee, (A) copies of the audited consolidated Financial Statements of the Lessee for such fiscal year, audited by a nationally recognized accounting firm and (B) copies of the unqualified opinions (or qualified opinions reasonably acceptable to the Agent);

(iii) Contemporaneously with the quarterly and year-end Financial Statements required by the foregoing clauses (i) and (ii), (A) a certificate of an Executive Officer of the Lessee in the form of Exhibit Q, appropriately completed, together with such financial computations as the Agent may reasonably request to determine compliance with the terms of this Agreement (a "Compliance Certificate") and (B) management's discussion of the Lessee's operations for the period covered by such Financial Statements in the form supplied to the Lessee's stockholders, including a comparison with the Lessee's operations for the corresponding quarter in the immediately preceding fiscal year or with the immediately preceding fiscal year, as the case may be, as set forth in the Lessee's 10-K and 10-Q reports filed by the Lessee or any of its Subsidiaries with the Securities and Exchange Commission;

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(iv) As soon as possible and in no event later than five (5) Business Days after any Executive Officer of the Lessee or any Vice President of Human Resources of the Lessee knows of the occurrence or existence of (A) any Reportable Event under any Employee Benefit Plan or Multiemployer Plan, (B) any litigation, suits or claims against the Lessee or its Subsidiaries involving claimed monetary damages payable by the Lessee or any of its Subsidiaries of \$25,000,000 or more not covered by insurance, (C) any other event or condition which is reasonably likely to have a Material Adverse Effect, or (D) any Default or Event of Default; the statement of an Executive Officer of the Lessee setting forth details of such event, condition, Default or Event of Default and the action which the Lessee proposes to take with respect thereto;

(v) As soon as available and in no event later than five (5) Business Days after they are sent, made available or filed, copies of (A) all registration statements filed on forms S-1, S-2, S-3 or S-4 and 8-K, 10-K and 10-Q reports and such additional material reports filed by the Lessee or any of its Subsidiaries with any securities exchange or the Securities and Exchange Commission; (B) all reports, proxy statements and financial statements sent or made available by the Lessee or any of its Subsidiaries to its public security holders generally; and (C) all press releases and other similar public statements concerning any material developments in the business of the Lessee or any of the Lessee's Subsidiaries made available by the Lessee or any of the Lessee's Subsidiaries to the public generally; and

(vi) Such other certificates, opinions, statements, documents and information relating to the operations or condition (financial or otherwise) of the Lessee or any of its Subsidiaries, and compliance by the Lessee with the terms of this Agreement and the other Operative Documents as any Participant through the Agent may from time to time reasonably request.

Notwithstanding the foregoing, it is understood and agreed that to the extent the Lessee files Forms 10-K and 10-Q (or any successor forms) with the Securities and Exchange Commission (or any successor agency) and such forms are required to contain the same information as required by clauses (i), (ii) and (iii) (B) of Section 10.1(a), the Lessee may deliver copies of such forms with respect to the relevant time periods in lieu of the deliveries specified in clauses (i), (ii) and (iii) (B) of Section 10.1(a) when such reports are required to be filed with the Securities and Exchange Commission.

(b) Books and Records. The Lessee and its Subsidiaries shall at all times keep proper books of record and account in accordance with good business practices and GAAP (and, in the case of Subsidiaries other than Domestic Subsidiaries, local accounting rules or GAAP to the extent required).

(c) Inspections. The Lessee and its Subsidiaries shall permit personnel of the Agent and, if no Default or Event of Default has occurred and is continuing, with the consent of the Lessee (which consent shall not be unreasonably withheld or delayed; provided that

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the Lessee's consent shall not be required with respect to an inspection of the Property permitted under Section 27.1 of the Lease), any Person designated by the Agent, upon reasonable notice and during normal business hours, to visit and inspect any of the properties and offices of the Lessee and its Subsidiaries, to examine the books and records of the Lessee and its Subsidiaries and make copies thereof and to discuss the affairs, finances and accounts of the Lessee and its Subsidiaries with, and to be advised as to the same by, their officers, auditors and accountants, all at such times and intervals as the Agent may reasonably request. Notwithstanding any provision of this Agreement to the contrary, so long as no Default or Event of Default shall have occurred and be continuing, neither the Lessee nor any of its Subsidiaries shall be required to disclose, permit the inspection, examination, photocopying or making extracts of, or discuss, any document, information or other matter that (i) constitutes non-financial trade secrets or non-financial proprietary information or (ii) the disclosure of which to any Participant, or their designated representative, is then prohibited by law or any agreement binding on the Lessee or any of its Subsidiaries that was not entered into by the Lessee or any such Subsidiary for the purpose of concealing information from the Participants.

(d) Insurance. The Lessee and its Subsidiaries shall:

(i) Carry and maintain insurance of the types and in the amounts customarily carried from time to time during the Lease Term by others engaged in substantially the same business as such Person and operating in the same geographic area as such Person, including, but not limited to, fire, public liability, property damage and worker's compensation; and

(ii) Deliver to the Agent from time to time, as the Agent may request, schedules setting forth all insurance then in effect.

(iii) Notwithstanding clauses (i) and (ii) above, the Lessee and any of its Subsidiaries may self-insure in lieu of maintaining all or a portion of the insurance required to be maintained pursuant to this Section 10.1(d) to the extent determined by the Lessee's Board of Directors to be appropriate and in the best interests of the Lessee and its Subsidiaries taken as a whole and except to the extent provided in Article XV of the Lease with respect to the Property.

(e) Governmental Charges. The Lessee and its Subsidiaries shall promptly pay and discharge when due all taxes and other Governmental Charges prior to the date upon which penalties accrue thereon which, if unpaid, are reasonably likely to have a Material Adverse Effect, except such taxes and other Governmental Charges as may in good faith be contested or disputed, or for which arrangements for deferred payment have been made, provided that in each such case appropriate reserves are maintained in accordance with GAAP, and except as otherwise provided in Section 13 hereof or Article XIII of the Lease.

(f) General Business Operations. Each of the Lessee and its Subsidiaries shall, subject to the provisions of the Lease and the Operative Documents (i) subject to Section

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10.1(i) and 10.1(j), preserve and maintain its corporate existence and all of its material rights, privileges and franchises reasonably necessary to the conduct of its business, (ii) conduct its business activities in compliance with all Applicable Law and Contractual Obligations applicable to such Person, the violation of which is reasonably likely to have a Material Adverse Effect, (iii) keep all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted in accordance with prudent business practices, and (iv) pay and perform all Contractual Obligations as and when due (except to the extent disputed in good faith by the Lessee or the appropriate Subsidiary and where non-payment would not be reasonably expected to have a Material Adverse Effect). The Lessee shall maintain its chief executive office and principal place of business in the United States and shall not relocate its chief executive office or principal place of business outside of California without providing the Agent with prior written notice.

(g) Indebtedness. Neither the Lessee nor any of its Subsidiaries shall create, incur, assume or permit to exist any Indebtedness or any Guaranty Obligations except for the following ("Permitted Indebtedness"):

(i) The obligations of the Lessee under the Operative Documents and the Credit Documents;

(ii) Indebtedness listed in the Disclosure Letter existing on June 6, 1997;

(iii) Indebtedness of the Lessee and its Subsidiaries under loans and Capital Leases incurred by the Lessee or any of its Subsidiaries to finance the acquisition by such Person of real property, fixtures, equipment or other fixed assets provided that in each case, (A) such Indebtedness is incurred by such Person at the time of, or not later than six (6) months after, the acquisition by such Person of the property so financed and (B) such Indebtedness does not exceed the purchase price of the property so financed;

(iv) Indebtedness arising from the endorsement of instruments for collection in the ordinary course of the Lessee's or a Subsidiary's business;

(v) Indebtedness of the Lessee under the Convertible Subordinated Debentures;

(vi) Indebtedness of the Lessee under the External LC Agreement, provided that (A) the only credit extended to the Lessee pursuant to the External LC Agreement consists of letters of credit issued for the benefit of MKE or its affiliates to secure obligations owed by the Lessee to the beneficiaries for the purchase price of inventory; (B) the sum at any time of the aggregate face amount of all letters of credit issued and outstanding under the External LC Agreement plus the aggregate amount of all unreimbursed drawings under such letters of credit does not exceed eighty-five million Dollars (\$85,000,000); (C) the Indebtedness of the Lessee under the External LC Agreement is at all times either unsecured or secured by Liens

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permitted pursuant to clause (xvii) of Section 10.1(h); and (D) the financial covenants of the Lessee set forth in the External LC Agreement are less restrictive than the financial covenants set forth on Schedule V;

(vii) Subordinated Debt of the Lessee to any Person, provided that (A) such Indebtedness contains subordination provisions no less favorable to the Agents and the Participants than those set forth on Exhibit R or as otherwise approved by the Required Participants; and (B) the aggregate principal amount of all Subordinated Debt of the Lessee outstanding (including the Convertible Subordinated Debentures), measured at the time of issuance of such Subordinated Debt, does not exceed \$700,000,000;

(viii) Indebtedness of the type described in clause (h) of the definition of "Indebtedness" or clause (iii) of the definition of "Contingent Obligations";

(ix) Indebtedness of the Lessee and its Subsidiaries with respect to surety, appeal, indemnity, performance or other similar bonds in the ordinary course of business;

(x) Indebtedness of the Lessee and its Subsidiaries under initial or successive refinancings of any Indebtedness permitted by clause (i), (ii), (iii) or (vi) above, provided that the principal amount of any such refinancing does not exceed the principal amount of the Indebtedness being refinanced;

(xi) Indebtedness of the Lessee and its Subsidiaries for trade accounts payable, provided that (A) such accounts arise in the ordinary course of business and (B) no material part of such account is more than ninety (90) days past due (unless subject to a bona fide dispute and for which adequate reserves have been established);

(xii) Indebtedness of the Lessee and its Subsidiaries for expense accruals in the ordinary course of business;

(xiii) Guaranty Obligations or Contingent Obligations of the Lessee in respect of Permitted Indebtedness of its Subsidiaries or Guaranty Obligations or Contingent Obligations of any Subsidiary of the Lessee of the Permitted Indebtedness of one or more other Subsidiaries of the Lessee or of Permitted Indebtedness of the Lessee;

(xiv) Indebtedness of the Lessee to any of the Lessee's Subsidiaries, Indebtedness of any of the Lessee's Subsidiaries to the Lessee or Indebtedness of any of the Lessee's Subsidiaries to any of the Lessee's other Subsidiaries;

(xv) Indebtedness of the Lessee and its Subsidiaries in respect of any Permitted Receivables Facility;

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(xvi) Indebtedness of the Lessee and its Subsidiaries under Synthetic Leases;

(xvii) Indebtedness of the Lessee and its Subsidiaries incurred in connection with MKE-Quantum and constituting a Permitted Investment; and

(xviii) Indebtedness of the Lessee and its Subsidiaries not otherwise permitted hereunder, provided that the aggregate principal amount of all such Indebtedness does not exceed at any time ten percent (10%) of the total assets of the Lessee and its Subsidiaries determined as of the end of the fiscal quarter immediately preceding the date of determination.

(h) Liens. Neither the Lessee nor any of its Subsidiaries shall create, incur, assume or permit to exist any Lien on or with respect to any of its assets or property of any character, whether now owned or hereafter acquired, except for the following ("Permitted Liens"):

(i) Liens in favor of (x) any of the Agent or any Participant securing the obligations of the Lessee under the Operative Documents and (y) any of the Administrative Agent or any Bank securing the Credit Agreement Obligations;

(ii) Liens listed in the Disclosure Letter existing on June 6, 1997;

(iii) Liens for taxes or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith, provided that adequate reserves for the payment thereof have been established in accordance with GAAP;

(iv) Liens of carriers, warehousemen, mechanics, materialmen, vendors, and landlords and other similar Liens imposed by law incurred in the ordinary course of business for sums (A) not overdue or (B) being contested in good faith provided that adequate reserves for the payment thereof have been established in accordance with GAAP;

(v) Deposits under workers' compensation, unemployment insurance and social security laws or to secure the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, or to secure statutory obligations of surety or appeal bonds or to secure indemnity, performance or other similar bonds in the ordinary course of business;

(vi) Zoning restrictions, easements, rights-of-way, title irregularities and other similar encumbrances, which alone or in the aggregate are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Lessee or any of its Subsidiaries;

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(vii) Liens securing Indebtedness which constitutes Permitted Indebtedness under clause (iii) of Section 10.1(g) provided that, in each case, such Lien (A) covers only those assets, the acquisition of which was financed by such

Permitted Indebtedness (together with accessions, additions, replacements and proceeds thereof), and (B) secures only such Permitted Indebtedness and any related obligations of the Lessee or any of its Subsidiaries;

(viii) Liens on the property or assets of any Subsidiary of the Lessee in favor of the Lessee or any other Subsidiary of the Lessee;

(ix) Banker's Liens and similar Liens (including set-off rights) in respect of bank deposits;

(x) Liens incurred in connection with the extension, renewal or refinancing of the Indebtedness secured by the Liens described in clause (ii) or (vii) above, provided that any extension, renewal or replacement Lien (A) is limited to the property covered by the terms of the existing Lien and (B) secures Indebtedness which is no greater in amount and has material terms no less favorable to the Participants than the Indebtedness secured by the existing Lien;

(xi) Liens on property or assets of any corporation which becomes a Subsidiary of the Lessee after the date of this Agreement, provided that (A) such Liens exist at the time the stock of such corporation is acquired by the Lessee and (B) such Liens were not created in contemplation of such acquisition by the Lessee;

(xii) Judgement Liens, provided that such Liens do not have a value in excess of \$10,000,000 or such Liens are released, stayed, vacated or otherwise dismissed within thirty (30) days after issue or levy and, if so stayed, such stay is not thereafter removed;

(xiii) Rights of vendors or lessors under conditional sale agreements, Capital Leases or other title retention agreements, provided that, in each case, (A) such rights secure or otherwise relate to Permitted Indebtedness, (B) such rights do not extend to any property other than property acquired with the proceeds of such Permitted Indebtedness (together with accessions, additions, replacements and proceeds thereof) and (C) such rights do not secure any Indebtedness other than such Permitted Indebtedness;

(xiv) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties and in connection with the importation of goods in the ordinary course of the Lessee's and its Subsidiaries' businesses;

(xv) Liens on insurance proceeds in favor of insurance companies with respect to the financing of insurance premiums;

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(xvi) Liens in respect of any Permitted Receivables Facility;

(xvii) Liens on cash or Cash Equivalents securing reimbursement obligations of the Lessee under letters of credit (other than any Letters of Credit) in an aggregate amount of all such cash and Cash Equivalents does not exceed \$100,000,000;

(xviii) Liens securing Indebtedness and any related obligations of the Lessee or any of its Subsidiaries which constitutes Permitted Indebtedness under clause (xvi) of Section 10.1(g) (or refinancings of such Indebtedness under clause (x) of Section 10.1(g)), provided that such Lien covers only those assets subject to such Synthetic Leases (together with accessions, additions, replacements and proceeds thereof);

(xix) Liens securing any obligations of the Lessee or any of its Subsidiaries under the Prior Credit Agreement or any security agreements, pledge agreements, charges, debentures, agreements, documents, certificates or undertakings entered into in connection therewith or pursuant thereto; provided that the Lessee, its Subsidiaries and the Agents and the banks that are a party to the Prior Credit Agreement shall use their best efforts to terminate any such Liens within three (3) months of June 6, 1997;

(xx) Liens incurred in connection with leases, subleases,

licenses and sublicenses granted to Persons not interfering in any material respect with the business of the Lessee and its Subsidiaries and any interest or title of the Lessee or licensee under any such leases, subleases, licenses or sublicenses;

(xxi) Liens securing Indebtedness and any related obligations which constitute Permitted Indebtedness under clause (xvii) of Section 10.1(g) or Investments constituting Permitted Investments under clause (ix) of Section 10.1(j);

(xxiii) Liens on the property or assets of the Lessee and its Subsidiaries not otherwise permitted hereunder, provided that (A) the aggregate principal amount of all Indebtedness secured by such Liens does not exceed at any time ten percent (10%) of the total assets of the Lessee and its Subsidiaries determined as of the end of the fiscal quarter immediately preceding the date of determination and (B) such Liens do not encumber current assets of the Lessee and its Subsidiaries in excess of \$50,000,000.

(i) Asset Dispositions. Neither the Lessee nor any of its Subsidiaries shall Transfer all or any of its assets or property, whether now owned or hereafter acquired, except for the following:

(i) Transfers by the Lessee and its Subsidiaries in the ordinary course of their businesses;

(ii) Transfers of surplus, damaged, worn or obsolete assets or properties or Transfers of other assets or properties which are promptly being replaced;

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(iii) Transfers of assets on commercially reasonable terms of account receivables in connection with a Permitted Receivables Facility by the Lessee and its Subsidiaries (it being understood that any determination as to whether a particular Transfer is on commercially reasonable terms shall take into consideration any larger business transaction to which such particular Transfer is related);

(iv) Transfers by the Lessee to any of the Lessee's Subsidiaries or by any of the Lessee's Subsidiaries to the Lessee or any of the Lessee's other Subsidiaries;

(v) Transfers which constitute the making of or liquidation of Permitted Investments;

(vi) Transfers in connection with Indebtedness permitted pursuant to clause (iii) of Section 10.1(g);

(vii) Transfers of assets and property not otherwise permitted hereunder, provided that the aggregate value of all such assets and property (based upon the greater of the fair market or book value of such assets and property) so transferred in any period of four consecutive fiscal quarters does not exceed twenty percent (20%) of Tangible Net Worth as determined as of the end of the fiscal quarter immediately preceding the date of determination; and

(viii) Transfers of the Property permitted or required by the Lease and the other Operative Documents, including in connection with the exercise of remedies thereunder.

(j) Mergers, Acquisitions, Etc. Neither the Lessee nor any of its Subsidiaries shall consolidate with or merge into any other Person or permit any other Person to merge into it, except that:

(i) Any Subsidiary of the Lessee may merge into or consolidate with any other Subsidiary of the Lessee;

(ii) Any Subsidiary of the Lessee may merge into or consolidate with the Lessee provided that the Lessee is the surviving corporation;

(iii) the Lessee may merge into or consolidate with any other Person, provided that (A) the Lessee is the surviving corporation and (B) immediately after giving effect to such merger or consolidation no Default or Event of Default shall have occurred and be continuing; and

(iv) Any Subsidiary of the Lessee may merge into or consolidate with any other Person to the extent such transaction is a Transfer otherwise permitted under Section

immediately after giving effect to such merger or consolidation no Default or Event of Default shall have occurred and be continuing.

(k) Investments. Neither the Lessee nor any of its Subsidiaries shall make any Investment except the following ("Permitted Investments"):

(i) Direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United States of America or obligations of any agency of the United States of America to the extent such obligations are backed by the full faith and credit of the United States of America, in each case maturing within one year from the date of acquisition thereof;

(ii) Certificates of deposit maturing within one year from the date of acquisition thereof issued by a commercial bank or trust company organized under the laws of the United States of America or a state thereof or that is a Bank, provided that (A) such deposits are denominated in Dollars, (B) such bank or trust company has capital, surplus and undivided profits of not less than \$100,000,000 and (C) such bank or trust company has certificates of deposit or other debt obligations rated at least A-1 (or its equivalent) by S&P or P-1 (or its equivalent) by Moody's;

(iii) Open market commercial paper maturing within 270 days from the date of acquisition thereof issued by a corporation organized under the laws of the United States of America or a state thereof, provided such commercial paper is rated at least A-1 (or its equivalent) by S&P or P-1 (or its equivalent) by Moody's;

(iv) Any repurchase agreement entered into with a commercial bank or trust company organized under the laws of the United States of America or a state thereof or that is a Bank, provided that (A) such bank or trust company has capital, surplus and undivided profits of not less than \$100,000,000, (B) such bank or trust company has certificates of deposit or other debt obligations rated at least A-1 (or its equivalent) by S&P or P-1 (or its equivalent) by Moody's, (C) the repurchase obligations of such bank or trust company under such repurchase agreement are fully secured by a perfected security interest in a security or instrument of the type described in clause (i), (ii) or (iii) above and (D) such security or instrument so securing the repurchase obligations has a fair market value at the time such repurchase agreement is entered into of not less than one hundred percent (100%) of such repurchase obligations;

(v) Any transaction permitted by Section 10.1(j);

(vi) Money market mutual funds registered with the Securities and Exchange Commission, meeting the requirements of Rule 2a.-7 promulgated under the Investment Company Act of 1940;

(vii) Investments listed in the Disclosure Letter existing on June 6, 1997;

(viii) Investments in other assets properly classified as "marketable securities" or "cash" or "cash equivalents" under GAAP, and which conform to the investment policies adopted by the Board of Directors of the Lessee from time to time;

(ix) (A) Investments in MKE-Quantum in the form of (w) non-exclusive licenses of technology to MKE-Quantum, (x) tax or other indemnity obligations of the Lessee or any of its Subsidiaries in favor of MKE-Quantum, (y) advances against product to be purchased by the Lessee or any of its Subsidiaries from MKE-Quantum within a period of one year from the date of the making of the advance, and (z) (1) the value of any property transferred or leased to MKE-Quantum, (2) employee benefit obligations of the Lessee or any of its Subsidiaries in favor of any employees of MKE-Quantum, (3) the value of the administrative services provided by the Lessee or

any of its Subsidiaries in favor of MKE-Quantum, (4) the value of any personnel services provided by the Lessee or any of its Subsidiaries in favor of MKE-Quantum, and (5) the value of the use and occupancy of any facilities provided by the Lessee or any of its Subsidiaries, in the case of each of (1) through (5) above, to the extent the Lessee or any of its Subsidiaries is, or expects to be, reimbursed therefor, within one year of when such value is provided to MKE-Quantum, and (B) additional Investments in MKE-Quantum, provided that the aggregate amount of all such Investments made or incurred after June 6, 1997 pursuant to subclause (B) of this clause (ix) in any rolling four fiscal quarter period of the Lessee does not exceed the sum of \$100,000,000 plus any amounts actually received by the Lessee or any of its Subsidiaries as a return of Investments in MKE-Quantum during such rolling four quarter period plus any reductions in the primary obligations in underlying Investments constituting Guaranty Obligations during such rolling four fiscal quarter period; provided further that for purposes hereof, Investments constituting Indebtedness of MKE-Quantum acquired by the Lessee or any of its Subsidiaries shall be deemed to be in an amount equal to such Indebtedness and to be made when such Indebtedness is acquired (unless such Investment is a primary obligation underlying a Guaranty Obligation previously counted as an Investment) and Investments constituting Guaranty Obligations shall be deemed to be in an amount equal to the corresponding primary obligations and to be made at the time such primary obligations are incurred;

(x) Investments received by the Lessee and its Subsidiaries in connection with the bankruptcy or reorganization of customers and suppliers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(xi) Investments arising from rights received by the Lessee and its Subsidiaries upon the required payment of any permitted Contingent Obligations of the Lessee and its Subsidiaries;

(xii) Investments in or to the Lessee or any Wholly-Owned Subsidiary of the Lessee;

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(xiii) Investments of any Subsidiary of the Lessee existing at the time it becomes a Subsidiary of the Lessee provided that such Investments were not made in anticipation of such Person becoming a Subsidiary of the Lessee;

(xiv) Investments received by the Lessee or any of its Subsidiaries as consideration in connection with Transfers otherwise permitted under Section 10.1(i);

(xv) Investments in the nature of acquisitions provided that the aggregate amount of such acquisitions in any period of four consecutive fiscal quarters does not exceed twenty percent (20%) of Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination;

(xvi) Investments consisting of loans to employees, officers and directors, the proceeds of which shall be used to purchase equity securities of the Lessee or its Subsidiaries and other loans to employees, officers and directors;

(xvii) Investments of the Lessee and its Subsidiaries in interest rate protection, currency swap and foreign exchange arrangements, provided that all such arrangements are entered into in connection with bona fide hedging operations and not for speculation;

(xviii) Deposit accounts;

(xix) Investments constituting Cash Collateral; and

(xx) Investments (other than of the type set forth in clause (xiv) above) not otherwise permitted hereunder, provided that the aggregate amount of such other Investments made after June 6, 1997 (less any return of such Investment) does not exceed twenty percent (20%) of Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination.

(1) Dividends, Redemptions, Etc. Neither the Lessee nor any of

its Subsidiaries shall pay any dividends or make any distributions on its Equity Securities; purchase, redeem, retire, defease or otherwise acquire for value any of its Equity Securities; return any capital to any holder of its Equity Securities as such; make any distribution of assets, Equity Securities, obligations or securities to any holder of its Equity Securities as such; or set apart any sum for any such purpose, except as follows:

(i) the Lessee may pay dividends on its Equity Securities payable solely in the Lessee's own Equity Securities;

(ii) the Lessee may purchase, redeem, retire, defease or otherwise acquire for value Equity Securities in connection with or pursuant to any of its Employee Benefit Plans or in connection with the employment or compensation of officers or directors;

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(iii) the Lessee may purchase, redeem, retire, defease or otherwise acquire for value Equity Securities with the proceeds received from a substantially concurrent issue of new Equity Securities or with other Equity Securities;

(iv) the Lessee may purchase Equity Securities pursuant to stock repurchase programs provided that the aggregate payments under such programs do not exceed ten percent (10%) of Tangible Net Worth in any fiscal year as determined as of the fiscal quarter immediately preceding the date of determination;

(v) the Lessee may distribute rights pursuant to a shareholder rights plan or redeem such rights provided such redemption is in accordance with the terms of such shareholder rights plan;

(vi) Any Subsidiary of the Lessee may pay dividends or make distributions to the Lessee or any Wholly-Owned Subsidiary of the Lessee;

(vii) Any Subsidiary of the Lessee may purchase and redeem shares of their own Equity Securities from the Lessee or any Wholly-Owned Subsidiary of the Lessee; or

(viii) Any Subsidiary of the Lessee may declare or pay any dividends in respect of its Equity Securities or purchase or redeem shares of its Equity Securities or make distributions to shareholders not otherwise permitted hereunder provided that the aggregate amount paid or distributed in any period of four consecutive quarters (excluding any amounts covered by clauses (vi) or (vii) above) does not exceed five percent (5%) of Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination.

(m) Change in Business. Neither the Lessee nor any of its Subsidiaries shall engage, either directly or indirectly through Affiliates, in any line of business other than the digital storage business, any other business incidental or reasonably related thereto, or any businesses that are, as determined by the Board of Directors of the Lessee, appropriate extensions thereof.

(n) Certain Indebtedness Payments, Etc. Neither the Lessee nor any of its Subsidiaries shall pay, prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled payment thereof any Subordinated Debt except as otherwise permitted under this clause (n); amend, modify or otherwise change the terms of any document, instrument or agreement evidencing Subordinated Debt such that such amendment, modification or change would (i) cause the outstanding aggregate principal amount of all such Subordinated Debt so amended, modified or changed to be increased as a consequence of such amendment, modification or change, (ii) cause the subordination provisions applicable to such Subordinated Debt to be less favorable to the Agents and the Participants than those set forth on Exhibit R, (iii) increase the interest rate applicable thereto or (iv) accelerate the scheduled payment thereof, except that the Lessee may call for redemption the

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entire outstanding amount of the Convertible Subordinated Debentures and, to the extent such Convertible Subordinated Debentures are not converted prior to the redemption date, redeem such Convertible Subordinated Debentures, provided that (A) no Default or Event of

Default has occurred and is continuing or would result from such call for redemption or redemption and (B) the closing price of the common stock shall have exceeded one hundred twenty percent (120%) of the then applicable conversion price for twenty (20) trading days within a period of thirty (30) consecutive trading days ending within five (5) trading days prior to the notice of redemption. The Lessee shall not cause or permit any of its obligations, except the obligations constituting Senior Indebtedness to constitute "Designated Senior Indebtedness" under the indentures governing the Convertible Subordinated Debentures (it being understood that the obligations of the Lessee under the Operative Documents to purchase or to cause a third party purchase the Property and to pay Rent shall at all times constitute "Designated Senior Indebtedness").

(o) ERISA. Neither the Lessee nor any ERISA Affiliate shall (i) adopt or institute any defined benefit Employee Benefit Plan that is an employee pension benefit plan within the meaning of Section 3(2) of ERISA, (ii) take any action which will result in the partial or complete withdrawal, within the meanings of sections 4203 and 4205 of ERISA, from a Multiemployer Plan, (iii) engage or permit any Person to engage in any transaction prohibited by section 406 of ERISA or section 4975 of the Code involving any Employee Benefit Plan or Multiemployer Plan which would subject either the Lessee or any ERISA Affiliate to any tax, penalty or other liability including a liability to indemnify, (iv) incur or allow to exist any accumulated funding deficiency (within the meaning of section 412 of the Code or section 302 of ERISA), excluding all extensions permitted by law or contract, (v) fail to make full payment when due of all amounts due as contributions to any Employee Benefit Plan or Multiemployer Plan, (vi) fail to comply with the requirements of section 4980B of the Code or Part 6 of Title I(B) of ERISA, or (vii) adopt any amendment to any Employee Benefit Plan which would require the posting of security pursuant to section 401(a)(29) of the Code, if any of such actions or inactions described in clauses (vi)-(vii), either individually or cumulatively, would have a Material Adverse Effect.

(p) Transactions With Affiliates. Neither the Lessee nor any of its Subsidiaries shall enter into any Contractual Obligation with any Affiliate or engage in any other transaction with any Affiliate except upon terms at least as favorable to the Lessee or such Subsidiary as an arms-length transaction with unaffiliated Persons.

(q) Accounting Changes. Neither the Lessee nor any of its Subsidiaries shall change (i) its fiscal year (currently April 1 - March 31) or (ii) its accounting practices except as permitted by GAAP.

(r) Financial Covenants.

(i) the Lessee shall not permit its Quick Ratio to be less than 1.00 to 1.00 on the last day of each fiscal quarter.

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(ii) the Lessee shall not permit its Tangible Net Worth on any date of determination (such date to be referred to herein as a "determination date") which occurs after March 31, 1997 (such date to be referred to herein as the "base date") to be less than the sum on such determination date of the following:

(A) \$760,000,000;

plus

(B) Seventy-five percent (75%) of the sum of the Lessee's consolidated quarterly net income (ignoring any quarterly losses) for each quarter after the base date through and including the quarter ending immediately prior to the determination date;

plus

(C) Seventy-Five percent (75%) of the Net Proceeds of all Equity Securities issued by the Lessee and its Subsidiaries (excluding any issuance where the total proceeds are less than \$10,000,000) during the period commencing on the base date and ending on the determination date;

plus

(D) Ninety percent (90%) of the Net Proceeds derived from the conversion of the Convertible Subordinated Debentures;

minus

(E) the lesser of (1) the aggregate amount paid by the Lessee to repurchase its capital stock and (2) \$50,000,000.

(iii) In any consecutive four-quarter period, the Lessee shall not permit (A) more than two quarterly net losses aggregating to more than five percent (5%) of its Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination or (B) its cumulative net income for any consecutive four-quarter period to be less than one Dollar.

(iv) The Lessee shall not permit its Senior Funded Debt Ratio on the last day of any fiscal quarter to exceed thirty-five percent (35%).

(s) Appraisal. On or prior to the date that is not later than 30 days (or such later date as is acceptable to the Agent and the Lessor) after the Land Interest Acquisition Date, the Agent, the Lessor and the Participants shall have received an Appraisal of that portion of the Phase I project on the Land Interest described in the Preliminary Letter of Value delivered pursuant to Section 6.1(d), which Appraisal shall (i) show that the Fair Market Sales Value of the Land Interest

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with respect to such Property as of the projected Completion Date shall not exceed 25% of the Fair Market Sales Value of such Land Interest and the Improvements to be constructed thereon in accordance with the Plans and Specifications for Property, and (ii) show as of the projected Completion Date the Fair Market Sales Value of such Land Interest and the Improvements to be constructed thereon in accordance with the Plans and Specifications, and (iii) meet the other applicable requirements set forth in the definition of the term "Appraisal" contained in Appendix 1.

(t) No Impairment of Deposits. The Lessee shall not, nor shall it permit any of its Subsidiaries to, directly or indirectly, enter into or become bound by any agreement, instrument, indenture or other obligation which could directly or indirectly restrict, prohibit or require the consent of any Person to the making by the Lessee of any deposit of Cash Collateral or the realization thereon or utilization thereof (or of any earnings thereon or of any other Collateral) by the Lessor, the Agent or any of the Participants.

SECTION 10.2. Cooperation with the Lessee. The Lessor, the Participants and the Agent shall, to the extent reasonably requested by the Lessee (but without assuming additional liabilities, duties or other obligations on account thereof), at the Lessee's expense, cooperate with the Lessee in connection with its covenants contained herein including, without limitation, at any time and from time to time, upon the request of the Lessee, to promptly and duly execute and deliver any and all such further instruments, documents and financing statements (and continuation statements related thereto) as the Lessee may reasonably request in order to perform such covenants.

SECTION 10.3. Covenants of the Lessor. The Lessor hereby agrees that so long as this Participation Agreement is in effect:

(a) Discharge of Liens. The Lessor will not create or permit to exist at any time, and will, at its own cost and expense, promptly take such action as may be necessary duly to discharge, or to cause to be discharged, all Lessor Liens on the Property attributable to it; provided, however, that the Lessor shall not be required to so discharge any such Lessor Lien while the same is being contested in good faith by appropriate proceedings diligently prosecuted so long as such proceedings shall not involve any material danger of impairment of the Liens of the Lease or the Security Documents or of the sale, forfeiture or loss of, and shall not interfere with the use or disposition of, the Property or title thereto or any interest therein or the payment of Rent.

(b) Change of Chief Place of Business. The Lessor shall give prompt notice to the Lessee and the Agent if the Lessor's chief place of business or chief executive office, or the office where the records concerning the accounts or contract rights relating to the Property are kept, shall cease to be located at 135 South LaSalle Street, Chicago, Illinois 60603, or if it shall change its name, identity or corporate structure.

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SECTION 11.

PARTICIPATIONS

SECTION 11.1. Amendments; Actions on Default. (a) The Lessor shall have the right to forebear from exercising rights against the Lessee to the extent the Lessor shall determine in good faith that such forbearance is appropriate and is permitted by Section 15.5 and Sections 11.1, 11.2 and 11.3. Upon the direction of the Required Participants, the Lessor shall execute any waiver, modification or amendment of the Lease or the Construction Agency Agreement requested by the Lessee; provided, that: (i) the waiver, modification or amendment is not prohibited by the forgoing provisions of this Agreement, (ii) the waiver, modification or amendment does not (A) increase the amount the Lessor may be required to pay to the Lessee or anyone else, or (B) reduce or postpone (and cannot reasonably be expected to reduce or postpone) any payments that the Lessor would, but for such modification or amendment, be expected to receive, or (C) release the Lessor's interest in all or a substantial part of the Property; and (iii) the Lessor is not excused from executing the waiver, modification or amendment by Section 11.3.

(b) The Lessor will, with reasonable promptness, provide each Participant with copies of all default notices it sends or receives under the Lease or Construction Agency Agreement and notify each Participant of any Event of Default under the Lease of which it is aware and of any other matters which, in the Lessor's reasonable judgment, are likely to materially affect the payments each Participant will be required to make or be entitled to receive under this Agreement, but the Lessor will not in any event be liable to any Participant for the Lessor's failure to do so unless such failure constitutes gross negligence or willful misconduct on the part of the Lessor.

(c) Before taking possession of the Property or exercising foreclosure or offset rights against the Property or filing any lawsuit against the Lessee because of any breach by the Lessee of the Operative Documents or if requested in writing by any Participant at any time when an Event of Default has occurred and is continuing, the Lessor shall promptly call a meeting with each Participant and the Agent to discuss what, if anything, the Lessor should do. Such meeting shall be scheduled during regular business hours in the offices of the Agent, or another appropriate location in San Francisco, California, not earlier than five (5) and not later than twenty (20) Business Days after the Lessor's receipt of the written request from a Participant. If the Required Participants shall direct the Lessor in writing to (a) send any default notices required before a Default can become an Event of Default, or (b) bring a lawsuit against the Lessee to enforce the Operative Documents when an Event of Default has occurred and is continuing, then the Lessor shall send the notice or bring the suit, and the Lessor shall prosecute any such suit with reasonable diligence using reputable counsel. However, if the Agent is not a member of the Required Participants voting pursuant to this subsection 11.1(d) in favor of the giving of any such notice or the bringing of any such suit, then the Lessor may require that it first receive the written agreement (in form reasonably acceptable to the Lessor) of the members of the Required Participants so voting to indemnify the Agent and the Lessor from and against all costs, liabilities and claims that may be incurred by or asserted against the Lessor because of the action the Required Participants direct the Agent or the Lessor to take. In no event shall any Participant instigate any suit or other action directly against the Lessee with respect to the Operative Documents or the Property, even if such Participant would,

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but for this agreement, be entitled to do so as a third party beneficiary or otherwise under the Operative Documents.

(d) In the event the Lessee or its designee fails to purchase the Property after any exercise of its Purchase Option or Expiration Date Purchase Obligation or following the occurrence and continuance of an Event of Default, the Lessor shall, if the Required Participants shall agree in writing, bring suit against the Lessee to enforce the Operative Documents in such form as shall be recommended by reputable counsel, and thereafter the Lessor shall prosecute the suit with reasonable diligence in accordance with the advice of reputable counsel. If the Lessor acquires the interests of the Lessee in any of the Property as a result of such suit or otherwise, the Lessor shall thereafter proceed with reasonable diligence to sell the Property in a commercially reasonable manner to one or more bona fide third party purchasers and shall in any event endeavor to consummate the sale of the entire Property (through a single sale of the entire Property or a series of sales of parts) within five (5) years following the date the Lessor recovers possession of the Property at the best price or prices the Lessor believes are reasonably attainable within such time. Further, after the Designated Payment Date and prior to the Lessor's sale of the entire Property, the Lessor shall retain a property management company experienced in the area where the Property is located to manage the operation of the Property and pursue the leasing of any completed Improvements which are part of the Property. The Lessor shall not retain an Affiliate of the Lessor to act as the property manager except under a bona fide, arms-length management contract containing commercially reasonable terms. Further, after the Designated Payment Date and until the Lessor sells the Property, the Lessor shall (i) endeavor in good faith to maintain, or shall obtain the agreement of one or more of such tenants to maintain, the Property in good order and repair, (ii) procure and maintain casualty insurance against risks customarily insured against by owners of comparable properties, in amounts sufficient to eliminate

the effects of coinsurance, (iii) keep and allow each Participant to review accurate books and records covering the operation of the Property, and (iv) pay prior to delinquency all taxes and assessments lawfully levied against the Property.

(e) Notwithstanding the foregoing, Defaulting Participants shall have no voting or consent rights under this Section 11.1 and no rights to require the Lessor to call a meeting pursuant to Section 11.1(d) until they cease to be Defaulting Participants. During any period that any Defaulting Participants have no voting rights under this Section 11.1, only the Commitment Percentages of the other Participants that still have voting rights will be considered for purposes of determining the Required Participants.

SECTION 11.2. General. Subject to the limitations set forth in Section 11.1 and Section 14:

(a) The Lessor shall have the exclusive right to take any action and to exercise any available powers, rights and remedies to enforce the obligations of the Lessee under the Operative Documents, or to refrain from taking any such action or exercising any such power, right or remedy.

(b) The Lessor shall be entitled to (i) give any consent, waiver or approval requested by the Lessee with respect to any construction or other approval contemplated in the Lease or (ii) waive or consent to any adverse title claims affecting the Property, provided that, in either

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case, such action will not have a material adverse effect on the Lessee's obligations or ability to make the payments required under the Operative Documents, the Lessor's rights and remedies under the Operative Documents or any Participant's rights hereunder.

SECTION 11.3 Conflicts. Notwithstanding anything to the contrary herein contained, the Lessor shall be entitled, even over the objection of each Participant or the Required Participants, (i) to take any action required of the Lessor by, or to refrain from taking any action prohibited by, the Operative Documents or any law, rule or regulation to which the Lessor is subject (provided, that this Section shall not be construed to authorize the Lessor to take any action required by a modification of the Operative Documents prohibited by Section 11.1), and (ii) after notice to the Participants, to bring and prosecute a suit against the Lessee in the form recommended by and in accordance with advice of reputable counsel at any time when a breach of the Operative Documents by the Lessee shall have put the Lessor (or any of its officers or employees) at risk of criminal prosecution or significant liability to third parties or at any time after the Lessee or its designee fails to purchase the Property on the Designated Payment Date. Nothing herein contained shall be construed to require the Lessor to agree to modify the Operative Documents or to take any action or refrain from taking any action in any manner that could increase the Lessor's liability to the Lessee or others, that could reduce or postpone payments to which the Lessor is entitled thereunder, or that could reduce the scope and coverage of the indemnities provided for the Lessor's benefit therein.

SECTION 11.4. Refusal to Give Consents or Fund. If any Participant declines to consent to any amendment, modification, waiver, release or consent for which such Participant's consent is requested or required by reason of this Agreement, or if any Participant fails to pay any amount owed by it hereunder, the Lessor shall have the right, but not the obligation and without limiting any other remedy of the Lessor, to terminate such Participant's rights to receive any further payments under Section 3 of this Agreement (other than payments required because of the Lessor's collection of any Rent applied by the Lessor as reimbursement for a Defaulted Amount or interest on a Defaulted Amount) by paying such Participant a termination fee equal to the total of:

(i) all amounts actually advanced by such Participant to the Lessor under Section 3.4 hereof before the termination; excluding, however, any such amounts that were repaid to such Participant before the termination by actual payments made to such Participant by the Lessor of, or the Lessor's offset against, sums representing:

(A) Such Participant's Commitment Percentage times any payments of Rent received by the Lessor under the Lease; plus

(B) Such Participant's Commitment Percentage times any sales proceeds received by the Lessor under the Lease; and

(ii) Such Participant's Commitment Percentage, times:

(A) the then accrued but unpaid Basic Rent and Commitment Fees due under the Lease and hereunder; plus

(B) interest on past due amounts described in the preceding clause (A) computed at the Federal Funds Effective Rate; plus

(C) interest on any amounts (other than interest itself) past due from the Lessee or its designees under the Operative Documents, computed at the Federal Funds Effective Rate.

Such Participant's rights to receive payments equal to such Participant's Commitment Percentage of any Rent applied by the Lessor as reimbursement for a Defaulted Amount or interest on a Defaulted Amount shall not be impaired or affected by any termination contemplated in this Section 11.4; accordingly, the Lessor shall not, as a condition to such a termination, be required to reimburse such Participant for any payments such Participant has made in connection with Defaulted Amounts pursuant to Section 3.3.

SECTION 11.5. Required Repayments. Each Participant shall repay to the Lessor, upon written request or demand by the Lessor (i) any sums paid by the Lessor to such Participant under this Agreement from, or that were computed by reference to, any Rent or other amounts which the Lessor shall be required to return or pay over to another party, whether pursuant to any bankruptcy or insolvency law or proceeding or otherwise and (ii) any interest or other amount that the Lessor is also required to pay to another party with respect to such sums. Such repayment by any Participant shall not constitute a release of such Participant's right to receive such Participant's Commitment Percentage times the amount of any such Rent or any such other amount (or any interest thereon) that the Lessor may later recover.

SECTION 11.6. Indemnification. Each Participant agrees to indemnify and defend the Lessor (to the extent not reimbursed by the Lessee within ten (10) days after demand) from and against such Participant's Commitment Percentage of any and all liabilities, obligations, claims, expenses or disbursements (including reasonable fees of attorneys, accountants, experts and advisors) of any kind or nature whatsoever (in this Section 11.6 collectively called "Covered Liabilities") which to any extent (in whole or in part) may be imposed on, incurred by or asserted against the Lessor growing out of, resulting from or in any other way associated with the Property or the Operative Documents (including the enforcement thereof, whether exercised upon the Lessor's own initiative or upon the direction of the Required Participants) and the transactions and events at any time associated therewith or contemplated therein. The foregoing indemnification shall apply whether or not such Covered Liabilities are in any way or to any extent caused, in whole or in part, by any negligent act or omission of any kind by the Lessor; provided, only that no Participant shall be obligated under this Section 11.6 to indemnify the Lessor (i) for Covered Liabilities incurred in connection with any transfer or assignment by the Lessor of its right to receive Rent or its rights and interests in and to the Property, the Operative Documents or this Agreement to its Affiliates or (ii) for that portion or percentage, if any, of any of the Covered Liabilities which is proximately caused by: (A) the Lessor's own gross negligence or willful misconduct; (B) any representation made by the Lessor in the Operative Documents that is false in any material respect and that the Lessor knew was false at the time of the Lessor's execution of the Operative Documents; or (C) Lessor Liens not claimed by, through or under any of the Participants. After each Participant has paid its Percentage of any Covered Liabilities, each Participant shall be entitled to payment from the Lessor of an

amount equal to the Adjusted Percentage (as defined below) of any payments subsequently received by the Lessor as Excess Reimbursement (as defined below) for such Covered Liabilities. As used in this Section "Adjusted Percentage" shall equal (i) such Participant's Commitment Percentage, divided by (ii) the sum of the Commitment Percentages of all Participants who have paid the Lessor their respective shares of the Covered Liabilities at issue. As used in this Section, the term "Excess Reimbursement" shall mean, for the Covered Liabilities at issue, amounts reimbursed or paid by the Lessee to or on behalf of the Lessor on account of such Covered Liabilities in excess of (i) such Covered Liabilities, times (ii) the Commitment Percentages of any Participants that have not paid the Lessor their respective Percentages of such Covered Liabilities.

SECTION 11.7. Required Supplemental Payments. In the event that the Lessee fails to pay any Required Supplemental Payment when due (a "Defaulted Amount"), the Lessor shall notify each Participant of such Defaulted Amount, whereupon each Participant shall pay to the Lessor an amount equal to such Participant's Commitment Percentage times the Defaulted Amount; such payment from Participant to the Lessor shall be due prior to 2:00 p.m., San Francisco time, on the date of such notice if such notice is given by 12:00 noon, San Francisco time, otherwise prior to 12:00 noon, San Francisco time, on the next Business Day following such notice. After payment of a Participant's Commitment Percentage times the Defaulted Amount, any payments subsequently received by the Lessor from the Lessee as reimbursement for such Defaulted Amount, and any

interest received by the Lessor from the Lessee that accrued on the Defaulted Amount after the date of such Participant's payment of its Commitment Percentage times the Defaulted Amount, will constitute Supplemental Rent for purposes of computing payments due such Participant under this Agreement.

SECTION 11.8. Application of Payments Received From Defaulting Participant As a Cure For Payment Defaults. If after a failure to make a payment required by Section 3.4, any Defaulting Participant cures such failure, in whole or in part, by paying to the Lessor all or part of such payment and interest thereon at the Late Payment Rate, then the Lessor shall apply the payments so made to the Lessor, net of the costs of collecting such payments (the "Net Cure Proceeds"), or other funds available to the Lessor equal to the Net Cure Proceeds, in the following order before applying the same to any other purpose:

(i) first, to make payments to the Lessor itself equal to its Excess Investment (if any) until the Lessor shall no longer have any Excess Investment; and

(ii) second, to make further Advances to the Lessee under this Agreement to the extent the Lessor is required or deems it appropriate to do so; provided, that such further Advances do not cause the total Property Cost to exceed the sum of the Commitments.

SECTION 11.9. Order of Application. For purposes of this Agreement, the Lessor shall be entitled, but not required, to apply any payments received from the Lessee under the Operative Documents to satisfy (1) unpaid Required Supplemental Payments (and interest thereon) not included in Rent, if any, and (2) costs incurred by the Lessor because of any sale under the Lease before applying such payments to satisfy the Lessee's other obligations, regardless of how the Lessee may have designated such payments.

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SECTION 11.10. Investments Pending Dispute Resolution; Overnight Investments. Whenever the Lessor in good faith determines that it does not have all information needed to determine how payments to Participants must be made on account of any then existing Participation Interests which the Lessor has received, or whenever the Lessor in good faith determines that there is any dispute among the Participants about payments which must be made on account of Participation Interests actually received by the Lessor, the Lessor may choose to defer the payments which are the subject of such missing information or dispute. However, to minimize any such deferral, the Lessor shall attempt diligently to obtain any missing information needed to determine how payments to the Participants must be made. Also, pending any such deferral, or if the Lessor is otherwise required to invest funds pending distribution to the Participants, the Lessor shall invest funds equal to (i) the total of the Commitment Percentages of all Participants to whom payments have not been made with respect to the Participation Interests at issue, times (ii) the total percentages at issue. In addition, the Lessor shall endeavor to invest payments of Participation Interests it receives after 12:00 noon, San Francisco time, on the day in question that are to be paid to a Participant on the next Business Day pursuant to Section 3; provided that the Lessor shall have no liability to any Participant if the Lessor is unable to make such investments. Investments by the Lessor shall be in the overnight federal funds market pending distribution, and the interest earned on each dollar of principal so invested shall be paid to the Person entitled to receive such dollar of principal when the principal is paid to such Person.

SECTION 11.11. Agent to Exercise Lessor's Rights. The Lessor has assigned its interest in the Lease to the Agent, for the benefit of the Participants, pursuant to the Assignment of Lease. To the extent provided therein, the rights, remedies, duties and responsibilities of the Lessor contained in this Section 11 and in the other Operative Documents with respect thereto shall be exercisable by, binding upon and inure to the benefit of the Agent, for the benefit of the Participants.

SECTION 11.12. Exculpatory Provisions Regarding the Lessor. Subject to the provisions of Section 11.11, each Participant hereby irrevocably authorizes the Lessor to take such actions on its behalf as are expressly vested in or delegated to the Lessor by the terms of this Agreement and the other Operative Documents, together with such powers as are reasonably incidental thereto. The provisions of the following Sections of this Agreement are hereby incorporated by reference into this Section 11.12, substituting the word "Lessor" for "Agent" therein:

- (i) Section 14.1 - second sentence.
- (ii) Section 14.2 - all.
- (iii) Section 14.3 - all.
- (iv) Section 14.4 - all.
- (v) Section 14.5 - first sentence.

SECTION 12.

TRANSFERS OF PARTICIPANTS' INTERESTS

SECTION 12.1. Restrictions on and Effect of Transfer by Participants. No Participant may (without the prior written consent of the Agent and Lessee (not to be unreasonably withheld)) assign, convey or otherwise transfer (including pursuant to a participation) all or any portion of its right, title or interest in, to or under its Participation Interest or any of the Operative Documents or the Property, provided that (x) any Participant may pledge its interest without the consent of the Agent or the Lessee to any Federal Reserve Bank, (y) without the prior written consent of the Agent, any Participant may transfer all or any portion of its interest to any Affiliate of such Participant or to any other existing Participant and (z) the Lessor may not transfer its Tranche C Participation Interest in the absence of an Event of Default; provided; further, that in the case of any transfer (other than to such Affiliate) each of the following conditions and any other applicable conditions of the other Operative Documents are satisfied:

(a) Required Notice and Effective Date. Any Participant desiring to effect a transfer of its interest shall give written notice of each such proposed transfer to the Lessee, the Agent and each other Participant at least five (5) Business Days prior to such proposed transfer, setting forth the name of such proposed transferee, the percentage or interest to be retained by such Participant, if any, and the date on which such transfer is proposed to become effective. All reasonable out-of-pocket costs (including, without limitation, legal expenses) incurred by the Lessor, the Agent or any Participant in connection with any such disposition by a Participant under this Section 12.1 shall be borne by such transferring Participant. In the event of a transfer under this Section 12.1, any expenses incurred by the transferee in connection with its review of the Operative Documents and its investigation of the transactions contemplated thereby shall be borne by such transferee or the relevant Participant, as they may determine, but shall not be considered costs and expenses which the Lessee is obligated to pay or reimburse under Section 9. Any such proposed transfer shall become effective upon the later of (i) the date proposed in the transfer notice referred to above and (ii) the date on which all conditions to such transfer set forth in this Section 12.1 shall have been satisfied.

(b) Assumption of Obligations. Any transferee pursuant to this Section 12.1 shall execute and deliver to the Agent and the Lessee an Assignment and Acceptance in substantially the form attached as Exhibit J ("Assignment and Acceptance"), duly executed by such transferee and the transferring Participant, and a letter in substantially the form of the Participant's Letter attached hereto as Exhibit K ("Participant's Letter"), and thereupon the obligations of the transferring Participant under the Operative Documents shall be proportionately released and reduced to the extent of such transfer. Upon any such transfer as above provided, the transferee shall be deemed to be bound by all obligations (whether or not yet accrued) under, and to have become a party to, all Operative Documents to which its transferor was a party, shall be deemed the pertinent "Participant" for all purposes of the Operative Documents and shall be deemed to have made that portion of the payments pursuant to this Participation Agreement previously made or deemed to have been made by the transferor represented by the interest being conveyed; and each reference herein and in the other Operative Documents to the pertinent "Participant" shall thereafter be

deemed a reference to the transferee, to the extent of such transfer, for all purposes. Upon any such transfer, the Agent shall deliver to each Participant, the Lessor and the Lessee a new Schedule I and Schedule II to this Agreement, revised to reflect the relevant information for such new Participant and the Commitment of such new Participant (and the revised Commitment of the transferor Participant if it shall not have transferred its entire interest).

(c) Employee Benefit Plans. No Participant may make any such assignment, conveyance or transfer to or in connection with any arrangement or understanding in any way involving any employee benefit plan (or its related trust), as defined in Section 3(3) of ERISA, or with the assets of any such plan (or its related trust), as defined in Section 4975(e) (1) of the Code.

(d) Representations. Notwithstanding anything to the contrary set forth above, no Participant may assign, convey or transfer its interest to any Person, unless such Person shall have delivered to the Agent and the Lessee a certificate confirming the accuracy of the representations and warranties set forth in Section 8 with respect to such Person (other than as such representation or warranty relates to the execution and delivery of Operative Documents) and representing that such Person has, independently and without reliance upon the Agent, any other Participant or, except to the extent of the Lessee's representations made under the Operative Documents when made, the

Lessee, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into this transaction, the Property and the Lessee and made its own decision to enter into this transaction.

(e) Amounts; Agent's Fee. Any transfer of a Tranche A Participation Interest shall be in a principal amount which is equal to or greater than \$2,000,000; provided, that no such minimum transfer limitation shall be imposed on a transfer of a Tranche B Participation Interest or, if permitted to be transferred under Section 12.1, a Tranche C Participation Interest. Each transferring Participant shall pay to the Agent a transfer fee of \$2,500.

(f) Applicable Law. Such transfer shall comply with Applicable Law and shall not require registration under any securities law applicable thereto.

(g) Effect. From and after any transfer of its Participation Interest the transferring Participant shall be released, to the extent assumed by the transferee, from its liability and obligations hereunder and under the other Operative Documents to which such transferor is a party in respect of obligations to be performed on or after the date of such transfer. Upon any transfer by a Participant as above provided, any such transferee shall be deemed a "Participant" for all purposes of such documents and each reference herein to a Participant shall thereafter be deemed a reference to such transferee for all purposes to the extent of such transfer, except as the context may otherwise require. Notwithstanding any transfer as provided in this Section 12.1, the transferor shall be entitled to all benefits accrued and all rights vested prior to such transfer, including, without limitation, rights to indemnification under this Participation Agreement or any other Operative Document.

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SECTION 12.2. Covenants and Agreements of Participants.

(a) Participations. Each Participant covenants and agrees that it will not grant Participations in its Participation Interest to any Person (a "Sub-Participant") unless such participation complies with Applicable Law and does not require registration under any securities law applicable thereto and such Sub-Participant (i) is a bank or other financial institution and (ii) represents and warrants, in writing, to such Participant for the benefit of the Participants, the Lessor and the Lessee that (A) no part of the funds used by it to acquire an interest in any Participation Interest constitutes assets of any "employee benefit plan" (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA, or "plan" (as defined in Section 4975(e)(1) of the Code) and (B) such Sub-Participant is acquiring its interest for investment purposes without a view to the distribution thereof. Any such Person shall require any transferee of its interest in its Participation Interest to make the representations and warranties set forth in the preceding sentence, in writing, to such Person for its benefit and the benefit of the Participants, the Lessor and Lessee. In the event of any such sale by a Participant of a participating interest in its Participation Interest to a Sub-Participant, such Participant's obligations under this Participation Agreement and under the other Operative Documents shall remain unchanged, such Participant shall remain solely responsible for the performance thereof, such Participant shall remain the holder of its Participation Interest, for all purposes under this Participation Agreement and under the other Operative Documents, and the Lessor, the Agent and, except as set forth in Section 12.2(b), the Lessee shall continue to deal solely and directly with such Participant in connection with such Participant's rights and obligations under this Participation Agreement and under the other Operative Documents.

(b) Transferee Indemnities. Each Sub-Participant shall be entitled to the benefits of Sections 13.5, 13.6, and 13.7 and 13.10 with respect to its participation in the Participation Interests outstanding from time to time; provided that no Sub-Participant shall be entitled to receive any greater amount pursuant to such Sections than the transferor Participant would have been entitled to receive in respect of the amount of the participation transferred by such transferor Participant to such Sub-Participant had no such transfer or participation occurred.

SECTION 12.3. Future Participants. Each Participant shall be deemed to be bound by and, upon compliance with the requirements of this Section 12, will be entitled to all of the benefits of the provisions of, this Participation Agreement.

SECTION 13.

INDEMNIFICATION

SECTION 13.1. General Indemnification. The Lessee agrees, whether or not any of the transactions contemplated hereby shall be consummated, to assume liability for, and to indemnify, protect, defend, save and keep harmless each Indemnitee, on an After Tax Basis, from and against, any and all Claims that may

be imposed on, incurred by or asserted against such Indemnitee (whether because of action or omission by such Indemnitee or otherwise), whether or not such Indemnitee shall also be indemnified as to any such Claim by any other Person and whether or not

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such Claim arises or accrues prior to the Closing Date or after the Expiration Date, in any way relating to or arising out of:

(a) any of the Operative Documents or any of the transactions contemplated thereby or any violation thereof, and any amendment, modification or waiver in respect thereof;

(b) the Property, the Lease or any part thereof or interest therein;

(c) the purchase, design, construction, preparation, installation, inspection, delivery, non-delivery, acceptance, rejection, ownership, management, possession, operation, rental, lease, sublease, repossession, maintenance, repair, alteration, modification, addition or substitution, storage, transfer of title, redelivery, use, financing, refinancing, disposition, operation, condition, sale (including, without limitation, any sale pursuant to Sections 16.2, 16.3, 16.4, 17.2(c), 17.2(e) or 17.4 of the Lease or any sale pursuant to Articles XX or XXII of the Lease, return or other disposition of all or any part or any interest in the Property or the imposition of any Lien (or incurring of any liability to refund or pay over any amount as a result of any Lien) thereon, including, without limitation: (1) Claims or penalties arising from any violation of federal, state or local law, rule, regulation or order or in tort (strict liability or otherwise), (2) latent or other defects, whether or not discoverable, (3) any Claim based upon a violation or alleged violation of the terms of any restriction, easement, condition or covenant or other matter affecting title to the Property, (4) the making of any Modifications in violation of any standards imposed by any insurance policies required to be maintained by Lessee pursuant to the Lease which are in effect at any time with respect to the Property or any part thereof, (5) any Claim for patent, trademark or copyright infringement, and (6) Claims arising from any public improvements with respect to the Property resulting in any charge or special assessments being levied against the Property or any plans to widen, modify or realign any street or highway adjacent to the Property;

(d) the offer, issuance or sale of the Participation Interests, provided that (i) the Lessor shall not be entitled to indemnification under this clause (d) if it shall have been determined by a court of competent jurisdiction to have breached its representation set forth in Section 8.1(h), (ii) no Participant shall be entitled to indemnification under this clause (d) if it shall have been determined by a court of competent jurisdiction to have breached its representation set forth in Section 8.2(f) and (iii) neither the Lessor nor any Participant shall be entitled to indemnification under this clause (d) with respect to any Claim which a court of competent jurisdiction determines to have arisen out of the gross negligence or willful misconduct of the Lessor, the Agent or any Participant or its agents, employees or contractors (other than the Lessee) or any misrepresentation of a material fact made by the Lessor, the Agent or such Participant, unless the misrepresentation was made in reliance upon and in conformity with information furnished to the Lessor or such Participant, as applicable, by the Lessee or its agents, employees or contractors;

(e) the breach by the Lessee of any covenant, representation or warranty made by it or deemed made by it in any Operative Document or any certificate required to be delivered by any Operative Document;

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(f) the retaining or employment of any broker, finder or financial advisor by the Lessee to act on its behalf in connection with this Participation Agreement, or the incurring of any fees or commissions to which the Lessor might be subjected by virtue of entering into the transactions contemplated by this Participation Agreement;

(g) the existence of any Lien on or with respect to the Property, the Improvements, the Equipment, any Basic Rent or Supplemental Rent, title thereto, or any interest therein including any Liens which arise out of the possession, use, occupancy, construction, repair or rebuilding of the Property or by reason of labor or materials furnished or claimed to have been furnished to the Lessee, the Existing Owner, the Lessor or any of their contractors or agents or by reason of the financing of the Property or any personalty or equipment purchased or leased by the Lessee or Improvements or Modifications constructed by the Lessee, except Lessor Liens and Liens in favor of the Agent or the Lessor;

(h) the transactions contemplated by the Lessee hereby or by any other Operative Document, in respect of the application of Parts 4 and 5 of Subtitle B of Title I of ERISA and any prohibited transaction described in

Section 4975(c) of the Code (other than any Claim resulting from a breach of representation or warranty of the Lessor or any Participant); or

(i) the Existing Financing, any documentation relating thereto, the Existing Participants, the Existing Owner, or the purchase of the Property by the Lessor, or any matters arising therefrom or related thereto;

provided, however, the Lessee shall not be required to indemnify (x) the Lessor for any Claim to the extent arising from any misrepresentation by the Lessor under Section 8.1 (e) or (l) or from the failure by the Lessor to comply with Section 10.3 (a), or (y) any Indemnitee under this Section 13.1 for any of the following: (1) any Claim to the extent resulting from the willful misconduct or gross negligence of such Indemnitee or its agents, employees or contractors (other than the Lessee and its agents, employers or contractors) (it being understood that the Lessee shall be required to indemnify an Indemnitee even if the ordinary (but not gross) negligence of such Indemnitee caused or contributed to such Claim), (2) any Claim resulting from Lessor Liens which the Lessor is responsible for discharging under the Operative Documents, (3) any Claim to the extent attributable to acts or events occurring after the expiration of the Term or the termination of the Lessee's right to possess and control the Property (but not any claim to the extent attributable to acts or events occurring prior to or during the Term or occurring at any time that the Lessee is in actual possession or control of the Property), (4) any Imposition or other claims for Taxes, and (5) any Claims of the type(s) described in Sections 13.2 (only with respect to claims in respect of a decline in the Fair Market Sales Value of the Property as a result of an event described in Section 13.2(b) and the Lessee's exercise of the Remarketing Option), 13.6, 13.7, 13.8 and 13.10. It is expressly understood and agreed that the indemnity provided for herein shall survive the expiration or termination of and shall be separate and independent from any remedy under the Lease or any other Operative Document. Without limiting the express rights of any Indemnitee under this Section 13.1, this Section 13.1 shall be construed as an indemnity only and not a guaranty of residual value of the Property or as a guaranty of the Participation Interests.

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SECTION 13.2. End of Term Indemnity.

(a) If the Lessee elects the Remarketing Option and there would, after giving effect to the proposed remarketing transactions, be a Shortfall Amount, then prior to the Maturity Date and as a condition to the Lessee's right to complete the remarketing of the Property pursuant to Section 22.1 of the Lease, the Lessee shall cause to be delivered to the Lessor at least 30 days prior to either the Expiration Date or the last day of the Remarketing Period, if Section 17.2(h) of the Lease is applicable, at the Lessee's sole cost and expense, a report from an appraiser selected by the Lessor and reasonably satisfactory to the Agent and the Required Participants in form and substance satisfactory to the Lessor, the Agent and the Required Participants (the "End of the Term Report") which shall state the appraiser's conclusions as to the reason for any decline in the Fair Market Sales Value of the Property from that anticipated for such date in the Appraisal delivered on the Closing Date.

(b) Prior to the Expiration Date, the Lessee shall pay to the Lessor an amount (not to exceed the Shortfall Amount) equal to the portion of the Shortfall Amount that the End of the Term Report demonstrates was the result of a decline in the Fair Market Sales Value of the Property due to:

(i) extraordinary wear and tear, excessive usage, failure to maintain, to repair, to restore, to rebuild or to replace, failure to comply with the Lease and all applicable laws, failure to use, workmanship, method of installation or removal or maintenance, repair, rebuilding or replacement (excepting in each case ordinary wear and tear);

(ii) any Modification made to, or any rebuilding of, the Property or any part thereof by the Lessee or any sublessee; or

(iii) the existence of any Hazardous Activity, Hazardous Substance or Environmental Violations; or

(iv) any restoration or rebuilding carried out by the Lessee or any sublessee; or

(v) any condemnation of any portion of the Property pursuant to Article XV of the Lease; or

(vi) any use of the Property or any part thereof by the Lessee or any sublessee other than as permitted by the Operative Documents; or

(vii) any grant, release, dedication, transfer,

annexation or amendment made pursuant to Section 12.2 of the Lease; or

(viii) the failure of the Lessor to have good and marketable fee title to the Property free and clear of all Liens (including Permitted Liens and Permitted Exceptions) and exceptions to title, except (A) such Liens or exceptions to title that existed on the

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Closing Date and were disclosed in the policy of title insurance delivered pursuant to Section 6.1; (B) Lessor Liens; and (C) to the extent any such liability arising as a result of a title defect is offset by the proceeds of title insurance.

SECTION 13.3. Environmental Indemnity. Without limitation of the other provisions of this Section 13, the Lessee hereby agrees to indemnify, hold harmless and defend each Indemnitee from and against any and all claims (including without limitation third party claims for personal injury or real or personal property damage), losses (including but not limited to any loss of value of the Property), damages, liabilities, fines, penalties, charges, administrative and judicial proceedings (including informal proceedings) and orders, judgments, remedial action, requirements, enforcement actions of any kind, and all reasonable and documented costs and expenses incurred in connection therewith (including but not limited to reasonable and documented attorneys' and/or paralegals' fees and expenses), including, but not limited to, all costs incurred in connection with any investigation or monitoring of site conditions or any clean-up, remedial, removal or restoration work by any federal, state or local government agency, which such Indemnitee becomes subject to because of its involvement with the Property, the transactions contemplated by the Operative Documents or any other matter referred to in paragraphs (a) through (i) of Section 13.1 arising in whole or in part, out of:

(a) the presence on or under the Property of any Hazardous Substances, or any Releases or discharges of any Hazardous Substances on, under, from or onto the Property;

(b) any activity, including, without limitation, construction, carried on or undertaken on or off the Property, and whether by the Lessee, the Lessor, the Existing Owner or any predecessor in title or any employees, agents, contractors or subcontractors of the Lessee, the Lessor (if such activity was undertaken with the consent or at the direction of the Lessee), the Existing Owner or any predecessor in title, or any other Persons (including such Indemnitee), in connection with the handling, treatment, removal, storage, decontamination, cleanup, transport or disposal of any Hazardous Substances that at any time are located or present on or under or that at any time migrate, flow, percolate, diffuse or in any way move onto or under the Property;

(c) loss of or damage to any property or the environment (including, without limitation, cleanup costs, response costs, remediation and removal costs, cost of corrective action, costs of financial assurance, fines and penalties and natural resource damages), or death or injury to any Person, and all expenses associated with the protection of wildlife, aquatic species, vegetation, flora and fauna, and any mitigative action required by or under Environmental Laws;

(d) any claim concerning lack of compliance with Environmental Laws, or any act or omission causing an environmental condition that requires remediation or would allow any Governmental Authority to record a Lien on the land records;

(e) any residual contamination on or under the Property, or affecting any natural resources, or any contamination of any property or natural resources arising in connection with the generation, use, handling, storage, transport or disposal of any such Hazardous Substances, and

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irrespective of whether any of such activities were or will be undertaken in accordance with applicable Environmental Laws; or

(f) any material inaccuracies, misrepresentations, misstatements, and omissions and any conflicting information contained in or omitted from the Environmental Audit;

provided, however, the Lessee shall not be required to indemnify any Indemnitee under this Section 13.3 for (1) any Claim to the extent resulting from the willful misconduct or gross negligence of such Indemnitee or its agents, employees and contractors (other than the Lessee and its agents, employees and contractors) (it being understood that the Lessee shall be required to indemnify an Indemnitee even if the ordinary (but not gross) negligence of such Indemnitee caused or contributed to such Claim), (2) subject to the provisions Section 15.2 of the Lease, any Claim to the extent attributable to acts or events occurring after the expiration of the Term or the termination of the Lessee's right to possess and control the Property (but not any claim to the extent attributable to acts or events occurring prior to or during the Term or occurring at any time

that the Lessee is in actual possession or control of the Property), (3) any Imposition or other claims for Taxes of the type(s) described in Section 13.5 or (4) any Claims of the type(s) described in Sections 13.2 (only with respect to claims in respect of a decline in the Fair Market Sales Value of the Property and the Lessee's exercise of the Remarketing Option), 13.6, 13.7, 13.8 and 13.10. It is expressly understood and agreed that the indemnity provided for herein shall survive the expiration or termination of and shall be separate and independent from any remedy under the Lease or any other Operative Document.

SECTION 13.4. Proceedings in Respect of Claims. With respect to any amount that the Lessee is requested by an Indemnitee to pay by reason of Section 13.1 or 13.3, such Indemnitee shall, if so requested by the Lessee and prior to any payment, submit such additional information to the Lessee as the Lessee may reasonably request and which is in the possession of such Indemnitee to substantiate properly the requested payment.

In case any action, suit or proceeding shall be brought against any Indemnitee, such Indemnitee shall notify the Lessee of the commencement thereof, and the Lessee shall be entitled, at its expense, to participate in, and, to the extent that the Lessee desires to, assume and control the defense thereof; provided, however, that the Lessee shall have acknowledged in writing its obligation to fully indemnify such Indemnitee in respect of such action, suit or proceeding, and the Lessee shall keep such Indemnitee fully apprised of the status of such action, suit or proceeding and shall provide such Indemnitee with all information with respect to such action, suit or proceeding as such Indemnitee shall reasonably request, and provided further, that the Lessee shall not be entitled to assume and control the defense of any such action, suit or proceeding if and to the extent that, (A) in the reasonable opinion of such Indemnitee, (x) such action, suit or proceeding involves any possibility of imposition of criminal liability or any risk of material civil liability on such Indemnitee or will involve a material risk of the sale, forfeiture or loss of, or the creation of any Lien (other than a Permitted Exception) on the Property or any part thereof unless, in the case of civil liability or Lien, the Lessee shall have posted a bond or other security satisfactory to the relevant Indemnitee in respect to such risk or (y) the control of such action, suit or proceeding would involve an actual or potential conflict of interest, (B) such proceeding involves Claims not fully indemnified

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by the Lessee which the Lessee and the Indemnitee have been unable to sever from the indemnified claim(s), or (C) an Event of Default under the Lease has occurred and is continuing. The Indemnitee may participate in a reasonable manner at its own expense and with its own counsel in any proceeding conducted by the Lessee in accordance with the foregoing. The Lessee shall not enter into any settlement or other compromise with respect to any Claim which is entitled to be indemnified under Section 13.1 or 13.3 without the prior written consent of the Indemnitee which consent shall not be unreasonably withheld in the case of a money settlement not involving an admission of liability of such Indemnitee.

Each Indemnitee shall at the expense of the Lessee cooperate with and supply the Lessee with such information and documents reasonably requested by the Lessee as are necessary or advisable for the Lessee to participate in any action, suit or proceeding to the extent permitted by Section 13.1 or 13.3. Unless an Event of Default under the Lease shall have occurred and be continuing, no Indemnitee shall enter into any settlement or other compromise with respect to any Claim which is entitled to be indemnified under Section 13.1 or 13.3 without the prior written consent of the Lessee, which consent shall not be unreasonably withheld, unless such Indemnitee waives its right to be indemnified under Section 13.1 or 13.3 with respect to such Claim.

Upon payment in full of any Claim by the Lessee pursuant to Section 13.1 or 13.3 to or on behalf of an Indemnitee, the Lessee, without any further action, shall be subrogated to any and all claims that such Indemnitee may have relating thereto (other than claims in respect of insurance policies maintained by such Indemnitee at its own expense), and such Indemnitee shall execute such instruments of assignment and conveyance, evidence of claims and payment and such other documents, instruments and agreements as may be necessary to preserve any such claims and otherwise cooperate with the Lessee and give such further assurances as are necessary or advisable to enable the Lessee vigorously to pursue such claims.

Any amount payable to an Indemnitee pursuant to Section 13.1 or 13.3 shall be paid to such Indemnitee promptly upon receipt of a written demand therefor from such Indemnitee, accompanied by a written statement describing in reasonable detail the basis for such indemnity and the computation of the amount so payable and, if requested by the Lessee, such determination shall be verified by a nationally recognized independent accounting firm mutually acceptable to the Lessee and the Indemnitee at the expense of the Lessee.

SECTION 13.5. General Impositions Indemnity.

(a) Indemnification. The Lessee shall pay and assume liability for, and does hereby agree to indemnify, protect and defend the Property and all Indemnitees, and hold them harmless against, all Impositions on an After Tax Basis.

(b) Payments. (i) Subject to the terms of Section 13.5(f), the Lessee shall pay or cause to be paid all Impositions directly to the taxing authorities where feasible and otherwise to the Indemnitee, as appropriate, and the Lessee shall at its own expense, upon such Indemnitee's reasonable request, furnish to such Indemnitee copies of official receipts or other satisfactory proof evidencing such payment.

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(ii) In the case of Impositions for which no contest is conducted pursuant to Section 13.5(f) and which the Lessee pays directly to the taxing authorities, the Lessee shall pay such Impositions prior to the latest time permitted by the relevant taxing authority for timely payment. In the case of Impositions for which the Lessee reimburses an Indemnitee, the Lessee shall do so within twenty (20) days after receipt by the Lessee of demand by such Indemnitee describing in reasonable detail the nature of the Imposition and the basis for the demand (including the computation of the amount payable), but in no event shall the Lessee be required to pay such reimbursement prior to ten (10) days before the latest time permitted by the relevant taxing authority for timely payment. In the case of Impositions for which a contest is conducted pursuant to Section 13.5(f), the Lessee shall pay such Impositions or reimburse such Indemnitee for such Impositions, to the extent not previously paid or reimbursed pursuant to subsection (a), prior to the latest time permitted by the relevant taxing authority for timely payment after conclusion of all contests under Section 13.5(f).

(iii) At the Lessee's request, the amount of any indemnification payment by the Lessee pursuant to subsection (a) shall be verified and certified by an independent public accounting firm mutually acceptable to the Lessee and the Indemnitee. The fees and expenses of such independent public accounting firm shall be paid by the Lessee unless such verification shall result in an adjustment in the Lessee's favor of 5% or more of the payment as computed by the Indemnitee, in which case such fee shall be paid by the Indemnitee.

(c) Reports and Returns. (i) The Lessee shall be responsible for preparing and filing any real and personal property or ad valorem tax returns in respect of the Property. In case any other report or tax return shall be required to be made with respect to any obligations of the Lessee under or arising out of subsection (a) and of which the Lessee has knowledge or should have knowledge, the Lessee, at its sole cost and expense, shall notify the relevant Indemnitee of such requirement and (except if such Indemnitee notifies the Lessee that such Indemnitee intends to file such report or return) (A) to the extent required or permitted by and consistent with Applicable Law, make and file in its own name such return, statement or report; and (B) in the case of any other such return, statement or report required to be made in the name of such Indemnitee, advise such Indemnitee of such fact and prepare such return, statement or report for filing by such Indemnitee or, where such return, statement or report shall be required to reflect items in addition to any obligations of the Lessee under or arising out of subsection (a), provide such Indemnitee at the Lessee's expense with information sufficient to permit such return, statement or report to be properly made with respect to any obligations of the Lessee under or arising out of subsection (a). Such Indemnitee shall, upon the Lessee's request and at the Lessee's expense, provide any data maintained by such Indemnitee (and not otherwise available to or within the control of the Lessee) with respect to the Property which the Lessee may reasonably require to prepare any required tax returns or reports. Each Indemnitee agrees to use its best efforts to send to the Lessee a copy of any written request or other notice that the Indemnitee receives with respect to any reports or returns required to be filed with respect to the Property or the transactions contemplated by the Operative Documents, it being understood that no Indemnitee shall have any liability for failure to provide such copies.

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(d) Income Inclusions. If as a result of the payment or reimbursement by the Lessee of any expenses of the Lessor or the payment of any Transaction Expenses incurred in connection with the transactions contemplated by the Operative Documents, the Lessor or any Participant shall suffer a net increase in any federal, state or local income tax liability, the Lessee shall indemnify such Persons (without duplication of any indemnification required by subsection (a)) on an After Tax Basis for the amount of such increase. The calculation of any such net increase shall take into account any current or future tax savings realized or reasonably expected to be realized by such person in respect thereof, as well as any interest, penalties and additions to tax payable by the Lessor, or any Participant or such Affiliate, in respect thereof.

(e) Withholding Taxes. As between the Lessee on one hand, and the Lessor or the Agent and any Participant on the other hand, the Lessee shall

be responsible for, and, subject to the provisions of Sections 13.5(g) and (h), the Lessee shall indemnify and hold harmless the Lessor, the Agent and the Participants (without duplication of any indemnification required by subsection (a)) on an After Tax Basis against, any obligation for United States or foreign withholding taxes imposed in respect of payments with respect to the Participation Interests or with respect to Rent payments under the Lease or payments of the Asset Termination Value or Purchase Option Price (and, if the Lessor, the Agent or any Participant receives a demand for such payment from any taxing authority, the Lessee shall discharge such demand on behalf of the Lessor, the Agent or such Participant). Notwithstanding the foregoing provisions of this Section 13.5(e) or any other provision of any Operative Document to the contrary, the Lessee shall not be responsible for and shall not be required to indemnify or otherwise hold harmless any Person from or against any withholding tax imposed as a collection device for, or in substitution or lieu of, an income, franchise or similar tax to the extent such income, franchise or similar tax would not otherwise be subject to indemnification pursuant to this Section 13.5 (a "Qualified Withholding Tax"). As used herein, Qualified Withholding Taxes include, without limitation, any withholding taxes arising under Section 871, 881, 1441 or 1442 of the Code and any similar taxes arising under state, local or foreign law as well as any withholding tax imposed as a collection device for, or in substitution or lieu of the Imposition that qualifies as an "income tax" within the meaning of United States Treasury Regulation Section 1.901-2.

(f) Contests of Impositions. (i) If a written claim is made against any Indemnitee or if any proceeding shall be commenced against such Indemnitee (including a written notice of such proceeding), for any Impositions, such Indemnitee shall promptly notify the Lessee in writing and shall not take action with respect to such claim or proceeding without the consent of the Lessee for thirty (30) days after the receipt of such notice by the Lessee; provided, however, that, in the case of any such claim or proceeding, if action shall be required by law or regulation to be taken prior to the end of such 30-day period, such Indemnitee shall, in such notice to the Lessee, inform the Lessee of such shorter period, and no action shall be taken with respect to such claim or proceeding without the consent of the Lessee before 2 days before the end of such shorter period; provided, further, that the failure of such Indemnitee to give the notices referred to this sentence shall not diminish the Lessee's obligation hereunder except to the extent such failure precludes the Lessee from contesting all or part of such claim.

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(ii) If, within thirty (30) days of receipt of such notice from the Indemnitee (or such shorter period as the Indemnitee has notified the Lessee is required by law or regulation for the Indemnitee to commence such contest), the Lessee shall request in writing that such Indemnitee contest such Imposition, the Indemnitee shall, at the expense of the Lessee, in good faith conduct and control such contest (including, without limitation, by pursuit of appeals) relating to the validity, applicability or amount of such Impositions (provided, however, that (A) if such contest involves a tax other than a tax on net income and can be pursued independently from any other proceeding involving an unindemnified tax liability of such Indemnitee, the Indemnitee, at the Lessee's request, shall allow the Lessee to conduct and control such contest and (B) in the case of any contest, the Indemnitee may request the Lessee to conduct and control such contest) by, in the sole discretion of the Person conducting and controlling such contest, (1) resisting payment thereof, (2) not paying the same except under protest, if protest is necessary and proper, (3) if the payment be made, using reasonable efforts to obtain a refund thereof in appropriate administrative and judicial proceedings, or (4) taking such other action as is reasonably requested by the Lessee from time to time.

(iii) The party controlling any contest shall consult in good faith with the non-controlling party and shall keep the non-controlling party reasonably informed as to the conduct of such contest; provided, that all decisions ultimately shall be made in the sole discretion of the controlling party except that no decision shall be made to concede an indemnified issue without the prior consent of Lessee (which consent shall not be unreasonably withheld). The parties agree that an Indemnitee may at any time decline to take further action with respect to the contest of any Imposition and may settle such contest if such Indemnitee shall waive its rights to any indemnity from the Lessee that otherwise would be payable in respect of such claim (and any future claim by any taxing authority, the contest of which is precluded by reason of such resolution of such claim) and shall pay to the Lessee any amount previously paid or advanced by the Lessee pursuant to this Section 13.5 by way of indemnification or advance for the payment of an Imposition other than expenses of such contest.

(iv) Notwithstanding the foregoing provisions of this Section 13.5, an Indemnitee shall not be required to take any action and the Lessee shall not be permitted to contest any Impositions in its own name or that of the Indemnitee unless (A) the Lessee shall have agreed such Imposition is subject to indemnity hereunder and shall pay to such Indemnitee on demand and on an After Tax Basis all reasonable costs, losses and expenses that such

Indemnitee actually incurs in connection with contesting such Impositions, including, without limitation, all reasonable legal, accounting and investigatory fees and disbursements, (B) in the case of a claim that must be pursued in the name of an Indemnitee (or an Affiliate thereof), the amount of the potential indemnity (taking into account all similar or logically related claims that have been or could be raised in any audit involving such Indemnitee for which the Lessee may be liable to pay an indemnity under this Section 13.5) exceeds \$10,000, (C) the Indemnitee shall have reasonably determined that the action to be taken will not result in any material danger of sale, forfeiture or loss of the Property, or any part thereof or interest therein, will not interfere with the payment of Rent, and will not result in risk of criminal liability, (D) if such contest shall involve the payment of the Imposition prior to the contest, the Lessee shall provide to the Indemnitee an interest-free advance in an amount equal to the Imposition that the Indemnitee is required to pay (with no additional net after-tax cost to such Indemnitee), (E) in the case of a claim that must be pursued in the name of an Indemnitee (or an

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Affiliate thereof), the Lessee shall have provided to such Indemnitee an opinion of independent tax counsel selected by the Indemnitee and reasonably satisfactory to the Lessee stating that a reasonable basis exists to contest such claim (or, in the case of an appeal of an adverse judicial determination, an opinion of such counsel to the effect that there is substantial authority for the position asserted in such appeal) and (F) no Event of Default hereunder shall have occurred and be continuing. In no event shall an Indemnitee be required to appeal an adverse judicial determination to the United States Supreme Court. In addition, an Indemnitee shall not be required to contest any claim in its name (or that of an Affiliate) if the subject matter thereof shall be of a continuing nature and shall have previously been decided adversely by a court of competent jurisdiction pursuant to a contest completed in accordance with the provisions of this Section 13.5, unless there shall have been a change in law (or interpretation thereof) and the Indemnitee shall have received, at the Lessee's expense, an opinion of independent tax counsel selected by the Indemnitee and reasonably acceptable to the Lessee stating that as a result of such change in law (or interpretation thereof), it is more likely than not that the Indemnitee will prevail in such contest.

(g) Documentation of Withholding Status. Each Participant (or any successor thereto or transferee thereof) that is organized under the laws of a jurisdiction outside of the United States of America and each Lessor that is organized under the laws of a jurisdiction outside of the United States of America shall:

(i) on or before the date it becomes a party to any Operative Document, deliver to the Lessee any certificates, documents, or other evidence that shall be required by the Code or Treasury Regulations issued pursuant thereto to establish its exemption from United States Federal withholding requirements, including (A) two valid, duly completed, original copies of Internal Revenue Service Form 1001 or Form 4224 or successor applicable form, properly and duly executed, certifying in each case that such party is entitled to receive payments pursuant to the Operative Documents without deduction or withholding of United States Federal income taxes, or (B) a valid, duly completed, original copy of Internal Revenue Service Form W-8 or Form W-9 or applicable successor form, properly and duly executed, certifying that such party is entitled to an exemption from United States of America backup withholding tax; and

(ii) so long as it shall be legally entitled to do so, on or before the date that any such form described above expires or becomes obsolete, or after the occurrence of any event requiring a change in the most recent such form previously delivered to the Lessee, deliver to the Lessee two further valid, duly completed, original copies of any such form or certification, properly and duly executed.

(h) Limitation on Tax Indemnification. The Lessee shall not be required to indemnify any Indemnitee, or to pay any increased amounts to any Indemnitee or tax authority with respect to any Impositions pursuant to this Section 13.5 to the extent that (i) such Imposition is attributable to such Indemnitee's failure to comply with the provisions of Section 13.5(g); or (ii) to the extent such Imposition constitutes or is collected by means of a Qualified Withholding Tax.

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(i) Tax Savings. In the event an Indemnitee receives a refund (or similar tax savings) in respect of any Imposition paid or reimbursed by the Lessee which was not considered in calculating the After Tax Basis with respect to such payment or reimbursement by Lessee, such Indemnitee shall within thirty (30) days thereafter remit the amount of such refund (or tax savings) to the

Lessee, provided that the amount so remitted shall not exceed the lesser of: (i) the amount received by such Indemnitee as a refund (or tax savings) net of all reasonable costs and expenses incurred by such Indemnitee in connection with obtaining and paying such amount; and (ii) (a) the amount of all prior payments by the Lessee to such Indemnitee with respect to Impositions, plus any refunded interest, less (b) the amount of all prior payments by the Indemnitee to the Lessee under this Section 13.5(i).

SECTION 13.6. Funding Losses. If any payment of any Advance or any portion of any Participation Interest is made on any day other than the last day of an Interest Period applicable thereto, or if the Lessee fails to utilize the proceeds of any purchase of Participation Interests after notice has been given to any Participant in accordance with Section 3 or 4, the Lessee shall reimburse each Participant within fifteen (15) days after demand for any Funding Losses provided that such Participant shall have delivered to the Lessee a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error, and provided further that such loss shall in no event exceed the interest on the Advances which would have been payable for the balance of such Interest Period or other period, less the amount actually earned by such Participant on such Advances. Such Participant will, at the request of the Lessee, furnish such additional information concerning the determination of such loss as the Lessee may reasonably request.

SECTION 13.7. Regulation D Compensation. For so long as any Participant is required by a Change of Law to increase its existing reserve percentage above that applicable under existing law as of the Effective Date against "Eurocurrency Liabilities" (or any other category of liabilities which include deposits by reference to which the interest rate on its Participation Interest in any Advance is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of such Participant to United States residents), and, as a result, the cost to such Participant (or its Funding Office) of purchasing or maintaining its Participation Interest in any Advance is increased, then such Participant may require the Lessee to pay, contemporaneously with each payment of interest or Yield on the Advances an additional amount on the Participation Interest of such Participant in the Advances at a rate per annum up to but not exceeding the excess of (i) (A) the applicable Eurodollar Rate divided by (B) one minus the Eurocurrency Reserve Requirements and (ii) the applicable Eurodollar Rate. Any Participant wishing to require payment of such additional amount (x) shall so notify the Lessee and the Agent, in which case such additional interest on its Participation Interest in any Advance shall be payable to such Participant at the place indicated in such notice with respect to each Interest Period commencing at least three (3) Business Days after the giving of such notice and (y) shall furnish to the Lessee at least five (5) Business Days prior to each date on which interest is payable on the Advance an officer's certificate setting forth the amount to which such Participant is then entitled under this Section (which shall be consistent with such Participant's good faith estimate of the level at which the related reserves are maintained by it). Each such certificate shall be accompanied by such information as the Lessee may reasonably request as to the computation set forth therein.

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SECTION 13.8. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period:

(a) deposits in dollars (in the applicable amounts) are not being offered to the Agent in the relevant market for such Interest Period or any Participants shall advise the Agent that the Eurodollar Rate as determined by the Agent will not adequately and fairly reflect the cost to such Participant of funding its Participation Interest in any Advance for such Interest Period; or

(b) any Participant determines that, by reason of the adoption, on or after the date of this Participation Agreement, of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Participant (or its Funding Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or governmental agency, it is restricted, directly or indirectly, in the amount it may hold of (i) a category of liabilities that includes deposits by reference to which, or on the basis of which, the interest rates applicable to Advances to fund its Participation Interest Commitment based on the Eurodollar Rate are directly or indirectly determined, or (ii) the category of assets which includes Advances to fund its Participation Interest Commitment based on the Eurodollar Rate;

the Agent shall forthwith give notice thereof to the Lessee and the Participants, whereupon until the Agent notifies the Lessee that the circumstances giving rise to such suspension no longer exist, each outstanding Advance shall begin to bear interest on the last day of the then current Interest Period applicable thereto at a rate per annum equal to the sum of (i) the Participants' average cost of funds employed to fund their Participation

Interests, as notified to the Agent and the Lessee, plus (ii) the Applicable Margin for Eurodollar Rate-based Advances at such time.

SECTION 13.9. Illegality. If, on or after the date of this Participation Agreement, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Participant (or its Funding Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency (a "Charge of Law"), shall make it unlawful or impossible for any Participant (or its Funding Office) to purchase, maintain or fund its Participation Interest in any Advance and such Participant shall so notify the Agent, the Agent shall forthwith give notice thereof to the other Participants and the Lessee, whereupon until such Participant notifies the Lessee and the Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Participant to purchase its Participation Interest in any Advance shall be suspended. Before giving any notice to the Agent pursuant to this Section, such Participant shall, if practicable, with the consent of the Lessee (which consent shall not unreasonably be withheld), designate a different Funding Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Participant, be otherwise disadvantageous to such Participant. If such notice is given (i) the Lessee shall be entitled upon its request to a reasonable explanation of the factors underlying such notice and (ii) each outstanding Participation Interest in any Advance of such Participant then outstanding shall begin to bear interest at the Alternate Base Rate either (a)

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on the last day of the then current Interest Period applicable to such Advance if such Participant may lawfully continue to maintain and fund such Participation Interest to such day or (b) immediately if such Participant shall determine that it may not lawfully continue to maintain and fund such Participation Interest to such day. If such notice is given the Lessee may exercise its Purchase Option under Section 20.1 of the Lease upon not less than ten (10) days' written notice to the Lessor, the Agent and the Participants.

SECTION 13.10. Increased Cost and Reduced Return. (a) In the event that the adoption of any applicable law, rule or regulation, or any change therein or in the interpretation or application thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof or compliance by any Participant with any request or directive after the date hereof (whether or not having the force of law) of any such authority, central bank or comparable agency:

(i) does or shall subject such Participant to any additional tax of any kind whatsoever with respect to the Operative Documents or any purchase of a Participation Interest in any Advance, or change the basis or the applicable rate of taxation of payments to such Participant of its Participation Interest or any other amount payable hereunder (except for the imposition of or change in (x) any tax on or measured by the overall net income of such Participant including, without limitation, any tax that qualifies as an "income tax" within the meaning of United States Treasury Regulation Section 1.901-2 and which is not an Imposition or (y) any Qualified Withholding Tax);

(ii) does or shall impose, modify or hold applicable any reserve, special deposit, insurance assessment, compulsory loan or similar requirement against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of such Participant which are not otherwise included in determination of the rate of interest on Advances hereunder; or

(iii) does or shall impose on such Participant any other condition;

and the result of any of the foregoing is to increase the cost to such Participant of purchasing or maintaining its Participation Interest in any Advance or to reduce any amount receivable hereunder with respect thereto, then in any such case, the Lessee shall promptly pay such Participant, upon its demand, any additional amounts necessary to compensate such Participant for such increased cost or reduced amount receivable which such Participant deems to be material as determined by such Participant provided, however, that the Lessee shall not be obligated to pay any Participant for any such increased costs or reduced amounts incurred more than sixty (60) days prior to the date of such Participant's demand for payment if such demand was made more than sixty (60) days after the latest of (A) the date such Participant received actual notice of such increased cost or reduced amount, (B) the effective date of such change or (C) the date such change occurred or was enacted.

(b) If any Participant shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding

or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency has or would have the effect of reducing the rate of return on capital of such Participant (or any entity directly or indirectly controlling such Participant) as a consequence of such Participant's obligations under the Operative Documents to a level below that which such Participant (or any entity directly or indirectly controlling such Participant) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Participant to be material, then from time to time, within 15 days after demand by such Participant (with a copy to the Agent), the Lessee shall pay to such Participant such additional amount or amounts as will compensate such Participant (or its parent) for such reduction.

(c) Each Participant will promptly notify the Lessee and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Participant to compensation pursuant to this Section and will, if practicable, with the consent of the Lessee (which consent shall not unreasonably be withheld), designate a different Funding Office or take any other reasonable action if such designation or action will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Participant, be otherwise disadvantageous to such Participant. A certificate of any Participant claiming compensation under this Section and setting forth in reasonable detail its computation of the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Participant may use any reasonable averaging and attribution methods. This Section shall survive the termination of this Participation Agreement and payment of the outstanding Advances and Participation Interests.

SECTION 13.11. Substitution of Participant. If (i) the obligation of any Participant to purchase or maintain its Participation Interest has been suspended pursuant to this Section 13, or (ii) any Participant has demanded compensation or given notice of its intention to demand compensation under Sections 13.1, 13.2, 13.5 or 13.10, the Lessee shall have the right, with the assistance of the Agent, to seek one or more mutually satisfactory substitute banks or financial institutions (which may be one or more of the Participants) to replace such Participant under the Operative Documents.

SECTION 13.12. Indemnity Payments in Addition to Residual Value Guarantee Amount. The Lessee acknowledges and agrees that its obligations to make indemnity payments under this Section 13 are separate from, in addition to, and do not reduce, its obligation to pay the Residual Value Guarantee Amount under the Lease; provided, that except as otherwise set forth in Section 13.2 hereof, the Shortfall Amount payable by the Lessee in connection with the Remarketing Option under the Lease shall not be increased under this Section 13.

SECTION 14.

THE AGENT

SECTION 14.1. Appointment. Each Participant hereby irrevocably designates and appoints the Agent as the agent of such Lender under this Agreement and the other Operative Documents, and each Participant irrevocably authorizes the Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and the other Operative Documents and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement and the other Operative Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Participant or any other party to the Operative Documents, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Operative Document or otherwise exist against the Agent.

SECTION 14.2. Delegation of Duties. The Agent may execute any of its duties under this Agreement and the other Operative Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

SECTION 14.3. Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such

Person under or in connection with this Agreement or any other Operative Document (except for its or such Person's own gross negligence or willful misconduct) or (b) responsible in any manner to any of the Participants or any other party to the Operative Documents for any recitals, statements, representations or warranties made by the Lessor or the Lessee or any officer thereof contained in this Agreement or any other Operative Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Operative Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Operative Document or for any failure of the Lessor or the Lessee to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Participant or any other party to the Operative Documents to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Operative Document, or to inspect the properties, books or records of the Lessor or the Lessee.

SECTION 14.4. Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Lessor

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or the Lessee), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Operative Document unless it shall first receive such advice or concurrence of the Required Participants as it deems appropriate or it shall first be indemnified to its satisfaction by the Participants against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Operative Documents in accordance with a request of the Required Participants, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Participants.

SECTION 14.5. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default unless the Agent has received notice from a Participant, the Lessor or the Lessee describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give notice thereof to the other parties hereto. Subject to the provisions of Section 11 and Section 15.5 hereof, the Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Participants; provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Participants.

SECTION 14.6. Non-Reliance on Agent and Other Participants. Each Participant expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Lessor or the Lessee, shall be deemed to constitute any representation or warranty by the Agent to any Participant. Each Participant represents to the Agent that it has, independently and without reliance upon the Agent or any other Participant, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Lessor, the Lessee and the Property and made its own decision to purchase its Participation Interest hereunder and enter into this Agreement. Each Participant also represents that it will, independently and without reliance upon the Agent, the Lessor or any other Participant, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Operative Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Lessor and the Lessee. Except for notices, reports and other documents expressly required to be furnished to the Participants by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Participant with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Lessor or the Lessee which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

SECTION 14.7. Indemnification. The Participants agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Lessee and without limiting the obligation of

the Lessee to do so), ratably according to their respective Commitment Percentages in effect on the date on which indemnification is sought under this Section 14.7 (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Participation Interests shall have been paid in full, ratably in accordance with their Commitment Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Participation Interests) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of, the Commitments, this Agreement, the Property, any of the other Operative Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by any of them under or in connection with any of the foregoing; provided that no Participant shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the gross negligence or willful misconduct of the Agent. The agreements in this Section 14.7 shall survive the payment of the Participation Interests and all other amounts payable hereunder.

SECTION 14.8. Agent in its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Lessor or the Lessee as though the Agent were not the Agent hereunder and under the other Operative Documents. With respect to its Participation Interest purchased by it, the Agent shall have the same rights and powers under this Agreement and the other Operative Documents as any Participant and may exercise the same as though it were not the Agent, and the terms "Participant" and "Participants" shall include the Agent in its individual capacity.

SECTION 14.9. Successor Agent. The Agent may resign as Agent upon 20 days' notice to the Participants, the Lessor or the Lessee. If the Agent shall resign as Agent under this Agreement and the other Operative Documents, then the Required Participants shall appoint a successor agent for the Participants, which successor agent shall be a commercial bank organized under the laws of the United States of America or any State thereof or under the laws of another country which is doing business in the United States of America and having a combined capital, surplus and undivided profits of at least \$100,000,000 (and if no Default or Event of Default exists, shall be approved by the Lessee (which consent shall not be unreasonably withheld)), whereupon such successor agent shall succeed to the rights, powers and duties of the Agent, and the term "Agent" shall mean such successor agent effective upon such appointment and approval, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement. If no successor Agent has accepted appointment as Agent by the date which is 20 days following a resigning Agent's notice of resignation, the resigning Agent's resignation shall nevertheless thereupon become effective and the Participants shall perform all of the duties of the Agent hereunder until such time, if any, as the Required Participants appoint a successor Agent as provided above. After any retiring Agent's resignation as Agent, all of the provisions of this Section 14 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement and the other Operative Documents.

SECTION 15.

MISCELLANEOUS

SECTION 15.1. Survival of Agreements. The representations, warranties, covenants, indemnities and agreements of the parties provided for in the Operative Documents, and the parties' obligations under any and all thereof, shall survive the execution and delivery of this Participation Agreement, the transfer of the Property to the Lessor, the construction of any Improvements, any disposition of any interest of the Lessor in the Property or any Improvements, payment of the Advances and the Participation Interests and any disposition thereof and shall be and continue in effect notwithstanding any investigation made by any party and the fact that any party may waive compliance with any of the other terms, provisions or conditions of any of the Operative Documents. Except as otherwise expressly set forth herein or in other Operative Documents, the indemnities of the parties provided for in the Operative Documents shall survive the expiration or termination of any thereof.

SECTION 15.2. No Broker, etc. Each of the parties hereto represents to the others that it has not retained or employed any broker, finder or financial adviser to act on its behalf in connection with this Participation Agreement or the transactions contemplated herein, nor has it authorized any broker, finder or financial adviser retained or employed by any other Person so to act. Any party who is in breach of this representation shall indemnify and hold the other parties harmless from and against any liability arising out of such breach of

this representation.

SECTION 15.3. Notices. Unless otherwise specifically provided herein, all notices, consents, directions, approvals, instructions, requests and other communications required or permitted by the terms hereof to be given to any Person shall be given in writing and delivered (i) personally, (ii) by a nationally recognized overnight courier service, (iii) by mail (by registered or certified mail, return receipt requested, postage prepaid) or (iv) by facsimile, in each case directed to the address of such Person as indicated on Schedule III. Any such notice shall be effective upon receipt or refusal.

From time to time any party may designate a new address for purposes of notice hereunder by written notice to each of the other parties hereto in accordance with this Section.

SECTION 15.4. Counterparts. This Participation Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 15.5. Amendments. Subject to the provisions of Section 11 hereof, no Operative Document nor any of the terms thereof may be terminated, amended, supplemented, waived or modified with respect to the Lessee, the Lessor, the Agent or any Participant, except (a) in the case of a termination, amendment, supplement, waiver or modification to be binding on the Lessee, the Lessor or the Agent, with the written agreement or consent of such party, and (b) in the case of a termination, amendment, supplement, waiver or modification to be binding on the

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Participants, with the written agreement or consent of the Required Participants; provided, however, that

(x) no such termination, amendment, supplement, waiver or modification shall without written agreement or consent of each Participant:

(i) modify any of the provisions of Section 11 of this Agreement or this Section 15.5, change the definition of "Required Participants" or modify or waive any provision of an Operative Agreement requiring action by the foregoing;

(ii) amend, modify, waive or supplement any of the provisions of Sections 3.6, 3.7 or 3.10 - 3.21 of this Agreement or the representations of such Participant in Section 8 or the covenants in Sections 7 and 10 of this Participation Agreement;

(iii) reduce, modify, amend or waive any fees or indemnities in favor of any Participant, including without limitation amounts payable pursuant to Section 13 (except that any Person may consent to any reduction, modification, amendment or waiver of any indemnity or fee payable to it);

(iv) modify, postpone, reduce or forgive, in whole or in part, any payment of Rent (other than pursuant to the terms of any Operative Agreement), any payment in respect of its Participation Interest, or any payment of the Asset Termination Value, Commitment Fee, Extension Fees, Residual Value Guarantee Amount, amounts due pursuant to Section 22.2 of the Lease, or interest or, subject to clause (iii) above, any other amount payable under the Lease or this Participation Agreement, or modify the definition or method of calculation of Rent (other than pursuant to the terms of any Operative Agreement), Participation Interest, Asset Termination Value, Commitment Fee, Shortfall Amount, Residual Value Guarantee Amount, Required Supplemental Payments, Property Improvements Cost, Participant Balance, Tranche A Participation Interest Balance, Tranche B Participation Interest Balance, or any other definition which would affect the amounts to be advanced or which are payable under the Operative Documents; or

(v) consent to any assignment of the Lease, releasing the Lessee from its obligations in respect of the payments of Rent and the Asset Termination Value or changing the absolute and unconditional character of such obligation; and

(y) no other termination, amendment, supplement, waiver or modification shall, without the written agreement or consent of the Lessor and the Required Participants, be made to the Lease or Section 6 of this Participation Agreement or the definition of "Event of Default".

SECTION 15.6. Headings, etc. The Table of Contents and headings of the various Sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof.

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SECTION 15.7. Parties in Interest. Except as expressly provided herein, none of the provisions of this Participation Agreement are intended for the benefit of any Person except the parties hereto. Subject to the provisions of Section 25.1 of the Lease, the Lessee shall not assign or transfer any of its rights or obligations under the Operative Documents without the prior written consent of the Lessor, the Agent and the Participants, except that the Lessee may without such consent assign rights or obligations of the Lessee under the Operative Documents to an Affiliate of the Lessee, provided that the Lessee remains primarily liable with respect to such obligations and provides its full unconditional and irrevocable guaranty of such Subsidiary's obligations under the Operative Documents, such guaranty to be in form and substance reasonably satisfactory to the Required Participants. If the Lessor, the Agent and the Participants consent to any such assignment or transfer to a Person not an Affiliate of the Lessee, the Lessee shall remain primarily liable with respect to such obligations and provide its full and unconditional guaranty of such Person's obligations under the Operative Documents, such guaranty to be in form and substance reasonably satisfactory to the Required Participants.

SECTION 15.8. GOVERNING LAW. THIS PARTICIPATION AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY THE LAW OF THE STATE OF ILLINOIS (EXCLUDING ANY CONFLICT-OF-LAW OR CHOICE-OF-LAW RULES WHICH MIGHT LEAD TO THE APPLICATION OF THE INTERNAL LAWS OF ANY OTHER JURISDICTION) AS TO ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

SECTION 15.9. Severability. Any provision of this Participation Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 15.10. Liability Limited. (a) The parties hereto agree that the Lessor shall have no personal liability whatsoever to the Lessee, the Agent or any Participant or their respective successors and assigns for any claim based on or in respect of the Lease or any of the other Operative Documents or arising in any way from the transactions contemplated hereby or thereby; provided, however, that the Lessor shall be liable in its individual capacity (a) for its own willful misconduct or gross negligence (or negligence in the handling of funds), (b) for liabilities that may result from its breach of the covenant to remove Lessor Liens set forth in Section 10.3, or (c) for any Tax based on or measured by any fees, commission or compensation received by it for acting as the Lessor as contemplated by the Operative Documents. It is understood and agreed that, except as provided in the preceding proviso: (i) the Lessor shall have no personal liability under any of the Operative Documents; (ii) all obligations of the Lessor to the Lessee, the Agent and the Participants are solely nonrecourse obligations and shall be enforceable solely against the interest of the Lessor in the Property; and (iii) all such personal liability of the Lessor is expressly waived and released as a condition of, and as consideration for, the execution and delivery of the Operative Documents by the Lessor. Notwithstanding anything contained herein, the limitations on liability stated in the preceding provisions of this Section 15.10(a) shall not apply to liability of the Lessor arising because of a breach of the Lessor's obligation to remove Lessor Liens or because of its receiving Advances

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and failing to disburse Advances to the Lessee in accordance with the Operative Documents, or failure to disburse proceeds from the sale of the Property in accordance with the Lease and this Participation Agreement.

(b) No Participant shall have any obligation to any other Participant or to the Lessee, the Lessor or the Agent with respect to transactions contemplated by the Operative Documents, except those obligations of such Participant expressly set forth in the Operative Documents or except as set forth in the instruments delivered in connection therewith, and no Participant shall be liable for performance by any other party hereto of such other party's obligations under the Operative Documents except as otherwise so set forth.

SECTION 15.11. Further Assurances. The parties hereto shall promptly cause to be taken, executed, acknowledged or delivered, at the sole expense of the Lessee, all such further acts, conveyances, documents and assurances as the other parties may from time to time reasonably request in order to carry out and effectuate the intent and purposes of this Participation Agreement, the other Operative Documents, and the transactions contemplated hereby and thereby (including, without limitation, the preparation, execution and filing of any and all Uniform Commercial Code financing statements and other filings or registrations which the parties hereto may from time to time request to be filed or effected). The Lessee, at its own expense and without need of any prior request from any other party, shall take such action as may be necessary (including any action specified in the preceding sentence), or (if the Lessor shall so request) as so requested, in order to maintain and protect all security interests provided for hereunder or under any other Operative Document.

SECTION 15.12. Submission to Jurisdiction. The Lessee hereby submits to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois state court sitting in Cook County for purposes of all legal proceedings arising out of or relating to the Operative Documents or the transactions contemplated hereby. The Lessee irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

SECTION 15.13. Confidentiality. The Lessor, the Agent and each Participant represent that they will maintain the confidentiality of the transactions contemplated by, and of any written or oral information provided under, the Operative Documents by or on behalf of the Lessee (hereinafter collectively called "Confidential Information"), subject to the Lessor's, the Agent's and each Participant's (a) obligation to disclose any such Confidential Information pursuant to a request or order under applicable laws and regulations or pursuant to a subpoena or other legal process, (b) right to disclose any such Confidential Information to its bank examiners, Affiliates, auditors, counsel and other professional advisors and to other Participants, (c) right to disclose any such Confidential Information in connection with any litigation or dispute involving the Participants and the Lessee or any of its Subsidiaries and Affiliates and (d) right to provide such information to Sub-Participants, prospective Sub-Participants to which sales of participating interests are permitted pursuant to this Participation Agreement and prospective assignees to which assignments of interests are permitted pursuant to this Participation Agreement, but only if (i) such Sub-Participant, prospective Sub-Participant or prospective assignee agrees in writing to maintain the confidentiality

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of such information on terms substantially similar to those of this Section as if it were a "Participant" party hereto and (ii) the Lessee receives copies of such written agreement prior to the release of such information. Notwithstanding the foregoing, any such information supplied to a Participant, Sub-Participant, prospective Sub-Participant or prospective assignee under this Participation Agreement shall cease to be Confidential Information if it is or becomes known to such Person by other than unauthorized disclosure, or if it becomes a matter of public knowledge.

SECTION 15.14. WAIVER OF JURY TRIAL. EACH OF THE LESSEE, THE AGENT, THE LESSOR, AND EACH PARTICIPANT HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE OPERATIVE DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 15.15. Usury Savings Clause. Nothing contained in this Participation Agreement or the other Operative Documents shall be deemed to require the payment of interest or other charges by the Lessee or any other Person in excess of the amount which may be lawfully be charged under any applicable usury laws. In the event that the Lessor or any other Person shall collect moneys under the Participation Agreement or any other Operative Document which are deemed to constitute interest (including, without limitation, the Basic Rent or Supplemental Rent) which would increase the effect interest rate to a rate in excess of that permitted to be charged by applicable law, all such sums deemed to constitute interest in excess of the legal rate shall, upon such determination, at the option of the Person to whom such payment was made, be returned to the Person making such payment or credited against other amounts owed by the person making such payment.

[signature pages follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Participation Agreement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

QUANTUM CORPORATION, as Lessee

By: /s/ G. E. McClammy

Name: G. E. McClammy
Title: V.P. Finance & Treasurer

LEASE PLAN NORTH AMERICA, INC., as Lessor

By: /s/ David M. Shipley

Name: David M. Shipley
Title: Vice President

ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH, as Agent

By: /s/ Robin S. Yim

Name: Robin S. Yim
Title: Group Vice President

By: /s/ Robert N. Hartinger

Name: Robert N. Hartinger
Title: Senior Vice President

ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH, as a Participant

By: /s/ Robin S. Yim

Name: Robin S. Yim
Title: Group Vice President

By: /s/ Robert N. Hartinger

Name: Robert N. Hartinger
Title: Senior Vice President

LEASE PLAN NORTH AMERICA, INC., as a
Participant

By: /s/ David M. Shipley

Name: David M. Shipley
Title: Vice President

<TABLE>

SCHEDULE I

<CAPTION>

Participant -----	Commitments -----		Commitment Percentage -----
<S>	<C> 364 Day Commitment -----	<C>	<C>
ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH	Tranche A Participation Interest:	\$42,500,000	85.00%

	Tranche B Participation Interest:	\$5,750,000	11.50%
LEASE PLAN NORTH AMERICA, INC.	Tranche C Participation Interest:	\$1,750,000	3.50%
	Total 364 Day Commitment:	\$50,000,000	100.00%
	Two Year Commitment -----		
ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH	Tranche A Participation Interest:	\$13,600,000	85.00%
	Tranche B Participation Interest:	\$1,840,000	11.50%
LEASE PLAN NORTH AMERICA, INC.	Tranche C Participation Interest:	\$560,000	3.50%
	Total Two Year Commitment:	\$16,000,000	100.00%
	TOTAL COMMITMENT:	<u>\$66,000,000</u> =====	

</TABLE>

<TABLE>

SCHEDULE II

PRICING GRID

<CAPTION>

	LEVEL 1 PERIOD <C>	LEVEL 2 PERIOD <C>	LEVEL 3 PERIOD <C>	LEVEL 4 PERIOD <C>	LEVEL 5 PERIOD <C>
<S> APPLICABLE MARGINS (other than a Tranche C Participation Interest):	.40%	.55%	0.70%	0.90%	1.10%
APPLICABLE MARGINS FOR TRANCHE C PARTICIPATION INTERESTS:	2.00%	2.00%	2.00%	2.00%	2.00%
COMMITMENT FEE RATE APPLICABLE TO TWO YEAR COMMITMENT:	.150%	.200%	.250%	.300%	.375%

</TABLE>

EXPLANATION

1. The Applicable Margin for each Eurodollar Rate Advance and the Commitment Fee Rate will be set for each Pricing Period and will vary depending upon whether such period is a Level 1 Period, a Level 2 Period, a Level 3 Period, a Level 4 Period or a Level 5 Period.
2. The first Pricing Period, which commences on the date of this Agreement and ends on September 30, 1997, will be a Level 3 Period.
3. The Second Pricing Period, which commences on October 1, 1997 and ends on November 30, 1997, will be a Level 1 Period, a Level 2 Period, a Level 3 Period, a Level 4 Period or a Level 5 Period depending upon Lessee's Total Funded Debt Ratio (and, with respect to determining pricing at Level 1 Pricing only, EBITDA) for the consecutive four-fiscal quarter period ending on June 30, 1997 as follows:
 - (a) If, during the Second Pricing Period (i) Lessee's Total Funded Debt Ratio is 1.00 or less and (ii) Lessee's EBITDA for the

previous four quarters is \$400,000,000 or more, Lessee's pricing will be a Level 1 Period.

- (b) If, during the Second Pricing Period, (i) Lessee's Total Funded Debt Ratio is more than 1.00 but less than or equal to 1.50, or (ii) Lessee's Total Funded Debt Ratio is less than or equal to 1.00 but Lessee's EBITDA for the previous four quarters is less than \$400,000,000, Lessee's pricing will be a Level 2 Period.
- (c) If, during the Second Pricing Period, Lessee's Total Funded Debt Ratio is more than 1.50 but less than or equal to 2.00, Lessee's pricing will be a Level 3 Period.
- (d) If, during the Second Pricing Period, Lessee's Total Funded Debt Ratio is more than 2.00 but less than or equal to 2.50, Lessee's pricing will be Level 4 Period.
- (e) If, during the Second Pricing Period, Lessee's Total Funded Debt Ratio is more than 2.50, Lessee's pricing will be Level 5 Period.

4. Each Pricing Period thereafter will be a Level 1 Period, a Level 2 Period, a Level 3 Period, a Level 4 Period or a Level 5 Period depending upon Lessee's Total Funded Debt Ratio (and, with respect to determining pricing at Level 1 Pricing only, EBITDA) for the most recent consecutive four-fiscal quarter period ending prior to the first day of such Pricing Period as follows:

- (a) If, during any Pricing Period (i) Lessee's Total Funded Debt Ratio is 1.00 or less and (ii) Lessee's EBITDA for the previous four quarters is \$400,000,000 or more, Lessee's pricing will be a Level 1 Period.
- (b) If, during any Pricing Period, (i) Lessee's Total Funded Debt Ratio is more than 1.00 but less than or equal to 1.50, or (ii) Lessee's Total Funded Debt Ratio is less than or equal to 1.00 but Lessee's EBITDA for the previous four quarters is less than \$400,000,000, Lessee's pricing will be a Level 2 Period.
- (c) If, during any Pricing Period, Lessee's Total Funded Debt Ratio is more than 1.50 but less than or equal to 2.00, Lessee's pricing will be a Level 3 Period.
- (d) If, during any Pricing Period, Lessee's Total Funded Debt Ratio is more than 2.00 but less than or equal to 2.50, Lessee's pricing will be Level 4 Period.
- (e) If, during any Pricing Period, Lessee's Total Funded Debt Ratio is more than 2.50, Lessee's pricing will be Level 5 Period.

5. Level 1 Period will also apply during any Pricing Period (other than the first Pricing Period) in which Lessee's senior long term debt rating from S&P or Moody's is equal to or better than either BBB- or Baa3 or Lessee's subordinated debt rating from S&P or Moody's is equal to or better than BB+ or Bal.

SCHEDULE III

Notice Information and Funding Offices

Lessee: QUANTUM CORPORATION
 500 McCarthy Boulevard
 Milpitas, California 95035

 Attention: Ed McClammy

 Telephone: (408) 894-5996
 Facsimile: (408) 894-4562

Lessor: LEASE PLAN NORTH AMERICA, INC.
 135 S. LaSalle Street, Suite 711
 Chicago, Illinois 60603

Attention: David M. Shipley

Telephone: (312) 904-2183

Facsimile: (312) 904-6217

Agent: ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH
101 California Street, Suite 4500
San Francisco, CA 94111

Attention: Robin S. Yim

Telephone: (415) 984-3712

Facsimile: (415) 362-3524

Operations Contact:

ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH
101 California Street, Suite 4500
San Francisco, CA 94111

Attention: Gloria Chang Lee

Telephone: (415) 983-2904

Facsimile: (415) 362-3524

Participant: ABN AMRO BANK N.V., SAN FRANCISCO
INTERNATIONAL BRANCH
101 California Street, Suite 4500
San Francisco, CA 94111

Attention: Robin S. Yim

Telephone: (415) 984-3712

Facsimile: (415) 362-3524

Payment

Instructions: Bank: Federal Reserve Bank of New York
Acct: ABN AMRO New York
ABA#: 026009580

Further

Credit to: ABN AMRO San Francisco
Acct#: 6510010545-1
Re: Quantum Corporation

LEASE PLAN NORTH AMERICA, INC.
135 S. LaSalle Street, Suite 711
Chicago, Illinois 60603

Attention: David M. Shipley

Telephone: (312) 904-2183

Facsimile: (312) 904-6217

SCHEDULE IV

Environmental Matters

[TO BE COMPLETED BY QUANTUM]

SCHEDULE V

External LC Agreement Covenants

See Disclosure Letter

APPENDIX 1
to
Participation Agreement, Master Lease and
Construction Deed of Trust
each dated as of August 22, 1997
(Specialty Storage Product Group Facilities)

DEFINITIONS AND INTERPRETATION

A. Interpretation. In each Operative Document, unless a clear contrary intention appears:

(i) the singular number includes the plural number and vice versa;

(ii) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by the Operative Documents, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually;

(iii) reference to any gender includes each other gender;

(iv) reference to any agreement (including any Operative Document), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms of the other Operative Documents and reference to any promissory note includes any promissory note which is an extension or renewal thereof or a substitute or replacement therefor;

(v) reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any Applicable Law means that provision of such Applicable Law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision;

(vi) reference in any Operative Document to any Article, Section, Appendix, Schedule, or Exhibit means such Article or Section thereof or Appendix, Schedule or Exhibit thereto;

(vii) "hereunder", "hereof", "hereto" and words of similar import shall be deemed references to an Operative Document as a whole and not to any particular Article, Section or other provision thereof;

(viii) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term;

(ix) "or" is not exclusive; and

(x) relative to the determination of any period of time, "from" means "from and including" and "to" means "to but excluding".

B. Accounting Terms. In each Operative Document, unless expressly otherwise provided, accounting terms shall be construed and interpreted, and accounting determinations and computations shall be made, in accordance with GAAP.

C. Conflict in Operative Documents. If there is any conflict between any Operative Documents, such Operative Document shall be interpreted and construed, if possible, so as to avoid or minimize such conflict but, to the extent (and only to the extent) of such conflict, the Lease shall prevail and control.

D. Legal Representation of the Parties. The Operative Documents were negotiated by the parties with the benefit of legal representation and any rule of construction or interpretation otherwise requiring the Operative Document to be construed or interpreted against any party shall not apply to any construction or interpretation hereof or thereof.

E. Defined Terms. Unless a clear contrary intention appears, terms defined herein have the respective indicated meanings when used in each Operative Document.

"ABN AMRO" means ABN AMRO Bank N.V., San Francisco International

Branch.

"Account" is defined in Section 3.11 of the Participation Agreement and in Section 1 of the Cash Collateral Agreement.

"Acquisition Request" is defined in Section 3.3 of the Participation Agreement.

"Adjusted Percentage" is defined in Section 11.6 of the Participation Agreement.

"Administrative Agent" means the Administrative Agent under, and as defined in, the Credit Agreement.

"Administrative Fee" is defined in Section 4.3 of the Participation Agreement.

"Advance" means an advance of funds by the Lessor pursuant to Section 3 of the Participation Agreement which will be used to pay Land Interest Acquisition Costs or Property Improvements Costs.

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"Affiliate" means, when used with respect to any Person, any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common control with such Person.

"After Tax Basis" means, with respect to any payment to be received, the amount of such payment increased so that, after deduction of the amount of all taxes required to be paid by the recipient calculated at the then maximum marginal federal and state income tax rates generally applicable to Persons of the same type as the recipient (less any tax savings realized as a result of the payment of the indemnified amount) with respect to the receipt by the recipient of such amounts, such increased payment (as so reduced) is equal to the payment otherwise required to be made.

"Agent" means ABN AMRO, as agent for the Participants pursuant to the Participation Agreement, or any successor or additional agent appointed in accordance with the terms of the Participation Agreement.

"Agent/Arranger Fee Letter" means the letter from the Arranger to the Lessee, dated as of August 19, 1997.

"Agent Financing Statements" means UCC financing statements appropriately completed and executed for filing in the applicable jurisdiction in order to perfect a security interest in favor of the Agent for the ratable benefit of the Participants in the Equipment located on the Property or in any Improvements on the Property.

"Alternate Base Rate" means, for any period, an interest rate per annum equal to the lower of (i) the Prime Rate or (ii) the Federal Funds Effective Rate most recently determined by the Agent plus 0.50%. If either of the aforesaid rates or equivalent changes from time to time after the date of the Participation Agreement, the Alternate Base Rate shall be automatically increased or decreased, if appropriate and as the case may be, without notice to the Lessee or the Lessor, as of the effective time of each change.

"Alternate Basic Rate Advance" means an Advance bearing interest or Yield determined with reference to the Alternate Base Rate as provided in the Participation Agreement.

"Applicable Law" means all existing and future applicable laws, rules, regulations (including Environmental Laws), statutes, treaties, codes, ordinances, permits, certificates, covenants, restrictions, requirements, orders and licenses of and interpretations by, any Governmental Authorities, and applicable judgments, decrees, injunctions, writs, orders or like action of any court, arbitrator or other administrative, judicial or quasi-judicial tribunal or agency of competent jurisdiction (including those pertaining to health, safety or the environment (including, without limitation, wetlands) and those pertaining to the construction, use or occupancy of the Property) and any restrictive covenant or deed restriction or easement affecting the Property.

"Applicable Margin" means at any time with respect to any Eurodollar Rate Advance, either (i) at any time amounts are deposited in an Account subject to the Cash Collateral Agreement, and with respect to that portion of the Advances represented by such Collateral, .25% per annum margin

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with respect to Tranche A Participation Interests and Tranche B Participation

Interests therein and 1.25% per annum margin with respect to Tranche C Participation Interests therein, or (ii) at any other time, the per annum margin which is determined pursuant to the Pricing Grid, and, in each case, added to the Eurodollar Rate for such Advance.

"Appraisal" means, with respect to the Property, an appraisal, prepared by a reputable appraiser approved by the Lessor, the Agent and the Required Participants, which in the judgment of counsel to the Lessor, the Agent and the Required Participants, complies with all of the provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended, the rules and regulations adopted pursuant thereto, and all other applicable Requirements of Law, which appraisal will (i) appraise the Fair Market Sales Value of the Property as built in accordance with the Plans and Specifications; on the fifth anniversary of the Effective Date; as of the commencement of the Renewal Term, if any; and at the end of the Renewal Term, if any; and (ii) contain an estimate of the useful life of the Improvements as of each such date, all in a form satisfactory to the Lessor, the Agent and the Required Participants.

"Appurtenant Rights" means (i) all agreements, easements, rights of way or use, rights of ingress or egress, privileges, appurtenances, tenements, hereditaments and other rights and benefits at any time belonging or pertaining to any Land Interest or the Improvements, including, without limitation, the use of any streets, ways, alleys, vaults or strips of land adjoining, abutting, adjacent or contiguous to any Land Interest and (ii) all permits, licenses and rights, whether or not of record, appurtenant to any Land Interest.

"Arranger" means ABN AMRO North America, Inc.

"Asset Termination Value" means, as of any date of determination, an amount equal to (i) the sum of (A) the outstanding Advances, (B) all accrued and unpaid interest on the Advances, and (C) all other amounts owing by the Lessee under the Operative Documents, less (ii) the sum of all payments received by the Lessor, the Agent or the Participants on account of payments to reduce Asset Termination Value, including reductions resulting from payments by the Lessor, the Lessee or the Guarantor and/or the proceeds from the sale of the Property and/or amounts realized from the Collateral pursuant to the Cash Collateral Agreement.

"Assignment and Acceptance" is defined in Section 12.1(b) of the Participation Agreement.

"Assignment of Construction Documents" means the Assignment of Construction Documents, dated as of the Effective Date, in the form attached as Exhibit A to the Construction Agency Agreement.

"Assignment of Lease" means the Assignment of Lease, dated as of the Effective Date, from the Lessor to the Agent for the benefit of the Participants, and consented to by the Lessee pursuant to that certain Lessee's Consent, dated as of the Effective Date (the "Consent to Assignment") by the Lessee, as obligor, in favor of the Agent for the benefit of the Participants, in each case in the respective forms set forth in Exhibit L to the Participation Agreement.

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"Assignment of Purchase Agreement" means the Assignment of Certain Rights under Purchase and Sale Agreement, dated as of the Land Interest Acquisition Date, by and among the Lessee, as assignor, the Lessor, as assignee and the Existing Owner, as seller.

"Available Commitments" means as to any Participant at any time, an amount equal to the excess, if any, of (a) the amount of such Participant's Commitment over (b) the aggregate amount of its Participation Interest in all Advances made by the Lessor then outstanding.

"Banks" means the Banks from time to time party to, and as defined in, the Credit Agreement.

"Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy," as now or hereafter in effect.

"Basic Rent" means the sum of (i) that portion of the Property Improvements Costs due on any Payment Date, if any, as set forth on Schedule 1 to the Lease and (ii) the interest or Yield on Advances due on any Payment Date as set forth in Section 3.8 of the Participation Agreement.

"Benefit Arrangement" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"Board" means the Board of Governors of the Federal Reserve System of

the United States (or any successor).

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banks in Chicago, Illinois, San Francisco, California or (if interest is being determined by reference to the Eurodollar Rate) London, England, are generally authorized or obligated, by law or executive order, to close.

"Capital Lease" means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee which, in conformity with GAAP, is, or is required to be, accounted for as a capital lease on the balance sheet of that Person.

"Capitalized Lease Obligations" means any amount payable with respect to any Capital Lease or any lease of any tangible or intangible property (whether real, personal or mixed), however denoted, which either (i) is required by GAAP to be reflected as a liability on the face of the balance sheet of the lessee thereunder or (ii) based on actual circumstances existing and ascertainable, either at the commencement of the term of such lease or at any subsequent time at which any property becomes subject thereto, can reasonably be anticipated to impose on such lessee substantially the same economic risks and burdens, having regard to such lessee's obligations and the lessor's rights thereunder both during and at the termination of such lease, as would be imposed on such lessee by any lease which is required to be so reflected or by the ownership of the leased property.

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"Cash Collateral" is defined in Section 1 of the Cash Collateral Agreement.

"Cash Collateral Agreement" means the Cash Collateral Agreement dated as of the Effective Date among the Lessee, the Lessor, the Agent and the Participants, in the form of Exhibit S to the Participation Agreement.

"Cash Equivalents" means Investments of the type permitted pursuant to clauses (i) through (iv), (vi), (viii) and (xviii) in Section 10.1(k) of the Participation Agreement.

"Casualty" means any damage or destruction of all or any portion of the Property as a result of a fire or other casualty.

"CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. ss.ss. 9601 et seq., as amended by the Superfund Amendments and Reauthorization Act of 1986.

"Certifying Party" is defined in Section 26.1 of the Lease.

"Change of Control" means with respect to the Lessee, the occurrence of any of the following events: (i) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended) shall (A) acquire beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of forty percent (40%) or more of the outstanding Equity Securities of the Lessee entitled to vote for members of the board of directors, or (B) acquire all or substantially all of the assets of the Lessee and its Subsidiaries taken as a whole, or (ii) during any period of fifteen (15) consecutive calendar months, individuals who are directors of the Lessee on the first day of such period ("Initial Directors") and any directors of the Lessee who are specifically approved by two-thirds of the directors of the Lessee who are Initial Directors or previously-approved Approved Directors ("Approved Directors") shall cease to constitute a majority of the Board of Directors of the Lessee before the end of such period.

"Change of Law" is defined in Section 13.9 of the Participation Agreement.

"Claims" means any and all obligations, liabilities, losses, actions, suits, judgments, penalties, fines, claims, demands, settlements, costs and expenses (including, without limitation, reasonable legal fees and expenses) of any nature whatsoever, including, as they relate to issues involving any Environmental Law or Environmental Violation, those matters set forth in Section 13.3 of the Participation Agreement.

"Closing Date" is defined in Section 2 of the Participation Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute thereto.

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"Collateral" means the Collateral under the Cash Collateral Agreement.

"Commitment" means (i) as to any Participant, the obligation of such Participant to purchase a Participation Interest in Advances to be made by the Lessor under the Participation Agreement, in an aggregate amount at any one time outstanding not to exceed the amount set forth opposite such Participant's name on Schedule I to the Participation Agreement, as such amount may be reduced from time to time in accordance with the provisions of the Participation Agreement, and (ii) as to the Lessor, the obligation of the Lessor to make Advances from amounts received from the Participants pursuant to the purchase of Participation Interests under the Participation Agreement.

"Commitment Fee" is defined in Section 4.1 of the Participation Agreement.

"Commitment Fee Payment Date" means the last day of each March, June, September and December during the Commitment Period and the Outside Completion Date or such earlier date as the Commitments shall terminate as provided in the Operative Documents.

"Commitment Fee Rate" means, as to each Participant (i) as to such Participant's 364 Day Commitment and any permitted extension thereof, .125% per annum and (ii) as to such Participant's Two Year Commitment, the per annum percentage determined pursuant to the Pricing Grid.

"Commitment Percentage" means, as to any Participant at any time, the percentage which such Participant's Commitment then constitutes of the aggregate Commitments of the Participants (or, at any time after the Commitments of the Participants shall have expired or terminated, the percentage which the aggregate amount of such Participant's Participation Interest then outstanding constitutes of the aggregate amount of the Participation Interests then outstanding).

"Commitment Period" means the period from and including the Effective Date to but not including the earlier of the Completion Date or the Outside Completion Date, or such earlier date on which the Commitments shall terminate as provided in the Operative Documents or such later date as may be provided for the Completion of construction in the Construction Agency Agreement due to the existence of a Force Majeure Event.

"Completion" means such time as (i) the conditions set forth in Section 7 of the Participation Agreement are satisfied and (ii) the Improvements are ready for occupancy.

"Completion Date" means, with respect to the Property, the date on which Completion of the Improvements on such Property has occurred.

"Compliance Certificate" is defined in Section 10.1(a) of the Participation Agreement.

"Condemnation" means any condemnation, requisition, confiscation, seizure or other taking or sale of the use, access, occupancy, easement rights or title to the Property or any part thereof, wholly or partially (temporarily or permanently), by or on account of any actual or threatened eminent domain proceeding or other taking of action by any Person having the power of eminent

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domain, including an action by a Governmental Authority to change the grade of, or widen the streets adjacent to, the Property or alter the pedestrian or vehicular traffic flow to the Property so as to result in change in access to the Property, or by or on account of an eviction by paramount title or any transfer made in lieu of any such proceeding or action. A "Condemnation" shall be deemed to have occurred on the earliest of the dates that use, occupancy or title is taken.

"Confidential Information" is defined in Section 15.13 of the Participation Agreement.

"Consent to Assignment" is defined in the definition of the term "Assignment of Lease".

"Consent to Construction Agency Agreement Assignment" means the Consent dated as of the Effective Date by the Lessee to the Construction Agency Agreement Assignment in the form attached to the Construction Agency Agreement Assignment.

"Construction Agency Agreement" means the Construction Agency Agreement, dated as of the Effective Date, between the Lessor and the

Construction Agent, in the form of Exhibit M to the Participation Agreement.

"Construction Agency Agreement Assignment" means the Assignment of Construction Agency Agreement, dated as of the Effective Date, from the Lessor to the Agent, for the benefit of the Participants, in the form of Exhibit N to the Participation Agreement.

"Construction Agency Agreement Event of Default" means a "Construction Agency Agreement Event of Default" as defined in Section 5.1 of the Construction Agency Agreement.

"Construction Agent" means the Lessee, as construction agent under the Construction Agency Agreement.

"Construction Commencement Date" is defined in Section 2.3 of the Construction Agency Agreement.

"Construction Period" means, with respect to the Property, the period commencing on the Construction Commencement Date and ending on the earlier of the Completion Date and the Outside Completion Date for such Property.

"Contingent Obligation" means, with respect to any Person without duplication, (a) any Guaranty Obligation of that Person; and (b) any direct or indirect monetary obligation or liability, contingent or otherwise, of that Person (i) in respect of any letter of credit or similar instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings, (ii) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered if and to the extent such obligations are not designated as

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accounts payable in accordance with GAAP, or (iii) incurred pursuant to any interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts or other similar agreements relating to interest rates or currencies. The amount of any Contingent Obligation shall be deemed equal to the liability in respect thereof reasonably anticipated in accordance with GAAP.

"Contractual Obligation" of any Person means any indenture, note, lease, loan agreement, security, deed of trust, mortgage, security agreement, guaranty, instrument, contract, agreement or other form of contractual obligation or undertaking to which such Person is a party or by which such Person or any of its property is bound.

"Control" means (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, the possession directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Covered Liabilities" is defined in Section 11.6 of the Participation Agreement.

"Convertible Subordinated Debentures" means (i) the 5% Convertible Subordinated Notes due 2003 in the original principal amount of \$241,350,000 issued by the Lessee pursuant to the Indenture dated February 15, 1996 between the Lessee and LaSalle National Trust Company, N.A., as Trustee and (ii) the 7% Convertible Subordinated Notes due 2004 issued by the Lessee pursuant to the Indenture dated as of August 1, 1997 as supplemented by the Supplemental Trust Indenture dated as of August 1, 1997 between the Lessee and LaSalle National Trust Company, N.A.

"Credit Agreement" means that certain Credit Agreement, dated as of June 6, 1997, among the Lessee, the Banks, ABN AMRO, as syndication agent for the Banks, Bank of America National Trust and Savings Association, as documentation agent for the Banks, and Canadian Imperial Bank of Commerce, as administrative agent for the Banks, as such Credit Agreement is in effect on the Effective Date.

"Credit Agreement Obligations" means the Obligations under, and as defined in, the Credit Agreement.

"Credit Documents" means the Credit Documents entered into in connection with, and as defined in, the Credit Agreement.

"Deed" is defined in Section 6.1(e) of the Participation Agreement.

"Default" means any event or condition which, with the lapse of time or the giving of notice, or both, would constitute an Event of Default.

"Defaulted Amount" is defined in Section 11.7 of the Participation Agreement.

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"Defaulting Participant" means, at any time, any of the Participants which at such time has (i) failed to make a payment when due to the Lessor equal to its Commitment Percentage of an Advance, (ii) has been notified of such failure by the Lessor, and (iii) has not cured such failure by making such payment, together with interest at the Late Payment Rate.

"Depository Bank" is defined in Section 1 of the Cash Collateral Agreement.

"Designated Payment Date" means the Expiration Date, the Termination Date or other date of termination of the Lease.

"Disclosure Letter" means the letter from the Lessee to the Lessor and the Agent, dated the Effective Date, which identifies itself as the "Disclosure Letter" under the Participation Agreement.

"Dollars" and "\$" mean dollars in lawful currency of the United States of America.

"Domestic Subsidiary" means, with respect to any Person, any Subsidiary of such Person which is created or organized in the United States or under the laws of the United States or any state of the United States.

"EBITDA" means, with respect to any Person for any period, the sum of the following, determined on a consolidated basis in accordance with GAAP where applicable:

(a) The net income or net loss of such Person and its Subsidiaries for such period before provision for income taxes;

(b) The sum (to the extent deducted in calculating net income or loss in clause (a) above) of (i) all Interest Expenses of such Person and its Subsidiaries accruing during such period and (ii) all depreciation and amortization of such Person and its Subsidiaries accruing during such period.

"Effective Date" means August 22, 1997.

"Employee Benefit Plan" means any employee benefit plan within the meaning of section 3(3) of ERISA maintained or contributed to by the Lessee or any ERISA Affiliate, other than a Multiemployer Plan.

"End of the Term Report" is defined in Section 13.2 of the Participation Agreement.

"Environmental Audit" means a Phase One environmental site assessment (the scope and performance of which meets or exceeds ASTM Standard Practice E1527-93 Standard Practice for Environmental Site Assessments: Phase One Environmental Site Assessment Process) of the Property to be leased by the Lessor on the Closing Date or of the Property to be remarketed under the Remarketing Option under the Lease.

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"Environmental Certificate" is defined in Section 6.1 of the Participation Agreement.

"Environmental Law" means, whenever enacted or promulgated, any Federal, state, county or local law, statute, ordinance, rule, regulation, license, permit, authorization, approval, covenant, criteria, guideline, administrative or court order, judgment, decree, injunction, code or requirement or any agreement with a Governmental Authority:

(x) relating to pollution (or the cleanup, removal, remediation or encapsulation thereof, or any other response thereto), or the regulation or protection of human health, safety or the environment, including air, water, vapor, surface water, groundwater, drinking water, land (including surface or subsurface), plant, aquatic and animal life, or

(y) concerning exposure to, or the use, containment, storage, recycling, treatment, generation, discharge, emission, Release or threatened Release, transportation, processing, handling, labeling, containment, production, disposal or remediation of any Hazardous

in each case as amended and as now or hereafter in effect, and any common law or equitable doctrine (including, without limitation, injunctive relief and tort doctrines such as negligence, nuisance, trespass and strict liability) that may impose liability or obligations for injuries (whether personal or property) or damages due to or threatened as a result of the presence of, exposure to, or ingestion of, any Hazardous Substance, whether such common law or equitable doctrine is now or hereafter recognized or developed. Applicable laws include, but are not limited to, CERCLA; the Resource Conservation and Recovery Act of 1976, 42 U.S.C. ss. 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. ss. 1251 et seq.; the Clean Air Act, 42 U.S.C. ss. 7401 et seq.; the National Environmental Policy Act, 42 U.S.C. ss. 4321; the Refuse Act, 33 U.S.C. ss. 401 et seq.; the Hazardous Materials Transportation Act of 1975, 49 U.S.C. ss. 1801-1812; the Toxic Substances Control Act, 15 U.S.C. ss. 2601 et seq.; the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. ss. 136 et seq.; the Safe Drinking Water Act, 42 U.S.C. ss. 300f et seq.; and the Occupational Safety and Health Act of 1970, each as amended and as now or hereafter in effect, and their state and local counterparts or equivalents, including any regulations promulgated thereunder.

"Environmental Violation" means any activity, occurrence or condition or omission that violates or results in non-compliance with any Environmental Law.

"Equipment" means equipment, apparatus, furnishings, fittings and personal property of every kind and nature whatsoever purchased by the Lessor using the proceeds of the Participation Interests in the Advances now or subsequently attached to, contained in or used or usable in any way in connection with any operation or letting of the Property, including but without limiting the generality of the foregoing, all semiconductor manufacturing equipment, screens, awnings, shades, blinds, curtains, draperies, artwork, carpets, rugs, storm doors and windows, shelving, counters, furniture and furnishings, heating, electrical, and mechanical equipment, lighting, switchboards, plumbing, ventilation, air conditioning and air-cooling apparatus, refrigerating, and incinerating equipment, escalators, elevators, loading and unloading equipment and systems, cleaning systems

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(including window cleaning apparatus), telephones, communication systems (including satellite dishes and antennae), televisions, computers, sprinkler systems and other fire prevention and extinguishing apparatus and materials, security systems, motors, engines, machinery, pipes, pumps, tanks, conduits, appliances, fittings and fixtures of every kind and description.

"Equipment Schedule" means each Equipment Schedule in the form of Exhibit B to the Lease.

"Equity Securities" of any Person means (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing, other than convertible debt securities which have not been converted into common stock, preferred stock, participations, shares, partnership interests or other equity interests in any such Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time or any successor Federal statute.

"ERISA Affiliate" means each entity required to be aggregated with the Lessee pursuant to the requirements of Section 414(b) or (c) of the Code.

"ERISA Group" means the Lessee and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Lessee, are treated as a single employer under Section 414 of the Code.

"Eurocurrency Reserve Requirements" means, for any day as applied to an Advance, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for Eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board) maintained by a member bank of the Federal Reserve System.

"Eurodollar Rate" means, with respect to each day during each Interest Period, the rate per annum determined by the Agent to be the offered rate per annum at which deposits in Dollars appear with respect to such Interest Period on the Reuters Screen LIBOR Page (or any successor page), or if such offered rate is not available, then the rate per annum at which deposits in Dollars appear with respect to such Interest Period on the Telerate Page 3750 (or any

successor page) in each case as of 11:00 a.m. (London time), two Business Days prior to the beginning of such Interest Period or in the event that the foregoing offered rates are not available, then the average (rounded upward to the nearest whole multiple of one sixteenth of one percent per annum, if such average is not such a multiple) of the respective rates notified to the Agent by each of the Participants as the rates at which such Participant's Funding Office is offered Dollar deposits at or about 11:00 a.m. (London time), two Business Days prior to the beginning of such Interest Period in the interbank Eurodollar market

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for delivery on the first day of such Interest Period for the number of days comprised therein in an amount comparable to the amount of the Advances estimated to be outstanding during such Interest Period.

"Eurodollar Rate Advance" means on Advance bearing interest or Yield determined with reference to the Eurodollar Rate as provided in the Participation Agreement.

"Event of Default" means a Lease Event of Default, a Construction Agency Agreement Event of Default or a Guarantee Event of Default.

"Excepted Payments" means:

(a) all indemnity payments (including indemnity payments made pursuant to Section 13 of the Participation Agreement) to which the Lessor, or any of its Affiliates, agents, officers, directors or employees is entitled;

(b) any amounts (other than Basic Rent or amounts payable by Lessee pursuant to Section 16.2, Section 16.3, Section 16.4 or Articles XVII, XX or XXII of the Lease) payable under any Operative Document to reimburse the Lessor or any of its respective Affiliates (including the reasonable expenses of the Lessor incurred in connection with any such payment) for performing or complying with any of the obligations of the Lessee under and as permitted by any Operative Document, except to the extent that one or more Participants have indemnified the Lessor with respect thereto pursuant to the Participation Agreement;

(c) any amount payable to the Lessor by any Participant or transferee permitted under the Operative Documents of the interest of the Lessor as the purchase price of such Participant's Participation Interest;

(d) any insurance proceeds (or payments with respect to risks self-insured or policy deductibles) under liability policies other than such proceeds or payments payable to the Agent or the Lessor;

(e) any insurance proceeds under policies maintained by the Lessor;

(f) Transaction Expenses or other amounts or expenses paid or payable to or for the benefit of the Lessor;

(g) all right, title and interest of the Lessor to the Property or any portion thereof or any other property to the extent any of the foregoing has been released from the Lien of the Mortgage, the Assignment of Lease and the Construction Agency Agreement Assignment pursuant to the terms thereof following the payment of the Participant Balances of all of the Participants and all amounts due and owing to the Agent; and

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(h) any payments in respect of interest to the extent attributable to payments referred to in clauses (a) through (g) above.

"Excess Investment" of the Lessor means the excess (if any) of the outstanding Participant Balance of the Lessor in the Property from time to time over the amount that would have been the Lessor's Participant Balance if, in connection with all Advances actually made under the Participation Agreement, all Participants had paid to the Lessor an amount equal to such Advances times their respective Commitment Percentages, as such excess may be determined by the Lessor. Absent the existence of a Defaulting Participant, a failure by Participant to make a payment required by Section 3.4 or some other unexpected contingency, it is expected that the Lessor will have no Excess Investment.

"Excess Proceeds" means the excess, if any, of the aggregate of all awards, compensation or insurance proceeds payable in connection with a Casualty or Condemnation over the Asset Termination Value paid by the Lessee pursuant to Articles XIV and XV of the Lease with respect to such Casualty or Condemnation.

"Excess Reimbursement" is defined in Section 11.6 of the Participation Agreement.

"Executive Officer" means, with respect to the Lessee, the Chairman, Chief Executive Officer, Chief Operating Officer, President, Chief Financial Officer, Treasurer, General Counsel or Vice President of Corporate Development and Planning of the Lessee or any division President or Executive Vice President of the Lessee (or, if the titles are changed, the persons having similar responsibilities for the Lessee).

"Existing Financing" means the debt and equity financing provided to the Existing Owner to purchase and/or construct the Land Interest and any Improvements.

"Existing Participants" means the lenders and holders of equity interests under the Existing Financing.

"Existing Owner" means Schuck Holdings LLC, a Colorado limited liability company.

"Expiration Date" means the later of (i) the fifth anniversary of the Effective Date or (ii) the scheduled expiration of any Renewal Term, if any.

"Expiration Date Purchase Obligation" means the Lessee's obligation, pursuant to Section 20.2 of the Lease, to purchase all (but not less than all) of the Property on the Expiration Date.

"Extension Date" means, if the Extension Fee is payable, the date which is 364 days after the Effective Date.

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"Extension Fee" means an amount equal to (i) 0.125% multiplied by (ii) the aggregate amount of the 364 Day Commitment that is extended until the Six Month Termination Date pursuant to Section 3.6 of the Participation Agreement.

"External LC Agreement" means the Credit Agreement, dated as of September 22, 1995, among the Lessee, The Sumitomo Bank, Limited and other banks from time to time parties thereto (as amended, modified and supplemented from time to time in accordance with the Participation Agreement), or such other agreement between or among the Lessee and any other financial institution or financial institutions pursuant to which the Lessee may incur Indebtedness under letters of credit of the type permitted under clause (vi) of Section 10.1(a) of the Participation Agreement.

"Fair Market Sales Value" means, with respect to the Property, the amount, which in any event shall not be less than zero, that would be paid in cash in an arm's-length transaction between an informed and willing purchaser and an informed and willing seller, neither of whom is under any compulsion to purchase or sell, respectively, for the ownership of the Property. The Fair Market Sales Value of the Property shall be determined based on the assumption that, except for purposes of Article XVII of the Lease and Section 13.2 of the Participation Agreement, the Property is in the condition and state of repair required under Section 10.1 of the Lease and the Lessee is in compliance with the other requirements of the Operative Documents.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of quotations for such day on such transaction received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Statements" means, with respect to any accounting period for any Person, consolidated statements of income, shareholders' equity and cash flows of such Person for such period, and a balance sheet of such Person as of the end of such period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year if such period is less than a full fiscal year or, if such period is a full fiscal year, corresponding figures from the preceding annual audit, all prepared in reasonable detail and in accordance with GAAP.

"Fixtures" means all fixtures relating to the Improvements, including all components thereof, located in or on the Improvements which are acquired with Advances and all replacements and Modifications thereto, other than Lessee's Property.

"Force Majeure Event" means with respect to the Property any event (the existence or potentiality of which was not known and could not have been discovered through the exercise of due diligence by the Lessee prior to the Closing Date) beyond the reasonable control of the Construction Agent, other than a Casualty or Condemnation, including, but not limited to, strikes, lockouts, adverse soil conditions, acts of God, adverse weather conditions, inability to obtain labor or materials, government activities, civil commotion and enemy action; but excluding any event, cause

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or condition that results from the Construction Agent's financial condition or failure to pay or any event, cause or condition which could be remedied through the exercise of commercially reasonable efforts or the commercially reasonable expenditure of funds.

"Funded Debt" of any Person means, without duplication, Indebtedness of the type set forth in clauses (a) - (f) of the definition of "Indebtedness" less Cash or Cash Equivalents used as collateral to secure any such Indebtedness.

"Funding Date" means any Business Day on which Advances are funded pursuant to the Participation Agreement.

"Funding Losses" means with respect to any repayment, prepayment or conversion of any Eurodollar Rate Advance, the amount (which shall not be less than zero) computed in accordance with the following formula:

$$\text{Funding Losses} = \frac{(R-T \times P \times D)}{360}$$

where R = the interest rate or Yield that was or would have been applicable to such Eurodollar Rate Advance;

T = the Eurodollar Rate for the date of such repayment, prepayment, conversion, failure to borrow, failure to contribute or failure to convert for new Eurodollar Rate Advances, of the same principal amount or equity contribution made for an assumed Interest Period (the "Remaining Period") which begins on the date of such repayment, prepayment, conversion, failure to borrow, failure to contribute or failure to convert and ends on the last day of the actual Interest Period that was or would have been applicable to the Eurodollar Rate Advance that was repaid, prepaid or converted or that was not borrowed, contributed or converted;

P = the principal amount of the Eurodollar Rate Advance that was repaid, prepaid or converted or that was not borrowed, contributed or converted; and

D = the number of days in the Remaining Period.

"Funding Office" means the office of each Participant identified on Schedule II to the Participation Agreement as its Funding Office.

"Funding Request" is defined in Section 3.4 of the Participation Agreement.

"GAAP" means United States generally accepted accounting principles (including principles of consolidation), in effect from time to time, consistently applied.

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"Governmental Action" means all permits, authorizations, registrations, consents, approvals, waivers, exceptions, variances, orders, judgments, written interpretations, decrees, licenses, exemptions, publications, filings, notices to and declarations of or with, or required by, any Governmental Authority, or required by any Applicable Law, and shall include, without limitation, all environmental and operating permits and licenses that are required for the full use, occupancy, zoning and operation of the Property.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive,

legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Governmental Charges" means, with respect to any Person, all levies, assessments, fees, claims or other charges imposed by any Governmental Authority upon such Person or any of its property or otherwise payable by such Person.

"Gross Proceeds" is defined in Section 22.1(k) of the Lease.

"Guarantee" means the Guarantee executed by the Guarantor in favor of the Agent, for the benefit of the Participants, in the form of Exhibit O to the Participation Agreement.

"Guarantee Event of Default" is defined in the Guarantee.

"Guarantor" means Quantum Corporation, a Delaware corporation.

"Guaranty Obligation" means, with respect to any Person, any direct or indirect liability of that Person with respect to any indebtedness, lease, dividend, letter of credit or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person, whether or not contingent, (a) to purchase, repurchase or otherwise acquire such primary obligations or any property constituting direct or indirect security therefor, or (b) to advance or provide funds (i) for the payment or discharge of any such primary obligation, or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, or (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation (except to the extent of the fair market value of such property, securities or services to be purchased), or (d) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof. The amount of any Guaranty Obligation shall be deemed equal to the liability in respect thereof reasonably anticipated under GAAP.

"Hazardous Activity" means any activity, process, procedure or undertaking that directly or indirectly (i) produces, generates or creates any Hazardous Substance; (ii) causes or results in (or threatens to cause or result in) the Release of any Hazardous Substance into the environment (including air, water vapor, surface water, groundwater, drinking water, land (including surface or subsurface), plant, aquatic and animal life); (iii) involves the containment or storage of any

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Hazardous Substance; or (iv) would be regulated as hazardous waste treatment, storage or disposal within the meaning of any Environmental Law.

"Hazardous Condition" means any condition that violates or threatens to violate, or that results in or threatens noncompliance with, any Environmental Law.

"Hazardous Substance" means any of the following: (i) any petroleum or petroleum product, explosives, radioactive materials, asbestos, formaldehyde, polychlorinated biphenyls, lead and radon gas; (ii) any substance, material, product, derivative, compound or mixture, mineral, chemical, waste, gas, medical waste or pollutant, in each case whether naturally occurring, man-made or the by-product of any process, that is toxic, harmful or hazardous to the environment or human health or safety; or (iii) any substance, material, product, derivative, compound or mixture, mineral, chemical, waste, gas, medical waste or pollutant that would support the assertion of any claim under any Environmental Law, whether or not defined as hazardous as such under any Environmental Law.

"Impositions" means, except to the extent described in the following sentence, any and all liabilities, losses, expenses, costs, charges and Liens of any kind whatsoever for fees, taxes, taxes, levies, imposts, duties, charges, assessments or withholdings ("Taxes") including (i) real and personal property taxes, including personal property taxes on any property covered by the Lease that is classified by Governmental Authorities as personal property, and real estate or ad valorem taxes in the nature of property taxes; (ii) sales taxes, use taxes and other similar taxes (including rent taxes and intangibles taxes); (iii) any excise taxes; (iv) real estate transfer taxes, mortgage taxes, conveyance taxes, stamp taxes and documentary recording taxes and fees; (v) taxes that are or are in the nature of franchise, income, value added, privilege and doing business taxes, license and registration fees; (vi) assessments on the Property, including all assessments for public improvements or benefits, whether or not such improvements are commenced or completed within the Term; and (vii) any tax, Lien, assessment or charge asserted, imposed or assessed by the PBGC or any governmental authority succeeding to or performing functions similar to, the PBGC, and in each case all interest, additions to tax and penalties thereon, which at any time prior to, during or with respect to the Term or in respect of

any period for which the Lessee shall be obligated to pay Supplemental Rent, may be levied, assessed or imposed by any Governmental Authority upon or with respect to (a) the Property or any part thereof or interest therein; (b) the purchase, sale, leasing, financing, refinancing, demolition, construction, alteration, substitution, subleasing, assignment, control, condition, occupancy, servicing, maintenance, repair, ownership, possession, activity conducted on, delivery, insuring, use, operation, improvement, transfer of title, return or other disposition of the Property or any part thereof or interest therein; (c) the Participation Interests with respect to the Property or any part thereof or interest therein; (d) the rentals, receipts or earnings arising from the Property or any part thereof or interest therein; (e) the Operative Documents, the performance thereof, or any payment made or accrued pursuant thereto; (f) the income or other proceeds received with respect to the Property or any part thereof or interest therein upon the sale or disposition thereof; (g) any contract (including the Construction Agency Agreement) relating to the construction, acquisition or delivery of the Improvements or any part thereof or interest therein; or (h) otherwise in connection with the transactions contemplated by the Operative Documents.

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The term "Imposition" shall not mean or include the following (except to the extent that such Taxes apply in consequence of the Lease being treated other than as a loan for such Tax purposes and exceed the amount of such Taxes that would have applied if the Lease had been so treated as a loan:

(i) Taxes and impositions (other than Taxes that are, or are in the nature of, sales, use, transfer or property taxes) that are imposed on an Indemnitee by the United States federal or any foreign government that are based on or measured by the net income (including taxes based on capital gains and minimum taxes) of such Person; provided, that this clause (i) shall not be interpreted to prevent a payment from being made on an After Tax Basis if such payment is otherwise required to be so made;

(ii) Taxes and impositions (other than Taxes that are, or are in the nature of, sales, use, transfer or property taxes) that are imposed by any state or local jurisdiction or taxing authority within any state or local jurisdiction and that are franchise taxes or are based upon or measured by net income or net receipts; provided, that this clause (ii) shall not be interpreted to prevent a payment from being made on an After Tax Basis if such payment is otherwise required to be so made (anything to the contrary notwithstanding, nothing in the Operative Documents shall be construed to impose upon Lessee any liability for Taxes imposed upon an Indemnitee to the extent imposed with respect to any activities of such Indemnitee other than under the transactions contemplated by the Operative Documents);

(iii) any Tax or imposition for so long as, but only for so long as, it is being contested in accordance with the provisions of Section 13.5 of the Participation Agreement;

(iv) any Taxes which are imposed on an Indemnitee as a result of the gross negligence or wilful misconduct of such Indemnitee itself (as opposed to gross negligence or wilful misconduct imputed to such Indemnitee), but not Taxes imposed as a result of ordinary negligence of such Indemnitee; or

(v) any Tax or imposition to the extent, but only to such extent, it relates to any act, event or omission that occurs after the termination of the Lease and redelivery or sale of the Property in accordance with the terms of the Lease (but not any Tax or imposition that relates to any period prior to such termination and redelivery).

Any Tax excluded from the defined term "Imposition" in any one of the foregoing clauses (i) through (iv) shall not be construed as constituting an Imposition by any provision of any other of the aforementioned clauses. For purposes of the foregoing, taxes based upon or measured by net income shall be deemed to include, without limitation, any Imposition that qualifies as an "income tax" within the meaning of United States Treasury Regulation Section 1.901-2.

"Improvements" means all buildings, structures, Fixtures, Equipment, and other improvements of every kind existing on the Land Interest Acquisition Date and at any time and from time to time and either constructed pursuant to the Construction Agency Agreement or those

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purchased with amounts advanced by the Participants pursuant to the Participation Agreement (or those becoming the property of the Lessor pursuant to Article XI of the Lease) on or under the Land Interest, together with any and all appurtenances to such buildings, structures, or improvements, including sidewalks, utility pipes, conduits and lines, parking areas and roadways, and including all Modifications and other additions to or changes in the Improvements at any time, other than Lessee's Property.

"Indebtedness" of any Person means, without duplication (in each case, measured in accordance with GAAP):

(a) All monetary obligations of such Person evidenced by notes, bonds, debentures or other similar instruments and all other obligations of such Person for borrowed money;

(b) All monetary obligations of such Person for the deferred purchase price of property or services (including obligations under letters of credit and other credit facilities which secured or financed such purchase price), other than trade payables incurred by such Person in the ordinary course of its business on ordinary terms;

(c) All monetary obligations of such Person under conditional sale or other title retention agreements with respect to property acquired by such Person other than pursuant to leases classified as operating leases under GAAP (to the extent of the value of such property if the rights and remedies of the seller or lender under such agreement in the event of default are limited solely to repossession or sale of such property);

(d) All monetary obligations of such Person as lessee with respect to the capitalized portion of Capital Leases of such Person (other than capitalized interest) calculated in accordance with GAAP;

(e) all monetary obligations of such Person (other than inchoate indemnity obligations) with respect to any Synthetic Leases; provided, however, that the amount of monetary obligations for the purpose of this clause (e) shall be equal to the aggregate present value of scheduled rental payments under each such Synthetic Lease (excluding any component thereof in the nature of operating expenses, taxes or similar obligations), together with the purchase price payable by such Person at the end of such Synthetic Lease, discounted by the interest rate implicit in such Synthetic Lease;

(f) all monetary obligations of such Person (other than inchoate indemnity obligations) with respect to any sale, transfer or assignment of accounts receivable and related rights and property by such Person with recourse to such Person;

(g) All monetary obligations of such Person, contingent or otherwise, under or with respect to letters of credit, banker's acceptances or other similar facilities;

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(h) All monetary obligations of such Person, contingent or otherwise, under or with respect to interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts or other similar agreements relating to interest rates or currencies;

(i) All Contingent Obligations of such Person with respect to the obligations of such Person or other Persons of the types described in clauses (a) - (h) above; and

(j) All obligations of other Persons of the types described in clauses (a) - (h) above to the extent secured by (or for which any holder of such obligations has an existing right, contingent or otherwise, to be secured by) any Lien in any property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations; provided, however, that the amount of such Indebtedness under this clause (j) shall be the lesser of (i) the fair market value of the property subject to such Lien and (ii) the amount of the monetary obligations of such other Person.

"Indemnitee" means the Lessor, the Agent, the Participants, their respective Affiliates and their respective successors, assigns, directors, shareholders, partners, officers, employees and agents.

"Insurance Requirements" means all terms and conditions of any insurance policy required by the Lease to be maintained by the Lessee, and all requirements of the issuer of any such policy.

"Interest Expenses" means, with respect to any Person for any period, the sum, determined on a consolidated basis in accordance with GAAP, of (a) all interest accruing on the Indebtedness of such Person during such period (including interest attributable to Capital Leases and financing charges attributable to Synthetic Leases whether calculated as interest expenses or rental expenses), (b) all letter of credit fees payable by such Person accruing during such period and (c) interest or discount associated with Permitted Receivables Facilities not otherwise included in clause (a) above.

"Interest Payment Advance" means any Advance made to fund the payment of interest or Yield accruing on the Advances during the Construction Period.

"Interest Period" means, with respect to any Advance:

- (a) during the Syndication Period:
- (i) initially, the period commencing on the funding with respect to such Advance and ending one month thereafter; and
- (ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Advance and ending one month thereafter; and

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(b) subsequent to the Syndication Period, each period commencing on the last day of the next preceding Interest Period applicable to such Advance and ending one, two, three or six months thereafter, as selected by the Lessee by irrevocable notice to the Lessor and the Agent not less than three (3) Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, the foregoing provisions relating to Interest Periods are subject to the following:

- (i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;
- (ii) any Interest Period that would otherwise extend beyond the Expiration Date shall end on the Expiration Date;
- (iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of the Interest Period) shall end on the last Business Day of a calendar month;
- (iv) the Lessee shall select Interest Periods so as not to require a payment or prepayment of any Advance during an Interest Period for such Advance; and
- (v) if the Lessee shall fail to notify the Lessor and the Agent of the next Interest Period, such Advance shall automatically convert to an Alternate Base Rate Advance on the last day of the current Interest Period therefor.

"Investment" of any Person means any loan or advance of funds by such Person to any other Person (other than advances to employees of such Person for moving and travel expenses, drawing accounts and similar expenditures in the ordinary course of business or the purchase by such Person in the ordinary course of business of residences for employees in connection with the relocation by such Person of such employees), any purchase or other acquisition of any Equity Securities or Indebtedness of any other Person, any capital contribution by such Person to or any other investment by such Person in any other Person (including any Guaranty Obligations of such Person and any Indebtedness of such Person of the type described in clause (j) of the definition of "Indebtedness" on behalf of any other Person); provided, however, that Investments shall not include (a) accounts receivable or other indebtedness owed by customers of such Person which are current assets and arose from sales of inventory or the performance of services in the ordinary course of such Person's business or (b) prepaid expenses of such Person incurred and prepaid in the ordinary course of business.

"Investment Company Act" means the Investment Company Act of 1940, as amended, together with the rules and regulations promulgated thereunder.

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"Land Interest" means fee title to the parcel of real property described on Schedule 1 of the Lease Supplement and all Appurtenant Rights attached thereto.

"Land Interest Acquisition Cost" means, with respect to the Property, the amount funded by the Lessor under the Participation Agreement as the purchase price of the Land Interest as set forth in the Acquisition Request therefor, including closing costs and fees in connection therewith.

"Land Interest Acquisition Date" means the date on which the Lessor acquires the Land Interest, which date shall be specified in the Acquisition Request.

"Late Payment Rate" means (a) for each day (other than as set forth in clause (b) of this definition) the Federal Funds Effective Rate or (b) for the purpose of computing interest on past due payments for each day following the fifth day after such payments first became due, a rate of two percent (2%) per annum in excess of the Alternate Base Rate then in effect; provided, the Late Payment Rate shall not, notwithstanding anything to the contrary herein contained, exceed the maximum rate of interest permitted by applicable law.

"Lease" means the Master Lease, dated as of the Effective Date, between the Lessor and the Lessee, together with the Lease Supplement and all Equipment Schedules thereto.

"Lease Arrangement Fee" is defined in Section 4.2 of the Participation Agreement.

"Lease Balance" means, as of any date of determination, an amount equal to (i) the sum of the outstanding amount of the Advances, all accrued and unpaid interest and Yield on the Advances, and all other amounts owing by the Lessee under the Operative Documents, less (ii) the sum of all payments received by the Lessor, the Agent or the Participant on account of payments to reduce the Lease Balance, including reductions resulting from payments by the Lessor, the Lessee and the Guarantor, proceeds from the sale of the Property and/or amounts realized from the Collateral pursuant to the Cash Collateral Agreement.

"Lease Default" means any event or condition which, with the lapse of time or the giving of notice, or both, would constitute a Lease Event of Default.

"Lease Event of Default" is defined in Section 17.1 of the Lease.

"Lease Supplement" means the Lease Supplement substantially in the form of Exhibit A to the Lease together with all attachments and schedules thereto, as such Lease Supplement may be supplemented, amended or modified from time to time.

"Lessee" means Quantum Corporation, a Delaware corporation, as lessee under the Lease, and its successors and assigns expressly permitted under the Operative Documents.

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"Lessee's Property" is defined in Section 11.1 of the Lease.

"Lessor" means Lease Plan North America, Inc., as Lessor under the Lease, and its successors and assigns expressly permitted under the Operative Documents.

"Lessor Financing Statements" means UCC financing statements appropriately completed and executed for filing in the applicable jurisdiction in order to protect the Lessor's interest under the Lease to the extent the Lease is a security agreement.

"Lessor Lien" means any Lien, true lease or sublease or disposition of title arising as a result of (a) any claim against the Lessor not resulting from the transactions contemplated by the Operative Documents, (b) any act or omission of the Lessor which is not required by the Operative Documents or is in violation of any of the terms of the Operative Documents, (c) any claim against the Lessor with respect to Taxes or Transaction Expenses against which Lessee is not required to indemnify the Lessor, pursuant to Sections 9 or 13.5 of the Participation Agreement or (d) any claim against the Lessor arising out of any transfer by the Lessor of all or any portion of the interest of the Lessor in the Property or the Operative Documents other than the transfer of title to or possession of the Property by the Lessor pursuant to and in accordance with the Lease or the Participation Agreement or pursuant to the exercise of the remedies

set forth in Article XVII of the Lease.

"Lien" means, with respect to any property, any security interest, mortgage, pledge, lien or other encumbrance in, of, or on such property or the income therefrom, including, without limitation, the interest of a vendor or lessor under a conditional sale agreement, Capital Lease or other title retention agreement.

"Marketing Period" and "Remarketing Period" mean the period commencing on the date one hundred eighty (180) days prior to the Expiration Date and ending on the Expiration Date or such other 180 day period as is referred to in Section 17.2(h) of the Lease.

"Material", "Materially", and "Material Adverse Effect" mean material to, or a material adverse effect on, (i) the business, assets, operations or financial or other condition of the Lessee or the Guarantor and their respective Subsidiaries taken as a whole, (ii) the ability of the Lessee or the Guarantor to perform its obligations under any of the Operative Documents, (iii) the value or condition of the Property or the Lessor's interests therein or title thereto, or (iv) the rights and remedies of the Lessor, the Agent and the Participants under the Participation Agreement or any other Operative Document taken as a whole.

"Material Plan" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$1,000,000.

"Material Subsidiaries" means each Subsidiary of the Lessee which has assets with a total book value greater than ten percent (10%) of the consolidated total assets of the Lessee and its Subsidiaries, each determined as of the end of the fiscal quarter immediately preceding the date of determination.

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"Maturity Date" means the fifth anniversary of the Effective Date.

"MKE" means Matsushita-Kotobuki Electronics Industries, Ltd., a Japanese corporation.

"MKE-Quantum" means MKE-Quantum Components, L.L.C., a Delaware limited liability company.

"Modifications" is defined in Section 11.1(a) of the Lease.

"Moody's" means Moody's Investors Service, Inc. and any successor thereto that is a nationally-recognized rating agency.

"Mortgage" means, with respect to the Property, a Construction Deed of Trust, Security Agreement and Financing Statement substantially in the form attached as Exhibit P to the Participation Agreement, made by the Lessor in favor of a trustee for the Agent for the benefit of the Participants and satisfactory in form and substance to the Agent and the Required Participants in order to create a first priority mortgage lien on the Lessor's fee interest in the Property and a first priority security interest in the Equipment.

"Mortgage Documents" is defined in Section 6.1 of the Participation Agreement.

"Mortgage Taxes" is defined in Section 6.1 of the Participation Agreement.

"Multiemployer Plan" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"Net Cure Proceeds" is defined in Section 11.8 of the Participation Agreement.

"Net Proceeds" means all amounts paid in connection with any Casualty or Condemnation, and all interest earned thereon, less the expense of claiming and collecting such amounts, including all costs and expenses in connection therewith for which the Agent or the Lessor is entitled to be reimbursed pursuant to the Lease.

"Net Sales Proceeds" means the Gross Proceeds actually received by the Lessor upon any sale by the Lessor of any part of the Property pursuant to Articles XVII or XXII of the Lease, including, without limitation, (i) any such

payments made to the Lessor by the Lessee or any purchaser, (ii) any Shortfall Amount paid to the Lessor by the Lessee, and (iii) any interest paid by the Lessee to the Lessor on past due amounts under the Lease; but excluding any payments applied by the Lessor to pay, or received by the Lessor as reimbursement for, bona fide costs of the sale and further excluding any excess net sales proceeds received from a purchaser that the Lessor is required to pay over to the Lessee. In the event that for any reason whatsoever, including a default by the

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Lessee, the Lessor does not sell the Property pursuant to the Lease on the Designated Payment Date, "Net Sales Proceeds" shall nonetheless include any Shortfall Amount actually received by the Lessor. Further, if the Lessor does not sell the Property pursuant to the Lease, then "Net Sales Proceeds" shall also include the excess, if any, of:

(A) all rents and all sales, condemnation and insurance proceeds actually received by the Lessor from any sale or lease after the Designated Payment Date of any interest in, or because of any subsequent taking or damage to, the Property; over

(B) the sum of (i) all costs of collecting the rents and proceeds described in the preceding clause (A) plus (ii) all ad valorem taxes, insurance premiums and other costs of every kind incurred by the Lessor with respect to the ownership, operation or maintenance of the Property.

However, for purposes of computing any excess described in the preceding sentence, costs described in clause (B) shall not include the Lessor's general overhead costs or any costs for which the Participants have already paid the Lessor their Commitment Percentages thereof as required by Section 11.6 of the Participation Agreement.

"Non-Consenting Participant" means any Participant which has denied, or is deemed to have denied, an Extension Request pursuant to Section 3.6 of the Participation Agreement.

"Operative Documents" means the following:

- (a) the Participation Agreement;
- (b) the Lease and Lease Supplement;
- (c) the Guarantee;
- (d) the Property Purchase Agreement, the Assignment of Purchase Agreement and the Deed;
- (e) the Construction Agency Agreement;
- (f) the Assignment of Lease and each Supplement to the Assignment of Lease;
- (g) the Consent to Assignment;
- (h) the Equipment Schedules;
- (i) the Mortgage;
- (j) the Construction Agency Agreement Assignment;
- (k) the Consent to Construction Agency Agreement Assignment;
- (l) the Assignment of Construction Documents; and
- (m) the Cash Collateral Agreement.

"Original Executed Counterpart" is defined in Section 31.8 of the Lease.

"Outside Completion Date" means the second anniversary of the Effective Date.

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"Overdue Rate" means, with respect to the Advances, fees or any other payment due under the Operative Documents, the interest rate then applicable to the Advances plus 2% per annum.

"Participant's Letter" is defined in Section 12.1(b) of the Participation Agreement.

"Participation Agreement" means the Participation Agreement, dated as of August 22, 1997, among the Lessee, the Lessor, the Participants and the Agent.

"Participation Interest" means, as to each Participant, a participation interest in, or in the case of each Tranche C Participant, an equity investment in, the Lease and the right to receive that percentage of the following payments actually received by the Lessor from or on behalf of the Lessee as is set forth on Schedule I to the Participation Agreement, subject to the provisions of

Sections 3.11 - 3.21 and Section 11 of the Participation Agreement: (i) Basic Rent, (ii) Supplemental Rent, (iii) Asset Termination Value, (iv) Purchase Option Price, (v) Net Sales Proceeds, (vi) Residual Value Guarantee Amount, (vii) the Shortfall Amount, and (viii) other payments in respect of indemnities or pursuant to the Guarantee or the exercise of remedies under the Operative Documents, excluding, however, (x) any Excepted Payments and (y) as to a particular Participant, any payments on account of any Advances and any Required Supplemental Payments (and interest thereon) for which the Lessor has not received payment from such Participant of such Participant's Commitment Percentage thereof. For example, if the Lessor elects to pay for insurance required of the Lessee by the Lease because of the Lessee's failure to obtain such insurance, the Lessor's receipt of reimbursement for the cost of such insurance from the Lessee shall be included within "Participation Interest" for purposes of this Agreement only if such Participant has paid to the Lessor such Participant's Commitment Percentage of such cost pursuant to Section 11.6 or Section 11.7 of the Participation Agreement.

"Participants" means ABN AMRO, Lease Plan North America, Inc. and each Person executing the Participation Agreement or a Participant's Letter as a Participant and purchasing a Participation Interest in the transactions contemplated by the Participation Agreement and the other Operative Documents.

"Participant Balance" means for each Participant the sum of its Tranche A Participation Interest Balance, its Tranche B Participation Interest Balance and its Tranche C Participation Interest Balance.

"Payment Date" means (a) any Scheduled Payment Date and (b) any date on which interest or Yield is payable pursuant to Section 3.8(c) of the Participation Agreement in connection with any prepayment of the Advances.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Permitted Exceptions" means (A) the respective rights and interests of the parties to the Operative Documents as provided in the Operative Documents; (B) the rights of any sublessee or

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assignee under a sublease or an assignment expressly permitted by the terms of the Lease; (C) Liens for Taxes that either are not yet due or are being contested in accordance with the provisions of Section 13.1 of the Lease or Section 13.5 of the Participation Agreement; (D) Liens arising by operation of law, materialmen's, mechanics', workers', repairmen's, employees', carriers', warehousemen's and other like Liens in connection with any Modifications or arising in the ordinary course of business for amounts that either are not more than 60 days past due or are being diligently contested in good faith by appropriate proceedings, so long as such proceedings satisfy the conditions for the continuation of proceedings to contest Taxes set forth in Section 13.1 of the Lease, and that have been bonded for not less than the full amount in dispute (or as to which other security arrangements satisfactory to the Lessor have been made), which bonding (or arrangements) shall comply with applicable Requirements of Law, and has effectively stayed any execution or enforcement of such Liens; (E) Liens arising out of judgments or awards with respect to which appeals or other proceedings for review are being prosecuted in good faith and for the payment of which adequate reserves have been provided as required by GAAP or other appropriate provisions have been made, so long as such proceedings have the effect of staying the execution of such judgments or awards and satisfy the conditions for the continuation of proceedings to contest set forth in Section 13.1 of the Lease; (F) all encumbrances, exceptions, restrictions, easements, rights of way, servitudes, encroachments and irregularities in title, other than Liens which, in the reasonable assessment of the Agent, do not materially impair the value of the Property or the use of the Property for its intended purpose; (G) easements, rights of way and other encumbrances on title to the Property pursuant to Section 12.2 of the Lease; (H) a Lien consisting of a deposit or pledge made, in the ordinary course of business, in connection with, or to secure payment of, obligations under worker's compensation, unemployment insurance or similar legislation and (I) Liens of the types described in clauses (i)(x), (ii), (iii), (v), (vii) and (viii) of the definition of Permitted Liens; provided, however, that Permitted Exceptions shall in no event include Lessor's Liens.

"Permitted Indebtedness" is defined in Section 10.1(g) of the Participation Agreement.

"Permitted Investments" is defined in Section 10.1(k) of the Participation Agreement.

"Permitted Liens" is defined in Section 10.1(h) of the Participation Agreement.

"Permitted Receivables Facility" means one or more accounts receivable financing arrangements including (a) the sale of accounts receivables and any related property by the Lessee and/or any of its Subsidiaries to a financing

party or a special purpose vehicle, and/or (b) the granting of a security interest in accounts receivable and any related property by the Lessee and/or any of its Subsidiaries; provided, however, that the aggregate outstanding advances under such accounts receivables financing arrangements shall not exceed \$200,000,000 at any one time.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Authority or any other entity.

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"Plan" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"Plans and Specifications" means, with respect to the Property, the plans and specifications for the Improvements to be constructed on the Property.

"Pricing Grid" means Schedule II to the Participation Agreement.

"Pricing Period" means (a) the period commencing on the date of the Participation Agreement and ending on September 30, 1997, (b) the period commencing on October 1, 1997 and ending on November 30, 1997, and (c) each consecutive three-calendar month period, four-calendar month period, two-calendar month period or three-calendar month period (as applicable) thereafter which commences on the day following the last day of the immediately preceding three-calendar month period, four-calendar month period, two-calendar month period or three-calendar month period (as applicable) and ends on the last day of that time period as follows:

- (i) December 1st through February 28th or February 29th (as applicable);
- (ii) March 1st through June 30th;
- (iii) July 1st through August 31st; and
- (iv) September 1st through November 30th.

"Prior Credit Agreement" means that certain Credit Agreement, dated as of October 4, 1994, as amended, among the Lessee, the banks named therein, ABN, AMRO, Barclays Bank PLC and Canadian Imperial Bank of Commerce, as managing agents for the banks, and Canadian Imperial Bank of Commerce, as administrative agent for the banks.

"Prime Rate" means the per annum rate publicly announced by the Agent from time to time at its New York Branch. The Prime Rate is determined by the Agent from time to time as a means of pricing credit extensions to some customers and is neither directly tied to any external rate of interest or index nor necessarily the lowest rate of interest charged by the Agent at any given time for any particular class of customers or credit extensions. Any change in the Alternative Base Rate resulting from a change in the Prime Rate shall become effective on the Business Day on which each change in the Prime Rate occurs.

"Property" means (i) the Land Interest and (ii) all of the Improvements, Equipment and Fixtures at any time located on or under such Land Interest other than Lessee's Property.

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"Property Balance" means, with respect to the Property, as of any date of determination, an amount equal to (i) the sum of the outstanding amount of the Advances, all accrued and unpaid interest and Yield on the Advances, and all other amounts owing by the Lessee under the Operative Documents, less (ii) the sum of all payments received by the Lessor, the Agent or the Participant on account of payments to reduce the Property Balance, including reductions resulting from payments by the Lessor, the Lessee and the Guarantor and/or proceeds from the sale of the Property and/or amounts realized from the Collateral pursuant to the Cash Collateral Agreement.

"Property Cost" means, with respect to the Property, the aggregate amount of the related Land Interest Acquisition Cost and the related Property Improvements Cost.

"Property Improvements Cost" means, with respect to the Property, the amount funded to or on behalf of the Construction Agent by the Lessor under the Participation Agreement and the Construction Agency Agreement to construct any Improvements, Fixtures or Modifications and to purchase Equipment to be used on the Property in accordance with the Plans and Specifications therefor and the Operative Documents, as set forth in the Acquisition Request and Funding Requests therefor (including interest and Yield on the Advances during the Construction Period applied to such cost and funded by an Interest Payment Advance).

"Property Purchase Agreement" means the Purchase and Sale Agreement, dated as of July, 1997, between the Existing Owner and the Lessee, and assigned to the Lessor pursuant to the Assignment of Purchase Agreement, providing for the purchase of the Property by the Lessor on the Land Interest Acquisition Date.

"Purchase Notice" is defined in Section 20.1 of the Lease.

"Purchase Option" is defined in Section 20.1 of the Lease.

"Purchase Option Price" is defined in Section 20.1 of the Lease.

"Quick Ratio" means, with respect to the Lessee at any time, the ratio, determined on a consolidated basis in accordance with GAAP, of:

(a) The sum at such time of all (i) cash and Cash Equivalents of the Lessee and its Subsidiaries (excluding restricted cash) and (ii) accounts receivable of the Lessee and its Subsidiaries, less all reserves therefor;

to

(b) The sum at such time of (i) the current liabilities of the Lessee and its Subsidiaries plus (ii) long-term Indebtedness secured by account receivables of the Lessee or its Subsidiaries measured at the lesser of the amount of such long-term Indebtedness and the book value of the accounts receivable so encumbered.

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"Release" means any release, pumping, pouring, emptying, injecting, escaping, leaching, dumping, seepage, spill, leak, flow, discharge, disposal or emission of a Hazardous Substance.

"Remarketing Option" is defined in Section 22.1 of the Lease.

"Remarketing Period" is defined in the definition "Marketing Period".

"Renewal Option" is defined in Section 21.1(a) of the Lease.

"Renewal Request" is defined in Section 21.1(a) of the Lease.

"Renewal Response Date" is defined in Section 21.1(a) of the Lease.

"Renewal Term" means, individually, either of the two one-year periods which immediately follow the fifth anniversary of the Effective Date with respect to which Lessee has exercised its Renewal Option pursuant to Section 21.1 of the Lease.

"Rent" means, collectively, the Basic Rent and the Supplemental Rent, in each case payable under the Lease.

"Reportable Event" shall have the meaning given to that term in ERISA and applicable regulations thereunder.

"Requesting Party" is defined in Section 26.1 of the Lease.

"Required Modification" is defined in Section 11.1(a) of the Lease.

"Required Participants" means, at any time, Participants the Commitment Percentages of which aggregate at least 66 2/3%.

"Required Supplemental Payments" means all payments of Supplemental Rent that the Lessee has agreed to pay the Lessor under the Lease and the other Operative Agreements, other than (i) Commitment Fees, (ii) the Administrative Fee, (iii) the Lease Arrangement Fee, (iv) Excepted Payments, (v) Residual Value Guarantee Amount, (vi) Asset Termination Value, (vii) Purchase Option Price and (viii) interest or Yield accruing on any amount due from the Lessee, which amount is itself not a Required Supplemental Payment under this definition. For example, if the Lessor incurs attorneys' fees because of a breach by the Lessee of the Lease, the payments required of the Lessee by the Lease as reimbursement for such fees shall constitute a Required Supplemental Payment.

"Requirement of Law" means all Federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions affecting the Property, the Improvements or the demolition, construction, use or alteration thereof, whether now or hereafter enacted and in force, including any that require repairs, modifications or alterations

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in or to the Property or in any way limit the use and enjoyment thereof (including all building, zoning and fire codes and the Americans with Disabilities Act of 1990, 42 U.S.C. ss. 1201 et. seq. and any other similar Federal, state or local laws or ordinances and the regulations promulgated thereunder) and any that may relate to environmental requirements (including all Environmental Laws), and all permits, certificates of occupancy, licenses, authorizations and regulations relating thereto, and all covenants, agreements, restrictions and encumbrances contained in any instruments which are either of record or known to the Lessee affecting the Property, other than Lessor Liens, the Appurtenant Rights and any easements, licenses or other agreements entered into pursuant to Section 12.2 of the Lease.

"Residual Value Guarantee Amount" means (i) during the Construction Period, an amount equal to 89.9 percent of the Lease Balance, and (ii) at all other times, an amount equal to the aggregate Tranche A Participation Interest Balances of the Participants holding Tranche A Participation Interests.

"Response Actions" means remove, removal, remedy, and remedial action as those terms are defined in CERCLA, 42 U.S.C. ss. 9601.

"Responsible Officer" means the President, any Vice President, the Treasurer or Controller of the Lessee.

"Responsible Officer's Certificate" means a certificate signed by any Responsible Officer, which certificate shall certify as true and correct the subject matter being certified to in such certificate.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto that is a nationally-recognized rating agency.

"Scheduled Payment Date" means (a) as to interest or Yield on any Advances having an Interest Period of three months or less, the last day of each Interest Period, (b) as to interest or Yield on any Advances having an Interest Period longer than three months, each day which is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period, (c) as to interest or Yield on any Advances bearing interest at the Alternate Base Rate, the last day of each March, June, September and December, and (d) as to the principal amount or equity contribution amount of the Advances, each date indicated on Schedule 1 to the Lease as being a payment date with respect to such portion of the Property Cost, if any.

"Securities Act" means the Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder.

"Security Documents" means the collective reference to the Mortgage, the Assignment of Lease, the Construction Agency Agreement Assignment, the Assignment of Construction Documents, the Cash Collateral Agreement and all other security documents hereafter delivered to the Agent granting a Lien on any asset or assets of any Person to secure the obligations and

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liabilities of the Lessor to the Agent and the Participants under the Participation Agreement or of the Lessee to the Lessor under the Lease.

"Senior Funded Debt" of any Person means any Funded Debt which is not Subordinated Debt.

"Senior Funded Debt Ratio" means, with respect to any Person at any time, the ratio, determined on a consolidated basis in accordance with GAAP, of:

(a) The total Senior Funded Debt of such Person and its Subsidiaries at such time;

to

(b) The sum at such time of (i) the total Senior Funded Debt and Subordinated Debt of such Person and its Subsidiaries at such time plus (ii) the total Tangible Net Worth of such Person and its

Subsidiaries at such time.

"Senior Indebtedness" means, with respect to any Person at any time, all Indebtedness of such Person other than Subordinated Debt.

"Shortfall Amount" means, as of the Expiration Date, the amount that the Asset Termination Value will exceed the aggregate of the Gross Proceeds and the Residual Value Guarantee Amount upon the completion of a sale of the Property pursuant to Article XXII of the Lease.

"Significant Casualty" means (i) a Casualty that results in an insurance settlement on the basis of a total loss, or a constructive or compromised total loss, or (ii) a Casualty that in the reasonable, good faith judgment of the Lessee (as evidenced by a Responsible Officer's Certificate delivered to the Lessor pursuant to Section 16.1 of the Lease) either (a) renders the Property unsuitable for continued use as a commercial property of the type of such property immediately prior to such Casualty or (b) is so substantial in nature that restoration of the Property to substantially its condition as existed immediately prior to such Casualty would be impracticable or impossible.

"Significant Condemnation" means (i) a Condemnation that involves a taking of Lessor's entire title to the related Land Interest, (ii) a Condemnation that results in loss of possession of the Property by the Lessee for a period in excess of one hundred eighty (180) consecutive days, or (iii) a Condemnation that in the reasonable, good faith judgment of the Lessee (as evidenced by a Responsible Officer's Certificate delivered to the Lessor pursuant to Section 16.1 of the Lease) either (a) renders the Property unsuitable for continued use as commercial of the type of such property immediately prior to such Condemnation or (b) is such that restoration of the Property to substantially its condition as existed immediately prior to such Condemnation would be impracticable or impossible.

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"Significant Event" means (i) a Significant Casualty, (ii) a Significant Condemnation, (iii) an event where the restoration of the Property subject to a Casualty or Condemnation shall not be completed prior to the earlier of (A) the 180th day prior to the Expiration Date or (B) twelve (12) months following the occurrence of such Casualty or Condemnation or (iv) the occurrence of an Environmental Violation where the costs to clean up or remediate the same are reasonably estimated by the Lessee to exceed \$5,000,000.

"Six Month Extension Termination Date" means, if the 364 Day Commitment is extended pursuant to Section 3.6 of the Participation Agreement, the date which is six months after the expiration of the 364 Day Commitment.

"Solvent" means, with respect to any Person on any date, that on such date (a) the fair value of the assets of such Person is greater than the fair value of the liabilities (including, without limitation, contingent liabilities) of such Person, as such value is established and liabilities evaluated for purposes of Section 101 (31) of the Federal Bankruptcy Reform Act of 1978 (12 U.S.C. ss.101, et seq.) and, in the alternative, the California Uniform Fraudulent Transfer Act, (b) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature and (c) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital.

"Specified Event of Default" is defined in Section 17.1(q) of the Lease.

"Subordinated Debt" means the Convertible Subordinated Debentures and any other subordinated debt permitted by Section 10.1(g).

"Subsidiary" of any Person means (a) any corporation of which 50% or more of the issued and outstanding Equity Securities having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries or (b) any partnership, joint venture, or other association of which 50% or more of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time owned and controlled by such Person, by such Person and one or more of the other Subsidiaries or by one or more of such Person's other Subsidiaries and in each case, only if such Person is included in the Financial Statements of such Person on a consolidated basis.

"Supplemental Rent" means all amounts, liabilities and obligations (other than Basic Rent) which Lessee assumes or agrees to pay to Lessor or any other Person under the Lease, or under any of the other Operative Documents, including, without limitation, payments of the Residual Value Guarantee Amount, the Shortfall Amount and payments pursuant to Sections 16.2, 16.3, 16.4 or 17.6 of the Lease and Articles XX and XXII of the Lease.

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"Supplement to Assignment of Lease" means the Supplement substantially in the form of Exhibit A to the Assignment of Lease together with all attachments and schedules thereto, as such Supplement to Assignment of Lease may be supplemented, amended or modified from time to time.

"Syndication Period" means the period commencing on the Effective Date and concluding on the earlier of (i) the date which is ninety days after the Effective Date or (ii) the date on which the Agent has syndicated Participation Interests to other Participants representing not less than seventy percent (70%) of the total Commitment set forth on Schedule I to the Participation Agreement.

"Synthetic Lease" means an off-balance sheet financing arrangement for equipment or real estate which is treated as an operating lease under GAAP but pursuant to which the lessee of such equipment or real estate has the benefits and burdens of ownership of the leased equipment or real estate for U.S. tax purposes.

"Tangible Net Worth" means, with respect to the Lessee and its Subsidiaries at any time, the remainder at such time, determined on a consolidated basis in accordance with GAAP, of (a) the total assets of the Lessee and its Subsidiaries minus (b) the sum (without limitation and without duplication of deductions) of (i) the total liabilities of the Lessee and its Subsidiaries, (ii) all reserves established by the Lessee and its Subsidiaries for anticipated losses and expenses (to the extent not deducted in calculating total assets in clause (a) above), and (iii) all intangible assets of the Lessee and its Subsidiaries (to the extent included in calculating total assets in clause (a) above), including, without limitation, goodwill (including any amounts, however designated on the balance sheet, representing the cost of acquisition of businesses and investments in excess of underlying tangible assets), trademarks, trademark rights, trade name rights, copyrights, patents, patent rights, licenses, unamortized debt discount, marketing expenses, organizational expenses, non-compete agreements and deferred research and development.

"Taxes" is defined in the definition of Impositions.

"Term" is defined in Section 2.3 of the Lease.

"Termination Date" is defined in Section 15.1(d), 16.2(a) and 17.2(e) of the Lease.

"Termination Notice" is defined in Section 16.1 of the Lease.

"364 Day Commitment" means \$53,600,000.

"Total Funded Debt Ratio" means, with respect to the Lessee, as of the last day of any quarter, the ratio, determined on a consolidated basis in accordance with GAAP, of (a) the aggregate amount of all Funded Debt of the Lessee then outstanding on such day to (b) EBITDA of the Lessee for the consecutive four quarter period ending on such day.

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"Transfer" means, with respect to any assets or property, any sale, lease, transfer or other disposition thereof.

"Two Year Commitment" means \$12,400,000. The Two Year Commitment expires on the earlier of the Completion Date or the Outside Completion Date.

"Tranche A Participants" means those Participants purchasing a Tranche A Participation Interest in the Advances and maintaining a Tranche A Participation Interest Commitment.

"Tranche A Participation Interest" means, (i) as to each Tranche A Participant, such Participant's Tranche A Participation Interest Commitment Percentage, multiplied by the outstanding amount of all Advances as to which

such Participant has funded its Tranche A Participation Interest Commitment Percentage under Section 3.4 of the Participation Agreement and (ii) as to all Tranche A Participants, 85% of all outstanding Advances.

"Tranche A Participation Interest Balance" means for each Tranche A Participant as of any date of determination an amount equal to (i) the sum of such Tranche A Participant's Tranche A Participation Interest in all outstanding Advances, together with all accrued and unpaid interest thereon, and all other amounts owing by the Lessee to such Tranche A Participant under the Operative Documents, less (ii) the sum of all payments received by the Tranche A Participant on account of payments to reduce such Tranche A Participant's Tranche A Participation Interest, including reductions resulting from payments by the Lessor, the Lessee and the Guarantor and/or proceeds from the sale of the Property and/or amounts realized from the Collateral pursuant to the Cash Collateral Agreement.

"Tranche A Participation Interest Commitment" is defined in Section 3.5 of the Participation Agreement.

"Tranche A Participation Interest Commitment Percentage" means (i) with respect to all Participants in the aggregate, 85% of the aggregate Commitments, and (ii) with respect to each Tranche A Participant, the percentage of the aggregate Commitments set forth after such Participant's Tranche A Participation Interest Commitment in Schedule I to the Participation Agreement.

"Tranche B Participants" means those Participants purchasing a Tranche B Participation Interest in the Advances and maintaining a Tranche B Participation Interest Commitment.

"Tranche B Participation Interest" means, (i) as to each Tranche B Participant, such Tranche B Participant's Tranche B Participation Interest Commitment multiplied by the outstanding amount of all Advances as to which such Participant has funded its Tranche B Participation Interest Commitment Percentage under Section 3.4 of the Participation Agreement and (ii) as to all Tranche B Participants, 11.50% of all outstanding Advances.

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"Tranche B Participation Interest Balance" means for each Tranche B Participant as of any date of determination an amount equal to (i) the sum of such Tranche B Participant's Tranche B Participation Interest in all outstanding Advances, together with all accrued and unpaid interest thereon, and all other amounts owing by the Lessee to such Tranche B Participant under the Operative Documents, less (ii) the sum of all payments received by the Tranche B Participant on account of payments to reduce such Tranche B Participant's Tranche B Participation Interest, including reductions resulting from payments by the Lessor, the Lessee and the Guarantor and/or proceeds from the sale of the Property and/or amounts realized from the Collateral pursuant to the Cash Collateral Agreement.

"Tranche B Participation Interest Commitment" is defined in Section 3.5 of the Participation Agreement.

"Tranche B Participation Interest Commitment Percentage" means (i) with respect to all Participants in the aggregate, 11.50% of the aggregate Commitments, and (ii) with respect to each Tranche B Participant, the percentage of the aggregate Commitments set forth after such Participant's Tranche B Participation Interest Commitment in Schedule I to the Participation Agreement.

"Tranche C Participants" means those Participants purchasing a Tranche C Participation Interest in the Advances and maintaining a Tranche C Participation Interest Commitment.

"Tranche C Participation Interest" means, (i) as to each Tranche C Participant, such Tranche C Participant's Tranche C Participation Interest Commitment multiplied by the outstanding amount of all Advances as to which such Participant has funded its Tranche C Participation Interest Commitment Percentage under Section 3.4 of the Participation Agreement and (ii) as to all Tranche C Participants 3.50% of all outstanding Advances.

"Tranche C Participation Interest Balance" means for each Tranche C Participant as of any date of determination an amount equal to (i) the sum of such Tranche C Participant's Tranche C Participation Interest in all outstanding Advances, together with all accrued and unpaid Yield thereon, and all other amounts owing by the Lessee to such Tranche C Participant under the Operative Documents, less (ii) the sum of all payments received by the Tranche C Participant on account of payments to reduce such Tranche C Participant's Tranche C Participation Interest, including reductions resulting from payments by the Lessor, the Lessee and the Guarantor, proceeds from the sale of the Property and/or amounts realized from the Collateral pursuant to the Cash

Collateral Agreement.

"Tranche C Participation Interest Commitment" is defined in Section 3.5 of the Participation Agreement.

"Tranche C Participation Interest Commitment Percentage" means (i) with respect to all Participants in the aggregate, 3.50% of the Aggregate Commitments, and (ii) with respect to each Tranche C Participant, the percentage of the Aggregate Commitments set forth after such

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Participant's Tranche C Participation Interest Commitment in Schedule I to the Participation Agreement.

"Transaction Expenses" means the following costs and expenses incurred by the Lessor, the Agent and, to the extent referred to below, the Participants in connection with the preparation, execution and delivery of the Operative Documents and the transactions contemplated by the Operative Documents:

(a) the reasonable fees, out-of-pocket expenses and disbursements of counsel for each of the Lessor, ABN AMRO and the Agent, in negotiating the terms of the Operative Documents and the other transaction documents, preparing for the closing under, and rendering opinions in connection with, such transactions and in rendering other services customary for counsel representing parties to transactions of the types involved in the transactions contemplated by the Operative Documents;

(b) the reasonable fees, out-of-pocket expenses and disbursements of counsel of each of the Lessor, ABN AMRO and the Agent in connection with (1) any amendment, supplement, waiver or consent with respect to any Operative Documents requested or approved by the Lessee and (2) any enforcement of any rights or remedies against the Lessee in respect of the Operative Documents;

(c) any and all Taxes and fees incurred in recording, registering or filing any Operative Document or any other transaction document, any deed, declaration, mortgage, security agreement, notice or financing statement with any public office, registry or governmental agency in connection with the transactions contemplated by the Operative Documents;

(d) any title fees, premiums and escrow costs and other expenses relating to title insurance and the closing contemplated by the Transaction Documents; and

(e) all expenses relating to all Environmental Audits and Appraisals.

"Type" means, with respect to any Advance, its nature as an Alternate Base Rate Advance or a Eurodollar Rate Advance.

"UCC Financing Statements" means collectively the Agent Financing Statements and the Lessor Financing Statements.

"Unfunded Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

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"Uniform Commercial Code" and "UCC" means the Uniform Commercial Code as in effect in any applicable jurisdiction.

"Voting Power" means, with respect to securities issued by any Person, the combined voting power of all securities of such person which are issued and outstanding at the time of determination and which are entitled to vote in the election of directors of such Person, other than securities having such power only by reason of the happening of a contingency.

"Wholly-Owned Subsidiary" means any Subsidiary in which (other than directors' qualifying or local ownership shares required by law) 100% of the issued and outstanding Equity Securities or equity interest (as applicable)

having ordinary voting power to elect a majority of the Board of Directors of such Subsidiary or direct or control the management of such Subsidiary (as applicable) is at the time owned and controlled by a Person, by such Person and one or more of the other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Yield" is defined in Section 3.8(b) of the Participation Agreement.

SECOND EXTENSION AND MODIFICATION OF CREDIT AGREEMENT

This SECOND EXTENSION AND MODIFICATION OF CREDIT AGREEMENT, dated as of September 18, 1997 (this "Second Extension and Modification"), is entered into by and among QUANTUM CORPORATION, a Delaware corporation (the "Company"), the several financial institutions party to this Second Extension and Modification (collectively, the "Banks," and, each individually, a "Bank"), and THE SUMITOMO BANK, LIMITED, acting through its San Francisco Branch, as agent for the Banks (in such capacity, the "Agent") and as Issuer. Capitalized terms used herein and not otherwise defined herein have the meanings given such terms in the Credit Agreement (as defined below).

WHEREAS the Company, The Sumitomo Bank, Limited, acting through its San Francisco Branch, The Fuji Bank, Limited, acting through its San Francisco Agency, The Industrial Bank of Japan, Limited, acting through its San Francisco Agency, the Agent and the Issuer entered into that certain Credit Agreement, dated as of September 22, 1995 (as amended, supplemented or otherwise modified prior to the date hereof, the "Credit Agreement"), providing, among other things, a letter of credit facility to the Company upon, and subject to, the terms and conditions set forth in the Credit Agreement; and

WHEREAS, prior to the date hereof, each of Banque Nationale de Paris, acting through its San Francisco Branch, and the Mitsubishi Trust and Banking Corporation, acting through its Los Angeles Agency, became a "Bank" for all purposes of the Credit Agreement, including executing in its respective capacity as a Bank that certain Extension and Modification of Credit Agreement dated as of September 19, 1996; and

WHEREAS the Company has requested, and the Banks, the Agent and the Issuer have agreed to, the extension of the letter of credit facility under the Credit Agreement upon the terms and conditions set forth in the Credit Agreement, as extended and modified by this Second Extension and Modification; and

WHEREAS The Fuji Bank, Limited, acting through its San Francisco Agency, wishes to assign and delegate its rights and obligations as a Bank for all purposes under the Credit Agreement and The Sumitomo Bank, Limited, acting through its San Francisco Branch, is willing to assume 100.0% of The Fuji Bank, Limited Commitment as a Bank under the Credit Agreement; and

WHEREAS The Industrial Bank of Japan, Limited, acting through its San Francisco Agency, wishes to assign and delegate its rights and obligations with respect to 27.272727273% of The Industrial Bank of Japan, Limited Commitment as a Bank for all purposes under the Credit Agreement (such portion of The Industrial Bank of Japan, Limited Commitment, the "IBJ Commitment") and The Sumitomo Bank, Limited, acting through its San Francisco Branch, is willing to assume the IBJ Commitment as a Bank under the Credit Agreement;

NOW, THEREFORE, in consideration of these premises, the mutual agreements, provisions and covenants contained herein, and in order to induce the Banks to extend the term of the letter of credit facility, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1. AMENDMENTS.

Effective as of the Effective Date (as defined in Section 1.1.2 below), the Company, the Banks, the Agent and the Issuer hereby agree that the Credit Agreement is hereby amended, prospectively and not retroactively, as follows:

1.1 Section 1.1. Section 1.1 of the Credit Agreement is hereby amended as follows:

1.1.1 Additional Definitions. The following definition is hereby added, alphabetically:

"Second Extension and Modification" means that certain Second Extension and Modification of Credit Agreement, dated as of September 18, 1997, by and among the Company, the Agent, the Issuer and the banks and financial institutions signatory thereto, as such may be amended, restated, modified or supplemented from time to time."

1.1.2 "Effective Date." The definition of "Effective Date" set forth in the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"Effective Date" means the date on which all conditions precedent to the effectiveness of the Second Extension and Modification set forth in Section 3.1 thereof have been satisfied."

1.1.3 "Existing Credit Facility." The definition of "Existing Credit Facility" set forth in the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"Existing Credit Facility" means that certain Credit Agreement dated as of June 6, 1997, by and among the Company, as borrower; the financial institutions from time to time listed on Schedule I thereto (the "Banks"); ABN AMRO Bank N.V., San Francisco International Branch ("ABN") and CIBC Inc. ("CIBC") as co-arrangers for the Banks; Canadian Imperial Bank of Commerce, as administrative agent for the Banks; Bank of America National Trust and Savings Association, as documentation agent for the banks; ABN as syndication agent for the Banks; and BankBoston, N.A., The Bank of Nova Scotia, Fleet National Bank, and The Industrial Bank of Japan, Limited, as co-

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agents for the Banks (as the same may be amended, supplemented, restated or otherwise modified from time to time)."

1.1.4 "Material Subsidiary." Clause (d) of the definition of "Material Subsidiary" set forth in the Credit Agreement is hereby deleted and the following substituted therefor:

"(d) each other Subsidiary of the Company which has assets with a total book value greater than ten percent (10%) of the consolidated total assets of the Company and its Subsidiaries, each determined as of the end of the fiscal quarter immediately preceding the date of determination."

1.1.5 "Outstanding Letters of Credit." The definition of "Outstanding Letters of Credit" set forth in the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"Outstanding Letters of Credit" means all letters of credit issued pursuant to the Credit Agreement prior to the Effective Date of the Second Extension and Modification and which are still outstanding as of the Effective Date, as set forth on Schedule 1.1(a) hereto."

1.2 Section 2.4. (a) Subparagraph (b) of Section 2.4 of the Credit Agreement is hereby amended by deleting the term "1.00%" and substituting therefore the term "0.36%"; and by deleting the words "September 30, 1996" and substituting therefore the words "September 30, 1997".

(b) Section 2.4(c) is hereby deleted in its entirety and the following substituted therefor:

"(c) Extension Fees. The Company shall pay to the Agent (i) for the ratable benefit of the Banks, a one-time facility extension fee in the amount of \$42,500, and (ii) for the account of the Agent and the Issuer, an administrative extension fee in such amount as separately agreed to by a letter between the Agent and the Company, dated as of the date of the Second Extension and Modification."

1.3 Section 2.14. Subparagraph (b) of Section 2.14 of the Credit Agreement is hereby amended by deleting the words "September 22, 1998" and substituting therefore the words "September 22, 1999".

1.4 Section 6.1(a). Section 6.1(a) is hereby amended by deleting from "in each case together with:" in the sixth line of Section 6.1 through "(ii)" in the twelfth line of Section 6.1 and substituting therefor "together with".

1.5 Section 6.8. Section 6.8 is hereby deleted in its entirety and the following substituted therefor:

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"6.8 Net Worth. The Company shall maintain a Net Worth determined as of the end of any fiscal quarter which occurs after June 29, 1997 of no less than the sum of (a) \$820,000,000, plus (b) seventy-five percent (75%) of Net Income, accrued quarterly, plus (c) seventy-five percent (75%) of the net proceeds of all equity from the conversion of existing subordinated indebtedness or a secondary offering of stock having net proceeds to the Company in excess of \$10 million, minus (d) the lesser of (i) the aggregate amount paid by the Company to repurchase its capital stock and (ii) \$50,000,000."

1.6 Section 6.9. Section 6.9 is hereby deleted in its entirety and the following substituted therefor:

"6.9 Quick Ratio. The Company shall not permit its Quick Ratio to be less than 0.75 to 1.0 as of the end of any fiscal quarter."

1.7 Schedule 1.1(a). Schedule 1.1(a) of the Credit Agreement is hereby amended and revised in its entirety as set forth on Schedule 1.1(a) attached to this Second Extension and Modification.

1.8 Schedule 2.1. Schedule 2.1 of the Credit Agreement is hereby amended and revised in its entirety as set forth on Schedule 2.1 attached to this Second Extension and Modification.

ARTICLE 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

2.1 Representations and Warranties. The Company hereby represents and warrants to the Agent, the Issuer and each Bank, as of the date hereof, on the Effective Date and on the date of each Credit Extension concurrent with or subsequent to the date hereof, as follows:

(a) Credit Agreement Representations and Warranties. All representations and warranties of the Company contained in Article V of the Credit Agreement are true and correct in all material respects on and as of the date hereof and as of the Effective Date as though made on and as of said dates.

(b) Litigation. As of the date hereof and as of the Effective Date, except as specifically disclosed in the Company's Form 10K for the year ended March 31, 1997, or its Form 10Q for the quarter ended June 29, 1997, on file with the Securities and Exchange Commission and previously provided to the Agent, the Issuer and the Banks, there are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company or any of its properties which, if determined adversely to the Company, would reasonably be expected to have a Material Adverse Effect.

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(c) Material Adverse Effect. Since March 31, 1997, the date of the most recent audited financial statements provided by the Company to the Agent and the Banks, there has been no Material Adverse Effect.

(d) Financial Statements. The Company has delivered to the Agent and each of the Banks copies of the unaudited consolidated balance sheet of the Company as at the end of, and its related unaudited consolidated statements of income, changes in shareholder's equity and cash flow of the Company for, the quarterly period ended June 29, 1997, certified by the Chief Financial Officer or Controller of the Company. Such financial statements have been accurately prepared from the books and records of the Company. There are no material liabilities, contingent or otherwise, of the Company as of such date, not reflected in such balance sheet of the Company as of such date. Since such date, there have not been any changes (whether or not covered by insurance) in assets, liabilities or financial position of the Company from those set forth in such balance sheet of the Company as of such date, other than changes in the ordinary course of business which have not, either individually or in the aggregate, been materially adverse. The Company does not know of any fact (other than matters of a general economic nature) that materially affects adversely the business, operations or properties of the Company, or the ability of the Company to perform its obligations under this Extension and Modification or the Credit Agreement (as extended and modified hereby).

(e) No Event of Default. No event has occurred and is continuing, or would result from the extension or issuance of any Letter of Credit or any other transaction contemplated hereby or under the Credit Agreement (as extended and modified hereby), which constitutes a Default or an Event of Default.

(f) Due Organization. The Company is a duly organized corporation created under the laws of Delaware, has the requisite power to carry on its present and proposed activities, and has full power, right and authority (i) to enter into, execute and deliver this Second Extension and Modification and (ii) to perform and observe the terms and provisions of this Second Extension and Modification and the Credit

Agreement (as extended and modified hereby).

(g) Compliance with Documents. The Company is in full compliance with all of the material terms and conditions of the Credit Agreement as amended to the date hereof.

(h) Due Authorization. The Company has taken or caused to be taken all requisite corporate action to authorize (i) the extension, issuance, execution and delivery of, and the performance of its obligations under, this Second Extension and Modification, the Credit Agreement (as extended and modified hereby), and any and all instruments, certificates and documents required to be executed or delivered pursuant to or in connection herewith or therewith, and (ii) the consummation by the Company of the transactions contemplated under each of the foregoing documents.

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(i) Corporate Power; No Violation. The execution and delivery of, and performance by the Company of its obligations under, this Second Extension and Modification, the Credit Agreement (as extended and modified hereby), and any and all instruments or documents required to be executed in connection herewith or therewith, were and are within the powers of the Company and will not violate any provision of any applicable law, regulation, decree or governmental authorization, or its bylaws, and will not violate or cause a default under any provision of any contract, agreement, mortgage, indenture or other undertaking to which it is a party or which is binding upon it or any of its property or assets, and will not result in the imposition or creation of any lien, charge or encumbrance upon any of its properties or assets pursuant to the provisions of any such contract, agreement, mortgage, indenture or undertaking.

(j) Licenses, Approvals. All authorizations, licenses, consents, approvals and undertakings which are required to be obtained by the Company under any applicable law in connection with the execution, delivery and performance of, and the legality, validity, binding effect and enforceability of the Company's obligations under, or in connection with, this Second Extension and Modification and the Credit Agreement (as extended and modified hereby) have been duly obtained or made and all such authorizations, licenses, consents, approvals and undertakings are in full force and effect.

(k) Binding Obligations. This Second Extension and Modification and the Credit Agreement (as extended and modified hereby) constitute the valid and legally binding obligations of the Company, which obligations are enforceable in accordance with their respective terms.

ARTICLE 3. CONDITIONS TO EFFECTIVENESS

3.1 Conditions of Extension/Initial Credit Extension. The obligation of the Issuer to make an initial Credit Extension under this Second Extension and Modification, the effectiveness of the amendments set forth in Article I hereof, and the obligations of the Banks to extend the original term of the Credit Agreement and to make available a letter of credit facility to the Company according to the terms of the Credit Agreement, as extended and modified by this Second Extension and Modification, are subject to the condition that the Agent shall have confirmed satisfaction of each of the conditions precedent set forth in this Section 3.1 on or before September 18, 1997:

(a) the Agent shall have received each of the certificates, opinions and other documents set forth at Section 4.1, subsections (a), (b) and (d) of the Credit Agreement as though such subsections were set forth herein in full and made applicable as of the Effective Date to this Second Extension and Modification and the Credit Agreement (as extended and modified hereby), each such certificate, opinion or other document in form and substance satisfactory to the Agent and in sufficient number for the Issuer and each Bank.

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(b) as of the Effective Date, no Default or Event of Default shall have occurred or be continuing;

(c) the Company shall have paid all costs, accrued and unpaid fees and expenses (including legal fees and expenses) to the extent then due and payable on the Effective Date, including any

arising under subsections 2.4(b) and (c) of the Credit Agreement as applied to this Second Extension and Modification and as extended and modified hereby, provided that, any legal fees and expenses arising under Section 4.5 hereof shall be paid in accordance with such Section 4.5;

(d) the Agent shall have received evidence satisfactory to the Agent that all interest fees, costs and any and all other amounts due and owing by the Company under the Outstanding Letters of Credit or the Credit Agreement through the Effective Date have been paid in full; and

(e) such other documents as the Agent may reasonably request.

3.2 Extension of Outstanding Letters of Credit. The parties hereto agree that, upon satisfaction of the conditions precedent set forth in Section 3.1 hereof, each Outstanding Letter of Credit shall be amended and extended for a period ending no later than six (6) months after the expiry date of such Outstanding Letter of Credit immediately prior to such amendment and extension.

ARTICLE 4. MISCELLANEOUS PROVISIONS

4.1 No Waiver. Nothing contained herein or in any other instrument or document executed in connection herewith, nor any action taken by the Agent, the Issuer or any Bank in connection with this Second Extension and Modification or any other action contemplated hereby or thereby shall in any event be construed or deemed to constitute a waiver of any past, present or future Default or Event of Default (including any Default or Event of Default relating in any way to matters previously advised to the Agent in writing or of which the Agent has notice) or a waiver or an estoppel of any cause of action the Agent, the Issuer or any Bank may have against the Company or any other party for any reason whatsoever.

4.2 Full Force and Effect. Except as specifically modified by this Second Extension and Modification, all of the terms and provisions of the Credit Agreement shall remain in full force and effect. The term "Agreement" as used in the Credit Agreement and all related documents shall mean the Credit Agreement as extended and modified hereby.

4.3 Obligations Binding/Parties to the Credit Agreement. The terms and conditions of this Second Extension and Modification and the Credit Agreement (as extended and modified hereby) and the obligations created hereunder and thereunder shall be binding upon and enforceable against the parties hereto. Pursuant to a separate assignment, The Sumitomo Bank, Limited, shall assume all rights and obligations arising on and after the date hereof of, respectively, (a) The Fuji Bank, Limited, as a Bank under the Credit Agreement,

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and (b) The Industrial Bank of Japan, Limited, as a Bank under the Credit Agreement to the extent of the IBJ Commitment. Without limiting the generality of the foregoing, The Sumitomo Bank, Limited, shall be entitled to receive from the Agent its ratable share of the facility extension fee (including that portion applicable to The Fuji Bank, Limited Commitment and the IBJ Commitment) as described in Section 2.4(c)(i) of the Credit Agreement (as extended and modified hereby as of the Effective Date). The term "Bank" as set forth and defined in the Credit Agreement (as extended and modified hereby, and specifically as modified by this Section 4.3) shall mean each Bank that is a party hereto.

4.4 No Third Parties Benefitted. This Second Extension and Modification and any instruments or other documents connected therewith are made and entered into for the sole protection and legal benefit of the Company, the Banks, the Issuer and the Agent, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Second Extension and Modification.

4.5 Expenses. Without limiting any provision of the Credit Agreement, the Company agrees to pay promptly, and in all events within ten (10) days of invoice, all reasonable costs and expenses of the Agent and the reasonable costs and expenses of the Agent's legal counsel in connection with the preparation, negotiation, execution, delivery and administration of this Second Extension and Modification and the transactions contemplated hereby.

4.6 Bank Authority and Obligations. Each Bank represents and warrants to the Issuer that (i) it has full power, authority and legal right to execute and deliver this Second Extension and Modification and participate in the Letters of Credit as provided herein and under the Credit Agreement (as extended and modified hereby), and to perform and observe the terms and

conditions hereof and thereof; (ii) it has taken all necessary legal and corporate action to authorize the execution and delivery of this Second Extension and Modification and the performance and observance of the terms and conditions hereof and of the Credit Agreement (as extended and modified hereby); and (iii) this Second Extension and Modification and the Credit Agreement (as extended and modified hereby) constitute the legal, valid and binding obligation of such Bank, enforceable in accordance with the terms hereof and thereof, except as such enforceability may be limited by application of any bankruptcy, receivership, conservatorship, reorganization or other similar laws for the relief of debtors, or by application of general principles of equity.

4.7 Governing Law. This Second Extension and Modification shall be governed by and construed in accordance with the laws of the State of California.

4.8 Successors and Assigns. The provisions of this Second Extension and Modification, the Credit Agreement (as extended and modified hereby), and any other document, instrument or agreement required hereunder or thereunder, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under or in connection with this Second Extension and Modification, the Credit Agreement (as extended and modified hereby), or any other document, instrument or agreement required

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hereunder or thereunder, without the prior written consent of the Agent, the Issuer and each Bank.

4.9 Severability. The illegality or unenforceability of any provision of this Second Extension and Modification, the Credit Agreement or any other document or any other instrument or agreement required hereunder or thereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Second Extension and Modification, the Credit Agreement or such other document or any other instrument or agreement required hereunder or thereunder.

4.10 Counterparts. This Second Extension and Modification may be executed by one or more of the parties hereto in any number of separate counterparts, each of which, when so executed shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument. A set of the copies of this Second Extension and Modification signed by all the parties shall be lodged with the Company and the Agent.

9

IN WITNESS WHEREOF, the parties hereto have caused this Second Extension and Modification to be duly executed and delivered in San Francisco, California by their proper and duly authorized officers as of the day and year first above written.

QUANTUM CORPORATION

Address for notices:

500 McCarthy Boulevard
Milpitas, CA 95035
Attn: G. Edward McClammy, Vice
President of Finance and
Treasurer
Telephone: (408) 894-4000
Fax: (408) 894-4562

By: /s/ G. E. McClammy

Title: Vice President Finance & Treasurer

THE SUMITOMO BANK, LIMITED,
ACTING THROUGH ITS SAN FRANCISCO BRANCH
as Agent

Address for notices:

San Francisco Branch
555 California Street, Suite 3350
San Francisco, CA 94104
Attn: Gavin S. Holles
Telephone: (415) 616-3025
Fax: (415) 398-3580

By: /s/ Kozo Masaki

Title: General Manager

By: /s/ G. S. Holles

Title: A. V. P.

Address for payments to Agent:

Sumitomo Bank of California
San Francisco, California
ABA No. 121-002-042
To the account of The Sumitomo Bank,
Limited, San Francisco Branch

Reference: Quantum LC
Attn: Gavin S. Holles

S-1

THE SUMITOMO BANK, LIMITED,
ACTING THROUGH ITS SAN FRANCISCO BRANCH
as Issuer

Address for notices:

San Francisco Branch
555 California Street, Suite 3350
San Francisco, CA 94104
Attn: Gavin S. Holles
Telephone: (415) 616-3025
Fax: (415) 398-3580

By: /s/ Kozo Masaki

Title: General Manager

Address for payments to Issuer:

Sumitomo Bank of California
San Francisco, California
ABA No. 121-002-042
To the account of The Sumitomo Bank,
Limited, San Francisco Branch
Reference: Quantum LC
Attn: Gavin S. Holles

By: /s/ G. S. Holles

Title: A. V. P.

BANKS

THE SUMITOMO BANK, LIMITED,
ACTING THROUGH ITS SAN FRANCISCO BRANCH

Address for notices:

San Francisco Branch
555 California Street, Suite 3350
San Francisco, CA 94104
Attn: Gavin S. Holles
Telephone: (415) 616-3009
Fax: (415) 397-1475

By: /s/ Kozo Masaki

Title: General Manager

By: /s/ G. S. Holles

Title: A. V. P.

S-2

BANQUE NATIONALE DE PARIS,
ACTING THROUGH ITS
SAN FRANCISCO BRANCH

Address for notices:

180 Montgomery Street
San Francisco, CA 94104
Attn: Rafael C. Lumanlan
Telephone: (415) 956-0707
Fax: (415) 296-8954

By: /s/ Rafael C. Lumanlan

Title: Rafael C. Lumanlan

Vice President

By: /s Charles H. Day

Title: Charles H. Day

Assistant Vice President

THE MITSUBISHI TRUST AND BANKING
CORPORATION, ACTING THROUGH
ITS LOS ANGELES AGENCY

Address for notices:

801 South Figueroa Street, Suite 500
Los Angeles, CA 90017
Attn: Jill A. Kato
Telephone: (213) 896-4655
Fax: (213) 687-4631

By: /s/ Yasushi Satomi

Title: Yasushi Satomi

Senior Vice President

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Schedule 1.1(a)

to Credit Agreement,
dated as of September 22, 1995
(as extended and modified by that certain

Extension and Modification of Credit Agreement,
dated as of September 19, 1996,
as further extended and modified by that certain
Second Extension and Modification of Credit Agreement,
dated as of September 18, 1997)
concerning

Quantum Corporation

OUTSTANDING LETTERS OF CREDIT

1. Irrevocable Letter of Credit No. G/SFB-400290, dated September 22, 1995, in the amount of U.S. \$77,000,000 for the account of Quantum Corporation, in favor of Matsushita-Kotobuki Electronics Industries, Ltd., as amended by certain Amendment No. 1 to Irrevocable Letter of Credit No. G/SFB-400290, dated as of March 18, 1996, and that certain Amendment No. 2 to Irrevocable Letter of Credit No. G/SFB-400290, as Amended, dated as of September 20, 1996, and that certain Amendment No. 3 to Irrevocable Letter of Credit No. G/SFB-400290, as Amended, dated as of March 20, 1997.
2. Irrevocable Letter of Credit No. G/SFB-400291, dated September 22, 1995, in the amount of U.S. \$8,000,000 for the account of Quantum Corporation, in favor of Ireland-Kotobuki Electronics Industries, Ltd., as amended by that certain Amendment No. 1 to Irrevocable Letter of Credit No. G/SFB-400291, dated as of March 18, 1996, and that certain Amendment No. 2 to Irrevocable Letter of Credit No. G/SFB-400291, as Amended, dated as of September 20, 1996, and that certain Amendment No. 3 to Irrevocable Letter of Credit No. G/SFB-400291, as Amended, dated as of March 20, 1997.

Schedule 2.1

to Credit Agreement
dated as of September 22, 1995
(as extended and modified by that certain
Extension and Modification of Credit Agreement,
dated as of September 19, 1996,
as further extended and modified by that certain
Second Extension and Modification of Credit Agreement,
dated as of September 18, 1997)
concerning

Quantum Corporation

and

The Sumitomo Bank, Limited,
acting through its San Francisco Branch

as Agent and Issuer of letters of credit
in an aggregate amount not to exceed \$85,000,000
(as such aggregate amount may be reduced pursuant
to Section 2.6 hereof)

<TABLE>

COMMITMENTS

<CAPTION>

Participating Banks	Commitment	Percentage Share
Banque Nationale de Paris, San Francisco Branch	\$ 15,000,000	17.647058824%
The Industrial Bank of Japan, Limited San Francisco Agency	\$ 20,000,000	23.529411765%
The Mitsubishi Trust and Banking Corporation, Los Angeles Agency	\$ 20,000,000	23.529411765%
The Sumitomo Bank, Limited San Francisco Branch	\$ 30,000,000	35.294117646%
	-----	-----
	\$ 85,000,000	100.000000000%

</TABLE>

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EXHIBIT 11.1

QUANTUM CORPORATION

COMPUTATION OF NET INCOME PER SHARE
(In thousands except per share data)

<CAPTION>

	Three Months Ended		Six Months Ended	
	Sept 28, 1997	Sept 29, 1996	Sept 28, 1997	Sept 29, 1996
	-----	-----	-----	-----
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Primary				
Weighted average number of common shares outstanding	135,062	115,434	133,434	113,178
Incremental common shares attributable to outstanding options	10,729	1,830	9,903	3,300
	-----	-----	-----	-----
Total shares	145,791	117,264	143,337	116,478
	=====	=====	=====	=====
Net income	\$103,778	\$ 4,573	\$200,292	\$ 8,416
	=====	=====	=====	=====
Net income per share	\$ 0.71	\$ 0.04	\$ 1.40	\$ 0.07
	=====	=====	=====	=====
Fully Diluted				
Weighted average number of common shares outstanding	135,062	115,434	133,434	113,178
Incremental common shares attributable to:				
Outstanding options	11,789	3,638	10,434	4,220
6 3/8% convertible subordinated debentures	--	10,728	--	11,882
5% convertible subordinated notes	21,626	21,626	21,626	21,626
7% convertible subordinated notes	4,024	--	2,012	--
	-----	-----	-----	-----
Total shares	172,501	151,426	167,506	150,906
	=====	=====	=====	=====
Net income:				
Net income	\$103,778	\$ 4,573	\$200,292	\$ 8,416
Add interest on convertible debt, net of tax	3,767	2,741	5,577	5,682
	-----	-----	-----	-----
Adjusted net income	\$107,545	\$ 7,314	\$205,869	\$ 14,098
	=====	=====	=====	=====
Net income per share	\$ 0.62	\$ 0.05	\$ 1.23	\$ 0.09 *
	=====	=====	=====	=====

<FN>

* The primary net income per share is shown in the statements of income as both primary and fully diluted as the effect of the assumed conversion of the subordinated debt is anti-dilutive.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF QUANTUM CORPORATION FOR THE QUARTER ENDED SEPTEMBER 28, 1997

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