

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended October 1, 2000

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 No

As of the close of business on October 29, 2000, Quantum Corporation had 148,935,551 shares of DLT & Storage Systems group common stock outstanding and 77,287,924 shares of Hard Disk Drive group common stock outstanding.

QUANTUM CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

QUANTUM CORPORATION

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

<TABLE>
<CAPTION>

September 26, 1999	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	
	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>
Revenue	\$1,181,011	\$1,125,124	\$2,406,064	
\$2,208,359				
Cost of revenue - on net sales	955,958	932,719	1,900,536	
1,836,035				
Cost of revenue - special charge (benefit)	(15,825)	57,068	(15,825)	
57,068	-----	-----	-----	
Gross profit	240,878	135,337	521,353	
315,256				
Operating expenses:				
Research and development	91,811	92,453	185,890	
182,886				
Sales and marketing	61,214	55,459	127,700	
108,680				
General and administrative	35,402	30,570	70,043	
59,714				
Purchased in-process research and development	-	37,000	-	
37,000				
Special charge (benefit)	(90)	2,338	(90)	
2,338	-----	-----	-----	
	188,337	217,820	383,543	
390,618				
Income (loss) from operations	52,541	(82,483)	137,810	
(75,362)				
Other income (expense):				
Interest income and other, net	10,837	7,110	25,214	

19,557			
Interest expense	(6,937)	(7,218)	(13,688)
(14,426)			
-----	-----	-----	-----
	3,900	(108)	11,526
5,131			
Income (loss) before income taxes	56,441	(82,591)	149,336
(70,231)			
Income tax provision (benefit)	20,827	(19,938)	53,302
(15,859)			
-----	-----	-----	-----
Net income (loss)	\$ 35,614	\$ (62,653)	\$ 96,034
\$ (54,372)			
=====	=====	=====	=====

Quantum common stock (1) :

Net loss		\$ (25,474)	
\$ (17,193)			
		=====	

Net loss per share:

Basic		\$ (0.15)	
\$ (0.10)			
Diluted		\$ (0.15)	
\$ (0.10)			

Weighted average common shares:

Basic		164,916	
165,788			
Diluted		164,916	
165,788			

DLT & Storage Systems group (1) :

Net income	\$ 44,285	\$ 12,497	\$ 88,235
\$ 12,497			
	=====	=====	=====

Net income per share:

Basic	\$ 0.30	\$ 0.08	\$ 0.60
\$ 0.08			
Diluted	\$ 0.29	\$ 0.07	\$ 0.57
\$ 0.07			

Weighted average common shares:

Basic	146,230	165,377	148,274
165,377			
Diluted	154,797	173,080	154,714
173,080			

Hard Disk Drive group (1):

</TABLE>

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<TABLE>

<S>	<C>	<C>	<C>
<C>			
Net income (loss)	\$ (8,671)	\$ (49,650)	\$ 7,799
\$ (49,650)			
	=====	=====	=====

Net income (loss) per share:

Basic	\$ (0.11)	\$ (0.60)	\$ 0.10
\$ (0.60)			
Diluted	\$ (0.11)	\$ (0.60)	\$ 0.09
\$ (0.60)			

Weighted average common shares:

Basic	77,336	82,883	79,390
82,883			
Diluted	77,336	82,883	85,533
82,883			

</TABLE>

(1) As discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements, a recapitalization occurred on August 3, 1999. As a result, earnings per share for Quantum Corporation common stock reflect earnings through the recapitalization date, while earnings for DLT & Storage Systems group common stock and Hard Disk Drive group common stock reflect results subsequent to that date.

See accompanying notes to condensed consolidated financial statements.

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QUANTUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<TABLE>
<CAPTION>

	October 1, 2000 ----- (unaudited) <C>	March 31, 2000 ----- <C>
Assets		

Current assets:		
Cash and cash equivalents	\$ 795,504	\$ 918,262
Marketable securities	16,814	32,080
Accounts receivable, net of allowance for doubtful accounts of \$22,638 and \$23,110	619,038	609,225
Inventories	243,754	223,825
Deferred taxes	138,676	133,382
Other current assets	114,631	96,780
	-----	-----
Total current assets	1,928,417	2,013,554
Property and equipment, net of accumulated depreciation of \$322,158 and \$299,671	232,409	236,685
Intangible assets, net	239,006	250,203
Other assets	57,696	33,510
	-----	-----
	\$2,457,528	\$2,533,952
	=====	=====
Liabilities and Stockholders' Equity		

Current liabilities:		
Accounts payable	\$ 436,048	\$ 470,210
Accrued warranty	96,987	99,560
Accrued compensation	75,400	90,452
Income taxes payable	73,525	44,284
Accrued special charges	24,538	43,363
Current portion of long-term debt	1,175	1,033
Other accrued liabilities	175,058	105,345
	-----	-----
Total current liabilities	882,731	854,247
Deferred taxes	71,517	55,336
Long-term debt	37,237	37,838
Convertible subordinated debt	287,500	287,500
Stockholders' equity:		
Common stock	723,697	737,020
Treasury stock	(94,554)	-
Retained earnings	542,581	545,050
Accumulated other comprehensive income	6,819	16,961
	-----	-----
Total stockholders' equity	1,178,543	1,299,031
	-----	-----
	\$2,457,528	\$2,533,952
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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QUANTUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<TABLE>
<CAPTION>

	Six Months Ended	
	October 1, 2000	September 26, 1999
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ 96,034	\$ (54,372)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Special charge	-	58,385
Purchased in-process research and development	-	37,000
Depreciation	44,707	48,496
Amortization	16,609	13,872
Deferred income taxes	(1,231)	405
Compensation related to stock plans	10,432	1,640
Changes in assets and liabilities:		
Accounts receivable	(9,813)	54,663
Inventories	(19,929)	(520)
Accounts payable	(34,162)	(31,120)
Income taxes payable	29,241	(7,407)
Accrued warranty	(2,573)	15,668
Other assets and liabilities	(48,692)	(36,972)
	-----	-----
Net cash provided by operating activities	80,623	99,738
	-----	-----
Cash flows from investing activities:		
Investment in equity securities	(23,353)	-
Purchases of marketable securities	-	(33,406)
Maturities of marketable securities	2,032	33,314
Acquisition of intangible assets	-	(2,500)
Investment in property and equipment	(34,789)	(49,909)
	-----	-----
Net cash used in investing activities	(56,110)	(52,501)
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term credit facilities	-	10,000
Principal payments on long-term credit facilities	(459)	(18,501)
Purchases of treasury stock	(240,848)	(145,652)
Proceeds from factoring	70,000	-
Proceeds from issuance of common stock, net	24,036	23,558
	-----	-----
Net cash used in financing activities	(147,271)	(130,595)
	-----	-----
Decrease in cash and cash equivalents	(122,758)	(83,358)
Cash and cash equivalents at beginning of period	918,262	772,368
	-----	-----
Cash and cash equivalents at end of period	\$ 795,504	\$ 689,010
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 13,485	\$ 12,981
Income taxes	\$ 2,361	\$ 18,341
Tangible and intangible assets acquired for shares of DSSG and HDDG common stock, net of cash acquired and liabilities assumed	-	\$ 104,698

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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QUANTUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Quantum Corporation ("Quantum" or the "Company") and its majority owned subsidiaries. All material intercompany balances and transactions have been eliminated. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments that, 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. The condensed consolidated balance sheet as of March 31, 2000 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, 2000 included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Recapitalization

On July 23, 1999, the Company's stockholders approved a tracking stock proposal. As a result, Quantum's Certificate of Incorporation was amended and restated, effective as of the close of business on August 3, 1999, designating two new classes of Quantum Corporation common stock, DLT & Storage Systems group ("DSSG") common stock, \$.01 par value per share and Hard Disk Drive group ("HDDG") common stock, \$.01 par value per share. On August 3, 1999, each authorized share of Quantum common stock, \$.01 par value per share, was exchanged for one share of DSSG stock and one-half share of HDDG stock. These two securities are intended to track separately the performance of the DLT & Storage Systems group and the Hard Disk Drive group.

3. Securitized Assets

HDDG has an asset securitization program with Capital Factors Inc., under which we sell them our eligible accounts receivable, on a with recourse basis. At October 1, 2000, \$70 million of our accounts receivable were securitized under the program. Given the with recourse nature of the arrangement, the securitized accounts receivable are included within the accounts receivable balance, with the corresponding credit being included in other liabilities.

4. Inventories

Inventories consisted of the following:
(In thousands)

	October 1, 2000 -----	March 31, 2000 -----
Materials and purchased parts	\$ 56,774	\$ 49,206
Work in process	37,227	42,323
Finished goods	149,753	132,296
	-----	-----
	\$243,754	\$223,825
	=====	=====

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5. Net Income (Loss) Per Share

Net income (loss) per share was calculated on a consolidated basis until DSSG stock and HDDG stock were created as a result of the recapitalization on August 3, 1999. Subsequent to this date, net income (loss) per share was computed individually for DSSG and HDDG.

The following tables set forth the computation of basic and diluted net income (loss) per share:

<TABLE>
<CAPTION>
(In thousands, except per share data)

from					Period
28,					June
to	Period from				1999
3,	Three Months Ended	August 4, 1999 to		August	
----	October 1, 2000	September 26, 1999		1999	
-----	-----		-----		-----
Corporation	DSSG	HDDG	DSSG	HDDG	Quantum
----	-----		-----		-----
<S>	<C>	<C>	<C>	<C>	<C>
Numerator:					
Numerator for basic and diluted					
net income (loss) per share -					
income (loss) available to					
common stockholders	\$ 44,285	\$ (8,671)	\$ 12,497	\$ (49,650)	\$ (25,474)
	=====	=====	=====	=====	=====
Denominator:					
Denominator for basic net income					
(loss) per share - weighted average					

shares	146,230	77,336	165,377	82,883	164,916
Effect of dilutive securities:					
Outstanding options	8,567	-	7,703	-	-
	-----	-----	-----	-----	-----
Denominator for diluted net income (loss) per share - adjusted weighted average shares	154,797	77,336	173,080	82,883	164,916
	=====	=====	=====	=====	=====
Basic net income (loss) per share	\$ 0.30	\$ (0.11)	\$ 0.08	\$ (0.60)	\$ (0.15)
	=====	=====	=====	=====	=====
Diluted net income (loss) per share	\$ 0.29	\$ (0.11)	\$ 0.07	\$ (0.60)	\$ (0.15)
	=====	=====	=====	=====	=====

</TABLE>

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(In thousands, except per share data)

<TABLE>
<CAPTION>

	Six Months Ended October 1, 2000		Period from April 1, 1999 to August 3, 1999
	DSSG	HDDG	Quantum Corporation
	-----	-----	-----
	<C>	<C>	<C>
Numerator:			
Numerator for basic and diluted net income (loss) per share - income (loss) available to common stockholders	\$ 88,235	\$ 7,799	\$ (17,193)
	=====	=====	=====
Denominator:			
Denominator for basic net income (loss) per share - weighted average shares	148,274	79,390	165,788
Effect of dilutive securities:			
Outstanding options	6,440	6,143	-
	-----	-----	-----
Denominator for diluted net income (loss) per share - adjusted weighted average shares	154,714	85,533	165,788
	=====	=====	=====
Basic net income (loss) per share	\$ 0.60	\$ 0.10	\$ (0.10)
	=====	=====	=====
Diluted net income (loss) per share	\$ 0.57	\$ 0.09	\$ (0.10)
	=====	=====	=====

</TABLE>

The computation of diluted net income per share for DSSG for the three and six months ended October 1, 2000 and for the period August 4, 1999 through September 26, 1999, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSSG common stock, or 21.587 shares per \$1,000 note, because the effect would have been antidilutive.

The computation of diluted net income (loss) per share for HDDG for the three and six months ended October 1, 2000 and for the period August 4, 1999 through September 26, 1999, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 3,103,076 shares of HDDG common stock, or 10.793 shares per \$1,000 note, because the effect would have been antidilutive.

The computation of diluted net loss per share for Quantum for the period June 28, 1999 through August 3, 1999 and the period April 1, 1999 through August 3, 1999, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which were convertible into 6,206,152 shares of

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Quantum common stock, or 21.587 shares per \$1,000 note, because the effect would have been antidilutive.

Options to purchase 18,723,101 and 15,234,101 shares of HDDG common stock were outstanding at October 1, 2000 and September 26, 1999, respectively. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for HDDG for the three months ended October 1, 2000, and the period August 4, 1999 through September 26, 1999, because the effect would have been antidilutive.

Options to purchase 26,411,958 shares of Quantum common stock were outstanding at August 3, 1999. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for Quantum for the period June 28, 1999 through August 3, 1999 and for the period April 1, 1999 through August 3, 1999, because the effect would have been antidilutive.

Options to purchase 13,845,438 shares of DSSG common stock were outstanding for the three and six months ended October 1, 2000, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive.

Options to purchase 7,360,119 shares of HDDG common stock were outstanding for the six months ended October 1, 2000, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive.

6. Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized the Company to repurchase up to \$700 million of the Company's common stock in open market or private transactions. Of the total repurchase authorization, \$600 million was authorized for repurchase of either Quantum, DSSG or HDDG common stock. An additional \$100 million was authorized for repurchase of HDDG common stock. Under these authorizations, as of October 1, 2000, the Company had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSSG common stock and 13.5 million shares of HDDG common stock for a combined total of \$566 million. During the first six months of fiscal year 2001, the Company repurchased 13.5 million shares of DSSG common stock and 10 million shares of HDDG common stock for a combined total of \$241 million.

7. Credit Line

In April 2000, the Company entered into two new unsecured senior credit facilities, each providing a \$187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At the Company's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At October 1, 2000, there were no outstanding balances drawn on these lines.

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8. Litigation

On August 7, 1998, the Company was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents, which it asserts that the Company has infringed. The Company has studied many of these patents before and, of the patents it has studied, believes that defenses of patent invalidity and non-infringement can be asserted. However, the Company has not completed a full study of all the patents asserted by Papst and there can be no assurance that the Company has not infringed these or other patents owned by Papst. In October, 1999 the case was transferred to a federal district court in New Orleans, Louisiana, where it has been joined with suits brought against Papst by Hewlett-Packard Company, Maxtor Corporation and Minebea Company, Ltd. for the purposes of coordinated discovery under multi-district litigation rules. Hewlett-Packard settled its dispute with Papst in April, 2000 and has withdrawn from the litigation. To date, discovery has not begun to any significant extent. Quantum does not believe that the transfer will affect the final disposition of this matter in a significant way. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

The Company is also subject to other legal proceedings and claims that arise in the ordinary course of its business. For example, in fiscal year 2000,

Discovision Associates brought patents they hold to the Company's attention. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

9. Special Charges

Hard Disk Drive Group

During the second quarter of fiscal year 2000, HDDG recorded a special charge of \$59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with streamlining HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in customer service strategy and consolidation of certain product development programs.

The special charge consisted of \$26.4 million related to facilities costs, \$13.2 million in asset write-offs related to streamlining the global logistics model and changes in customer service strategy, \$7.8 million in severance and benefits for terminated employees, and approximately \$12 million in other costs associated with the plan.

The facilities costs noted above include lease payments on facilities to be vacated in and around Milpitas, California and Singapore, the write-off of related leasehold improvements, and other maintenance expenses associated with the vacated facilities. HDDG expects that the affected facilities will be vacated by the end of the third quarter of fiscal year 2001.

Subsequent to the end of the second quarter of fiscal year 2000, HDDG revised its estimate of costs required to implement the restructuring plan. HDDG estimated that severance and benefits, inventory and other costs, which included the disposition of additional capital assets, would be more than previously estimated as a result of the planned changes in customer service strategy.

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HDDG also estimated that costs associated with vacating leased facilities would be less than previously estimated as a result of disposing of a major facility earlier than previously expected. Accordingly, HDDG reallocated amounts between these categories during the second half of fiscal year 2000.

In the second quarter of fiscal year 2001, HDDG reversed \$15.9 million as a special charge benefit on the income statement. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to attrition and redeployment of certain employees. Higher than previously experienced turnover has enabled the redeployment and continued utilization of certain employees who were included in workforce reduction plans. In addition, fixed assets that were intended to be written-off are now being utilized elsewhere in the organization as a result of technology and product roadmap plans.

In connection with the charge, HDDG currently expects a workforce reduction of approximately 513 employees, down from the original expectation of 600 employees. In addition, approximately 100 open and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDDG's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. As of October 1, 2000, 481 employees have been terminated. The remaining employees will be terminated by the end of the third quarter of fiscal year 2001.

As of October 1, 2000, HDDG had incurred \$9 million in cash expenditures associated with employee severance and benefits, facilities and other costs. HDDG expects to incur additional cash expenditures associated with the plan of approximately \$6 million.

The following table summarizes activity related to the special charge at October 1, 2000.

<TABLE>

<CAPTION>

(In thousands)

	Severance And Benefits -----	Facilities Costs -----	Inventory -----	Other Costs -----	Total -----
<S>	<C>	<C>	<C>	<C>	<C>
Special charge provision	\$ 7,833	\$26,359	\$ 13,214	\$12,000	\$ 59,406
Cash Payments	(5,963)	(1,559)	-	(1,883)	(9,405)
Non-cash charges	-	(7,296)	(15,588)	(5,502)	(28,386)
Adjustments	1,166	(7,852)	2,374	4,312	-
Special charge benefit	(2,284)	(7,787)	-	(5,798)	(15,869)

Balance at October 1, 2000	\$ 752	\$ 1,865	\$ -	\$ 3,129	\$ 5,746
----------------------------	--------	----------	------	----------	----------

</TABLE>

DLT & Storage Systems Group

During the fourth quarter of fiscal year 2000, DSSG recorded a special charge of \$40.1 million. The charge was primarily focused on DSSG's DLTtape Division and reflected DSSG's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTtape Division and an acceleration of DSSG's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of \$13.5 million in facility related costs, \$13.9 million for the write-off of investments in optical technology, \$7.6 million for severance and benefits for terminated

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employees, \$3.2 million for fixed asset write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and \$1.9 million in other costs associated with the plan.

The facilities costs noted above include lease payments for vacant space in a facility in Colorado Springs, Colorado, the write-off of related leasehold improvements and manufacturing equipment, as well as the write-off of certain leasehold improvements at Quantum's facility in Penang, Malaysia, as this space was converted to DSSG manufacturing. DSSG expects that the Colorado facility will be vacated by the end of fiscal year 2001.

The write-off of investments reflects DSSG's decision to end its research on certain optical based storage solutions. As a result, DSSG has written-off an equity investment and technology licenses related to optical technology.

DSSG currently expects a workforce reduction of approximately 900 employees. The reduction in force primarily affects employees at DSSG's manufacturing operations in Colorado Springs, Colorado, as well as administrative employees within the DLTtape Division. As of October 1, 2000, 294 employees have been terminated. DSSG anticipates that the remaining employees will be terminated by the end of the fourth quarter of fiscal year 2001.

As of October 1, 2000, DSSG had incurred cash expenditures of \$4 million associated with employee severance and benefits, facilities and other costs. DSSG expects to incur additional cash expenditures associated with the plan of approximately \$14 million, which will be funded out of operations.

The following table summarizes activity related to the special charge at October 1, 2000:

(In thousands)	Severance	Facilities	Investments	Fixed	Other	Total
	And Benefits	Costs		Assets	Costs	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Special charge provision	\$ 7,646	\$13,500	\$ 13,908	\$ 3,163	\$ 1,866	\$ 40,083
Cash payments	(2,997)	(85)	--	--	(1,138)	(4,220)
Non-cash charges	--	--	(13,908)	(3,163)	--	(17,071)
Balance at October 1, 2000	\$ 4,649	\$13,415	\$ --	\$ --	\$ 728	\$ 18,792

</TABLE>

10. Comprehensive Income

Accumulated other comprehensive income on the condensed consolidated balance sheets consists of unrealized gains on available for sale investments and foreign currency translation adjustments. Total comprehensive income for the three months and six months ended October 1, 2000 and September 26, 1999, is presented in the following table:

(In thousands)	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
<S>	<C>	<C>	<C>	<C>
Net income (loss)	\$ 35,614	\$(62,653)	\$ 96,034	\$(54,372)

Other comprehensive income -				
Change in unrealized gain on investments	(8,135)	-	(7,940)	-

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Foreign currency translation adjustments	(1,972)	1,693	(2,202)	773
Comprehensive income	\$ 25,507	\$(60,960)	\$ 85,892	\$(53,599)

11. Business Segment Information

Quantum Corporation's reportable segments are its two business groups, the Hard Disk Drive group and the DLT & Storage Systems group, as further described in their separate financial statements. HDDG consists of desktop and high-end hard disk drives. DSSG consists of DLTtape(TM) drives and media, autoloaders and libraries, network attached storage solutions and solid state storage systems. The Company markets its products to computer manufacturers and through a broad range of distributors, resellers and systems integrators.

The Company evaluates segment performance based on net profit or loss not including non-recurring gains or losses. Segment assets include those items that can be specifically identified with or reasonably allocated to a particular segment. Results for the Company's reportable segments for the three months and six months ended October 1, 2000 and September 26, 1999 are presented in the following table:

	Three Months Ended					
	October 1, 2000			September 26, 1999		
	HDDG	DSSG	Total	HDDG	DSSG	Total
Revenue from external customers	\$819	\$362	\$1,181	\$768	\$357	\$1,125
Intersegment revenues	4	-	4	-	-	-
Segment profit (loss)	(8)	44	36	(84)	21	(63)

	Six Months Ended					
	October 1, 2000			September 26, 1999		
	HDDG	DSSG	Total	HDDG	DSSG	Total
Revenue from external customers	\$1,678	\$728	\$2,406	\$1,521	\$688	\$2,208
Intersegment revenues	9	-	9	-	-	-
Segment profit (loss)	8	88	96	(127)	73	(54)

12. Subsequent Events

On October 3, 2000, the Company entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDDG in an all-stock transaction. The merger agreement envisages that HDDG's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDDG common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to stockholders and regulatory

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approval.

- If the combination is completed,
- Quantum's DLT & Storage Systems Group will operate as a legally separate, stand-alone company that will be known as Quantum Corporation;
 - DSSG stockholders will receive on a one-for-one basis, shares of the then-independent company comprising all of the operations and assets of the Quantum DLT & Storage Systems Group; and

c. DSSG intends to issue restricted stock to Quantum employees that become employees of the combined HDDG/Maxtor company, in exchange for the loss of unvested DSSG stock options held by such employees. As a result, Quantum is expected to incur substantial compensation charges if the combination is completed.

These expectations are forward-looking statements and actual results may differ.

On October 24, 2000 the Company announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000 Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum will own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to Quantum DSSG stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO the remaining DSSG business will be comprised of two business groups, Enterprise Solutions and DLTtape.

On November 8, 2000, Quantum DSSG announced plans to expand its product design and new product introduction resources for the Company's DLTtape Group in Colorado. Under the plan, the Company will move more than 100 engineering, marketing and administrative positions relating to the DLTtape business to Colorado from its Shrewsbury, MA facility. In addition, the Company will create an Advanced Technology Development Lab in Shrewsbury that will focus on advancing future tape drive innovations. There will be costs associated with this plan. DSSG is currently not able to quantify these costs.

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

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 are phrased in the future tense or 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 under Trends and Uncertainties relating to the DLT & Storage Systems group and Trends and Uncertainties relating to the Hard Disk Drive group. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Description

Quantum operates its business through two separate business groups: the DLT & Storage Systems group ("DSSG") and the Hard Disk Drive group ("HDDG") as described in their respective sections of this report.

On October 3, 2000, the Company entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDDG in an all-stock transaction. The merger agreement envisages that HDDG's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDDG common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to stockholders and regulatory approval. These expectations are forward-looking statements and actual results may differ.

On October 24, 2000 the Company announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000 Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum will own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to Quantum DSSG stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO the remaining DSSG business will be comprised of two business groups, Enterprise Solutions and DLTtape.

On November 8, 2000, the Company's DSSG announced plans to expand its product design and new product introduction resources for the Company's DLTtape Group in Colorado. Under the

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plan, the Company will move more than 100 engineering, marketing and administrative positions relating to the DLTtape business to Colorado from its Shrewsbury, MA facility. In addition, the Company will create an Advanced

Technology Development Lab in Shrewsbury that will focus on advancing future tape drive innovations. There will be costs associated with this plan. DSSG is currently not able to quantify these costs.

Results of Operations

Revenue. Revenue in the three and six months ended October 1, 2000 was \$1.181 billion and \$2.406 billion, respectively, compared to \$1.125 billion and \$2.208 billion, respectively, for the corresponding periods in fiscal year 2000.

Revenue in the three and six months ended October 1, 2000 reflected increased revenue from sales of DLTtape libraries and Snap servers, increased DLTtape media royalties, and increased revenue from sales of high-end hard disk drives. The increase in revenue in the six month period also reflected increased revenue from sales of desktop hard disk drives.

The increased revenue from Snap server network attached storage appliances reflected the acquisition of Meridian Data, Inc. ("Meridian") in September 1999. The increased sales of DLTtape libraries reflect an increase in unit sales of DLTtape libraries. The increase in DLTtape media royalties reflected an increase in total market media unit sales and a shift to licensee sales from direct sales. The increase in total market media unit sales reflected an increase in the installed base of DLTtape drives. DSSG earns a royalty fee from sales of DLTtape media cartridges by licensed media manufacturers.

The increase in revenue from high-end hard disk drives reflected increased shipments as a result of strong demand, particularly from computer equipment manufacturers, as HDDG transitioned to new high performance products, as well as a mix shift toward higher capacity products which carry higher average unit prices. The increase in revenue from desktop hard disk drives in the six month period reflected an increase in shipments, partially offset by lower average unit prices. Shipments of desktop hard disk drives reached a record high in the second quarter of fiscal year 2001. However, revenue in the three month period declined reflecting lower average unit prices as a result of competitive pricing pressures.

Sales to our top five customers in the three and six months ended October 1, 2000 represented 49% and 48% of revenue, respectively, compared to 48% and 47%, respectively, for the corresponding periods in fiscal year 2000. These amounts reflected a retroactive combination of the sales to Ingram Micro and Electronic Resources Limited as a result of their merger in July 1999. Sales to Compaq Computer Corporation were 15% and 12% of revenue in the three and six months ended October 1, 2000, respectively, compared to 12% of revenue in the corresponding periods in fiscal year 2000. Sales to Dell Computer Corporation were 12% and 10% of revenue in the three and six months ended October 1, 2000, compared to less than 10% of revenue for the corresponding periods in fiscal year 2000. Sales to Hewlett-Packard Company were 11% and less than 10% of revenue in the three and six months ended October 1, 2000, respectively, compared to 12% and 13% of revenue in the corresponding periods of fiscal year 2000.

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Sales to computer equipment manufacturers and distribution channel customers were 64% and 28% of revenue, respectively, in the three months ended October 1, 2000, compared to 59% and 35% of revenue, respectively, in the three months ended September 26, 1999. For the six months ended October 1, 2000, computer equipment manufacturer and distribution channel sales were 64% and 29% of revenue, respectively, compared to 59% and 35% of revenue, respectively, for the corresponding periods in fiscal year 2000. The remaining revenue in the three and six months ended September 26, 1999 represented media royalty revenue and sales to value added resellers and in the three and six months ended October 1, 2000 represented media royalty revenue, sales to value added resellers and direct sales.

Gross Margin Rate. The gross margin rate in the three months ended October 1, 2000 increased to 20.4% from 12.0% in the three months ended September 26, 1999. The gross margin for the first six months of fiscal year 2001 was 21.7%, compared to 14.3% in the corresponding period in fiscal year 2000.

The gross margin rate in the three and six month periods of fiscal year 2001 reflected the impact of a \$15.8 million special charge benefit. The benefit was primarily due to negotiated lease cancellations and reduced severance and benefits due to attrition and redeployment of certain employees. The gross margin rate excluding the impact of the benefit was 19.1% and 21.0% in the three and six month periods ended October 1, 2000, respectively.

The gross margin rate in the three and six month periods for fiscal year 2000 reflected the impact of a \$57.1 million special charge related to HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of rapidly growing low-cost PC market. The gross margin rate excluding the impact of the charge was 17.1% and 16.9% in the three and six month periods ended September

Excluding the impact of the special benefit and charge, the increase in the gross margin rate reflected increased revenue from DLTtape libraries and Snap Servers and DLTtape media royalties, which have significantly higher margins than Quantum's hard disk drive products. The increase also reflected higher margins earned on desktop and high-end hard disk drives. Gross margins earned on sales of DLTtape drives and DLTtape media cartridges declined, reflecting lower average unit prices.

Research and Development Expenses. Research and development expenses in the three and six months ended October 1, 2000, were \$92 million, or 7.8% of revenue, and \$186 million, or 7.7% of revenue, respectively, compared to \$92 million, or 8.2% of revenue, and \$183 million, or 8.3% of revenue, respectively, for the corresponding periods of fiscal year 2000. The increase in research and development expenses reflecting the inclusion of Snap Appliances' expenses, which were not included in the periods prior year periods as the acquisition occurred on September 10, 1999, were offset by the expense reductions in the hard disk drive business associated with the special charge taken in the second quarter of fiscal year 2000.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended October 1, 2000, were \$61 million, or 5.2% of revenue, and \$128 million, or 5.3% of revenue, respectively, compared to \$55 million, or 4.9% of revenue, and \$109 million, or 4.9% of revenue, respectively, for the corresponding periods of fiscal year 2000. The increase in sales and marketing expenses reflected the inclusion of Snap Appliances expenses and an increase in costs associated with the DLTtape libraries. Spending in Snap Appliances increased as DSSG continued to build

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both category awareness for network attached storage (NAS) appliances and brand awareness for the Snap! Server(TM) line. The increase in DSSG spending was partially offset by decreased HDDG sales and marketing expenses.

General and Administrative Expenses. General and administrative expenses in the three and six months ended October 1, 2000, were \$35 million, or 3.0% of revenue, and \$70 million, or 2.9% of revenue, respectively, compared to \$31 million, or 2.7% of revenue, and \$60 million, or 2.7% of revenue, respectively, for the corresponding periods of fiscal year 2000. The increase in general and administrative expenses reflected the inclusion of Snap Appliances expenses, which were not comparatively included in the prior year periods as the acquisition occurred on September 10, 1999, increased expenses associated with DLTtape libraries and an increase in human resource spending within HDDG in support of change management, process reengineering and retention.

Purchased In-process Research and Development Expense. DSSG expensed purchased in-process research and development of \$37 million, as a result of the Meridian acquisition in the second quarter ended September 26, 1999.

Special Charge - HDDG. During the second quarter of fiscal year 2000, HDDG recorded a special charge of \$59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and our operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with streamlining HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in customer service strategy and consolidation of certain product development programs.

The special charge consisted of \$26.4 million related to facilities costs, \$13.2 million in asset write-offs related to streamlining the global logistics model and changes in customer service strategy, \$7.8 million in severance and benefits for terminated employees and approximately \$12 million in other costs associated with the plan.

HDDG is proceeding according to plan and expects to realize more than \$100 million in cost savings per year, beginning in fiscal year 2001. The majority of the savings are expected in cost of revenue as a result of a more efficient distribution system and reduced customer service costs, with the remaining savings in research and development, as a result of the consolidation of product development programs. As compared to fiscal year 2000, HDDG expects operating expenses to be relatively flat in fiscal year 2001, with increased investments in disk drive and other storage products, primarily reflected in research and development, offsetting the operating cost savings resulting from the special charge. These expectations are forward-looking statements and actual results may differ.

In the second quarter of fiscal year 2001, HDDG reversed \$15.9 million as a special charge benefit on the income statement. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to attrition and redeployment of certain employees. In addition, fixed assets that were intended to be written-off are now being utilized elsewhere in the organization as a result of technology and product roadmap plan.

Special Charge - DSSG. During the fourth quarter of fiscal year 2000, DSSG recorded a special charge of \$40.1 million. The charge was primarily focused on DSSG's DLTtape Division and

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reflected DSSG's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTtape Division and an acceleration of DSSG's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of \$13.5 million in facility related costs, \$13.9 million for the write-off of investments in optical technology, \$7.6 million for severance and benefits for terminated employees, \$3.2 million for fixed asset write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and \$1.9 million in other costs associated with the plan.

DSSG is proceeding according to plan and expects to realize annual cost savings from the plan of approximately \$40 million beginning upon full implementation of the plan at the end of fiscal year 2001. Approximately \$30 million of the savings are expected in cost of revenue as a result of reduced manufacturing costs with the remaining amount in operating expenses, primarily research and development, as a result of ending research on certain optical-based storage solutions. As compared to fiscal year 2000, DSSG expects operating expenses to increase because of increased investments in storage systems products and marketing in fiscal year 2001 and as a result of including the Snap Appliances' operations for a full year following the acquisition of Meridian in September 1999. These expectations are forward-looking statements and actual results may differ.

Interest and Other Income/Expense. Net interest and other income for the three and six months ended October 1, 2000 were \$3.9 million and \$11.5 million, respectively, compared to \$0.1 million expense and \$5 million income, respectively, for the corresponding periods of fiscal year 2000. The increase reflected increased interest income as a result of a higher average cash balance and an increase in gain on currency translation.

Income Taxes. The Company's effective tax rate for the three months and six months ended October 1, 2000 was 37% and 36%, respectively, as compared to an effective benefit rate of 44% and 48% on losses before purchased in-process research and development and special charges for the corresponding periods in the prior year. The difference in tax rates is primarily attributable to pre-tax profits this year compared to pre-tax losses in the prior year.

Liquidity and Capital Resources. Cash, cash equivalents and marketable securities were \$812 million at October 1, 2000 compared to \$950 million at March 31, 2000. The Company used cash in the six months ended October 1, 2000 to purchase \$241 million of treasury stock, as discussed below. Other uses of cash included \$34 million for investments in property and equipment. The Company generated approximately \$81 million of cash from operations, primarily related to net income and non-cash expenses, partially offset by changes in other assets and liabilities and a decrease in accounts payable and an increase in inventories. Other sources of cash were \$94 million in proceeds from accounts receivable factoring and the issuance of common stock.

HDDG has an asset securitization program with Capital Factors Inc, under which we sell our eligible accounts receivable on a with recourse basis. At October 1, 2000, \$70 million of our accounts receivable were securitized under the program. Given the with recourse nature of the

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arrangement, the securitized accounts receivable are included within the accounts receivable balance, with the corresponding credit being included in other liabilities.

During fiscal year 2000, the Board of Directors authorized the Company to repurchase up to \$700 million of the Company's common stock in open market or private transactions. Of the total repurchase authorization, \$600 million was authorized for repurchase of either Quantum, DSSG or HDDG common stock. An additional \$100 million was authorized for repurchase of HDDG common stock. Under these authorizations, as of October 1, 2000, the Company had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSSG common stock and 13.5 million shares of HDDG common stock for a combined total of \$566 million. During the first six months of fiscal year 2001, the Company repurchased 13.5 million shares of DSSG common stock and 10 million shares of HDDG common stock for a combined total of \$241 million.

In April 2000, the Company entered into two new unsecured senior credit facilities, each providing a \$187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At the Company's option, borrowings

under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At October 1, 2000, there were no outstanding balances drawn on these lines.

The Company expects to spend approximately \$98 million in fiscal year 2001 for capital equipment and leasehold improvements. These capital expenditures will support the disk drive, tape drive and storage solutions businesses, research and development, and general corporate operations.

The Company believes that its existing capital resources, including the credit facilities and any cash generated from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet our expectations. These expectations are forward-looking statements and actual results may be affected by the factors discussed in "Trends and Uncertainties Relating to the DLT & Storage Systems Group and Hard Disk Drive Group" in this report.

In the future, the Company may seek to raise cash through the issuance of debt or equity securities. There can be no assurance that such financing would be available on terms favorable to the Company, if at all.

Euro Impact

The Company believes that the adoption of a single currency, the Euro, by eleven European countries has not and will not materially affect our business, information systems or consolidated financial position, operating results or cash flows.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company's Annual Report on Form 10-K for the year ended March 31, 2000.

The Company is exposed to equity price risk on its investment in TiVo, Inc. common stock. The Company does not attempt to reduce or eliminate its market exposure on this security. The Company entered into a strategic alliance with TiVo in fiscal year 1999 to supply hard disk drives utilizing Quantum's QuickView technology for integration into TiVo's Personal Video Recorder. At October 1, 2000, the fair market value of the Company's investment was approximately \$17 million. As TiVo is a relatively new company and has introduced a new product in the consumer electronics market, the Company does not believe it is possible to reasonably estimate any future price movement of TiVo common stock.

In addition, Quantum's operating results are expected to be affected by charges to be incurred in connection with the merger of HDDG and Maxtor and the November 8, 2000 DLTtape business plan. See "Trends and Uncertainties Relating to the DLT & Storage System Group and Hard Disk Drive Group."

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Item 1. Financial Statements

QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

CONDENSED COMBINED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Product revenue	\$311,887	\$312,074	\$625,110	\$603,381
Royalty revenue	49,864	45,024	102,825	84,461
	-----	-----	-----	-----
Total revenue	361,751	357,098	727,935	687,842
Cost of revenue	203,913	186,892	410,262	365,986
	-----	-----	-----	-----

Gross profit	157,838	170,206	317,673	321,856
Operating expenses:				
Research and development	31,901	30,480	67,730	58,205
Sales and marketing	37,043	26,599	75,813	51,989
General and administrative	19,046	15,238	37,411	29,637
Purchased in-process research and development	-	37,000	-	37,000
	-----	-----	-----	-----
	87,990	109,317	180,954	176,831
Income from operations	69,848	60,889	136,719	145,025
Other income (expense):				
Interest income and other, net	3,839	3,687	10,161	10,170
Interest expense	(4,494)	(4,812)	(9,013)	(9,656)
	-----	-----	-----	-----
	(655)	(1,125)	1,148	514
Income before income taxes	69,193	59,764	137,867	145,539
Income tax provision	24,908	38,704	49,632	73,014
	-----	-----	-----	-----
Net income	\$ 44,285	\$ 21,060	\$ 88,235	\$ 72,525
	=====	=====	=====	=====
Net income per share (1):				
Basic	\$0.30	\$0.13	\$0.60	\$0.44
Diluted	\$0.29	\$0.12	\$0.57	\$0.42
Weighted average common shares (1):				
Basic	146,230	165,377	148,274	166,019
Diluted	154,797	173,080	154,714	173,029
Net income for the period from August 4, 1999 to September 26, 1999		\$ 12,497		\$ 12,497
		=====		=====
Net income per share:				
Basic		\$0.08		\$0.08
Diluted		\$0.07		\$0.07
Weighted average common shares:				
Basic		165,377		165,377
Diluted		173,080		173,080

</TABLE>

(1) Basic and diluted net income per share and weighted average common shares for the three and six months ended September 26, 1999 are pro forma and assume the recapitalization occurred at the beginning of fiscal year 2000.

See accompanying notes to condensed combined financial statements.

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QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

CONDENSED COMBINED BALANCE SHEETS
(In thousands)

<TABLE>			
<CAPTION>			
		October 1, 2000	March 31, 2000
		-----	-----
		(unaudited)	
<S>		<C>	<C>
Assets			
- -----			
Current assets:			
Cash and cash equivalents		\$ 320,437	\$ 336,720
Marketable securities		-	2,032
Accounts receivable, net of allowance for doubtful accounts of \$3,906 and \$3,492		238,606	214,107
Inventories		103,485	101,478
Deferred taxes		54,668	54,669
Other current assets		57,162	38,424
		-----	-----
Total current assets		774,358	747,430
Property and equipment, net of accumulated			

depreciation of \$100,696 and \$80,997	84,763	78,137
Intangible assets, net	238,732	248,288
Other assets	21,596	12,149
	-----	-----
	\$1,119,449	\$1,086,004
	=====	=====
Liabilities and Group Equity		

Current liabilities:		
Accounts payable	\$ 128,262	\$ 94,596
Accrued warranty	55,862	52,593
Accrued compensation	35,920	36,379
Income taxes payable	48,303	-
Accrued special charge	18,792	20,954
Current portion of long-term debt	783	689
Due to the Hard Disk Drive group	-	30,100
Other accrued liabilities	27,682	27,749
	-----	-----
Total current liabilities	315,604	263,060
Deferred taxes	30,992	13,578
Long-term debt	24,825	25,225
Convertible subordinated debt	191,667	191,667
Group equity	556,361	592,474
	-----	-----
	\$1,119,449	\$1,086,004
	=====	=====

</TABLE>

See accompanying notes to condensed combined financial statements.

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QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

<TABLE>	Six Months Ended	
<CAPTION>	October 1,	September
26,	2000	1999
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 88,235	\$ 72,525
Adjustments to reconcile net income to net cash provided by operations:		
Purchased in-process research and development	-	37,000
Depreciation	19,244	15,377
Amortization	14,513	11,916
Deferred income taxes	2	(107)
Compensation related to stock plans	7,165	1,096
Changes in assets and liabilities:		
Accounts receivable	(24,499)	29,623
Inventories	(2,007)	3,062
Accounts payable	33,666	17,904
Income taxes payable	48,303	-
Accrued warranty	3,269	10,105
Other assets and liabilities	(41,750)	(21,371)
	-----	-----
Net cash provided by operating activities	146,141	177,130
	-----	-----
Cash flows from investing activities:		
Investment in equity securities	(9,343)	-
Maturities of marketable securities	2,032	-
Purchases of marketable securities	-	(39)
Acquisition of intangible assets	-	(2,500)
Investment in property and equipment	(23,527)	(19,784)
	-----	-----
Net cash used in investing activities	(30,838)	(22,323)
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term credit facilities	-	6,667

Principal payments on long-term credit facilities	(306)	(12,334)
Inter-group payment for common stock issued	-	(2,835)
Purchases of treasury stock	(146,251)	(144,094)
Proceeds from issuance of common stock, net	14,971	17,764
	-----	-----
Net cash used in financing activities	(131,586)	(134,832)
	-----	-----
Increase (decrease) in cash and cash equivalents	(16,283)	19,975
Cash and cash equivalents at beginning of period	336,720	272,643
	-----	-----
Cash and cash equivalents at end of period	\$ 320,437	\$ 292,618
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 8,946	\$ 8,620
Income taxes	\$ 8,222	\$ 3,866
Tangible and intangible assets acquired for shares of DSSG and HDDG common stock, net of cash acquired and liabilities assumed	\$ -	\$ 101,863

</TABLE>

See accompanying notes to condensed combined financial statements.

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QUANTUM CORPORATION

DLT & STORAGE SYSTEMS GROUP

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed combined financial statements of the DLT & Storage Systems group ("DSSG"), together with the condensed combined financial statements of the Hard Disk Drive group ("HDDG"), include all of the accounts in the condensed consolidated financial statements of Quantum. The separate group condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate DSSG and HDDG financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical balance sheets, results of operations, and cash flows of businesses that comprise each of the groups, with all significant intragroup transactions and balances eliminated, (ii) in the case of DSSG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSSG, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of HDDG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDDG, including allocated portions of Quantum's debt and selling, general and administrative costs. Intergroup transactions and balances are not eliminated in the separate financial statements of DSSG or HDDG.

The condensed combined financial statements of the DLT & Storage Systems Group provide DSSG stockholders with financial information about the DLT & Storage Systems group operations. Holders of DSSG stock and HDDG stock are Quantum stockholders and are subject to all of the risks of an investment in Quantum and all of Quantum's businesses, assets and liabilities. Quantum retains ownership and control of all of the assets and operations of each group. Financial effects arising from one group that affect Quantum's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the other group's stock. Any net losses of DSSG or HDDG, and dividends or distributions on, or repurchases of HDDG stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on DSSG stock. As a result, DSSG's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and HDDG's condensed combined financial statements. The condensed combined balance sheet as of March 31, 2000 has been derived from the audited financial statements of Quantum Corporation included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim 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.

2. Inventories

Inventories consisted of the following:
(In thousands)

<TABLE>
<CAPTION>

	October 1, 2000	March 31, 2000
	-----	-----
<S>	<C>	<C>
Materials and purchased parts	\$ 52,766	\$ 41,819
Work in process	33,005	37,024
Finished goods	17,714	22,635
	-----	-----
	\$103,485	\$101,478
	=====	=====

</TABLE>

3. Net Income Per Share

As a result of the recapitalization, net income per share for DSSG has been calculated based on the group's net income subsequent to August 3, 1999. It was not calculated on a group basis for periods prior to the recapitalization because DSSG stock was not part of Quantum's capital structure at that time.

The following table sets forth the computation of basic and diluted net income per share for DSSG:

<TABLE>
<CAPTION>

(In thousands, except per share data)	Three Months Ended October 1, 2000	Period from August 4, 1999 to September 26, 1999	Six Months Ended October 1, 2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Numerator:			
Numerator for diluted net income per share - income available to common stockholders	\$ 44,285	\$ 12,497	\$ 88,235
	=====	=====	=====
Denominator:			
Denominator for basic net income per share - weighted average shares	146,230	165,377	148,274
Effect of dilutive securities:			
Outstanding options	8,567	7,703	6,440
	-----	-----	-----
Denominator for diluted net income per share - adjusted weighted average shares	154,797	173,080	154,714
	=====	=====	=====
Basic net income per share	\$ 0.30	\$ 0.08	\$ 0.60
	=====	=====	=====
Diluted net income per share	\$ 0.29	\$ 0.07	\$ 0.57
	=====	=====	=====

</TABLE>

The computation of diluted net income per share for DSSG for the three and six months ended October 1, 2000 and for the period August 4, 1999 through September 26, 1999, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 6,206,152 shares of DSSG common stock, or 21.587 shares per \$1,000 note, because the effect would have been antidilutive.

Options to purchase 13,845,438 shares of DSSG common stock were outstanding for the three and six months ended October 1, 2000, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive.

4. Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to \$700 million of Quantum's common stocks in open market or private transactions. Of the total repurchase authorization, \$600 million was authorized for repurchase of either Quantum, DSSG or HDDG common stock. An additional \$100 million was authorized for repurchase of HDDG common stock.

Under these authorizations, as of October 1, 2000, Quantum had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSSG common stock and 13.5 million shares of HDDG common stock for a combined total of \$566 million. During the first six months of fiscal year 2001, Quantum repurchased 13.5 million shares of DSSG common stock and 10 million shares of HDDG common stock for a combined total of \$241 million.

5. Credit Line

In April 2000, Quantum entered into two new unsecured senior credit facilities, each providing a \$187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At October 1, 2000, there were no outstanding balances drawn on these lines.

6. Special Charge

During the fourth quarter of fiscal year 2000, DSSG recorded a special charge of \$40.1 million. The charge was primarily focused on DSSG's DLTtape Division and reflected DSSG's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTtape Division and an acceleration of DSSG's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of \$13.5 million in facility related costs, \$13.9 million for the write-off of investments in optical technology, \$7.6 million for severance and benefits for terminated employees, \$3.2 million for fixed asset write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia, and \$1.9 million in other costs associated with the plan.

The facilities costs noted above include lease payments for vacant space in a facility in Colorado Springs, Colorado, the write-off of related leasehold improvements and manufacturing equipment, as well as the write-off of certain leasehold improvements at Quantum's facility in Penang,

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Malaysia, as this space was converted to DSSG manufacturing. DSSG expects that the Colorado facility will be vacated by the end of fiscal year 2001.

The write-off of investments reflects DSSG's decision to end its research on certain optical based storage solutions. As a result, DSSG has written-off an equity investment and technology licenses related to optical technology.

DSSG currently expects a workforce reduction of approximately 900 employees. The reduction in force primarily affects employees at DSSG's manufacturing operations in Colorado Springs, Colorado, as well as administrative employees within the DLTtape Division. As of October 1, 2000, 294 employees have been terminated. DSSG anticipates that the remaining employees will be terminated by the end of the fourth quarter of fiscal year 2001.

As of October 1, 2000, DSSG had incurred cash expenditures of \$4 million associated with employee severance and benefits, facilities and other costs. DSSG expects to incur additional cash expenditures associated with the plan of approximately \$14 million, which will be funded out of operations.

The following table summarizes activity related to the special charge at October 1, 2000:

	Severance And Benefits	Facilities Costs	Investments	Fixed Assets	Other Costs	Total
(In thousands)	<C>	<C>	<C>	<C>	<C>	<C>
Special charge provision	\$ 7,646	\$13,500	\$ 13,908	\$ 3,163	\$ 1,866	\$ 40,083
Cash payments	(2,997)	(85)	--	--	(1,138)	(4,220)
Non-cash charges	--	--	(13,908)	(3,163)	--	(17,071)
Balance at October 1, 2000	\$ 4,649	\$13,415	\$ --	\$ --	\$ 728	\$ 18,792

</TABLE>

7. Comprehensive Income

Accumulated other comprehensive income included in group equity on the condensed

combined balance sheets of the DLT & Storage System group consists of foreign currency translation adjustments. Total comprehensive income for the three months and six months ended October 1, 2000 and September 26, 1999 is presented in the following table:

<TABLE>
<CAPTION>
(In thousands)

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
<S>	<C>	<C>	<C>	<C>
Net income	\$ 44,285	\$ 21,034	\$ 88,235	\$ 72,499
Other comprehensive income - Foreign currency translation adjustments	(233)	-	(233)	-
Comprehensive income	\$ 44,052	\$ 21,034	\$ 88,002	\$ 72,499

</TABLE>

8. Subsequent Events

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On October 3, 2000, Quantum entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDDG in an all-stock transaction. The merger agreement envisages that HDDG's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDDG common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early 2001. The transaction is expected to be tax-free to Quantum stockholders, this transaction is subject to stockholders and regulatory approval. If the combination is completed,

- Quantum's DLT & Storage Systems Group will operate as a legally separate, stand-alone company that will be known as Quantum Corporation;
- DSSG stockholders will receive on a one-for-one basis, shares of the then-independent company comprising all of the operations and assets of the Quantum DLT & Storage Systems Group; and
- DSSG intends to issue restricted stock to Quantum employees that become employees of the combined HDDG/Maxtor company, in exchange for the loss of unvested DSSG stock options held by such employees. As a result, Quantum is expected to incur substantial compensation charges if the combination is completed.

These expectations are forward-looking statements and actual results may differ.

On October 24, 2000 Quantum announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000 Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum will own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to DSSG stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO the remaining DSSG business will be comprised of two business groups, Enterprise Solutions and DLTtape.

On November 8, 2000, Quantum announced plans to expand its product design and new product introduction resources for its DLTtape group in Colorado. Under the plan, Quantum will move more than 100 engineering, marketing and administrative positions relating to the DLTtape business to Colorado from its Shrewsbury, MA facility. In addition, Quantum will create an Advanced Technology Development Lab in Shrewsbury that will focus on advancing future tape drive innovations. There will be substantial costs associated with this plan. DSSG is currently not able to quantify these costs.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - DLT & Storage Systems Group

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 are phrased in the future tense or 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 under Trends and Uncertainties relating to the DLT & Storage Systems group. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date

hereof.

Business Overview

The DLT & Storage Systems group ("DSSG") designs, develops, manufactures, licenses and markets DLTtape(TM) drives, DLTtape media cartridges and storage solutions. DSSG's storage solutions consist of DLTtape libraries, network attached storage solutions, solid state storage systems and service.

Digital Linear Tape, or DLTtape, is DSSG's half-inch tape technology that is the industry standard for mid-range UNIX and NT system backup and archive applications. DSSG recently introduced a new family of tape drive products based on Super DLTtape technology, targeted to serve workgroup, mid-range and enterprise business needs. Super DLTtape technology is an extension of the DLTtape technology product set. Super DLTtape continues to build on generations of DLTtape success while ensuring compatibility with previous DLTtape formats.

DSSG's tape libraries are part of our Enterprise Solutions business and serve the entire tape library data storage market from desktop computers to enterprise class computers. DSSG offers a broad line of automated tape libraries which are used to manage, store and transfer data in enterprise networked computing environments.

DSSG is a leading provider of network attached storage, or NAS, solutions for workgroups. DSSG's NAS appliances offer a combination of interoperability, reliability, ease of use and cost-effectiveness that we believe is better suited to the storage needs of workgroups than other storage alternatives. Our Snap Server appliances utilize our optimized hardware and proprietary operating system, the Snap OS, to enable our customers to add additional storage capacity to a network quickly, inexpensively and conveniently. The target end-users for Snap Server appliances are workgroups within small to large organizations and application service providers and Internet service providers.

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DLTtape drives store data on DLTtape media cartridges. Historical use of DLTtape drives has shown that drives use many media cartridges per year. DSSG's DLTtape media cartridges are manufactured and sold by licensed third party manufacturers. DSSG receives a royalty fee on DLTtape media cartridges sold by its licensees which, while resulting in lower revenue than DLTtape media sold directly by DSSG, generates comparable income from operations. DSSG prefers to sell a substantial portion of DLTtape media cartridge through its license model because this minimizes DSSG's operational risks and expenses and provides an efficient distribution channel. Currently, approximately 85% of media sales occur through this license model.

On October 24, 2000 Quantum announced plans to make its server appliances subsidiary an independent, publicly-traded company called Snap Appliances, Inc. On October 30, 2000 Snap Appliances filed a registration statement with the Securities and Exchange Commission for the initial public offering ("IPO") of its common stock. Immediately following the IPO, Quantum will own at least 80% of Snap Appliances' outstanding common stock. Quantum intends to distribute these shares to DSSG stockholders subject to receiving a favorable IRS ruling and Board of Directors approval. After the IPO the remaining DSSG business will be comprised of two business groups, Enterprise Solutions and DLTtape.

On November 8, 2000, Quantum announced plans to expand its product design and new product introduction resources for its DLTtape Group in Colorado. Under the plan, Quantum will move more than 100 engineering, marketing and administrative positions relating to the DLTtape business to Colorado from its Shrewsbury, MA facility. In addition, Quantum will create an Advanced Technology Development Lab in Shrewsbury that will focus on advancing future tape drive innovations. There will be costs associated with this plan. DSSG is currently not able to quantify these costs.

Products

The DLT & Storage Systems group's products include:

DLT:

- . Super DLTtape (TM) drives. DSSG recently introduced a new family of tape drive products based on Super DLTtape technology, targeted to serve workgroup, mid-range and enterprise business needs. The mid-range market including workgroup and department servers, large corporate departments and mid-size automated libraries will see a drive with a native capacity of 110GB (220GB compressed) and a sustained transfer rate of 11MB per second (22MB compressed). In response to high performance enterprise needs, DSSG also offers a Super DLTtape drive with a sustained transfer rate of greater than 16MB per second (32MB compressed). Super DLTtape drives are expected to begin volume shipment in the second half of calendar year 2000.

- . DLTtape drives. DSSG currently offers three tape drive products--the

DLT8000, the DLT7000 and the DLT4000. The DLT8000 provides a combination of 40GB of native capacity (80GB compressed) and a sustained data transfer rate of 6MB per second (12MB compressed). The DLT7000 provides a combination of 35GB of native capacity (70GB compressed) and a sustained data transfer rate of 5MB per second (10MB compressed). The DLT4000 provides a combination of 20GB of native capacity (40GB compressed) and a sustained data transfer rate of 1.5MB per second (3MB compressed).

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- . DLTtape media cartridges. The DLTtape family of half-inch tape media cartridges is designed and formulated specifically for use with DLTtape drives. The capacity of a DLTtape media cartridge is up to 40GB (80GB compressed). DSSG's half-inch tape cartridges take advantage of shorter wavelength recording schemes to ensure read compatibility with future generations of DLTtape drives. The tape itself features a special high-grade metal particle formula that reduces tape and head wear. The result is tape that delivers a proven one million passes with a negligible impact on soft error rates and a 30-year archival life. DSSG has qualified the one supplier of Super DLTtape media and is currently qualifying others; the tape will include enhanced features to support Super DLTtape products.

Storage Solutions:

- . Tape libraries. DSSG offers a broad line of automated DLTtape libraries that support a wide range of back-up and archival needs from workgroup servers to enterprise-class servers. DSSG's tape libraries range from its tape autoloaders which accommodate a single DLTtape drive and up to 280GB of storage capacity to the P6000 series library which features Prism Library Architecture(TM) and can be configured in multiple units to scale up to 22.8 terabytes of storage capacity. In addition, DSSG offers WebAdmin(TM), the industry's first Internet browser-based tape library management system, allowing system administrators to monitor widely distributed storage systems at remote locations with point-and-click ease.
- . Network attached storage solutions. DSSG's Snap! Server(TM) family of network attached storage appliances, include the Snap Server 1000, Snap Server 2000, and Snap Server 4100, including storage capacities ranging from 15GB to 240GB. Snap Servers connect directly to a network and can be easily and seamlessly integrated with other network devices. To install a Snap Server, a user simply connects the appliance to a network and a power source and then turns on the appliance. The entire installation process should take less than five minutes and does not require an information technology professional. The Snap OS includes a file system that can simultaneously function in a variety of operating environments, including Apple MacOS, Linux, Microsoft Windows, Novell Netware and UNIX. The Snap hardware includes motherboards with standard components, hard disk drives, memory and processors. The Snap Server 1000 features 15GB or 30 GB of storage capacity, one disk drive, and a 3.5 pound desktop or portable form factor. The Snap Server 2000 features 60 GB of storage capacity, two disk drives, desktop form factor, and RAID 0, 1. The Snap Server 4100 features 120 GB or 240 GB of storage capacity, four disk drives, 1U rack form factor, and RAID 0, 1, 5.
- . LANvault(TM) tape backup appliance. LANvault is a backup appliance with a DLTtape library, a central management console and a customer service Web portal. This product is intended to meet the requirements for remote site backup and is designed as a workgroup backup solution appliance preloaded with industry-standard backup software for ease of installation and use.
- . Solid state storage systems. DSSG offers two families of solid state storage systems--the Rushmore(TM) Ultra series and the Rushmore eSystem Accelerators. The Rushmore Ultra Solid State Disks are available in capacities ranging from 268MB to 3.2GB and have data access times of less than 50 microseconds, 100 to 200 times faster than magnetic hard disk drives.

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The Rushmore eSystem Accelerator is a comprehensive set of hardware, tools, services and consulting bundled into one package. With capacities ranging from 536MB to 3.2GB, the Rushmore eSystem Accelerator delivers data access times of less than 25 microseconds, more than 18,000 accesses to information per second for time-critical applications.

Results of Operations

Revenue. Revenue for DSSG in the three and six months ended October 1, 2000 was \$362 million and \$728 million, respectively, compared to \$357 million and \$688 million, respectively, for the corresponding periods in fiscal year 2000. The increase in revenue reflected increased sales of DLTtape libraries and Snap

Servers, and increased DLTtape media royalties. Sales of tape libraries reached a record high in the second quarter of fiscal year 2001. Sales of Snap Server network attached storage appliances also reached a record high without comparable sales in the prior year period as DSSG's sales of Snap Servers followed the acquisition of Meridian in September 1999. The increase in units of DLTtape media cartridges sold reflects sales of cartridges for use in both new DLTtape drives and to meet the ongoing new media needs of the installed base of DLTtape drives that remain in use. The increase in DLTtape media royalties reflected an increase in the sales of DLTtape media cartridges by licensed media manufacturers for which DSSG earns a royalty fee. Revenue from sales of DLTtape drives declined. The decrease in DLTtape drive revenue reflected an increase in shipments, offset by a decline in average unit prices due to competitive pricing.

The table below summarizes the components of DSSG's revenue in the three months and six months ended October 1, 2000 and September 26, 1999, respectively:

<TABLE>
<CAPTION>
(in millions)

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
<S>	<C>	<C>	<C>	<C>
DLT drives	\$199	\$219	\$411	\$438
DLT media	34	36	62	64
DLT royalty	50	45	103	84
Storage systems	109	82	209	149
Intra-group elimination*	(30)	(25)	(57)	(47)
	----	----	----	----
Revenue	\$362	\$357	\$728	\$688
	=====	=====	=====	=====

</TABLE>

*Represents intra-group sales of DLTtape drives for incorporation into DSSG's tape libraries.

Sales to the top five customers in the three and six months ended October 1, 2000 represented 46% and 47% of revenue, respectively, compared to 47% and 48% of revenue, respectively, for the corresponding periods in fiscal year 2000. Sales to Compaq were 17% and 18% of revenue, in the three and six months ended October 1, 2000, respectively, compared to 18% and 20% of revenue, respectively, in the corresponding periods in fiscal year 2000. Sales to Hewlett-Packard were 13%

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and 12% of revenue in the three and six months ended October 1, 2000, respectively, compared to 16% and 15% of revenue, respectively, in the corresponding periods in fiscal year 2000.

Sales to computer equipment manufacturers and distribution channel customers were 59% and 17% of revenue, respectively, in the three months ended October 1, 2000, compared to 62% and 18% of revenue, respectively, in the three months ended September 26, 1999. For the six months ended October 1, 2000, computer manufacturer and distribution channel sales were 61% and 16% of revenue, respectively, compared to 65% and 15% of revenue, respectively, in the corresponding period of fiscal year 2000. The remaining revenue in the three and six months ended October 1, 2000 represented media royalty revenue, sales to value-added resellers and direct sales and in the three and six months ended September 26, 1999, represented media royalty revenue and sales to value-added resellers.

Gross Margin Rate. The gross margin rate in the three months ended October 1, 2000, was 43.6%, compared to 47.7% in the three months ended September 26, 1999. The gross margin rate for the first six months of fiscal year 2001 was 43.6% compared to 46.8% for the corresponding period in fiscal year 2000. The decrease reflected lower DLTtape drive margins as a result of price declines, partially offset by an increase in the proportion of overall revenue represented by DLTtape media royalty revenue.

Research and Development Expenses. Research and development expenses in the three and six months ended October 1, 2000, were \$32 million, or 8.8% of revenue, and \$68 million, or 9.3% of revenue, respectively, compared to \$30 million, or 8.5% of revenue, and \$58 million, or 8.5% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in research and development expenses reflected the inclusion of Snap Appliances expenses, which were not comparatively included in the prior year periods as the acquisition occurred on September 10, 1999.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended October 1, 2000, were \$37 million, or 10.2% of revenue, and \$76

million, or 10.4% of revenue, respectively, compared to \$27 million, or 7.5% of revenue, and \$52 million, or 7.6% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in sales and marketing expenses reflected the inclusion of Snap Appliances expenses and an increase in sales and marketing costs associated with the expansion of ATL's infrastructure. Spending increased as DSSG continued to build both category awareness for NAS applications and brand awareness for the Snap! Server line.

General and Administrative Expenses. General and administrative expenses in the three and six months ended October 1, 2000, were \$19 million, or 5.3% of revenue, and \$37 million, or 5.1% of revenue, respectively, compared to \$15 million, or 4.3% of revenue, and \$30 million, or 4.3% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in general and administrative expenses reflected the inclusion of Snap Appliances expenses, which were not comparatively included in the prior year periods as the acquisition occurred on September 10, 1999, and increased expenses associated with DLTtape libraries.

Purchased In-process Research and Development Expense. DSSG expensed purchased in-process research and development of \$37 million, as a result of the Meridian acquisition in the second quarter ended September 26, 1999.

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Special Charge. During the fourth quarter of fiscal year 2000, DSSG recorded a special charge of \$40.1 million. The charge was primarily focused on DSSG's DLTtape Division and reflected DSSG's strategy to align its DLTtape drive operations with market conditions. These conditions include slower growth in the mid-range server market and increasing centralization of server backup through automation solutions, both of which have resulted in relatively flat DLTtape drive shipments. The special charge included a reduction of overhead expenses throughout the DLTtape Division and an acceleration of DSSG's low cost manufacturing strategy, which includes moving volume production of DLTtape drives from Colorado Springs, Colorado to Penang, Malaysia.

The special charge consisted of \$13.5 million in facility related costs, \$13.9 million for the write-off of investments in optical technology, \$7.6 million for severance and benefits for terminated employees, \$3.2 million for fixed asset write-offs, primarily related to the transfer of manufacturing to Penang, Malaysia and \$1.9 million in other costs associated with the plan.

DSSG is proceeding according to plan and expects to realize annual cost savings from the plan of approximately \$40 million beginning upon full implementation of the plan at the end of fiscal year 2001. Approximately \$30 million of the savings are expected in cost of revenue as a result of reduced manufacturing costs with the remaining amount in operating expenses, primarily research and development, as a result of ending research on certain optical-based storage solutions. As compared to fiscal year 2000, DSSG expects operating expenses to increase because of increased investments in storage systems products and marketing in fiscal year 2001 and as a result of including the Snap Appliances' operations for a full year following the acquisition of Meridian in September 1999. These expectations are forward-looking statements and actual results may differ.

Interest and Other Income/Expense. Net interest and other income/expense for the three and six months ended October 1, 2000 was \$0.7 million expense and \$1.1 million income, respectively, compared to \$1.1 million expense and \$0.5 million income, respectively, for the corresponding periods of fiscal year 2000. The lower net expense for the three month period, and the higher net income for the six month period reflected increased interest income as a result of higher average cash balances.

Income Taxes. DSSG's effective tax rate for the three and six months ended October 1, 2000 and September 26, 1999 was 36% and 40%, respectively. The decrease in the fiscal year 2001 effective tax rate reflects an increased percentage of foreign earnings taxed at less than the U.S. rate.

Liquidity and Capital Resources

DSSG cash, cash equivalents and marketable securities were \$320 million at October 1, 2000 compared to \$339 million at March 31, 2000. DSSG used cash in the six months ended October 1, 2000 to purchase \$146 million of treasury stock, as discussed below. Other uses of cash included approximately \$24 million for investments in property and equipment. DSSG generated cash from operations of \$146 million, primarily reflecting net income, increases in income taxes payable and accounts payable, partially offset by increases in other assets and accounts receivable. Other sources of cash included \$15 million from the issuance of common stock.

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to \$700 million of Quantum's common stocks in open market or private transactions. Of the total

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repurchase authorization, \$600 million was authorized for repurchase of either Quantum, DSSG or HDDG common stock. An additional \$100 million was authorized for repurchase of HDDG common stock. Under these authorizations, as of October 1, 2000, Quantum had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSSG common stock and 13.5 million shares of HDDG common stock for a combined total of \$566 million. During the first six months of fiscal year 2001, Quantum repurchased 13.5 million shares of DSSG common stock and 10 million shares of HDDG common stock for a combined total of \$241 million.

In April 2000, Quantum entered into two new unsecured senior credit facilities, each providing a \$187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At October 1, 2000, there were no outstanding balances drawn on these lines.

DSSG expects to spend approximately \$60 million in fiscal year 2001 for capital equipment and leasehold improvements. These capital expenditures will support the introduction and manufacturing of Super DLTtape products; manufacturing DLTtape drives in its new location, Penang, Malaysia; and DSSG's general infrastructure.

DSSG believes that its existing capital resources, including the credit facilities and any cash generated from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet DSSG's expectations.

In the future, Quantum may seek to raise cash through the issuance of debt or equity securities. There can be no assurance that such financing would be available on terms favorable to Quantum, if at all.

Trends and Uncertainties Relating to the DLT & Storage Systems Group

Holders of DSSG stock remain stockholders of Quantum Corporation, which, prior to the completion of the merger of HDDG and Maxtor, includes common stock of HDDG, and therefore, financial effects on HDDG could adversely affect DSSG.

Holders of DSSG stock and HDDG stock are stockholders of a single company. DSSG and HDDG are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks of an investment in Quantum and all of its businesses, assets and liabilities. The issuance of DSSG stock and HDDG stock and the allocation of assets and liabilities and stockholders' equity between DSSG and HDDG did not result in a distribution or spin-off to stockholders of any Quantum assets or liabilities and did not affect ownership of our assets or responsibility for our liabilities or those of our subsidiaries. The assets we attribute to one group could be subject to the liabilities of the other group, whether such liabilities arise from lawsuits, contracts or indebtedness that we attribute to the other group. If we are unable to satisfy one group's liabilities out of the assets we attribute to it, we may be required to satisfy those liabilities with assets we attribute to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other

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group and the market price of the tracking stock relating to the other group. In addition, net losses of either group and dividends and distributions on, or repurchases of, either class of tracking stock or repurchases of preferred stock at a price per share greater than par value will reduce the funds we can pay on each class of tracking stock under Delaware law. For these reasons, you should read our consolidated financial information with the financial information we provide for each group.

If the contemplated combination of the HDDG business with Maxtor is not successfully completed, this could have a negative impact on Quantum's results of operations.

Though Quantum has publicly announced that it currently intends to combine its HDDG business with Maxtor, the transaction remains subject to the approval of Maxtor and Quantum stockholders, expiration or termination of the applicable Hart-Scott-Rodino waiting periods, approval by the European regulatory authorities, and other customary conditions. If the transaction is not consummated, Quantum's results of operations could be negatively impacted due to, among other things, market, customer and employee perception of the terminated transaction.

Competition may increase in the tape drive market as a result of large competitors introducing tape drive products based on new technology standards.

DSSG competes with companies that develop, manufacture, market and sell tape drive products. DSSG's principal competitors include Exabyte Corporation, Hewlett-Packard, Seagate Technology, Inc., Sony Corporation and Storage Technology Corporation. These competitors are aggressively trying to develop new tape drive technologies to compete more successfully with products based on DLTtape technology. Hewlett-Packard, IBM Corporation and Seagate have formed a consortium to develop new linear tape drive products. DSSG expects products based on this developing technology standard to target the high-capacity data back-up market and to compete with DSSG's products based on Super DLTtape technology. Such competition could have a material adverse impact on DSSG's operating results.

DSSG's operating results depend on new product introductions, which may not be successful.

To compete effectively, DSSG must improve existing products and introduce new products, such as products based on Super DLTtape technology and network attached storage appliances. DSSG cannot assure you that:

- . It will introduce any of these new products in the time frame DSSG currently forecasts;

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- . It will not experience technical or other difficulties that could prevent or delay the introduction of these new products;

- . Its new products will achieve market acceptance;

- . Its new products will be successfully or timely qualified with DSSG's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders; or

- . It will achieve high volume production of these new products in a timely manner, if at all.

These risks are magnified because DSSG expects that technological changes, changes in customer requirements and increasing competition could result in declining sales and gross margins on its existing products.

Reliance on a limited number of third-party suppliers could result in significantly increased costs and delays in the event these suppliers experience shortages or quality problems.

DSSG depends on a limited number of suppliers for components and sub-assemblies, including recording heads, media cartridges and integrated circuits, all of which are essential to the manufacture of DLTtape drives and tape libraries.

DSSG currently purchases the DLTtape media cartridges it sells primarily from Fuji Photo Film Co., Ltd. and Hitachi Maxell, Ltd. DSSG cannot assure you that Fuji or Maxell will continue to supply an adequate number of high quality media cartridges in the future. If component shortages occur, or if DSSG experiences quality problems with component suppliers, shipments of products could be significantly delayed and/or costs significantly increased. In addition, DSSG qualifies only a single source for many components and sub-assemblies, which magnifies the risk of future shortages.

DSSG's main supplier of tape heads is located in China. Political instability, trade restrictions, changes in tariff or freight rates or currency fluctuations in China could result in increased costs, delays in shipment and could have an adverse impact on DSSG's operating results.

DSSG's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance.

DSSG's quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. As a result, you should not use DSSG's past quarterly operating results to predict future performance. Quarterly operating results could be adversely affected by:

- . An inadequate supply of DLTtape media cartridges;

- . Customers canceling, deferring or rescheduling significant orders as a result of excess inventory levels or other factors;

- . Declines in network server demand;

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- . Failure to complete shipments in the last month of a quarter during which a substantial portion of DSSG's products are typically shipped; or

. Increased competition.

A majority of sales come from a few customers and these customers have no minimum or long-term purchase commitments.

DSSG's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and DSSG's relationships with its customers are terminable at will. The loss of, or a significant change in demand from, one or more key customers could materially adversely impact DSSG's operating results.

Unpredictable end-user demand, combined with the computer equipment manufacturer trend toward carrying minimal inventory levels, increases the risk that DSSG will manufacture and custom configure too much or too little inventory for particular customers. Significant excess inventory could result in inventory write-downs and losses, while inventory shortages could adversely impact DSSG's relationship with its customers, either of which could adversely impact DSSG's operating results.

DSSG does not control licensee pricing or licensee sales of DLTtape media cartridges and as a result DSSG's royalty revenue may decline.

DSSG receives a royalty fee based on sales of DLTtape media cartridges by Fuji and Maxell. Under DSSG's license agreements with Fuji and Maxell, each of the licensees determines the pricing and number of units of DLTtape media cartridges sold by it. In addition, other companies may begin to sell DLTtape media cartridges under license agreements. As a result, DSSG's royalty revenue will vary depending upon the level of sales and prices set by Fuji, Maxell and potentially other licensees. In addition, lower licensee pricing could require DSSG to lower its prices on direct sales of DLTtape media cartridges, which would adversely impact DSSG's margins for this product.

The HDDG merger could result in substantial compensation charges to Quantum

In connection with the merger of HDDG and Maxtor Corporation, DSSG intends to issue restricted stock to Quantum employees that become employees of the combined HDDG/Maxtor company, in exchange for the loss of unvested DSSG stock options held by such employees. Quantum is expected to incur compensation charges. As a result the historical financial information for Quantum's DSSG business may not be representative of what its future results will be. Quantum is currently not able to quantify these compensation charges to be incurred.

The November 8, 2000 DLTtape business plan could result in charges to DSSG.

The plan of the DLTtape business involves the relocation of more than 100 employees from the Massachusetts to Colorado facility and the creation of a new Advanced Technology Development Lab in Massachusetts. There will be costs associated with these activities which have not yet been quantified.

Third party infringement claims could result in substantial liability and significant costs.

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From time to time, third parties allege DSSG's infringement of and need for a license under their patented or other proprietary technology. Adverse resolution of any third party infringement claim could subject DSSG to substantial liabilities and require it to refrain from manufacturing and selling certain products. In addition, the costs incurred in intellectual property litigation can be substantial, regardless of the outcome.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in Quantum's Annual Report on Form 10-K for the year ended March 31, 2000.

In addition, Quantum's operating results are expected to be affected by charges to be incurred in connection with the merger of HDDG and Maxtor and the November 8, 2000 DLTtape business plan. See "Trends and Uncertainties Relating to the DLT & Storage System Group."

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Item 1. Financial Statements

QUANTUM CORPORATION

HARD DISK DRIVE GROUP

CONDENSED COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenue	\$823,667	\$ 768,214	\$1,687,360	\$1,520,705
Cost of revenue - on net sales	756,452	745,989	1,499,505	1,470,211
Cost of revenue - special charge (benefit)	(15,825)	57,068	(15,825)	57,068
	-----	-----	-----	-----
Gross profit (loss)	83,040	(34,843)	203,680	(6,574)
Operating expenses:				
Research and development	59,910	61,973	118,160	124,681
Sales and marketing	24,171	28,860	51,887	56,691
General and administrative	16,356	15,332	32,632	30,077
Special charge (benefit)	(90)	2,338	(90)	2,338
	-----	-----	-----	-----
Income (loss) from operations	100,347	108,503	202,589	213,787
Income (loss) from operations	(17,307)	(143,346)	1,091	(220,361)
Other income (expense):				
Interest income and other, net	6,998	3,423	15,053	9,387
Interest expense	(2,443)	(2,406)	(4,675)	(4,770)
	-----	-----	-----	-----
Income (loss) before income taxes	4,555	1,017	10,378	4,617
Income (loss) before income taxes	(12,752)	(142,329)	11,469	(215,744)
Income tax provision (benefit)	(4,081)	(58,642)	3,670	(88,873)
	-----	-----	-----	-----
Net income (loss)	\$ (8,671)	\$ (83,687)	\$ 7,799	\$ (126,871)
	=====	=====	=====	=====
Net income (loss) per share (1) :				
Basic	\$ (0.11)	\$ (1.01)	\$0.10	\$ (1.53)
Diluted	\$ (0.11)	\$ (1.01)	\$0.09	\$ (1.53)
Weighted average common shares (1) :				
Basic	77,336	82,883	79,390	83,107
Diluted	77,336	82,883	85,533	83,107
Net loss for the period from August 4, 1999 to September 26, 1999		\$ (49,650)		\$ (49,650)
		=====		=====
Net loss per share:				
Basic		\$ (0.60)		\$ (0.60)
Diluted		\$ (0.60)		\$ (0.60)
Weighted average common shares:				
Basic		82,883		82,883
Diluted		82,883		82,883

</TABLE>

(1) Basic and diluted net income (loss) per share and weighted average common shares for the three and six months ended September 26, 1999 are pro forma and assume the recapitalization occurred at the beginning of fiscal year 2000.

See accompanying notes to condensed combined financial statements.

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QUANTUM CORPORATION

HARD DISK DRIVE GROUP

CONDENSED COMBINED BALANCE SHEETS
(In thousands)

<TABLE>
<CAPTION>

	October 1, 2000	March 31, 2000
	-----	-----
<S>	(unaudited)	<C>
	<C>	<C>

Assets		

Current assets:		
Cash and cash equivalents	\$ 475,067	\$ 581,542
Marketable securities	16,814	30,048
Accounts receivable, net of allowance for doubtful accounts of \$18,732 and \$19,618	380,432	395,118
Inventories	140,269	122,347
Due from the DLT & Storage Systems group	-	30,100
Deferred taxes	84,008	78,713
Other current assets	57,960	58,356
	-----	-----
Total current assets	1,154,550	1,296,224
Property and equipment, net of accumulated depreciation of \$221,462 and \$218,674	147,646	158,548
Intangible assets, net	274	1,915
Other assets	36,100	21,361
	-----	-----
	\$1,338,570	\$1,478,048
	=====	=====
Liabilities and Group Equity		

Current liabilities:		
Accounts payable	\$ 307,786	\$ 375,614
Accrued warrantly	41,125	46,967
Accrued compensation	39,480	54,073
Income taxes payable	25,222	44,284
Accrued special charge	5,746	22,409
Current portion of long-term debt	392	344
Other accrued liabilities	147,867	77,596
	-----	-----
Total current liabilities	567,618	621,287
Deferred taxes	40,525	41,758
Long-term debt	12,412	12,613
Convertible subordinated debt	95,833	95,833
Group equity	622,182	706,557
	-----	-----
	\$1,338,570	\$1,478,048
	=====	=====

</TABLE>

See accompanying notes to condensed combined financial statements.

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QUANTUM CORPORATION

HARD DISK DRIVE GROUP

CONDENSED COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended	
	October 1, 2000	September 26, 1999
	-----	-----
-		
	(unaudited)	
<S>	<C>	<C>
Net income (loss)	\$ 7,799	
\$ (126,871)		
Adjustments to reconcile net income (loss) to net cash used in operations:		
Special charge	-	58,385
Depreciation	25,463	33,119
Amortization	2,096	1,956
Deferred income taxes	(1,233)	512
Compensation related to stock plans	3,267	544
Changes in assets and liabilities:		
Accounts receivable	14,686	25,040
Inventories	(17,922)	
(3,608)		
Accounts payable	(67,828)	
(49,024)		
Income taxes payable	(19,062)	

(7,407)		
Accrued warranty	(5,842)	5,563
Other assets and liabilities	(6,942)	(15,601)
-	-----	-----
Net cash used in operating activities	(65,518)	(77,392)
-		
Cash flows from investing activities:		
Investment in equity securities	(14,010)	-
Purchases of marketable securities	-	(33,367)
Maturities of marketable securities	-	33,314
Proceeds from disposition of property & equipment	2,831	-
Investment in property and equipment	(14,093)	(30,125)
-	-----	-----
Net cash used in investing activities	(25,272)	(30,178)
-		
Cash flows from financing activities:		
Proceeds from long-term credit facilities	-	3,333
Principal payments on long-term credit facilities	(153)	(6,167)
Inter-group proceeds for common stock issued	-	2,835
Purchases of treasury stock	(94,597)	(1,558)
Proceeds from factoring	70,000	-
Proceeds from issuance of common stock, net	9,065	5,794
-	-----	-----
Net cash provided by (used in) financing activities	(15,685)	4,237
-		
Decrease in cash and cash equivalents	(106,475)	(103,333)
Cash and cash equivalents at beginning of period	581,542	499,725
-	-----	-----
Cash and cash equivalents at end of period	\$ 475,067	\$ 396,392
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 4,539	\$ 4,361
Income taxes, net of (refunds)	\$ (5,861)	\$ 14,475

</TABLE>

See accompanying notes to condensed combined financial statements.

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QUANTUM CORPORATION

HARD DISK DRIVE GROUP

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed combined financial statements of the Hard Disk Drive group ("HDDG"), together with the condensed combined financial statements of the DLT & Storage Systems group ("DSSG"), include all of the accounts in the condensed consolidated financial statements of Quantum. The separate group condensed combined financial statements give effect to the accounting policies applicable with the implementation of the tracking stock proposal. The separate HDDG and DSSG financial statements have been prepared on a basis that management believes to be reasonable and appropriate and include (i) the historical balance sheets, results of operations, and cash flows of businesses that comprise each of the groups, with all significant intragroup transactions and balances eliminated, (ii) in the case of HDDG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with HDDG, including allocated portions of Quantum's debt and selling, general and administrative costs, and (iii) in the case of DSSG's financial statements, corporate assets and liabilities of Quantum and related transactions identified with DSSG, including allocated portions of Quantum's debt and selling, general and administrative costs. Intergroup transactions and balances are not eliminated in the separate financial statements of HDDG or DSSG.

The condensed combined financial statements of the Hard Disk Drive group provide HDDG stockholders with financial information about the Hard Disk Drive group operations. Holders of HDDG stock and DSSG stock are Quantum stockholders and are subject to all of the risks of an investment in Quantum and all of Quantum's

businesses, assets and liabilities. Quantum retains ownership and control of all of the assets and operations of each group. Financial effects arising from one group that affect Quantum's consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the other group's stock. Any net losses of HDDG or DSSG, and dividends or distributions on, or repurchases of DSSG stock, or repurchases of preferred stock at a price per share greater than par value, will reduce the funds of Quantum legally available for payment of dividends on HDDG stock. As a result, HDDG's condensed combined financial statements should be read in conjunction with Quantum's condensed consolidated financial statements and DSSG's condensed combined financial statements. The condensed combined balance sheet as of March 31, 2000 has been derived from the audited financial statements of Quantum Corporation included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim 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.

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2. Securitized Assets

HDDG has an asset securitization program with Capital Factors Inc., under which we sell them our eligible accounts receivable, on a with recourse basis. At October 1, 2000, \$70 million of our accounts receivable were securitized under the program. Given the with recourse nature of the arrangement, the securitized accounts receivable are included within the accounts receivable balance, with the corresponding credit being included in other liabilities.

3. Inventories

Inventories consisted of the following:
(In thousands)

<TABLE>
<CAPTION>

	October 1, 2000	March 31, 2000
	-----	-----
<S>	<C>	<C>
Materials and purchased parts	\$ 4,008	\$ 7,387
Work in process	4,222	5,299
Finished goods	132,039	109,661
	-----	-----
	\$140,269	\$122,347
	=====	=====

</TABLE>

4. Net Income (Loss) Per Share

As a result of the recapitalization, net income (loss) per share for HDDG has been calculated based on the group's net income (loss) subsequent to August 3, 1999. It was not calculated on a group basis for periods prior to the recapitalization because HDDG stock was not part of Quantum's capital structure at that time.

The following table sets forth the computation of basic and diluted net income (loss) per share for HDDG:

<TABLE>
<CAPTION>

(In thousands, except per share data)	Three Months Ended October 1, 2000	Period from August 4, 1999 to September 26, 1999	Six Months Ended October 1, 2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Numerator:			
Numerator for diluted net income (loss) per share - income (loss) available to common stockholders	\$ (8,671)	\$ (49,650)	\$ 7,799
	=====	=====	=====
Denominator:			
Denominator for basic net income (loss) per share - weighted average shares	77,336	82,883	79,390
Effect of dilutive securities:			
Outstanding options	-	-	6,143

Denominator for diluted net income (loss) per share - adjusted weighted average shares	77,336	82,883	85,533
Basic net income (loss) per share	\$(0.11)	\$ (0.60)	\$ 0.10
Diluted net income (loss) per share	\$(0.11)	\$ (0.60)	\$ 0.09

</TABLE>

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The computation of diluted net income (loss) per share for the three and six months ended October 1, 2000, and for the period August 4, 1999 through September 26, 1999, excluded the effect of the 7% convertible subordinated notes issued in July 1997, which are convertible into 3,103,076 shares of HDDG common stock, or 10.793 shares per \$1,000 note, because the effect would have been antidilutive.

Options to purchase 18,723,101 and 15,234,101 shares of HDDG common stock were outstanding at October 1, 2000 and September 26, 1999, respectively. However, the corresponding weighted average outstanding options were not included in the computation of diluted net loss per share for HDDG for the three months ended October 1, 2000, and the period August 4, 1999 through September 26, 1999, because the effect would have been antidilutive.

Options to purchase 7,360,119 shares of HDDG common stock were outstanding for the six months ended October 1, 2000, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would have been antidilutive.

5. Common Stock Repurchase

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to \$700 million of its common stocks in open market or private transactions. Of the total repurchase authorization, \$600 million was authorized for repurchase of either Quantum, DSSG or HDDG common stock. An additional \$100 million was authorized for repurchase of HDDG common stock. Under these authorizations, as of October 1, 2000, Quantum had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSSG common stock and 13.5 million shares of HDDG common stock for a combined total of \$566 million. During the first six months of fiscal year 2001, Quantum repurchased 13.5 million shares of DSSG common stock and 10 million shares of HDDG common stock for a combined total of \$241 million.

6. Credit Line

In April 2000, Quantum entered into two new unsecured senior credit facilities, each providing a \$187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At October 1, 2000, there were no outstanding balances drawn on these lines.

7. Litigation

On August 7, 1998, Quantum was named as one of several defendants in a patent infringement lawsuit filed in the U.S. District Court for the Northern District of Illinois, Eastern Division. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents which it asserts that Quantum has infringed. Quantum has studied many of these patents before and, of the patents it has studied believes that defenses of patent invalidity and non-infringement can be asserted. However, Quantum has not completed a full study of all the patents asserted by Papst and there can be no assurance that Quantum has not infringed these or other patents owned by Papst. In October, 1999 the case was transferred to a federal district court in New

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Orleans, Louisiana, where it has been joined with suits brought against Papst by Hewlett-Packard, Maxtor Corporation and Minebea Company, Ltd. for the purposes of coordinated discovery under multi-district litigation rules. Hewlett-Packard settled its dispute in April, 2000 with Papst and has withdrawn from the litigation. To date, discovery has not begun to any significant extent. Quantum does not believe that the transfer will affect the final disposition of this matter in a significant way. The final results of this litigation, as with any litigation, are uncertain. In addition, the costs of engaging in litigation with Papst will be substantial.

Quantum is also subject to other legal proceedings and claims that arise in the ordinary course of its business. For example, in fiscal year 2000, Discovision Associates brought patents they hold to Quantum's attention. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of Quantum, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to Quantum.

8. Special Charge

During the second quarter of fiscal year 2000, HDDG recorded a special charge of \$59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with streamlining HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in the customer service strategy and consolidation of certain product development programs.

The special charge consisted of \$26.4 million related to facilities costs, \$13.2 million in asset write-offs related to streamlining the global logistics model and changes in customer service strategy, \$7.8 million in severance and benefits for terminated employees, and approximately \$12 million in other costs associated with the plan.

The facilities costs noted above include lease payments on facilities to be vacated in and around Milpitas, California and Singapore, the write-off of related leasehold improvements, and other maintenance expenses associated with the vacated facilities. HDDG expects that the affected facilities will be vacated by the end of the third quarter of fiscal year 2001.

Subsequent to the end of the second quarter fiscal year 2000, HDDG revised its estimate of costs required to implement the restructuring plan. HDDG estimated that severance and benefits, inventory and other costs, which included the disposition of additional capital assets, would be more than previously estimated as a result of the planned changes in the customer service strategy. HDDG also estimated that costs associated with vacating leased facilities would be less than previously estimated as a result of disposing of a major facility earlier than previously expected. Accordingly, HDDG reallocated amounts between these categories during the second half of fiscal year 2000.

In the second quarter of fiscal year 2001, HDDG reversed \$15.9 million as a special charge benefit on the income statement. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to the redeployment of certain employees.

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In connection with the charge, HDDG currently expects a workforce reduction of approximately 513 employees, down from the original expectation of 600 employees. In addition, approximately 100 open and budgeted positions have been eliminated. The reduction in force primarily affects employees at HDDG's drive configuration centers and warehouses in Milpitas, California and Dundalk, Ireland and employees within the desktop drive business. As of October 1, 2000, 481 employees have been terminated. The remaining employees will be terminated by the end of the third quarter of fiscal year 2001.

As of October 1, 2000, HDDG had incurred \$9 million in cash expenditures associated with employee severance and benefits, facilities and other costs. HDDG expects to incur additional cash expenditures associated with the plan of approximately \$6 million.

The following table summarizes activity related to the special charge at October 1, 2000.

(In thousands)	Severance And Benefits -----	Facilities Costs -----	Inventory -----	Other Costs -----	Total -----
<S>	<C>	<C>	<C>	<C>	<C>
Special charge provision	\$ 7,833	\$26,359	\$ 13,214	\$12,000	\$ 59,406
Cash Payments	(5,963)	(1,559)	-	(1,883)	(9,405)
Non-cash charges	-	(7,296)	(15,588)	(5,502)	(28,386)
Adjustments	1,166	(7,852)	2,374	4,312	-
Special charge benefit	(2,284)	(7,787)	-	(5,798)	(15,869)
	-----	-----	-----	-----	-----
Balance at October 1, 2000	\$ 752	\$ 1,865	\$ -	\$ 3,129	\$ 5,746
	=====	=====	=====	=====	=====

</TABLE>

9. Comprehensive Income

Accumulated other comprehensive income included in group equity on the condensed combined balance sheets of the Hard Disk Drive group consists of unrealized gains on available for sale investments and foreign currency translation adjustments. Total comprehensive income for the three months and six months ended October 1, 2000 and September 26, 1999 is presented in the following table:

<TABLE>
<CAPTION>
(In thousands)

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
<S>	<C>	<C>	<C>	<C>
Net income (loss)	\$ (8,671)	\$ (83,687)	\$ 7,799	\$ (126,871)
Other comprehensive income -				
Change in unrealized gain on investments	(8,135)	--	(7,940)	--
Foreign currency translation adjustments	(1,739)	1,693	(1,969)	773
Comprehensive income	\$ (18,545)	\$ (81,994)	\$ (2,110)	\$ (126,098)

</TABLE>

10. Business Units

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The Hard Disk Drive group currently has two primary product lines, desktop hard disk drives and high-end hard disk drives. HDDG has two separate business units that support these two product lines.

The desktop business unit designs, develops and markets desktop hard disk drives designed to meet the storage requirements of entry-level to high-end desktop personal computers in home and business environments. The high-end business unit designs, develops and markets high-end hard disk drives designed to meet the storage requirements of network servers, workstations and storage subsystems. In the future, the two HDDG business units may become a single business unit as their markets begin to converge and be reported on a combined basis.

Results for HDDG's business units for the three months and six months ended October 1, 2000 and September 26, 1999 are presented in the following table:

<TABLE>
<CAPTION>
(In millions)

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
<S>	<C>	<C>	<C>	<C>
Business unit:				
Desktop				
Revenue	\$656	\$ 661	\$1,330	\$1,298
Unit operating loss	(35)	(133)	(25)	(194)
High-end				
Revenue	168	107	357	222
Unit operating income (loss)	18	(10)	26	(26)

</TABLE>

<TABLE>
<CAPTION>
(In millions)

	Three Months Ended		Six Months Ended	
	October 1, 2000	September 26, 1999	October 1, 2000	September 26, 1999
<S>	<C>	<C>	<C>	<C>
Loss reconciliation:				
Total unit operating income (loss)	\$ (17)	\$ (143)	\$ 1	\$ (220)
Unallocated amounts:				
Interest and other income	4	1	10	4
Income (loss) before income taxes	\$ (13)	\$ (142)	\$ 11	\$ (216)

</TABLE>

11. Subsequent Event

On October 3, 2000 Quantum entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDDG in an all-stock transaction. The merger agreement envisages that HDDG stockholders will receive 1.52 shares of Maxtor common stock for every share of HDDG common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to stockholders and regulatory approval. These expectations are forward-looking statements and actual results may differ.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Hard Disk Drive Group

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 are phrased in the future tense or 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 under Trends and Uncertainties relating to the Hard Disk Drive group. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Business Overview

The Hard Disk Drive group ("HDDG") designs, develops and markets a diversified product portfolio of hard disk drives featuring leading-edge technology. HDDG's hard disk drives are designed for the desktop market which requires economy and reliability and the high-end market, which requires faster and higher capacity disk drives--as well as the emerging market for hard disk drives specially designed for consumer electronics devices such as personal video recorders, personal audio recorders, cable and set-top boxes, Internet appliances and digital video editing. HDDG has been a leading volume supplier of hard disk drives for the desktop market for each of the past seven years.

HDDG designs desktop hard disk drives to meet the storage requirements of entry-level to high-performance desktop PCs in home and business environments. HDDG also designs high-end hard disk drives to store data on large computing systems such as network servers. These high-end hard disk drives are generally used for:

- . dedicated sites that store large volumes of data;
- . network servers such as those used for Internet and intranet services, online transaction processing and enterprise wide applications;
- . high-speed computers used for specialized engineering design software; and
- . computer systems incorporating a large number of shared hard disk drives.

HDDG also pioneered hard disk drive applications for the developing consumer electronics market. These hard disk drive applications utilize Quantum QuickView(TM)--HDDG's hard disk drive technology designed especially for consumer electronics. Quantum QuickView technology makes it possible to simultaneously record and play back audio and video content and to instantly and inexpensively access large amounts of audio and video content--capabilities that are not as well suited to competing technologies such as video tape and optical media.

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On October 3, 2000, the Company entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDDG in an all-stock transaction. The merger agreement envisages that HDDG stockholders will receive 1.52 shares of Maxtor common stock for every share of HDDG common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001. The transaction is expected to be tax-free to Quantum stockholders. This transaction is subject to stockholders and regulatory approval. These expectations are forward-looking statements and actual results may differ.

Products

Desktop products. HDDG offers two families of desktop hard disk drives--the Quantum Fireball(TM) and Quantum Fireball Plus. The Quantum Fireball family offers 3.5-inch hard disk drives for consumer and commercial PCs, as well as entry-level workstations and network servers. Fireball Plus offers superior performance for power users. HDDG offers the Shock Protection System(TM), Shock

Protection System II and Data Protection System™ with its desktop products. These features substantially reduce failure rates and provide increased reliability and performance. Shock Protection System II provides enhanced protection against both operating and non-operating shock. Along with providing enhanced protection against shock during handling and integration, Shock Protection System II guards against kicks and jolts while the PC is running to reduce field failures. HDDG has also incorporated feature enhancements of the Quiet Drive Technology into recently introduced Quantum desktop drives. This technology has been pioneered through a combination of proprietary design innovations and unique drive features that enable Quantum to develop drives that emit dramatically reduced levels of noise. It was first introduced over a year ago in Quantum QuickView drives targeted for the noise-sensitive consumer electronics market and has continued to be refined with technology and feature enhancements.

High-end products. HDDG also offers a broad line of high-end 3.5-inch hard disk drives--the Quantum Atlas (™) and Quantum Atlas 10K families. The Quantum Atlas families offer high-capacity hard disk drives for high performance storage-intensive applications such as enterprise servers and storage subsystems. HDDG also offers the Shock Protection System, Shock Protection System II, Data Protection System and Quiet Drive Technology with its high-end products, and has incorporated the Shock Protection System III into its recently introduced Atlas 10K III. Shock Protection System III is a further enhancement to Shock Protection I & II, guarding against one of the leading causes of hard disk drive failure - mistreatment during handling and integration.

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The table below sets forth key performance characteristics for HDDG's current products:

<TABLE>
<CAPTION>

Products	Capacity per Disk (GB)	Product Capacity (GB)	Rotational Speed (RPM)	Platform
Fireball 1ct 10 Drive	10.3	5.1 to 30.0	5,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II, Data Protection System and Quiet Technology
Fireball 1ct 15 Drive	15.0	7.5 to 30.0	4,400	Desktop PCs--Value, with Ultra ATA/66 interface, Shock Protection System II, Data Protection System and Quiet Technology
Fireball 1ct 20 Drive	20.4	10.0 to 40.0	4,500	Desktop PCs--Value, with Ultra ATA/100 interface, Shock Protection System II, Data Protection System and Quiet Technology
Fireball Plus LM	10.3	10.2 to 30.0	7,200	Desktop PCs--Performance, with Ultra ATA/66 interface, Shock Protection System and Data Protection System
Fireball Plus AS Quiet	20.0	10.2 to 60.0	7,200	Desktop PCs--Performance, with Ultra ATA/100 interface, Shock Protection System II, Data Protection System and Drive Technology
Atlas V	9.1	9.1 to 36.7	7,200	Servers, Workstations and Storage Subsystems, with Ultra 160 SCSI interface, Shock Protection System II and Data Protection System
Atlas 10K II with Data	7.3	9.2 to 73.4	10,000	Enterprise Servers, Workstations and Storage Subsystems, Ultra 160 SCSI interface, Shock Protection System II, Protection System and Quiet Drive Technology

</TABLE>

Results of Operations

Revenue. Revenue in the three and six months ended October 1, 2000 was \$824 million and \$1.687 billion, respectively, compared to \$768 million and \$1.521 billion, respectively, for the corresponding periods in fiscal year 2000. The increase in revenue for the three and six month periods primarily reflected increased revenue from sales of high-end hard disk drives. The increase in revenue in the six month period also reflected increased revenue from sales of desktop hard disk drives.

Desktop hard disk drive revenue in the three and six months ended October 1, 2000 was \$656 million and \$1.331 billion, respectively, compared to \$661 million

and \$1.298 billion, respectively, for the corresponding periods in fiscal year 2000. Desktop hard disk drive shipments reached a record high in the second quarter of fiscal year 2001 reflecting strong demand in the desktop market. However, intense pricing pressures resulted in lower average unit prices, resulting in decreased revenue in the three month period and a moderate increase in revenue in the six month period.

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High-end hard disk drive revenue in the three and six months ended October 1, 2000 was \$168 million and \$357 million, respectively, compared to \$107 million and \$222 million, respectively, for the corresponding periods in fiscal year 2000. The increase in revenue reflected increased shipments as a result of strong demand, particularly from computer equipment manufacturers, as HDDG transitioned to new high performance products, as well as a mix shift toward higher capacity products which carry higher average unit prices.

Sales to the top five customers in the three and six months ended October 1, 2000 represented 52% and 50% of revenue, respectively, compared to 51% and 49% of revenue, respectively, in the corresponding periods in fiscal year 2000. These amounts reflected a retroactive combination of the sales to Ingram Micro and Electronic Resources as a result of their merger in July 1999. Sales to Dell Computer were 14% and 13% of revenue in the three and six months ended October 1, 2000, respectively, compared to 10% and less than 10% of revenue in the three and six months ended September 26, 1999, respectively. Sales to Compaq were 13% and 11% of revenue in the three and six months ended October 1, 2000, respectively, compared to less than 10% of revenue in the corresponding periods of fiscal year 2000. Sales to Ingram Micro were less than 10% of revenue in the three and six months ended October 1, 2000, compared to 13% and less than 10% of revenue in the three and six months ended September 26, 1999, respectively, including sales to Electronic Resources. Sales to Hewlett-Packard were 11% and less than 10% of revenue in the three and six months ended October 1, 2000, respectively, compared to 10% and 12% of revenue in the three and six months ended September 26, 1999, respectively.

Sales to computer equipment manufacturers and distribution channel customers were 67% and 33% of revenue, respectively, in the three months ended October 1, 2000, compared to 57% and 43% of revenue, respectively, in the three months ended September 26, 1999. For the six months ended October 1, 2000, computer equipment manufacturers and distribution channel sales were 65% and 35% of revenue, respectively, compared to 56% and 44% of revenue, respectively, for the corresponding period of fiscal year 2000.

Gross Margin Rate. The gross margin rate in the three months ended October 1, 2000 increased to 10.1% from -4.5% in the three months ended September 26, 1999. The gross margin rate for the first six months of fiscal year 2001 was 12.1%, compared to -0.4% in the corresponding period of fiscal year 2000. The gross margin rate in the three and six month periods of fiscal year 2001 reflected the impact of a \$15.8 million special charge benefit. The benefit was primarily due to negotiated lease cancellations and reduced severance and benefits due to the redeployment of employees. The gross margin excluding the impact of the benefit was 8.2% and 11.1% in the three and six month periods ended October 1, 2000. The gross margin rate in the three and six month periods of fiscal year 2000 reflected the impact of a \$57.1 million special charge related to HDDG's strategy to modify the hard disk drive business to more closely align product development and the business's operating model with the requirements of the rapidly growing low-cost PC market. The gross margin rate excluding the impact of the charge was 2.9% and 3.3% in the three and six month periods ended September 26, 1999.

The desktop gross margin rate for the three and six months ended October 1, 2000 was 5.4% and 8.4%, respectively, compared to -8.6% and -3.7% for the corresponding periods in fiscal year 2000. Excluding the desktop portion of the special charge benefit of \$15.5 million in fiscal year 2001, the gross margin rate was 3.0% and 7.2% for the three and six month periods ended October 1, 2000. Excluding the desktop portion of the special charge of \$51.4 million in fiscal year 2000, the gross margin rate was -0.8% and 0.3% for the three and six month periods ended September 26, 1999. Excluding the impact of the benefit and charge, the increase in gross margin rate reflected the transition to new lower cost, higher margin products in an environment characterized by continued competitive pricing pressures.

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The high-end gross margin rate for the three and six months ended October 1, 2000 was 28.4% and 25.9%, respectively, compared to 20.6% and 18.5% for the corresponding periods in fiscal year 2000. Excluding the high-end portion of the special charge benefit of \$0.3 million in fiscal year 2001, the gross margin rate was 28.2% and 25.8% in the three and six month periods ended October 1, 2000. Excluding the high-end portion of the special charge of \$5.7 million in fiscal year 2000, the gross margin rate was 25.9% and 21.1% in the three and six month periods ended September 26, 1999. Excluding the impact of the benefit and charge, the increase in the gross margin rate reflected higher sales volumes, the transition to new high performance products and the mix shift towards higher capacity, higher margin products.

Research and Development Expenses. Research and development expenses in the three and six months ended October 1, 2000, were \$60 million, or 7.3% of revenue, and \$118 million, or 7% of revenue, respectively, compared to \$62 million, or 8.1% of revenue, and \$125 million, or 8.2% of revenue, respectively, in the corresponding periods of fiscal year 2000. The decrease in research and development expenses for the three and six month periods reflected cost reductions associated with the special charge taken in the second quarter of fiscal year 2000. We expect the amount of research and development expenses to increase in the third quarter of fiscal year 2001, primarily as a result of next generation drive pre-production builds.

Sales and Marketing Expenses. Sales and marketing expenses in the three and six months ended October 1, 2000, were \$24 million, or 2.9% of revenue, and \$52 million, or 3.1% of revenue, respectively, compared to \$29 million, or 3.8% of revenue, and \$57 million, or 3.7% of revenue, respectively, in the corresponding periods of fiscal year 2000. The decrease in sales and marketing expenses for the three and six month periods primarily reflected decreased advertising.

General and Administrative Expenses. General and administrative expenses in the three and six months ended October 1, 2000, were \$16 million, or 2% of revenue, and \$33 million, or 1.9% of revenue, respectively, compared to \$15 million, or 2% of revenue, and \$30 million, or 2% of revenue, respectively, in the corresponding periods of fiscal year 2000. The increase in general and administrative expenses for the three and six month periods reflected an increase in human resource spending in support of change management, process reengineering and retention.

Special Charge. During the second quarter of fiscal year 2000, HDDG recorded a special charge of \$59.4 million. The charge reflected HDDG's strategy to modify the hard disk drive business to more closely align product development and the business' operating model with the requirements of the rapidly growing low-cost PC market. The special charge was associated primarily with streamlining HDDG's logistics model in order to create a faster and more flexible fulfillment system, changes in customer service strategy and consolidation of certain product development programs.

The special charge consisted of \$26.4 million related to facilities costs, \$13.2 million in asset write-offs related to streamlining the global logistics model and changes in customer service strategy, \$7.8 million in severance and benefits for terminated employees, and approximately \$12 million in other costs associated with the plan.

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HDDG is proceeding according to plan and expects to realize more than \$100 million in cost savings per year, beginning in fiscal year 2001. The majority of the savings are expected in cost of revenue as a result of a more efficient distribution system and reduced customer service costs, with the remaining savings in research and development, as a result of the consolidation of product development programs. As compared to fiscal year 2000, HDDG expects operating expenses to be relatively flat in fiscal year 2001, with increased investments in disk drive and other storage products, primarily reflected in research and development, offsetting the operating cost savings resulting from the special charge. These expectations are forward-looking statements and actual results may differ.

In the second quarter of fiscal year 2001, HDDG reversed \$15.9 million as a special charge benefit on the incomes statement. This reversal was primarily due to negotiated lease cancellations and reduced severance and benefits due to attrition and redeployment of certain employees. In addition, fixed assets that were intended to be written-off are now being utilized elsewhere in the organization as a result of technology and product roadmap plans.

Interest and Other Income/Expense. Net interest and other income for the three and six months ended October 1, 2000 were \$4.6 million and \$10.4 million, respectively, compared to net interest and other income of \$1 million and \$4.6 million, respectively, for the corresponding periods of fiscal year 2000. The increase reflected increased interest income as a result of a higher average cash balance and an increase in gain on currency translation.

Income Taxes. HDDG recorded a tax benefit of approximately \$4 million and a tax provision of approximately \$4 million for the three and six months ended October 1, 2000, respectively, for effective benefit and provision rates of 32%, as compared to an effective benefit rate of 41% for the corresponding periods in fiscal year 2000. The difference in rates is primarily attributable to pre-tax profits in the current year compared to pre-tax losses in the prior year.

Liquidity and Capital Resources Cash, cash equivalents and marketable securities were \$492 million at October 1, 2000 compared to \$612 million at March 31, 2000. HDDG used cash in the six months ended October 1, 2000 to purchase \$95 million of treasury stock, as discussed below. Other uses of cash included approximately \$14 million for investments in property and equipment and \$14 million in equity securities. Cash used in operating activities was \$66 million, primarily reflecting net income of \$8 million and a decrease in

accounts receivable, offset by decreases in accounts payable, income taxes payable and an increase in inventories. Other sources of cash were \$79 million in proceeds from factoring and the issuance of common stock.

HDDG has an asset securitization program with Capital Factors Inc, under which we sell our eligible accounts receivable on a with recourse basis. At October 1, 2000, \$70 million of accounts receivable were securitized under the program and included in our accounts receivable balance, the related credit was recorded as other liabilities.

During fiscal year 2000, the Board of Directors authorized Quantum to repurchase up to \$700 million of its common stocks in open market or private transactions. Of the total repurchase authorization, \$600 million was authorized for repurchase of either Quantum, DSSG or HDDG common stock. An additional \$100 million was authorized for repurchase of HDDG common stock. Under these authorizations, as of October 1, 2000, Quantum had repurchased a total of 3.9 million shares of Quantum common stock, 29.2 million shares of DSSG common stock and 13.5 million shares of HDDG common stock for a combined total of \$566 million. During the first six

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months of fiscal year 2001, Quantum repurchased 13.5 million shares of DSSG common stock and 10 million shares of HDDG common stock for a combined total of \$241 million.

In April 2000, Quantum entered into two new unsecured senior credit facilities, each providing a \$187.5 million revolving credit line and expiring in April 2001 and April 2003, respectively. At Quantum's option, borrowings under the revolving credit lines bear interest at either the London interbank offered rate or a base rate, plus a margin determined by a leverage ratio with option periods of one to six months. At October 1, 2000, there were no outstanding balances drawn on these lines.

HDDG expects to spend approximately \$38 million in fiscal year 2001 for capital equipment and leasehold improvements. These capital expenditures will support the development and introduction of new disk drive products.

HDDG believes that its existing capital resources, including the credit facilities and any cash generated from operations, will be sufficient to meet all currently planned expenditures and sustain operations for the next 12 months. However, this belief assumes that operating results and cash flow from operations will meet HDDG's expectations.

In the future, Quantum may seek to raise cash through the issuance of debt or equity securities. There can be no assurance that such financing would be available on terms favorable to Quantum, if at all.

Trends and Uncertainties Relating to the Hard Disk Drive Group

Holders of HDDG stock remain stockholders of Quantum Corporation, which, prior to the completion of the merger of HDDG and Maxtor, includes common stock of DSSG, and, therefore, financial effects on DSSG could adversely affect HDDG.

Holders of HDDG stock and DSSG stock are stockholders of a single company. HDDG and DSSG are not separate legal entities. As a result, stockholders will continue to be subject to all of the risks of an investment in Quantum and all of its businesses, assets and liabilities. The issuance of the HDDG stock and the DSSG stock and the allocation of assets and liabilities and stockholders' equity between HDDG and DSSG did not result in a distribution or spin-off to stockholders of any Quantum assets or liabilities and did not affect ownership of our assets or responsibility for our liabilities or those of our subsidiaries. The assets we attribute to one group could be subject to the liabilities of the other group, whether such liabilities arise from lawsuits, contracts or indebtedness that we attribute to the other group. If we are unable to satisfy one group's liabilities out of the assets we attribute to it, we may be required to satisfy those liabilities with assets we attribute to the other group.

Financial effects from one group that affect our consolidated results of operations or financial condition could, if significant, affect the results of operations or financial condition of the other group and the market price of the tracking stock relating to the other group. In addition, net losses of either group and dividends and distributions on, or repurchases of, either class of tracking stock or repurchases of preferred stock at a price per share greater than par value will reduce the funds we can pay on each class of tracking stock under Delaware law. For these reasons, you should read our consolidated financial information with the financial information we provide for each group.

If the contemplated combination of the HDDG business with Maxtor is not successfully completed, this could have a negative impact on Quantum's results of operations.

Though Quantum has publicly announced that it currently intends to combine its

HDDG business with Maxtor, the transaction remains subject to the approval of Maxtor and Quantum stockholders, expiration or termination of the applicable Hart-Scott-Rodino waiting periods, approval by the European regulatory authorities, and other customary conditions. If the transaction is not consummated, Quantum's results of operations could be negatively impacted due to, among other things, market, customer and employee perception of the terminated transaction.

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HDDG's operating results depend on new product introductions, which may not be successful

To compete effectively, HDDG must frequently introduce new hard disk drives. HDDG cannot assure you that:

- . it will successfully or timely develop or market any new hard disk drives in response to technological changes or evolving industry standards;
- . it will not experience technical or other difficulties that could delay or prevent the successful development, introduction or marketing of new hard disk drives;
- . it will successfully qualify new hard disk drives, particularly high-end disk drives, with HDDG's customers by meeting customer performance and quality specifications. A successful and timely customer qualification must occur before customers will place large product orders;
- . it will quickly achieve high volume production of new hard disk drives; or
- . its new products will achieve market acceptance.

These risks are magnified because HDDG expects technological changes, short product life cycles and intense competitive pressures to result in declining sales and gross margins on its current generation products.

HDDG's quarterly operating results could fluctuate significantly and past quarterly operating results should not be used to predict future performance

HDDG's quarterly operating results have fluctuated significantly in the past and may fluctuate significantly in the future. As a result, you should not use HDDG's past quarterly operating results to predict future performance. Quarterly operating results could be adversely affected by:

- . the ability of MKE, HDDG's exclusive manufacturer, to quickly achieve high volume production of HDDG's hard disk drives;
- . customers canceling, deferring or rescheduling significant orders;
- . returns by customers of unsold hard disk drives for credit;
- . decline in PC demand; or
- . failure to complete shipments in the last month of a quarter during which a substantial portion of HDDG's products are typically shipped.

HDDG's prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard disk drives

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End-user demand for the computer systems that contain HDDG's hard disk drives has historically been subject to rapid and unpredictable fluctuations. As a result, the hard disk drive market tends to experience periods of excess capacity, which typically lead to intense price competition. If intense price competition occurs, HDDG may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in the second quarter of fiscal year 2001, as a result of oversupply in the desktop hard disk drive market, aggressive pricing and corresponding margin reductions materially adversely impacted HDDG's operating results.

Growth of the lower priced PC markets is putting downward pressure on HDDG's desktop hard disk drive prices

The growth of the lower priced PC market has led to a shift toward lower priced desktop hard disk drives. HDDG expects the trend toward lower prices on hard disk drives to continue. If HDDG is unable to lower the cost of its desktop hard disk drives accordingly, operating results could be materially adversely affected.

Intense competition in the desktop and high-end hard disk drive market could adversely impact HDDG's operating results

In the desktop hard disk drive market, HDDG's primary competitors are Fujitsu Limited, IBM, Maxtor Corporation, Samsung Electronics Co., Ltd., Seagate Technologies, Inc. and Western Digital Corporation. The desktop hard disk drive market is characterized by more competitiveness than that seen in the computer industry in general. HDDG's operating results and competitive position could be negatively impacted by the introduction of competitive products with higher performance, higher reliability and/or lower cost than HDDG's products. For example, in the first half of fiscal year 2000, certain competitors reduced prices for their products significantly. As a result, HDDG's operating results were materially adversely affected.

In the high-end hard disk drive market, HDDG's primary competitors are Fujitsu, Hitachi, IBM and Seagate. Currently, Seagate and IBM have the largest market share for high-end hard disk drives.

A majority of sales come from a few customers that have no minimum or long-term purchase commitments

HDDG's sales are concentrated with a few customers. Customers are not obligated to purchase any minimum product volume and HDDG's customer relationships are terminable at will. The loss of, or a significant change in demand from, one or more key HDDG customers could have a material adverse impact on HDDG's operating results.

Because HDDG depends on MKE for the manufacture of all hard disk drives, adverse material developments in this critical manufacturing relationship would adversely affect HDDG's operating results

HDDG's relationship with MKE is critical to the Hard Disk Drive group's operating results and overall business performance. HDDG's dependence on MKE includes the following principal risks:

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- . Quality and Delivery. HDDG relies on MKE to quickly achieve volume production of new hard disk drives at a competitive cost, to meet HDDG's stringent quality requirements and to respond quickly to changing product delivery schedules. Failure of MKE to satisfy these requirements could have a material adverse impact on HDDG's operating results.
- . Purchase Forecasts. MKE's production schedule is based on HDDG's forecasts of its purchase requirements, and HDDG has limited rights to modify short-term purchase orders. The failure of HDDG to accurately forecast its requirements or successfully adjust MKE's production schedule could lead to inventory shortages or surpluses.
- . Pricing. HDDG negotiates pricing arrangements with MKE on a quarterly basis. Any failure to reach competitive pricing arrangements would have a material adverse impact on HDDG's operating results.
- . Capital Commitment. HDDG's future growth will require that MKE continue to devote substantial financial resources to property, plant and equipment to support the manufacture of HDDG's products.
- . Manufacturing Capacity. If MKE is unable or unwilling to meet HDDG's manufacturing requirements, an alternative manufacturing source may not be available in the near term.

MKE depends on a limited number of component and sub-assembly suppliers and component shortages and quality problems or delays from these suppliers could result in increased costs and reduced sales

MKE depends on a limited number of qualified suppliers for components and sub-assemblies, including recording heads, media and integrated circuits, all of which are essential to the manufacture of HDDG's hard disk drives. MKE may qualify only a single source for certain components and sub-assemblies, which can magnify the risk of component shortages. Component shortages have constrained HDDG's sales growth in the past, and HDDG believes that it will periodically experience component shortages in the future. If MKE experiences quality problems with its component suppliers, HDDG's hard disk drive shipments could be significantly delayed or costs could be significantly increased.

Unexpected warranty costs could have a material adverse impact on operating results

HDDG warrants its products against defects for a period of one to five years. Actual warranty costs could have a material adverse impact on HDDG's operating results if the actual unit failure rate or unit repair costs are greater than those for which HDDG established a warranty accrual.

Third party infringement claims could result in substantial liability and

significant costs

From time to time, third parties allege HDDG's infringement of and need for a license under their patented or other proprietary technology. For example, in August 1998 Quantum was named as one of several defendants in a patent infringement lawsuit. The plaintiff, Papst Licensing GmbH, owns at least 24 U.S. patents, which it asserts that HDDG has infringed. In fiscal year 2000, Discovision

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Associates brought some of its patents to HDDG's attention. Adverse resolution of the Papst or any other third party infringement claim could subject HDDG to substantial liabilities and require it to refrain from manufacturing and selling certain products. HDDG cannot assure you that licenses to any technology owned by Papst or any other third party alleging infringement could be obtained on commercially reasonable terms, or at all. In addition, the costs of litigation could be substantial, regardless of the outcome.

HDDG's foreign manufacturing costs could be adversely impacted by fluctuations in currency exchange rates

MKE generally purchases manufacturing components at prices denominated in U.S. dollars. However, significant increases in currency exchange rates against the U.S. dollar could increase MKE's manufacturing costs and could result in higher product prices and/or declining margins for HDDG's products.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in Quantum's Annual Report on Form 10-K for the year ended March 31, 2000.

HDDG is exposed to equity price risk on its investment in TiVo, Inc. common stock. HDDG does not attempt to reduce or eliminate its market exposure on this security. HDDG entered into a strategic alliance with TiVo in fiscal year 1999 to supply hard disk drives utilizing Quantum's QuickView technology for integration into TiVo's Personal Video Recorder. At October 1, 2000, the fair market value of HDDG's investment was approximately \$17 million. As TiVo is a relatively new company and has introduced a new product in the consumer electronics market, HDDG does not believe it is possible to reasonably estimate any future price movement of TiVo common stock.

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QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

The information contained in Note 7 of the Notes to Condensed Consolidated Financial Statements and Note 6 of the Notes to Condensed Combined Financial Statements of the Hard Disk Drive group is incorporated into this Part II, Item 1 by reference.

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 2000 Annual Meeting of Stockholders was held on August 22, 2000 to consider and vote on proposals to elect management's candidates for the Board of Directors, to ratify the appointment of Ernst & Young LLP as Quantum's independent auditors for the fiscal year ending March 31, 2001 and to approve and ratify the adoption of the Annual Incentive Plan for Quantum's Chief Executive Officer.

The stockholders elected each of management's candidates for the Board of Directors. The votes were as follows:

	For ---	Withheld Authority -----
Stephen M. Berkley	205,410,227	3,528,222

David A. Brown	205,399,774	3,538,675
Michael A. Brown	205,171,245	3,767,204
Robert J. Casale	207,085,109	1,853,340
Edward M. Esber, Jr.	207,078,203	1,860,246
Gregory W. Slayton	207,074,526	1,863,923

The stockholders ratified the appointment of Ernst & Young LLP as Quantum's independent auditors for the fiscal year ending March 31, 2001. The number of votes "For" were 208,275,564; the number of votes "Against" were 385,379; the number of votes "Abstain" were 277,506.

The stockholders also approved and ratified the adoption of the Annual Incentive Plan for Quantum's Chief Executive Officer. The number of votes "For" were 197,787,584; the number of votes "Against" were 9,450,553; and the number of votes "Abstain" were 1,700,312.

Item 5. Other information - Not Applicable

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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.

On October 13, 2000, Quantum filed a Form 8-K reporting that the Company entered into a definitive agreement with Maxtor Corporation to combine Maxtor and HDDG in an all-stock transaction. The merger agreement envisages that HDDG's stockholders will receive 1.52 shares of Maxtor common stock for every share of HDDG common stock they own. The transaction, which was unanimously approved by the Boards of Directors of both companies, is expected to be completed in early calendar 2001.

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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: November 14, 2000

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	Exhibit
10.1	AMENDED AND RESTATED PARTICIPATION AGREEMENT, dated July 12, 2000, among Registrant, as Lessee, Selco Service Corporation, as Lessor and as a Participant, The Bank of Nova Scotia, Keybank National Association and Union Bank of California, N.A., as Participants, and The Bank of Nova Scotia, as Agent
10.2	AMENDED AND RESTATED MASTER LEASE, dated July 12, 2000, between Selco Service Corporation, as the Lessor and Registrant, as the Lessee
27.1	Financial Data Schedule

AMENDED AND RESTATED
PARTICIPATION AGREEMENT

dated as of July 12, 2000

among

QUANTUM CORPORATION,
as Lessee

SELCO SERVICE CORPORATION,
as Lessor and as a Participant,

THE BANK OF NOVA SCOTIA,
KEYBANK NATIONAL ASSOCIATION AND
UNION BANK OF CALIFORNIA, N.A.,
as Participants,

and

THE BANK OF NOVA SCOTIA,
as Agent

Specialty Storage Product Group Facilities

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AMENDED AND RESTATED PARTICIPATION AGREEMENT

THIS AMENDED AND RESTATED PARTICIPATION AGREEMENT, dated as of July 12, 2000 (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"); SELCO SERVICE CORPORATION., an Ohio corporation, as Lessor (together with its permitted successors and assigns, the "Lessor") and as a Participant; THE BANK OF NOVA SCOTIA, KEYBANK NATIONAL ASSOCIATION and UNION BANK OF CALIFORNIA, N.A., as Participants (together with their permitted successors and assigns and SELCO SERVICE CORPORATION, in its capacity as a Participant, each a "Participant" and collectively the "Participants"); and THE BANK OF NOVA SCOTIA, as Agent (in such capacity, together with its successors in such capacity, the "Agent") for the Participants.

PRELIMINARY STATEMENT

A. In accordance with the terms of the Participation Agreement dated as of August 22, 1997, among Lessee, Lease Plan North America, Inc., as lessor and a participant (the "Original Lessor"), ABN AMRO Bank N.V., San Francisco International Branch, as a participant, and ABN AMRO Bank N.V., San Francisco

International Branch, as agent (the "Original Agent"), as amended by the First

Amendment to Participation Agreement dated as of June 26, 1998, the Second
Amendment to Participation Agreement dated as of December 18, 1998, the Third
Amendment to Participation Agreement dated as of August 31, 1999, and the Fourth
Amendment to Participation Agreement dated as of November 8, 1999 (said
participation agreement, as so amended, the "Original Participation Agreement"),

and the lease and the other operative documents executed thereunder,

(i) the Original Lessor purchased certain parcels of land designated
by the Lessee located in Colorado Springs, Colorado;

(ii) using Advances from the Original Lessor, the Lessee, as
Construction Agent, built administration, manufacturing, design, research
and development and warehouse facilities on such parcels of land for the
Original Lessor, acquired certain items of Equipment to be used in
connection with such Improvements and leased, as Lessee, such Equipment,
Improvements and Land Interest from the Original Lessor; and

(iii) the Original Lessor obtained financing from the Participants 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.

B. The Lessee and the Participants have requested that the Original
Participation Agreement be amended in certain respects at the time the Lessor
acquires the Original Lessor's interests in the Land Interest, Improvements,
Fixtures and Equipment and its Participation Interest and certain Participants
acquire the Participation Interests of ABN AMRO Bank N.V., San Francisco
International Branch, and the Lessee, the Lessor, the Participants and the Agent
would like to amend the Original Participation Agreement upon the terms and
subject to the

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conditions set forth herein. For convenience of reference, the parties wish to
restate the Original Participation Agreement as so amended in its entirety.

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 hereby agree that the
Original Participation Agreement shall be amended and restated as of the date
hereof to read in its entirety 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

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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 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 (3) 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.

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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), and (v) 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 Actions on Restructuring Date. Notwithstanding anything to

the contrary in Section 3.4 or 3.5, on the Restructuring Date (a) certain

Participants shall make Advances as set forth on Schedule 3.6 in the aggregate

amount of \$300,000 for Transaction Expenses payable by the Lessee on the
Restructuring Date and (b) the Tranche A Participation Interests and the Tranche
B Participation Interests of The Bank of Nova Scotia and KeyBank National
Association shall be reallocated as set forth on Schedule I.

SECTION 3.7 Termination, Extension or Reduction of Participants'

Commitments. (a) The Lessor shall have the right, upon not less than three (3)

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 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 ninety (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

thirty (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

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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:

(i) 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;

(ii) on the date that is ninety (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;

(iii) the Agent and the Required Participants shall have received satisfactory evidence that the Expiration Date shall, after giving effect to any extension thereof which has become effective on or prior to such Extension Effective Date, occur on the Maturity Date as so extended; and

(iv) the Maturity Date shall not be extended for more than two (2) one-year periods pursuant to this Section 3.7(b).

(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 thirty

(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 Participation 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

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replacement shall be made in accordance with the provisions of Section 12 of

this Participation 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 Participation 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 plus the Applicable Margin, 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 plus the Applicable Margin, 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 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 (3) 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

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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 Participation 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 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 Participation Agreement, in Dollars and in immediately

available funds. The Agent shall distribute such payments to the Participants promptly upon receipt in like funds

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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 (3) 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 Participation 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.

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

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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 all of the Property in

connection with the Lessee's exercise of its Purchase Option under Section 20.1

of the Lease or a portion of the Property in connection with any exercise by the

Lessee of its Partial Purchase Option under Section 20.5 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 Participation
Agreement, the Lease or any other Operative Document to the contrary, the
Lessee, the Agent, the Participants and the Lessor 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

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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 Participation Agreement, 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 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;

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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 Participation 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 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;

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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 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

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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 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

FEEES

SECTION 4.1 Administrative Fee. The Lessee shall pay an administrative

fee (the "Administrative Fee") to the Agent for its own account as referred to

in, and at such times as provided in, the Fee Letter.

SECTION 4.2 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).

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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 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

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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.

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:

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(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 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 twenty-five (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.

(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 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,

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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 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.

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(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 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

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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 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 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

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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 twenty-five

(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 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 6.4 Conditions to Restructuring Date. The assignments of and amendments to the Operative Documents to take effect on the Restructuring Date are subject to satisfaction or waiver of the conditions precedent set forth on Schedule 6.4; provided, however, that the title insurance policies or commitments described in Part III.A. of Schedule 6.4 may include standard exceptions for rights or claims of parties in possession, easements or claims of easements, and discrepancies, conflicts in boundary lines, shortage in area, encroachments, and any facts which a correct survey would disclose and which are not shown by the public records, if not later than forty-five (45) days after the Restructuring Date, the Lessee delivers a current ALTA survey certified to the Lessor, the Participants and the title company in a form which will enable the title company to issue such title insurance policies without such standard exceptions or any new exceptions disclosed by such survey. The Lessee covenants to deliver to the Agent the survey and title insurance policies or commitments described in the proviso to the preceding sentence and any failure to deliver such items to the Agent may give rise to a Lease Event of Default under Section 17.1(d) of the Lease, but in no event shall the cure period provided by such section exceed thirty (30) days.

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:

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(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.

(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 Ohio 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 Ohio 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,

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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 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 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 Participation 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 54 State Street, Albany, New York 12207.

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(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 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).

(m) Equity Source. (i) The source of its 3.520838% minimum equity

investment in the Tranche C Participation Interest is full recourse debt the obligee of which is KeyBank National Association, 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

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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 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

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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.

(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

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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 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.

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(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.

(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 Participation 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 Participation 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,

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employment contracts or employee welfare or incentive plans to which the Lessee or any of the Lessee's Subsidiaries is a party, an 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 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

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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, 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

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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 -----

Participation 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.

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

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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 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 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 Administrative Fee, (iii) all Transaction Expenses reasonably incurred by the Lessee, the Agent 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, (iv) all Transaction Expenses incurred by the Lessor, the Lessee 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 (v) 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, 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. So long as this Participation

 Agreement is in effect, the Lessee shall, and shall (except in the case of the Lessee's reporting covenants) cause each Subsidiary, to::

(a) Financial Statements. Deliver to the Agent and each Participant,

 in form and detail satisfactory to the Agent and the Required Participants:

(i) as soon as available, but in any event within (A) ninety (90) days after the end of each fiscal year of the Lessee, or, (B) if the Lessee has been granted an extension by the Securities and Exchange Commission permitting the late filing by the Lessee of any annual report on form 10-K, the earlier of (x) 120 days after the end of each fiscal year of the Lessee or (y) the last day of any such extension, a consolidated balance sheet of the Lessee and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing, which report and opinion shall be

prepared in accordance with GAAP and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any qualifications and exceptions not reasonably acceptable to the Required Participants;

(ii) as soon as available, but in any event within (A) forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year of the Lessee, or, (B) if the Lessee has been granted an extension by the Securities and Exchange Commission permitting the late filing by the Lessee of any quarterly report on form 10-Q, the earlier of (x) sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of the Lessee or (y) the last day of any such extension, a consolidated balance sheet of the Lessee and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income and cash flows for such fiscal quarter and for the portion of the Lessee's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of the Lessee as fairly presenting the financial condition, results of operations and cash flows of the Lessee and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes; and

(iii) Reports required to be delivered pursuant to clauses (i) -----
and (ii) of this Section 10.1(a) shall be deemed to have been delivered on -----
the date on which the Lessee posts such reports on the Lessee's website on
the Internet at the website address listed on Schedule III hereof or when -----
such report is posted on the Securities and Exchange Commission's website
at www.sec.gov.; provided that (A) the Lessee shall deliver paper copies of -----
the reports referred to in such clauses (i) and (ii) of this Section -----
10.1(a) to the Agent or any Participant who requests the Lessee to deliver -----
such paper copies until written request to cease delivering paper copies is
given by the Agent or such Participant, (B) the Lessee shall notify the
Agent and the Participants of the posting of any such new material, and (C)
in every instance the Lessee shall provide paper copies of the Compliance
Certificates required by clause (i) of Section 10.1(b) to the Agent and -----
each Participant. Except for the Compliance Certificates referred to in
such clause (i) of Section 10.1(b), the Agent shall have no obligation to -----
request the delivery or to maintain copies of the reports referred to in
clauses (i) and (ii) of this Section 10.1(a), and in any event shall have -----
no responsibility to monitor compliance by the Lessee with any such request
for delivery, and each Participant shall be solely responsible for
requesting delivery to it or maintaining its copies of such reports.

(b) Certificates, Notices and Other Information. Deliver to the -----
Agent and each Participant, in form and detail satisfactory to the Agent and the
Required Participants:

(i) concurrently with the delivery of the financial statements
referred to in clauses (i) and (ii) of Section 10.1(a), a duly completed -----
Compliance Certificate signed by a Responsible Officer of the Lessee;

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(ii) promptly after the same are available, copies of each
annual report, proxy or financial statement or other report or
communication sent to the stockholders of the Lessee, and copies of all
annual, regular, periodic and special reports and registration statements
which the Lessee may file or be required to file with the Securities and
Exchange Commission under Sections 13 or 15(d) of the Securities Exchange
Act of 1934, and not otherwise required to be delivered to the Agent
pursuant hereto;

(iii) promptly after the occurrence thereof, notice of any
Default or Event of Default;

(iv) notice of any change in accounting policies or financial
reporting practices by the Lessee or any Subsidiary that is material to the
Lessee or to the Lessee and its Subsidiaries on a consolidated basis;

(v) promptly after the commencement thereof, notice of any
litigation, investigation or proceeding affecting the Lessee where the
reasonably expected damages to the Lessee exceed the Threshold Amount, or
in which injunctive relief or similar relief is sought, which relief, if
granted, has a Material Adverse Effect;

(vi) promptly after the occurrence thereof, notice of any
Reportable Event with respect to any Plan or the intent to terminate any
Plan, or the institution of proceedings or the taking or expected taking of
any other action to terminate any Plan or withdraw from any Plan;

(vii) promptly after the occurrence thereof, notice of any
Material Adverse Effect; and

(viii) promptly, such other data and information as from time to
time may be reasonably requested by the Agent, or, through the Agent or any
Participant. Notwithstanding any provision of this Participation 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 (A) constitutes non-financial trade secrets or non-
financial proprietary information, or (B) 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.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Lessee setting forth details of the occurrence referred to therein and stating what action the Lessee has taken and proposes to take with respect thereto.

(c) Payment of Taxes. Pay and discharge when due all material taxes, assessments, and governmental charges, except for any such tax, assessment, charge, or levy

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which is an Ordinary Course Lien under subsection (b) of the definition of such term and except as otherwise provided in Section 13 hereof or Article XIII of the Lease.

(d) Preservation of Existence. Preserve and maintain its existence, licenses, permits, rights, franchises and privileges necessary or desirable in the normal conduct of its business, except (i) as permitted by Section 10.1(n), or (ii) where failure to do so does not have a Material Adverse Effect.

(e) Maintenance of Properties. Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good order and condition, subject to wear and tear in the ordinary course of business, and not permit any waste of its properties, except where failure to do so would not reasonably be expected to have a Material Adverse Effect..

(f) Maintenance of Insurance. Maintain liability and casualty insurance with responsible insurance companies satisfactory to the Agent in such amounts and against such risks as is customary for similarly situated businesses.

(g) Compliance with Requirements of Law. (i) Comply with all Requirements of Law, noncompliance with which has a Material Adverse Effect; and (ii) conduct its operations and keep and maintain its property in material compliance with all Environmental Laws.

(h) Inspection Rights. At any time during regular business hours and as often as reasonably requested upon reasonable notice, permit the Agent or any Participant, or any employee, agent or representative thereof, to examine, audit and make copies and abstracts from the Lessee's records and books of account and to visit and inspect its properties and to discuss its affairs, finances and accounts with any of its officers and key employees, and, upon request, furnish promptly to the Agent or any Participant true copies of all financial information and internal management reports made available to their senior management.

(i) Keeping of Records and Books of Account. Keep adequate records and books of account reflecting all financial transactions in conformity with GAAP, consistently applied, and in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Lessee or any applicable Subsidiary.

(j) Compliance with ERISA. Cause, and cause each of its ERISA Affiliates to: (i) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (ii) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (iii) make all required contributions to any Plan subject to Section 412 of the Code.

(k) Compliance With Agreements. Promptly and fully comply with all Contractual Obligations to which any one or more of them is a party, except for any such Contractual Obligations (i) the nonperformance of which would not cause a Default or Event of Default, (ii) then being contested by any of them in good faith by appropriate proceedings, or

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(iii) if the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

(l) Indebtedness. Create, incur, assume or suffer to exist any

Indebtedness, except for the following ("Permitted Indebtedness"):

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

(ii) Indebtedness outstanding on the date hereof and listed on Schedule 10.1 and any refinancings, refundings, renewals or extensions

thereof, provided that the amount of such Indebtedness is not increased at

the time of such refinancing, refunding, renewal or extension except by an amount equal to the premium or other amount paid, and fees and expenses incurred, in connection with such refinancing and by an amount equal to any utilized commitments thereunder;

(iii) Ordinary Course Indebtedness;

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

(v) Indebtedness of the Lessee under any letter of credit facility (a "Permitted LC Agreement"), provided that (A) the only credit

extended to the Lessee pursuant to any Permitted 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 all Permitted LC Agreements, plus the aggregate amount of all unremedied drawings under such letters of

credit, does not exceed \$85,000,000; and (C) the Indebtedness of the Lessee under any Permitted LC Agreement is at all times either unsecured or secured by Liens permitted pursuant to Section 10.1(m);

(vi) 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, improvements, fixtures, equipment or other fixed assets (together with attachments, ascensions, additions, "soft costs" and proceeds thereof), 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;

(vii) Indebtedness of the Lessee and any of its Subsidiaries under Synthetic Lease Obligations;

(viii) Indebtedness of the Lessee and its Subsidiaries under initial or successive refinancings, refundings, renewals or extensions of any Indebtedness permitted by clauses (v), (vi) and (vii) above, provided

that the amount of such Indebtedness is not

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increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to the premium or other amount paid, and fees and expenses incurred, in connection with such refinancing;

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

(x) 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;

(xi) Subordinated Indebtedness of the Lessee to any Person, provided that (A) such Indebtedness contains subordination provisions no less favorable to the Agent and the Participants than those set forth in 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) does not exceed \$700,000,000 at any time; and

(xii) Indebtedness not exceeding, in the aggregate at any time, ten percent (10%) of the total consolidated assets of the Lessee and its Subsidiaries determined as of the end of the most recent fiscal quarter.

(m) Liens. Incur, assume or suffer to exist, any Lien upon any of

its property, assets or revenues, whether now owned or hereafter acquired,
except for the following ("Permitted Liens"):

(i) Liens in favor of any of the Agent or any Participant
securing the obligations of the Lessee under the Operative Documents;

(ii) Liens existing on the date hereof and listed on Schedule

10.1 and any renewals or extensions thereof, provided that the property

covered thereby is not increased and any renewal or extension of the
obligations secured or benefited thereby is permitted by Section 10.1(l);

(iii) Ordinary Course Liens;

(iv) Liens securing Investments which constitute Permitted
Investments under Section 10.1(p);

(v) Liens on cash or cash equivalents securing reimbursement
obligations of the Lessee under letters of credit (other than any letters
of credit issued under the Loan Documents) in an aggregate amount of all
such cash and cash equivalents not to exceed \$100,000,000;

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

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(vii) Liens on the property or assets of any corporation which
becomes a Subsidiary of the Lessee after the date of this Participation
Agreement, provided that (A) such Liens exist at the time such corporation

became a Subsidiary, and (B) such Liens were not created in contemplation
of such acquisition by the Lessee;

(viii) 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 (z) such rights do not secure any Indebtedness other than Permitted
Indebtedness;

(ix) Liens securing Indebtedness and any related obligations of
the Lessee or any of its Subsidiaries which constitutes Permitted
Indebtedness under clause (vii) of Section 10.1(l) (or refinancings of such

Indebtedness under clause (viii) of Section 10.1(l)), provided that such

Liens cover only those assets subject to Synthetic Lease Obligations
(together with accessions, additions, replacements and proceeds thereof);

(x) 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 a lessee or licensee under any such leases, subleases,
licenses or sublicenses;

(xi) Liens in favor of the Lenders in connection with the
letter of credit cash collateral account established in accordance with the
Loan Documents; and

(xii) Liens not otherwise permitted hereunder on the property or
assets of the Lessee and any of its Subsidiaries securing (A) borrowed
money Indebtedness, (B) all obligations of the Lessee arising other than in
connection with any securitization which are evidenced by bonds,
debentures, notes or other similar instruments, or (C) Indebtedness
consisting of letter of credit reimbursement obligations (including
pursuant to a Permitted LC Agreement), provided that, in each case, (x) 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 (y) such Liens do not
encumber current assets of the Lessee and its Subsidiaries in excess of
\$50,000,000.

(n) Fundamental Changes. Merge or consolidate with or into any Person

or liquidate, wind-up or dissolve itself, or permit or suffer any liquidation or

dissolution or sell all or substantially all of its assets, except that:

(i) any Subsidiary may merge with (A) the Lessee, provided

that the Lessee shall be the continuing or surviving corporation, (B) any one or more Subsidiaries,

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and (C) any joint venture, partnership or other Person, so long as such joint venture, partnership and other Person will, as a result of making such merger and all other contemporaneous related transactions, become a Subsidiary;

(ii) any Subsidiary may sell all or substantially all of its assets (upon voluntary liquidation or otherwise), to the Lessee or to another Subsidiary;

(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 may merge or consolidate with or into any other Person or sell all or substantially all of its assets to the extent such transaction is a Disposition otherwise permitted under Section 10.1(o)

or an Investment otherwise permitted under Section 10.1(p) and immediately

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

(o) Dispositions. Make any Dispositions, except:

(i) Ordinary Course Dispositions;

(ii) Dispositions permitted by Section 10.1(n);

(iii) Dispositions which constitute the making of or liquidation of Permitted Investments;

(iv) Dispositions of assets on commercially reasonable terms or accounts 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 Disposition is on commercially reasonable terms shall take into consideration any larger business transaction to which such particular Disposition is related); and

(v) Dispositions not otherwise permitted hereunder not exceeding twenty percent (20%) of Consolidated Tangible Net Worth for the four fiscal quarter period ending as of the end of the fiscal quarter immediately preceding the date of determination.

(p) Investments. Make any Investments, except for the following

("Permitted Investments"):

(i) Investments existing on March 31, 2000;

(ii) Ordinary Course Investments;

(iii) Investments permitted by Section 10.1(l) or Section

10.1(n);

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(iv) 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;

(v) 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 Consolidated Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination;

(vi) Investments of the Lessee and its Subsidiaries in Swap Contracts, provided that all such arrangements are entered into in

connection with bona fide hedging operations and not for speculation;

(vii) Investments by Quantum Technology Ventures (or any other Subsidiary of the Lessee with the primary purpose of making venture investments) and other Investments which the Lessee's Board of Directors determines to be strategic for the Lessee in an aggregate cost basis, at any time invested for all such entities and investments together, not to exceed the sum of (A) \$150,000,000 and (B) the aggregate gain or loss on such Investments previously made under this clause (vii); and

(viii) Investments not otherwise permitted hereunder, provided that the aggregate amount of such other Investments made after March 31, 2000 (less any return on any such Investments) does not exceed twenty percent (20%) of Consolidated Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination.

(g) Restricted Payments. Make any Restricted Payments, except as follows:

(i) the Lessee may pay dividends or other distributions payable solely in shares of capital stock of the Lessee or any Subsidiary or payable by a Subsidiary to the Lessee or to another Subsidiary;

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

(iii) the Lessee may make Restricted Payments in connection with or pursuant to any of its Employee Benefits Plans or in connection with the employment, termination or compensation of its employees, officers or directors;

(iv) the Lessee may make Restricted Payments with the Net Security Proceeds received from a substantially concurrent issuance of Equity Securities or capital stock or with its Equity Securities or capital stock or the Lessee may convert any Equity Securities in accordance with their terms into other Equity Securities;

(v) the Lessee may purchase Equity Securities pursuant to one or more stock repurchase programs, provided that (A) no Default or Event of Default shall have

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occurred and be continuing, and (B) after giving effect to any such repurchases the Lessee shall be in compliance with Section 10.1(v); and

(vi) 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 clause (ii) above) does not exceed five percent (5%) of Consolidated Tangible Net Worth as determined as of the fiscal quarter immediately preceding the date of determination.

(r) ERISA. At any time engage in a transaction which could be subject to Sections 4069 or 4212(c) of ERISA, or permit any Pension Plan to (i) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (ii) fail to comply with ERISA or any other applicable Requirements of Law; or (iii) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA), which, with respect to each event listed above, has a Material Adverse Effect.

(s) Change in Nature of Business. 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.

(t) Transactions with Affiliates. Enter into any transaction of any

kind with any Affiliate (other than transactions among the Lessee or any of its Subsidiaries and any Subsidiary) of the Lessee other than arm's-length transactions with Affiliates that are otherwise permitted hereunder.

(u) 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 Section 10.1(u); 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 Agent 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, subject to the other terms and provisions hereof, the Lessee may (A) (1) call for redemption of the entire outstanding amount of the Convertible Subordinated Debentures and, (2) to the extent such Convertible Subordinated Debentures are not converted prior to the redemption date, redeem up to thirty percent (30%) of any such outstanding Convertible Subordinated Debentures less the amount of Subordinated Debt purchased by the Lessee pursuant to clause

(B) (ii) of this Section 10.1(u), provided that (x) no Default or Event of

Default has occurred and is continuing or would result from such call for redemption or redemption and (y) the closing price of the common stock shall have exceeded one hundred twenty percent

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(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 Indenture governing the Convertible Subordinated Debentures (it being understood that the obligations of the Lessee under the Operative Documents shall at all times constitute "Designated Senior Indebtedness"); (B) (1) pay, prepay, redeem, purchase, defease or otherwise satisfy in any manner any Subordinated Debt, with the Net Security Proceeds from the substantially contemporaneous issuance of Equity Securities by the Lessee or in exchange for Equity Securities of the Lessee, and (2) otherwise purchase outstanding Subordinated Debt, provided that

the aggregate value of all such Subordinated Debt repurchased, together with the amount of all redemptions undertaken pursuant to clause (A) of this Section

10.1(u), does not at any time exceed thirty (30%) of the total amount of any

Convertible Subordinated Debentures outstanding as of March 31, 2000; and (C) the Lessee may convert, or honor a conversion request with respect to, any such Subordinated Debt into Equity Securities of the Lessee in accordance with the terms of, and pay any cash to holders of such Subordinated Debt in connection with, such a conversion solely to the extent representing the value of any fractional shares.

(v) Financial Covenants.

(i) Consolidated Tangible Net Worth. Permit Consolidated

Tangible Net Worth on the last day of any fiscal quarter (such date to be referred to herein as a "determination date"), commencing with the fiscal quarter ended March 31, 2000, to be less than the greater of (A) seventy-five percent (75%) of Consolidated Tangible Net Worth as of March 31, 2000, or (B) the sum of (1) an amount equal to seventy-five percent (75%) of Consolidated Tangible Net Worth as of March 31, 2000; plus (2) an amount

equal to seventy-five percent (75%) of the sum of positive Consolidated Net Income (ignoring any quarterly losses) for each fiscal quarter after the quarter ended March 31, 2000, through and including the quarter ending on the determination date; plus (3) an amount equal to seventy-five (75%) of

the Net Security Proceeds of all Equity Securities issued by the Lessee (excluding any issuance where the Net Security Proceeds to the Lessee therefor are less than \$10,000,000) during the period commencing on March 31, 2000 and ending on the determination date; plus (4) an amount equal to

seventy-five percent (75%) of the increase in the value of outstanding Equity Securities resulting, in accordance with GAAP, from any conversion of Convertible Subordinated Debentures into such Equity Securities; minus

(5) the lesser of (x) the aggregate amount paid by the to repurchase Equity Securities during the period commencing on March 31, 2000 and ending on the determination date and (y) \$200,000,000; and minus (6) the lesser of (x)

the aggregate amount of charges taken by the Lessee for In-Process Research & Development associated with Acquisitions during the period commencing on March 31, 2000 and ending on the determination date, and (y) \$100,000,000, provided that any such charges were taken by the Lessee during the quarter

in which any such Acquisition was completed.

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(ii) Minimum Quick Ratio. Permit the Quick Ratio determined as

of the last day of any fiscal quarter of the Lessee (commencing with the quarter ending March 31, 2000) to be less than 1.10:1.

(iii) Maximum Leverage Ratio. Permit the Leverage Ratio,

determined as of the last day of any fiscal quarter of the Lessee, commencing with the fiscal quarter ending March 31, 2000 (measured on a rolling four quarter basis for the four fiscal quarters ended), to be greater than 2.00:1.

(iv) Minimum Profitability. Suffer or permit there to exist, as

of the last day of any fiscal quarter, for the four fiscal quarters ending on such date, commencing with the fiscal quarter ending March 31, 2000, (A) any two fiscal quarters in which the aggregate negative Consolidated Net Income for such fiscal quarters exceeds five percent (5%) of Consolidated Tangible Net Worth as of such date, or (B) cumulative Consolidated Net Income for such four-quarter period of less than \$1.00. For purposes of calculating this covenant, charges for In-Process Research & Development associated with Acquisitions shall be excluded, provided that (x) any such

charges are taken during the quarter in which any such Acquisitions are completed, and (y) the aggregate amount of any such charges taken does not exceed \$100,000,000 during the term of this Participation Agreement.

(w) Appraisal. On or prior to the date that is not later than thirty

(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 with respect to such Property as of the projected Completion Date shall not exceed twenty-five (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.

(x) 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

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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 54 State Street, Albany, New York 12207, or if it shall change its name, identity or corporate structure.

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 Participation 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 Participation 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, but for this Participation 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

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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 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

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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 Participation 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 Participation

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 due under the Lease; 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 Participation 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

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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 Participation 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

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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 Participation 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

Participation 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 Participation

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.

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 Participation Agreement and the other Operative Documents, together with such powers as are reasonably incidental thereto. The provisions of the following Sections of this Participation 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.

- (vi) Section 14.6 - last sentence.

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

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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 Participation 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

(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.

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
Indemnatee, on an After Tax Basis, from and against, any and all Claims that may
be imposed on, incurred by or asserted against such Indemnatee (whether because
of action or omission by such Indemnatee or otherwise), whether or not such
Indemnatee shall also be indemnified as to any such Claim by any other Person
and whether or not 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

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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;

(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;

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(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 Indemnatee 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 Indemnatee 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 Indemnatee even if the
ordinary (but not gross) negligence of such Indemnatee 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 Indemnatee 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.

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 thirty (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

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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 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

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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 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

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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 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.

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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.

(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 Indemnatee, the Lessee shall do so within twenty (20) days after receipt by the Lessee of demand by such Indemnatee 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 Indemnatee 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

Indemnatee. 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 five percent (5%) or more of the payment as computed by the Indemnatee, in which case such fee shall be paid by the Indemnatee.

(c) Reports and Returns. 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 Indemnatee of such requirement and (except if such Indemnatee notifies the Lessee that such Indemnatee 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 Indemnatee, advise such Indemnatee of such fact and prepare such return, statement or report for filing by such Indemnatee 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 Indemnatee 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 Indemnatee shall, upon the Lessee's request and at the Lessee's expense, provide any data maintained by such Indemnatee (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 Indemnatee agrees to use its best efforts to send to the Lessee a copy of any written request or other notice that the Indemnatee 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 Indemnatee shall have any liability for failure to provide such copies.

(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

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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 two (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.

(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

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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 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

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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 W-8BEN or Form W-8ECI 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.

(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

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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.

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

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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 plus the Applicable Margin either (a) 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

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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 capital adequacy, 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 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 fifteen (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 Participant under this Participation 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 Participation 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 Participation 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 Participation 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

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implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Participation 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 Participation 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 Participation 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 Participation 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 Participation Agreement or any other Operative Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Participation 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 Participation 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 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 Participation 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 Participation 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

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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 Participation 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 Participation 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 Participation 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

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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 Participation 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 twenty

(20) days' notice to the Participants, the Lessor or the Lessee. If the Agent shall resign as Agent under this Participation 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 Participation Agreement. If no successor Agent has accepted appointment as Agent by the date which is twenty (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 Participation 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

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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 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 Participation 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;

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(ii) amend, modify, waive or supplement any of the provisions of Sections 3.6, 3.7 or 3.10 - 3.21 of this Participation 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, 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, 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 Participation Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof.

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

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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 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.

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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 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

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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.

SECTION 15.16 Effect on Original Participation Agreement. Effective upon

the Restructuring Date, all parties hereto agree that this Participation Agreement and Schedules I, II, III and V, Appendix I and Exhibit Q attached

hereto shall amend, restate in their entirety and replace, without notation, the Original Participation Agreement and Schedules I, II, III and V, Appendix I and

Exhibit Q attached thereto; provided, however, that with respect to the period

prior to the Restructuring Date nothing contained herein shall (i) operate as a waiver of any right, power or remedy of the Lessor, the Agent or any Participant under the Original Participation Agreement or any other Operative Document or (ii) extinguish or impair any obligations of the Lessee under the Original Participation Agreement or any other Operative Document except to the extent any such obligation is actually satisfied by Lessee; and provided, further, that all

Advances outstanding under the Original Participation Agreement shall remain outstanding and shall be deemed to have been made under this Participation Agreement on a pro rata basis by the Participants hereunder in accordance with their respective Participant Balances.

[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: _____
 Name:
 Title:

SELCO SERVICE CORPORATION., as Lessor

By: _____
 Name:
 Title:

THE BANK OF NOVA SCOTIA, as Agent

By: _____
 Name:
 Title:

THE BANK OF NOVA SCOTIA, as a Participant

By: _____
 Name:
 Title:

KEYBANK NATIONAL ASSOCIATION, as a Participant

By: _____
 Name:
 Title:

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SELCO SERVICE CORPORATION, as a Participant

By: _____
 Name:
 Title:

UNION BANK OF CALIFORNIA, N.A., as a Participant

By: _____
 Name:
 Title:

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SCHEDULE I

<TABLE>
 <CAPTION>

Participant -----	Commitments -----	Commitment Percentage -----
<S> THE BANK OF NOVA SCOTIA	<C> Tranche A Participation Interest:	<C> \$21,827,558.85 34.75%
	Tranche B Participation Interest:	\$ 2,474,385.66 3.94%
KEYBANK NATIONAL ASSOCIATION	Tranche A Participation Interest:	\$20,102,551.58 32.01%
	Tranche B Participation Interest:	\$ 1,988,164.44 3.17%
UNION BANK OF CALIFORNIA, N.A.	Tranche A Participation Interest:	\$12,507,900.46 19.92%

	Tranche B Participation Interest:	\$ 1,692,245.31	2.69%
SELCO SERVICE CORPORATION	Tranche C Participation Interest:	\$ 2,211,228.49	3.52%
	TOTAL COMMITMENT:	\$62,804,034.79	100.00%

</TABLE>

SCHEDULE II
PRICING GRID

<TABLE>
<CAPTION>

Applicable Margin in Basis Points per annum					
		Eurodollar Advances		Alternate Base Rate Advances	
Level	Leverage Ratio	Tranche A and B	Tranche C	Tranche A and B	Tranche C
<S>	<C>	<C>	<C>	<C>	<C>
1	*0.75:1	112.50	200.00	12.50	100.00
2	**0.75:1 but ***1.00:1	125.00	200.00	25.00	100.00
3	**1.00:1 but ***1.25:1	137.50	200.00	37.50	100.00
4	**1.25:1 but ***1.50:1	150.00	200.00	50.00	100.00
5	**1.50:1	175.00	200.00	75.00	100.00

</TABLE>

- * less than
- ** more than or equals to
- *** more than

EXPLANATION

- The Applicable Margin for each Eurodollar Rate Advance or Alternate Base Rate Advance will be based upon the Leverage Ratio as set forth in the most recent Compliance Certificate received by the Agent pursuant to clause (i) of Section 10.1(b) of the Participation Agreement; provided, however, that from July 12, 2000, until October, 19, 2000, the Applicable Margin shall be fixed as indicated for pricing level 3 set forth above.
- The Applicable Margin shall be in effect from the date the most recent Compliance Certificate is received by the Agent to but excluding the date the next Compliance Certificate is received.

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SCHEDULE III

Notice Information and Funding Offices

Lessee: QUANTUM CORPORATION
500 McCarthy Boulevard
Milpitas, California 95035

Attention: Lauren Halden, Assistant Treasurer

Telephone: (408) 894-4906
Facsimile: (408) 894-4562
Email: lauren.halden@quantum.com

Lessor: SELCO SERVICE CORPORATION
54 State Street
Albany, New York 12207

Attention: Donald Davis, Vice President

Telephone: (518) 486-8984
Facsimile: (518) 487-4635
Email:

III-1

Agent: THE BANK OF NOVA SCOTIA
580 California Street, Suite 2100
San Francisco, California 94104

Attention: Chris Osborn, Director

Telephone: (415) 986-1100
Facsimile: (415) 397-0791
Email: cosborn@scotiacapital.com

Operations Contact:

THE BANK OF NOVA SCOTIA
600 Peachtree Street N.E., Suite 2700
Atlanta, GA 30308

Attention: Michael Silveira or Sonia McKoy

Telephone: (404) 877-1522 or 877-1553
Facsimile: (404) 888-8998
Email: michael_silveira@scotiacapital.com or
sonia_mckoy@scotiacapital

III-2

Participant: THE BANK OF NOVA SCOTIA
580 California Street, Suite 2100
San Francisco, California 94104

Attention: Chris Osborn

Telephone: (415) 986-1100
Facsimile: (415) 397-0791
Email: cosborn@scotiacapital.com

Operations Contact:

THE BANK OF NOVA SCOTIA
600 Peachtree Street N.E., Suite 2700
Atlanta, GA 30308

Attention: Michael Silveira or Sonia McKoy

Telephone: (404) 877-1522 or 877-1553
Facsimile: (404) 888-8998
Email: michael_silveira@scotiacapital.com or
sonia_mckoy@scotiacapital

Payment

Instructions: The Bank of Nova Scotia
One Liberty Plaza
New York, New York
ABA No.: 026002532
Account No.: 0610135 BNS San Francisco Loan Servicing
Reference: Quantum Corporation Lease

III-3

Participant: KEYBANK NATIONAL ASSOCIATION
700 Fifth Avenue, 46th Floor
Seattle, Washington 98104

Attention: Mary K. Young

Telephone: (206) 684-6085
Facsimile: (206) 684-6035
Email: mary_k_young@keybank.com

Operations Contact:

KEYBANK NATIONAL ASSOCIATION
431 E. Parkcenter Boulevard
Boise, Idaho 83706

Attention: Andrea Eaton/Specialty Services Team

Telephone: (800) 297-5518
Facsimile: (800) 297-5495
Email: andrea_eaton@keybank.com

Payment

Instructions: KeyBank National Association
Seattle, Washington
ABA No.: 125000574

Account Name: Western Loan Services
 Account No.: 01500163
 Attention: Specialty Services Team
 Reference: Quantum

III-4

Participant: SELCO SERVICE CORPORATION
 54 State Street
 Albany, New York 12207

Attention: Donald Davis, Vice President

 Telephone: (518) 486-8984
 Facsimile: (518) 487-4635
 Email:

Payment
 Instructions: KeyBank National Association
 Cleveland, Ohio
 ABA No.: 041001039
 Account No.: 010027501
 Attention: Don Davis/SELCO
 Reference: Quantum

III-5

Participant: UNION BANK OF CALIFORNIA, N.A.
 99 Almaden Street, Suite 200
 San Jose, California 95113

Attention: Sarabelle Hitchner

 Telephone: (408) 279-7208
 Facsimile: (408) 280-7163
 Email: sarabelle.hitchner@uboc.com

Operations Contact:

UNION BANK OF CALIFORNIA, N.A.
 1980 Saturn Street
 Monterey Park, California 91755

Attention: Gohar Karapetyan

 Telephone: (323) 720-2679
 Facsimile: (323) 724-6198
 Email: gohar.karapetyan@uboc.com

Payment
 Instructions: UNION BANK OF CALIFORNIA, N.A.
 1980 Saturn Street
 Monterey, California 91755
 ABA No.: 122-000-496
 Account No.: 070196431
 Reference: Quantum Corporation

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SCHEDULE V

Methodology for Calculating Partial Purchase Option Prices

<TABLE>
 <CAPTION>

Bank Financed Only
 Final Cost Summary (\$000)
 By Building
 June '00

\$K					
Total					
Item	\$K	Bldg. A	Bldg. B	Bldg. C	Bldg. D Land
<S>	<C>	<C>	<C>	<C>	<C>
Land					
Acres	40.7	18	7.8	8.7	6.2
% by Bldg.		44%	19%	22%	15%

Cost	4,354	1,916	827	958	653
Bldg. + FFE	50,716	24,421	9,607	16,188	500
Total Land, Bldg. + FFE	55,070	26,337	10,434	17,146	1,153
		48%	19%	31%	2%
Fees					
Design & Construction	3,690	1,771	701	1,144	74
Closing	404	194	77	125	8
Construction Interest	3,340	1,603	635	1,035	67
Total	62,504	29,905	11,847	19,452	1,300
\$/SF	155	152	149	153	N/A

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SCHEDULE 3.6

ADVANCES ON RESTRUCTURING DATE

Participant	Proportionate Share of Advances
The Bank of Nova Scotia	\$150,000.00
KeyBank National Association	\$148,989.77
SELCO Service Corporation	\$ 1,010.23
TOTAL	\$300,000.00 =====

SCHEDULE 6.4

CONDITIONS TO AMENDMENT AND RESTATEMENT

I. Assignments and Transfers

- A. The Original Lessor shall have executed and delivered to the Lessor:
 1. A special warranty 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.
 2. A bill of sale conveying the Original Lessor's interests in the Equipment and Fixtures to the Lessor.
 3. UCC-3 assignments conveying the Original Lessor's interests in the Lessor Financing Statements to the Lessor.
- B. The Original Lessor and the Lessor shall have executed and delivered a Lessor Assignment and Acceptance assigning the rights and obligations of the Original Lessor under the Operative Documents and its Tranche C Participation Interest to the Lessor, and the Lessee and the Participants shall have consented to such Lessor Assignment and Acceptance.
- C. The Original Agent and the Agent shall have executed and delivered a Resignation and Assignment by Agent and Acceptance by Successor Agent assigning the rights and obligations of the Original Agent under the Operative Documents to the Agent, and the Lessee and the Participants shall have consented to such Resignation and Assignment by Agent and Acceptance by Successor Agent.
- D. The Original Lessor, the Original Agent, the Lessor and the Agent

shall have executed and delivered an Assignment and Amendment of the Mortgage and an Assignment and Assumption of Interests in Lease and Consent and the Lessee shall have consented to such Assignment and Assumption of Interests in Lease and Consent, in form appropriate for recording with the applicable Governmental Authorities.

- E. The Original Agent shall have executed and delivered UCC-3 assignments conveying the Original Agent's interests in the Agent Financing Statements to the Agent.
- F. ABN AMRO Bank N.V., San Francisco International Branch, The Bank of Nova Scotia and KeyBank National Association shall have executed and delivered an Assignment and Acceptance assigning the Tranche A Participation Interest and

6.4-1

Tranche B Participation Interest of ABN AMRO Bank N.V., San Francisco International Branch, to The Bank of Nova Scotia and KeyBank National Association.

II. Amended and Restated Operative Documents

- A. The Lessee, the Lessor, the Participants and the Agent shall have executed and delivered the Amended and Restated Participation Agreement.
- B. The Lessee and the Lessor shall have executed and delivered the Amended and Restated Master Lease and an Amended and Restated Lease Supplement No. 1, in form appropriate for recording with the applicable Governmental Authorities.
- C. The Guarantor shall have executed and delivered a consent to such amended and restated Operative Documents.
- D. The Lessor shall have executed and delivered Agent Financing Statements in form appropriate for filing in New York.

III. Title Documents

- A. Commitments to issue the following revised title insurance policies shall have been delivered to the Agent in an amount not less than the Property Cost and reasonably satisfactory to the Lessor and the Agent 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 the jurisdiction where the Property is located:
 - 1. 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 Permitted Exceptions.
 - 2. An ALTA (1992) loan policy insuring the Agent that the Lien of the Mortgage, as assigned and amended, is a first and primary lien in the Lessor's interest in the Lease, as assigned, amended and restated, and in the fee title to the Property, subject only to the Permitted Exceptions.
 - 3. An ALTA (1992) loan policy insuring the Agent that the Lien of the Lease, as assigned, amended and restated, is a first and primary Lien in the Lessee's interest in the Property.
- B. The Lessor and the Agent shall have received evidence reasonably satisfactory that each of the special warranty deed described in Item I.A.1, the Amended and Restated Master Lease and Amended and Restated Lease Supplement No. 1 described in Item II.B. and the Assignment and Amendment of the Mortgage and the Assignment and Assumption of Interests in Lease and Consent described in

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Item I.D. have been or are being recorded with the appropriate Governmental Authorities in the order listed in this clause and the UCC-3 assignments to the Lessor Financing Statements described in Item I.A.3, the UCC-3 assignments to the Agent Financing Statements described in Item I.E. and the Agent Financing Statements described in Item II.D. have been or are being filed with the appropriate Governmental Authorities.

IV. Lessee Corporate Documents

- A. The Lessee shall have delivered a certificate of an authorized officer of the Lessee, dated as of the date of the Amended and Restated Participation Agreement, 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 in all material respects as if made on the Restructuring Date (except for representations and warranties expressly made as of a specified date, which are true and correct as of such date), (ii) no Default or Event of Default under the Operative Documents has occurred and is continuing as of the Restructuring Date; and (iii) each Operative Document to which the Lessee is a party is in full force and effect with respect to it.

- B. The Lessee shall have delivered a certificate of the Secretary or an Assistant Secretary of the Lessee attaching and certifying as to (i) the resolutions of the Board of Directors duly authorizing the execution, delivery and performance by the Lessee of documents and agreements of the type represented by each Operative Document to be executed as of the Restructuring Date, and (ii) the incumbency and signature of persons authorized to execute and deliver on its behalf the Operative Documents to be executed by it as of the Restructuring Date.

V. Lessor Corporate Documents

- A. The Lessor shall have delivered a certificate of an authorized officer of the Lessor, dated as of the date of the Amended and Restated Participation Agreement, 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 Restructuring Date, and (ii) each Operative Document to which the Lessor is a party is in full force and effect with respect to it.
- B. The Lessor shall have delivered 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.

VI. Insurance

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The Lessor and the Agent shall have received evidence that they are named as additional insureds and loss payees and the mortgagee endorsement with respect to the insurance required pursuant to the Lease.

VII. Fees and Expenses

- A. All fees and expenses payable to the Agent, the Lessor or the Participants set forth in an invoice received on or prior to the Restructuring Date (including fees payable pursuant to the Fee Letter) shall have been paid.
- B. All reasonable fees and expenses of counsels to the Agent and the Lessor through the Restructuring Date shall have been paid.

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10.1-1

SCHEDULE 10.01

EXISTING INDEBTEDNESS AND LIENS

INDEBTEDNESS

1. Reimbursement Agreement between Sumitomo Bank, Ltd. and Quantum Peripherals (Europe), S.A., dated September 14, 1998, related to outstanding letters of credit in an amount not to exceed \$85,000,000.
2. Tax Ownership Operating Lease (Colorado Springs, CO) between Quantum Corporation and Lease Plan North America, Inc., dated August 25, 1997.
3. Mortgage (Louisville, CO and Shrewsbury, MA), dated August 22, 1995, between Quantum Corporation and QD Investors securing \$39,226,000 in outstanding principal as of December 31, 1999.
4. Reimbursement Agreement between Fleet National Bank and ATL Products, Inc., a Subsidiary of Quantum Corporation, dated February 3, 1999, related to an outstanding letter of credit in favor of National Westminster Bank, plc in the amount of (Pounds)300,000.

LIENS

1. Lien (State: CO, file # 19992029330, dated 5/19/99) established under the Equipment Lease Agreement between Quantum Corporation and Prentiss Property Services, as Debtor, and BCL Capital.
2. Lien (State: CO, file # 19992024197, dated 4/29/99) established under the Equipment Lease Agreement between Quantum Corporation and Colorado Business Leasing, Inc.
3. Lien (State: CO, file # 19982060561, dated 9/24/98) established under the Master Lease Agreement between Quantum Corporation and Avnet Computer, a division of Avnet, Inc.
4. Lien (State: CO, file # 19972076228, dated 9/5/97) established under the Financing Statement between Quantum Corporation and Lease Plan North America, Inc.
5. Lien (State: CO, file # 199F0722387, dated 9/5/97) established under the Financing Statement between Quantum Corporation and Lease Plan North America, Inc.

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6. Lien (State: CO, file # 962097106, dated 12/30/96) established under the Agreement between Quantum Corporation and American Leasing, Inc.
7. Lien (State: CO, file # 962081967, dated 10/31/96) established under the Agreement between Quantum Corporation and Finzer Leasing, Inc.
8. Lien (State: CA, file # 9732260586, dated 11/18/97) established under the Lease Agreement between ATL Products, Inc. and Sun Microsystems Finance.
9. Lien (State: CA, file # 9807660402, dated 3/16/98) established under the Lease Agreement between ATL Products, Inc. and Union Bank of California, N.A.
10. Lien (State: CA, file # 9821760711, dated 8/4/98) established under the Subordination Agreement between ATL Products, Inc. and Mellon US Leasing, a Division of Mellon Leasing Corporation.
11. Lien (State: CA, file # 9830060877, dated 10/23/98) established under the Equipment Schedule between ATL Products, Inc. and Mellon US Leasing, a Division of Mellon Leasing Corporation.
12. Lien (State: CA, file # 9903660704, dated 2/4/99) established under the Equipment Schedule between ATL Products, Inc. and Mellon US Leasing, a Division of Mellon Leasing Corporation.
13. Lien (State: CA, file # 9714961077, dated 5/27/97) established under rental between ATL Products, Inc. and Inter-Tel Leasing, Inc.
14. Lien (State: CA, file # 9719760464, dated 7/11/97) established under the Agreement between ATL Products, Inc. and Imperial Bank.
15. Lien (State: CA, file # 9510460180, dated 4/10/95) established under the Financing Agreement between Quantum Corporation and Hewlett-Packard Company.
16. Lien (State: CA, file # 9510460187, dated 4/10/95) established under the Financing Agreement between Quantum Corporation and Hewlett-Packard Company.
17. Lien (State: CA, file # 9526460720, dated 9/18/95) established under the Alternative Purchase Plan between Quantum Corporation and AT&T Capital Services Corporation.
18. Lien (State: CA, file # 9620660866, dated 6/22/96) established under the Financing Agreement between Quantum Corporation and Hewlett-Packard Company.

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19. Lien (State: CA, file # 9623360189, dated 8/16/96) established under the Security Agreement between Quantum Corporation and Orix Credit Alliance, Inc.
20. Lien (State: CA, file # 9636660392, dated 12/30/96) established under the Equipment Lease Agreement between Quantum Corporation and American Leasing, Inc.
21. Lien (State: CA, file # 9724660679, dated 9/2/97) established

under the Financing Statement between Quantum Corporation and ABN AMRO Bank, N.V. San Francisco International Branch, as Agent.

22. Lien (State: CA, file # 9733960635, dated 12/1/97) established under the Security Agreement between Quantum Corporation and Unisource Worldwide, Inc.
23. Lien (State: CA, file # 9813360891, dated 5/12/98) established under the Agreement between Quantum Corporation and AT&T Capital Corporation, Instrument and Data Services.
24. Lien (State: CA, file # 9818960462, dated 7/6/98) established under the Agreement between Quantum Corporation and Employment Development Department.
25. Lien (State: CA, file # 9934060376, dated 12/1/99) established under the Agreement between Quantum Corporation and Newcourt Technologies Corp (dba Newcourt Financial-Technology Rentals & Services).
26. Lien (State: CA, file # 9934060391, dated 12/1/99) established under the Agreement between Quantum Corporation and Newcourt Technologies Corp (dba Newcourt Financial-Technology Rentals & Services).
27. Lien (State: CA, file # 0003860457, dated 2/2/00) established under the Equipment Agreement between Quantum Corporation and ATEL Business Credit, Inc.
28. Lien (State: MA, file # 345962, dated 5/25/95) established under the Schedule between Quantum Corporation and Comdisco, Inc.
29. Lien (State: MA, file # 343626, dated 10/11/95) established under the Agreement between Quantum Corporation and Comdisco, Inc.
30. Lien (State: MA, file # 371364, dated 2/23/96) established under the Agreement between Quantum Corporation and Business Credit Leasing.
31. Lien (State: MA, file # 425668, dated 10/25/96) established under the Financing Agreement between Quantum Corporation and Hewlett-Packard Company.

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32. Lien (State: MA, file # 456959, dated 3/25/97) established under the Agreement between Quantum Corporation and Sanwa Leasing Corporation.
33. Lien (State: MA, file # 449499, dated 2/18/97) established under the Financing Agreement between Quantum Corporation and Hewlett-Packard Company.
34. Lien (State: MA, file # 459264, dated 4/7/97) established under the Agreement between Quantum Corporation and Sanwa Leasing Corporation.
35. Lien (State: MA, file # 468158, dated 5/12/97) established under the Financing Agreement between Quantum Corporation and Hewlett-Packard Company.
36. Lien (State: MA, file # 518464, dated 12/22/97) established under the Agreement between Quantum Corporation and Sanwa Leasing Corporation.
37. Lien (State: MA, file # 582939, dated 10/9/98) established under the Agreement between Quantum Corporation and Hewlett-Packard Company.

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EXHIBIT Q
TO PARTICIPATION AGREEMENT

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, ____

To: The Bank of Nova Scotia, as Agent

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Participation Agreement, dated as of July 12, 2000 between Quantum Corporation, a Delaware corporation (the "Lessee"), SELCO Service Corporation, an Ohio corporation (the "Lessor"), the Participants from time to time party thereto, The Bank of Nova

Scotia, as agent (the "Agent"), (said agreement, as amended, restated, extended,

supplemented or otherwise modified in writing from time to time, the
"Participation Agreement;" the terms defined therein being used herein as

therein defined).

The undersigned Responsible Officer hereby certifies as of the date hereof
that he is the _____ of the Lessee, and that, as
such, he is authorized to execute and deliver this Compliance Certificate to the
Agent on the behalf of the Lessee, and that:

[Use following for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial
statements required by clause (i) of Section 10.1(a) of the Participation

Agreement for the fiscal year of the Lessee ended as of the above date, together

with the report and opinion of an independent certified public accountant
required by such section.

[Use following for fiscal quarter-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements

required by clause (ii) of Section 10.1(a) of the Participation Agreement for

the fiscal quarter of the Lessee ended as of the above date. Such financial
statements fairly present the financial condition, results of operations and
changes in financial position of the Lessee and its Subsidiaries in accordance
with GAAP as at such date and for such periods, subject only to normal year-end
audit adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the
Participation Agreement and has made, or has caused to be made under his
supervision, a detailed review of the transactions and conditions (financial or
otherwise) of the Lessee during the accounting period covered by the attached
financial statements.

Q-1

3. A review of the activities of the Lessee and its Subsidiaries during
such fiscal period has been made under my supervision with a view to determining
whether during such fiscal period the Lessee performed and observed all its
respective obligations under the Operative Documents, and

[select one:]

[to the knowledge of the undersigned during such fiscal period, the Lessee
performed and observed each covenant and condition of the Operative Documents
applicable to it.]

--or--

[the following covenants or conditions have not been performed or observed
and the following is a list of all such Defaults and its nature and status:]

4. The following financial covenant analyses and information set forth on
Schedule 2 attached hereto are true and accurate on and as of the date of this
Compliance Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Compliance
Certificate as of _____, _____.

QUANTUM CORPORATION

By: _____

Name: _____

Title: _____

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For the Quarter/Year ended _____ ("Statement Date")

SCHEDULE 2
to the Compliance Certificate
(\$ in 000's)

I. Section 10.1(v) (i) - Minimum Consolidated Tangible Net Worth.

A. Actual Consolidated Tangible Net Worth at Statement Date:

<TABLE>		
<S>		<C>
1. Shareholders' Equity:		\$ _____
2. Intangible Assets:		\$ _____
3. Consolidated Tangible Net Worth (Lines I.A.1 less Line I.A.2):		\$ _____
B. 75% of Consolidated Tangible Net Worth as of March 31, 2000		\$ _____
C. Amount equal to 75% of the sum of positive Consolidated Net Income (ignoring any quarterly losses) for each fiscal quarter after the quarter ended March 31, 2000, through and including the quarter ending on the Statement Date:		\$ _____
D. Amount equal to 75% of the Net Security Proceeds of all Equity Securities issued by the Lessee (excluding any issuance where the Net Security Proceeds to the Lessee are less than \$10,000,000) during the period commencing on March 31, 2000 and ending on the Statement Date:		\$ _____
E. Amount equal to 75% of the increase in the value of outstanding Equity Securities resulting from any conversion of Convertible Subordinated Debentures into Equity Securities during the period commencing on March 31, 2000 and ending on the Statement Date:		\$ _____
F. Lesser of (i) the aggregate amount paid by the Lessee to repurchase Equity Securities during the period commencing on March 31, 2000 and ending on the Statement Date, and (ii) \$200,000,000:		\$ _____
G. Lesser of (i) the aggregate amount of charges taken by the Lessee for In Process Research & Development associated		\$ _____

</TABLE>

Q-3

with Acquisitions during the period commencing on March 31, 2000 and ending on the Statement Date, and (ii) \$100,000,000; provided that any such amounts were paid during the quarter in which any such Acquisition was completed:

<TABLE>		
<S>		<C>
H. Sum of: Lines I.B + I.C + I.D + I.E less I.F less I.G:		\$ _____
I. Greater of Line I.B and I.H:		\$ _____
J. Excess (deficiency) for covenant compliance (Lines I.A.3 less I.I):		\$ _____

</TABLE>

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II. Section 10.1(v) (ii) - Minimum Quick Ratio.

A. Quick Assets:

<TABLE>		
<S>		<C>
1. Amount of cash and cash equivalents of the Lessee and its Subsidiaries (excluding restricted cash) as of the Statement Date:		\$ _____
2. Amount of all accounts receivable of the Lessee and its Subsidiaries, less all reserves therefor, as of the Statement Date:		\$ _____
3. Amount of Quick Assets as of Statement Date (Lines II.A.1 + 2):		\$ _____
B. Current Liabilities:		
1. Amount of current liabilities of the Lessee and its Subsidiaries as of the Statement Date (including any such liabilities outstanding under the Loan Documents and the Operative Documents):		\$ _____
2. Aggregate amount of outstanding obligations under the Loan Documents with respect to the principal amount of loans, the undrawn face amount of letters of credit and unreimbursed drawings under letters of credit (to the extent not included in Line II.B.1):		\$ _____
3. For one year prior to the Maturity Date, the aggregate		

outstanding Synthetic Lease Obligations under the Operative Documents:

4. Amount of total current liabilities of the Lessee and its Subsidiaries as of the Statement Date (Line II.B.1 + 2 + 3): \$ _____

C. Quick Ratio ((Line II.A.3 / Line II.B.3): _____ to 1

Minimum required: 1.10 to 1

</TABLE>

Q-5

III. Section 10.1(v) (iii) - Maximum Leverage Ratio.

A. Consolidated EBITDA measured on a rolling four quarter basis for the four fiscal quarters ended as of the Statement Date ("Subject Period"):

<TABLE>

<S> <C>

<C>

1. Consolidated Net income for Subject Period: \$ _____

2. Consolidated Interest Charges for Subject Period: \$ _____

3. Provision for income taxes for Subject Period: \$ _____

4. Depreciation expenses for Subject Period: \$ _____

5. Amortization expenses for intangibles for Subject Period: \$ _____

6. Amount written off in connection with In-Process Research & Development related to the Meridian Acquisition (in the second fiscal quarter of year 2000 only): \$ _____

7. Amount of charge taken in connection with HDD (in the second fiscal quarter of year 2000 only): \$ _____

8. Amount of charge taken in connection with DSS (in the fourth fiscal quarter of year 2000 only): \$ _____

9. Lesser of (i) the aggregate amount of charges taken by the Lessee for In Process Research & Development associated with Acquisitions during the period commencing on March 31, 2000 and ending on the Statement Date, and (ii) \$100,000,000; provided that any such amounts were paid

during the quarter in which any such Acquisition was completed:

10. Consolidated EBITDA (Lines III.A.1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9): \$ _____

B. Consolidated Funded Indebtedness at Statement Date: \$ _____

C. Leverage Ratio (Line III.B / Line III.A.10): _____ to 1

Maximum permitted: 2.00 to 1

</TABLE>

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IV. Section 10.1(v) (iv) - Minimum Profitability.

<TABLE>

<S>

<C>

A. 5% of Consolidated Tangible Net Worth as of Statement Date: \$ _____

B. Aggregate amount of the two greatest quarterly losses incurred during the four quarters immediately preceding the Statement Date: \$ _____

C. Excess (deficiency) for covenant compliance (Line IV.A less Line IV.B): \$ _____

D. Cumulative Consolidated Net Income for the four quarters immediately preceding the Statement Date: \$ _____

E. Excess (deficiency) for covenant compliance (Line IV.D less \$1.00): \$ _____

</TABLE>

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Prepared by and upon recording return to:

Thomas Y. Coleman, Esq.
Orrick, Herrington & Sutcliffe LLP
400 Sansome Street
San Francisco, California 94111

AMENDED AND RESTATED
MASTER LEASE

dated as of July 12, 2000,

SELCO SERVICE CORPORATION,

as the Lessor

and

QUANTUM CORPORATION,

as the Lessee

Specialty Storage Product Group Facilities

This Lease is superior to a deed of trust dated as of August 22, 1997, in favor of ABN AMRO Bank N.V., San Francisco International Branch, as agent (the "Original Agent"), under the Participation Agreement, dated as of August 22,

1997 (the "Original Participation Agreement"), among the Lessee, Lease Plan

North America, Inc., as lessor (the "Original Lessor"), the Original Agent and

the Participants. The Lessor is the successor in interest to the Original Lessor and the Original Participation Agreement has been amended and restated by the Amended and Restated Participation Agreement, dated as of July 12, 2000 (the "Participation Agreement"), among the Lessee, the Lessor, the Participants and

The Bank of Nova Scotia, the successor in interest to the Original Agent (the

"Agent"). 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.

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APPENDICES

Schedule 1 Amortization of Property Improvements Cost

EXHIBITS

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

SCHEDULE

Appendix 1 Definition and Interpretation

AMENDED AND RESTATED MASTER LEASE

THIS AMENDED AND RESTATED MASTER LEASE (including all Lease Supplements and Equipment Schedules from time to time executed and delivered, this "Lease"),

dated as of July 12, 2000, between SELCO SERVICE CORPORATION, an Ohio corporation, having its principal office at 54 State Street, Albany, New York 12207, 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 Original Lessor has transferred its interests in the Land Interest, Improvements, Fixtures and Equipment to the Lessor and assigned to the Lessor the Original Lessor's interests under the Master Lease, dated as of August 22, 1997 (the "Original Lease"), between the Original Lessor and the

Lessee;

B. WHEREAS, the Lessee has requested that the Original Lease be amended in certain respects at the time the Lessor acquires the Original Lessor's interests in the Land Interest, Improvements, Fixtures and Equipment, and the Lessee, the Lessor, the Participants and the Agent would like the Original Lease to be amended upon the terms and subject to the conditions set forth herein; and

C. WHEREAS, for convenience of reference, the parties wish to restate the Original Lease as so amended in its entirety;

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 that the Original Lease shall be amended and restated as of the date hereof to read in its entirety 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 April 19, 2003, 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. ii) 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, in

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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 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;

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(iii) any restriction, prevention or curtailment of or interference with any use of the 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.

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

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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 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

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 Deposit Depository Bank pursuant to the Cash Collateral Agreement shall be "security accounts" within the meaning of Section 8501 of the Uniform Commercial Code, 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 Uniform Commercial Code, and the execution and delivery by the Lessee and the 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 Depository Bank attached to the Notice of Security Interest shall be deemed to grant to the Agent "control" of the Collateral within the meaning of Section 8106 of the Uniform Commercial Code for the purpose of perfecting a security interest in a financial asset pursuant to Section 9115(1) (e) of the Uniform Commercial Code; provided however, if any

Account is determined to be a deposit account within the meaning of Section 9302(1)(g) of the Uniform Commercial Code, 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 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).

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,

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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.

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

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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 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.

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

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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 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 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 ninety percent (90%) of Replacement Value (or, in the case of Flood insurance, less than ninety percent (90%) 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 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

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(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 Consolidated Tangible Net Worth covenant in clause (i) of Section -----
10.1(v) to the Participation Agreement.

(g) Notwithstanding anything to the contrary contained in the Operative Documents: (i) 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 (ii) 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 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

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 (x) 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 (y) 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 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.

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(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

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

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 (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 thirty (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

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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

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, (ii) any Partial Purchase Option Price or other amounts due on a Partial Purchase Date pursuant to Section 20.5, after the same has become due and payable, or

(iii) 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,

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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 (i) 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 (ii) 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 (iii) 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;

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(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

(i) 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 (ii) 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

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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 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,

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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;

(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 ten (10)

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

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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

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.

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.

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 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, 20.3 or 20.5, 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 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,

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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.

20.5 Partial Purchase Option Exercisable After Subdivision. (a) The

Lessee may, in the Lessor's name, but at the Lessee's sole cost and expense, subdivide the Land Interest into not more than four (4) parcels (each such parcel, together with the Improvements, Fixtures, Modifications and Equipment located on such parcel, a "Subdivided Parcel"), in one or more transactions, in

compliance with all Requirements of Law, provided that (i) no Lease Default has

occurred and is continuing, (ii) such subdivision does not materially impair the value, utility or remaining useful life of any Subdivided Parcel, (iii) the Lessee's obligations and the interests and Liens of the Lessor, the Agent and the Participants arising under this Lease and the other Operative Documents remain in full force and effect and are not diminished or subordinated in any respect as a result of such subdivision, and (iv) any obligations of the Lessor with respect to such subdivision are paid or performed by the Lessee at the Lessee's sole cost and expense. Upon the completion of any such subdivision, the Lessor shall allocate the Asset Termination Value among the Subdivided Parcels in accordance with the methodology set forth on Schedule V to the

Participation Agreement, which shall be the purchase price applicable to each

Subdivided Parcel under this Section 20.5 (the "Partial Purchase Option Price").

(b) Upon completion of any subdivision of the Land Interest in accordance with Section 20.5(a), the Lessee shall have the option (exercisable

by giving the Lessor irrevocable written notice (the "Partial Purchase Notice")

of the Lessee's election to exercise

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such option) without terminating this Lease to purchase, or to designate a third party to purchase, any Subdivided Parcel for the Partial Purchase Option Price applicable to such Subdivided Parcel on the date specified in such Partial Purchase Notice, which shall be a Payment Date (the "Partial Purchase Date").

The Lessee shall deliver any Partial Purchase Notice to the Lessor not less than thirty (30) days prior to the Partial Purchase Date. If the Lessee exercises its option to purchase any Subdivided Parcel pursuant to this Section 20.5 (a

"Partial Purchase Option"), so long as no Lease Default has occurred and is

continuing, the Lessor shall transfer to the Lessee all of the Lessor's right, title and interest in and to the Subdivided Parcel specified in any Partial Purchase Notice as of the Partial Purchase Date upon receipt of the Partial Purchase Option Price applicable to such Subdivided Parcel and all Rent and other amounts then due and payable under this Lease and any other Operative Document, in accordance with Section 20.5(c). The Lessee may assign a Partial

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 any Partial Purchase Option in accordance with Section 25.1 hereof. Upon payment to

the Lessor of the Partial Purchase Option Price with respect to any Subdivided Parcel, the Asset Termination Value shall be reduced by the amount of the Partial Purchase Option Price paid.

(c) In connection with the Lessee's exercise of a Partial Purchase Option with respect to any Subdivided Parcel, upon the applicable Partial Purchase Date and upon tender by the Lessee of the amounts set forth in Section

20.5(b), 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 such Subdivided Parcel (which shall include a release, quitclaim and assignment of all of the Lessor's right, title and interest in and to any Net Proceeds to the extent payable with respect to such Subdivided Parcel and 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 such Subdivided Parcel other than Lessor Liens. The Improvements and the Equipment located on such Subdivided Parcel shall be conveyed to the Lessee "AS IS" and in their then present condition of title and physical condition.

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 request (the "Renewal Request") to the

Lessor, each Participant and the Agent given not later than ninety (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

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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:

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

(ii) the Lessee shall not have exercised the Remarketing Option,

(iii) the Participants shall have agreed to extend the Maturity Date contemporaneously therewith pursuant to Section 3.7(b) of the

Participation Agreement such that the Renewal Term will expire on the same

date as the extended Maturity Date, and

(iv) the Expiration Date shall not be extended for more than two (2) one-year periods pursuant to this Section 21.1.

(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.

(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

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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 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

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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 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

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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. (a) 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.

(b) The Lessee may, without the consent of the Lessor, sublease the Property or portion thereof to any Person, provided, that such sublease (i)

shall not materially and adversely affect any of the Lessor's interests, rights or remedies under the Lease or the Lessor's title to the Property, (ii) 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 and shall expressly provide for termination at or prior to the earlier of the applicable Expiration Date or

other date of termination of this Lease, (iii) shall be assigned to the Lessor as collateral for the Lessee's obligations under this Lease and the other Operative Documents, and (iv) shall not permit the Property, or portion thereof, to be used for any purpose other than for administration, manufacturing, design research and development and warehouse facilities which are not more burdensome than the Lessee's use.

(c) Except as provided in Section 25.1(b), the Lessee shall not

sublease the Property or any portion thereof to any Person without the prior written consent of the Lessor, which consent shall not be unreasonably withheld. Within twenty (20) Business Days after the Lessee delivers to the Lessor notice of the proposed sublease, including a copy of the proposed sublease agreement,

the Lessor shall either consent to such sublease on the terms specified in such sublease agreement or give notice to the Lessee of the reasons for withholding its consent. 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.

(d) 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.

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 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

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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: Lauren Halden
Telephone: (408) 894-4906
Facsimile: (408) 894-4562

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If to the Lessor:

SELCO Service Corporation
54 State Street
Albany, New York 12207
Attention: Donald Davis
Telephone: (518) 486-8984
Facsimile: (518) 487-4635

If to the Agent:

The Bank of Nova Scotia
580 California Street, Suite 2100
San Francisco, California 94104
Attention: Chris Osborn
Telephone: (415) 986-1100
Facsimile: (415) 397-0791;

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.

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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 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.

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31.8 Original Executed Counterpart. 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.

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.

31.10 Effect on Original Lease. The Lessee and the Lessor agree that this Lease and Exhibit A and Appendix I attached hereto shall amend, restate in their entirety and replace, without notation, the Original Lease and Exhibit A and Appendix I attached thereto; provided, however, that with respect to the period prior to the Restructuring Date nothing contained herein shall (i) operate as a waiver of any right, power or remedy of the Lessor, the Agent or any Participant under the Original Lease or any other Operative Document or (ii) extinguish or impair any obligations of the Lessee under the Original Lease or any other Operative Document except to the extent any such obligation is actually satisfied by Lessee.

[signature page follows]

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

SELCO SERVICE CORPORATION, an Ohio corporation,
as Lessor

By: _____
Name:
Title:

QUANTUM CORPORATION, a Delaware corporation, as
Lessee

By: _____
Name:
Title:

[ATTACH NOTARIAL ACKNOWLEDGMENTS]

THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART

Receipt of this original counterpart of the foregoing Lease is hereby acknowledged as of July 12, 2000

THE BANK OF NOVA SCOTIA, as Agent

By: _____
Name:
Title:

SCHEDULE 1
TO THE LEASE

Amortization of Property Improvements Cost

None

Prepared by and upon recording return to:

Thomas Y. Coleman, Esq.
Orrick, Herrington & Sutcliffe LLP
400 Sansome Street
San Francisco, CA 94111

EXHIBIT A TO
THE LEASE

AMENDED AND RESTATED
LEASE SUPPLEMENT NO. 1
(And Memorandum of Lease)

THIS AMENDED AND RESTATED LEASE SUPPLEMENT NO. 1 (And Memorandum of Lease) (this "Lease Supplement") dated as of July 12, 2000, between SELCO Service Corporation, an Ohio corporation, as successor in interest to Lease Plan North America, Inc., solely in its capacity 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 Amended and Restated Master Lease, dated as of July 12, 2000 (the "Lease"), 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 between the Lessor, whose

principal office is at 54 State Street, Albany, New York 12207, and the Lessee, whose principal office is 500 McCarthy Boulevard, Milpitas, California 95305.

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SECTION 4. Lease Term. The term of this Lease (the "Term") shall begin on

August 22, 1997, and shall end on April 19, 2003, unless the Term is renewed or earlier terminated in accordance with the provisions of the Lease. The Lease contains two 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 and the Participants of a mortgage lien and security interest in all of the Lessee's right, title and

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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 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

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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) and Articles XIX and XX 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 Articles XIX and XX of the Lease.

SECTION 8. Liens. (a) THIS LEASE IS SUPERIOR TO A DEED OF TRUST DATED AS

OF AUGUST 22, 1997, IN FAVOR OF ABN AMRO BANK N.V., SAN FRANCISCO INTERNATIONAL BRANCH, AS AGENT (THE "ORIGINAL AGENT"), UNDER THE PARTICIPATION AGREEMENT,

DATED AS OF AUGUST 22, 1997 (THE "ORIGINAL PARTICIPATION AGREEMENT"), AMONG THE

LESSEE, LEASE PLAN NORTH AMERICA, INC., AS LESSOR (THE "ORIGINAL LESSOR"), THE

ORIGINAL AGENT AND THE PARTICIPANTS. THE LESSOR IS THE SUCCESSOR IN INTEREST TO THE ORIGINAL LESSOR AND THE ORIGINAL PARTICIPATION AGREEMENT HAS BEEN AMENDED AND RESTATED BY THE AMENDED AND RESTATED PARTICIPATION AGREEMENT, DATED AS OF JULY 12, 2000 (THE "PARTICIPATION AGREEMENT"), AMONG THE LESSEE, THE LESSOR, THE

PARTICIPANTS AND THE BANK OF NOVA SCOTIA, THE SUCCESSOR IN INTEREST TO THE ORIGINAL AGENT (THE "AGENT").

(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

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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.

SECTION 10. Original Executed Counterpart. 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.

SECTION 13. Effect on Original Lease Supplement. The Lessee and the Lessor

agree that this Lease Supplement shall amend, restate in its entirety and
replace, without notation, the Lease Supplement No. 1 (and Memorandum of Lease),
dated as of August 22, 1997 (the "Original Lease Supplement"), between the

Original Lessor and the Lessee; provided, however, that with respect to the

period prior to the Restructuring Date nothing contained herein shall (i)
operate as a waiver of any right, power or remedy of the Lessor, the Agent or
any Participant under the Original Lease Supplement or any other Operative
Document or (ii) extinguish or impair any obligations of the Lessee under the
Original Lease Supplement or any other Operative Document except to the extent
any such obligation is actually satisfied by Lessee.

[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.

SELCO SERVICE CORPORATION, an Ohio corporation,
as Lessor

By: _____
Name:
Title:

QUANTUM CORPORATION, a Delaware corporation, as
Lessee

By: _____
Name:
Title:

[ATTACH NOTARIAL ACKNOWLEDGMENTS]

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THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART

Receipt of this original counterpart of the foregoing Lease Supplement is
hereby acknowledged as of July 12, 2000.

THE BANK OF NOVA SCOTIA, as Agent

By: _____
Name:
Title:

SCHEDULE I TO THE
AMENDED AND RESTATED LEASE SUPPLEMENT NO. 1

Property Description

Lot 1, Fairlane Technology Park Filing No. 4, City of Colorado Springs, El Paso County, Colorado, recorded August 22, 1997, under Reception Number 97098095.

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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: _____

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ANNEX A TO
EQUIPMENT SCHEDULE

EQUIPMENT

Approved by _____ (Lessee to initial each page).

Page No. ___ of ___ total pages

Attached Bill of Sale dated _____ and Equipment Schedule No. ____.

Equipment located at:

Street No.

City

County

State

Zip

This location is ____ owned, leased, mortgaged.

Manufacturer and/or Vendor Name & Invoice No.	Description	Equipment Cost
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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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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF QUANTUM CORPORATION.

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