

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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STORAGE TECHNOLOGY CORP

CIK: **94673** | IRS No.: **840593263** | State of Incorporation: **DE** | Fiscal Year End: **1229**
Type: **10-Q** | Act: **34** | File No.: **001-07534** | Film No.: **94528402**
SIC: **3572** Computer storage devices

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended April 1, 1994

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 1-7534

STORAGE TECHNOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-0593263
(I.R.S. Employer
Identification Number)

2270 South 88th Street,
Louisville, Colorado
(Address of principal executive
offices)

80028-4309
(Zip Code)

Registrant's Telephone Number, including area code: (303) 673-5151

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. /X/ YES / / NO

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common stock (\$.10 Par Value) - 43,529,842 shares outstanding at May 5, 1994.

STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
INDEX TO FORM 10-Q
April 1, 1994

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STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Thousands of Dollars)

	04/01/94 (Unaudited)	12/31/93
	-----	-----
ASSETS		
Cash, including cash equivalents	\$ 242,171	\$ 255,062
Short-term investments		16,042
Accounts receivable, net	196,283	218,701
Notes and installment receivables	6,290	9,973
Net investment in sales-type leases	166,662	171,165
Inventories (Note 2)	228,759	203,257
	-----	-----
Total current assets	840,165	874,200
Notes and installment receivables	12,300	13,968

Net investment in sales-type leases	240,393	252,678
Computer equipment, at cost (net)	92,240	97,324
Spare parts for field service, at cost (net)	47,518	50,150
Property, plant and equipment, at cost (net)	314,684	306,034
Deferred income tax assets, net	54,868	52,260
Other assets	137,655	146,395
	-----	-----
	\$1,739,823	\$1,793,009
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Nonrecourse borrowings secured by lease commitments	\$ 62,505	\$ 74,191
Current portion of other long-term debt	29,455	32,581
Accounts payable and accrued liabilities	292,464	284,764
Income taxes payable	9,646	14,167
	-----	-----
Total current liabilities	394,070	405,703
8% Convertible subordinated debentures	145,645	145,645
Nonrecourse borrowings secured by lease commitments	78,614	96,975
Other long-term debt	113,297	119,098
Deferred income tax liabilities	8,413	8,285
	-----	-----
Total liabilities	740,039	775,706
	-----	-----

Contingencies (Note 3)

STOCKHOLDERS' EQUITY

Preferred stock, \$.01 par value, 40,000,000 shares authorized; 3,450,000 shares of \$3.50 Convertible Exchangeable Preferred Stock issued at April 1, 1994, and December 31, 1993, \$172,500,000 aggregate liquidation preference	35	35
Common stock, \$.10 par value, 150,000,000 shares authorized; 43,342,405 shares issued at April 1, 1994, and 43,097,788 shares issued at December 31, 1993	4,334	4,310
Capital in excess of par value	1,426,120	1,421,860
Accumulated deficit	(424,230)	(401,623)
Treasury stock of 35,309 shares at April 1, 1994, and 34,349 shares at December 31, 1993	(767)	(735)
Unearned compensation	(5,708)	(6,544)
	-----	-----
Total stockholders' equity	999,784	1,017,303
	-----	-----

The accompanying notes are an integral part of the consolidated financial statements.

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STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(In Thousands of Dollars, Except Per Share Amounts)

	Quarter Ended	
	04/01/94	03/26/93
Sales	\$209,413	\$214,617
Service and rental revenue	126,210	124,375
	-----	-----
Total revenue	335,623	338,992
Cost of sales	155,455	143,634
Cost of service and rental revenue	78,860	80,871
	-----	-----
Total cost of revenue	234,315	224,505
Gross profit	101,308	114,487
Research and product development costs	39,165	34,559
Marketing, general, administrative and other income and expense, net	85,667	75,278
	-----	-----
Operating profit (loss)	(23,524)	4,650
Interest expense	9,232	11,649
Interest income	(11,568)	(14,016)
	-----	-----
Income (loss) before income taxes and cumulative effect of accounting change	(21,188)	7,017
Provision (benefit) for income taxes	(1,600)	3,000
	-----	-----
Income (loss) before cumulative effect of accounting change	(19,588)	4,017
Cumulative effect on prior years of change in method of accounting for income taxes		40,000
	-----	-----

Net income (loss)	(19,588)	44,017
Preferred dividend requirement	3,019	749
	-----	-----
Income (loss) applicable to common shares	\$ (22,607)	\$ 43,268
	=====	=====
EARNINGS (LOSS) PER COMMON SHARE		
Primary:		
Income (loss) before cumulative effect of accounting change	\$ (0.52)	\$ 0.08
Cumulative effect on prior years of change in method of accounting for income taxes		0.92
	-----	-----
	\$ (0.52)	\$ 1.00
	=====	=====
Fully Diluted:		
Income before cumulative effect of accounting change		\$ 0.13
Cumulative effect on prior years of change in method of accounting for income taxes		0.81

	N/A	\$ 0.94
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(In Thousands of Dollars)

	Quarter Ended	
	04/01/94	03/26/93
	-----	-----
OPERATING ACTIVITIES		
Cash received from customers	\$ 383,684	\$ 418,180
Cash paid to suppliers and employees	(352,389)	(346,167)
Interest received	11,568	14,016
Interest paid	(7,425)	(12,217)
Income taxes paid	(5,719)	(8,697)
	-----	-----
Net cash from operating activities	29,719	65,115
	-----	-----

INVESTING ACTIVITIES		
Short-term investments, net	16,042	(49,849)
Purchase of property, plant and equipment	(27,417)	(15,665)
Other assets, net	4,191	(5,130)
	-----	-----
Net cash used in investing activities	(7,184)	(70,644)
	-----	-----
FINANCING ACTIVITIES		
Proceeds from nonrecourse borrowings	13,979	46,933
Repayments of nonrecourse borrowings	(44,147)	(41,784)
Proceeds from other debt		5,041
Repayments of other debt	(10,253)	(10,270)
Proceeds from employee stock plans and warrants	3,658	308
Proceeds from preferred stock offering, net		166,479
Preferred stock dividends paid	(3,019)	
	-----	-----
Net cash (used in) from financing activities	(39,782)	166,707
	-----	-----
Effect of exchange rate changes on cash	4,356	(2,560)
	-----	-----
Increase (decrease) in cash and cash equivalents	(12,891)	158,618
Cash and cash equivalents - beginning of the period	255,062	117,954
	-----	-----
Cash and cash equivalents - end of the period	\$ 242,171	\$ 276,572
	=====	=====
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (19,588)	\$ 44,017
Cumulative effect of accounting change		(40,000)
Depreciation and amortization expense	42,185	38,633
Deferred income taxes	(2,563)	(2,756)
Translation (gain) loss	(2,589)	2,550
Other non-cash adjustments to income	28,554	(488)
Decrease in accounts receivable	24,304	44,514
Decrease in notes receivable and sales-type leases	23,757	40,445
Increase in inventories	(31,199)	(8,781)
Increase in computer equipment, net	(8,865)	(44,810)
Increase in spare parts, net	(6,146)	(6,268)
Increase in accounts payable	10,709	855
Increase (decrease) in accrued liabilities	(24,084)	145
Decrease in income taxes payable	(4,756)	(2,941)
	-----	-----
Net cash from operating activities	\$ 29,719	\$ 65,115
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
 SUPPLEMENTARY NOTES TO
 CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 1 - BASIS OF PREPARATION
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The accompanying consolidated financial statements of Storage Technology Corporation and subsidiaries (StorageTek or the Company) have been prepared in accordance with the Securities and Exchange Commission requirements for Form 10-Q. In the opinion of management, these statements reflect all adjustments necessary for the fair presentation of results for the periods presented. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993.

NOTE 2 - INVENTORIES
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Inventories consist of the following (in thousands of dollars):

	04/01/94	12/31/93
	-----	-----
Raw Materials	\$ 41,649	\$ 38,991
Work-In-Process	93,701	66,668
Finished Goods	93,409	97,598
	-----	-----
	\$228,759	\$203,257
	=====	=====

NOTE 3 - LITIGATION
 - - - - -

In the second quarter of 1992, seven purported class actions were filed in the U.S. District Court for the District of Colorado against the Company and certain of its officers and directors. These actions were subsequently consolidated into a single action, and a consolidated amended complaint was filed on July 7, 1992, seeking an unspecified amount of damages. The complaint alleged that the defendants failed to properly disclose the status of development of a new product and the Company's business prospects. The complaint further alleged that the individual defendants sold shares of the Company's common stock based on material inside information, in violation of federal securities and common law. Following the court's ruling on the defendants' motion to dismiss, a ruling which dismissed several of the fraud

and insider trading claims against a number of the individual defendants, the class plaintiffs filed a second, and then a third, amended complaint which renewed many of the dismissed fraud and insider trading claims and sought to extend the class period to November 9, 1992. In response to the defendants' second motion to dismiss, the court refused to extend the class period, but did not dismiss any of the claims as pleaded in the third amended complaint. The court has certified a class consisting (with certain exceptions) of those who purchased StorageTek's common stock and related securities from December 23,

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1991, to August 8, 1992. Depositions of Company employees and other potential witnesses commenced in August 1993 and are expected to continue through mid-1994. In addition to the class action, a shareholder derivative action was filed in the second quarter of 1992 based on substantially similar factual allegations and the derivative action has been consolidated with the class action. The Company believes the suits are without merit and intends to vigorously defend against them. There can be no guarantee; however, that the cases will result in decisions favorable to the Company. In the event of an adverse decision, neither the amount nor the likelihood of any potential liability which might result is reasonably estimable. In the derivative action, any recovery would be the property of the Company.

In June 1993, the Company received a subpoena from the Denver Regional Office of the Securities and Exchange Commission (the Commission) to produce certain documents in connection with the Commission's order for an investigation of possible violations of federal disclosure, reporting and insider trading requirements. The requests by the Commission relate principally to announcements and related disclosures concerning the status of development of a new product in 1992.

In January 1994, Stuff Technology Partners II, a Colorado Limited Partnership (Stuff), filed suit in Boulder County, Colorado, District Court against the Company and certain subsidiaries. The suit alleges that the Company breached a 1990 settlement agreement which had resolved earlier litigation between the parties. The suit seeks injunctive relief and damages in the amount of \$2,400,000,000. The Company believes that the claims in the suit are barred by the 1990 settlement between the Company and Stuff, the claims are without merit, and the Company intends to vigorously defend against them. The Company has filed a motion to dismiss the complaint, as well as an alternative motion to bifurcate certain of the claims. A hearing on these motions was held on May 10, 1994, but no ruling has been issued.

In April 1992, Unisys Corporation (Unisys) filed a suit against Amperif and in September 1993, Unisys filed additional suits against both Amperif and the Company. All of the suits related to patents which Unisys alleged were violated by certain Amperif and StorageTek disk products. In October 1993, Amperif became a wholly owned subsidiary of StorageTek. In March 1994, the

parties settled all of the suits and entered into multi-year licenses. In connection with the settlement, the Company paid \$7,000,000 to Unisys.

In addition, the Company is involved in various other less significant legal proceedings. The outcomes of these legal proceedings are not expected to have a material adverse effect on the financial condition or operations of the Company based on the Company's current understanding of the relevant facts and law.

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NOTE 4 - RECENT PRONOUNCEMENTS

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In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 112, Employers' Accounting for Postemployment Benefits, which generally requires the accrual of the estimated cost of postemployment benefits provided over the related service periods of active employees. The Company completed its review of SFAS No. 112 in the first quarter of 1994 and concluded there is no effect of adopting this new accounting standard.

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STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
April 1, 1994

General

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Storage Technology Corporation (StorageTek or the Company) reported a net loss for the first quarter ended April 1, 1994, of \$19.6 million on revenue of \$335.6 million, compared to net income for the first quarter ended March 26, 1993, of \$43.3 million on revenue of \$339.0 million. The Company's results for the first quarter of 1993 included a \$40 million benefit from the cumulative effect of an accounting change.

The Company's revenue was largely unchanged in the first quarter of 1994, compared to the first quarter of 1993. Increased sales of the Company's newer tape and library products and improved operating performance of the Company's midrange business were offset by decreased sales of older tape and library products, a strengthening U.S. dollar, and a lack of new direct access storage device (DASD) product offerings. The loss reported in the first quarter of 1994 reflects the significant investments associated with the development,

manufacturing, marketing and servicing of new products, charges associated with the settlement of litigation, and writedowns and reserves taken in certain de-emphasized areas of the Company's midrange business. The Company completed its review of Statement of Financial Accounting Standards (SFAS No 112), Employers' Accounting for Postemployment Benefits, in the first quarter of 1994 and concluded there is no effect of adopting this new accounting standard.

The Company's goal is to return to profitability for the remainder of 1994. While the library product family has generated substantially more revenue for the Company than its other product lines in the last several years, achieving profitability is dependent upon the timely completion and successful market introduction of a number of new DASD products. Accordingly, there can be no assurance that the Company will be profitable in 1994.

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The following table, stated as a percentage of total revenue, presents consolidated statement of operations information and revenue by product line which includes product sales, service and rental, and software revenue.

	Quarter Ended	
	04/01/94	03/26/93
Revenue:		
Serial Access Subsystems	61.9%	61.7%
Random Access Subsystems	6.3	13.0
Midrange Systems	25.9	19.6
Other	5.9	5.7
	-----	-----
Total revenue	100.0	100.0
Cost of revenue	69.8	66.2
	-----	-----
Gross profit	30.2	33.8
Research and product development costs	11.7	10.2
Marketing, general, administrative and other income and expense, net	25.5	22.2
	-----	-----
Operating profit (loss)	(7.0)	1.4
Interest (income) expense, net	(0.7)	(0.7)
	-----	-----
Income (loss) before income taxes and cumulative effect of accounting change	(6.3)	2.1
Provision (benefit) for income taxes	(0.5)	0.9
	-----	-----
Income (loss) before cumulative effect of accounting change	(5.8)	1.2
Cumulative effect on prior years of change in		

method of accounting for income taxes 11.8

	-----	-----
Net income (loss)	(5.8)%	13.0%
	=====	=====

Revenue
- - - - -

Serial Access Subsystems

Revenue from serial access subsystem products was largely unchanged in the first quarter of 1994, compared to the first quarter of 1993. Increased sales of the Company's new, next-generation library and tape products were offset by reduced sales of the Company's older library and tape products and a strengthening U.S. dollar. The Company realized incremental sales revenue during the first quarter of 1994 from new products introduced in the second half of 1993: the PowderHorn 9310 (PowderHorn), the next generation of the 4400 Automated Cartridge System (ACS) library, and the Silverton 4490 (Silverton), the Company's new 36-track tape offering. Sales of PowderHorn and Silverton offset decreased sales of the Company's first generation 4400 ACS library, 4480 18-track cartridge subsystem, and the smaller capacity (Junior) 4400 ACS library.

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The Company anticipates its serial access product revenue will decrease in 1994 as a result of declining revenue from the Company's first generation library and tape products and the strength of the U.S. dollar. The decrease is expected to be partially offset by incremental revenue associated with PowderHorn, Silverton, and other new library and tape products. The library product family generates substantially more revenue than any other product line of the Company and continues to be a major element of the Company's plans for the foreseeable future.

Random Access Subsystems

Revenue from random access subsystem products decreased 52% in the first quarter of 1994, compared to the first quarter of 1993, with decreases experienced in all the Company's DASD product lines. Revenue from the Company's existing DASD products, which consists largely of service revenue from the Company's rotating DASD installed base and sales revenue from solid-state DASD and disk subsystems for the Unisys marketplace, is expected to continue to decline during the remainder of 1994. The Company has discontinued sales of rotating DASD and add-on memory products.

The Company continues to commit substantial resources to the development, product ramp-up and support of its new random access subsystem products in 1994. The Company began limited production of the Iceberg 9200 Disk Array Subsystem (Iceberg) in late 1993 and expects initial revenue contribution from

Iceberg in the second quarter of 1994. The Nordique 9100 (Nordique), an IBM-compatible disk array product positioned below Iceberg, is expected to begin shipment in the second quarter of 1994; however, revenue contribution from Nordique is not expected until the second half of the year. Other new DASD products, based on technology developed by Amperif, are targeted for availability beginning in the second half of 1994.

While the Company anticipates significant revenue from new DASD products in the second half of 1994, delays in the timely completion and successful marketing of these DASD products would adversely affect the Company's financial performance.

Midrange Systems

Revenue from midrange system products increased 31% in the first quarter of 1994, compared to the first quarter of 1993, as the Company began to realize the benefits from the restructuring of its midrange business which occurred in the third quarter of 1993. The Company also experienced improved customer demand and a slowing of the recent price erosion for DASD in the midrange marketplace.

The Company anticipates the operating performance of its midrange product line will continue to improve in 1994; however, this improvement is dependent upon the timely completion and successful marketing of new DASD and tape products. Highlands, a high-performance and cost-competitive disk drive for the midrange marketplace, began revenue contribution during the first quarter of 1994. Northfield, a high-performance

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disk drive with RAID 5 data protection, is expected to begin generating revenue in the second quarter of 1994.

Other

Revenue from other products was largely unchanged in the first quarter of 1994, compared to the first quarter of 1993. Revenue from printer products is expected to decline as the Company continues to wind down its printer operations. The decrease in revenue from printer products for the remainder of 1994 is expected to be offset by incremental revenue from new software and network storage management products, including the NearNet 7900 network storage manager.

Gross Profit

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Overall gross profit was 30% in the first quarter of 1994, compared to 34% in the first quarter of 1993, as decreased product sales margins were partially offset by improved service and rental margins.

Gross profit on product sales decreased to 26% in the first quarter of 1994, compared to 33% in the first quarter of 1993, largely due to investments associated with new DASD, tape and library products, and a charge of \$4.5 million associated with a writedown of the Company's Alpine 9600 Storage Manager inventory.

Gross profit on service and rental revenue increased to 38% in the first quarter of 1994, compared to 35% in the first quarter of 1993, reflecting increased product reliability and economies created by an increased installed service base, coupled with operating expense controls.

The Company expects continued pressure on its product sales margins for the remainder of 1994 due to the heavy investment associated with new DASD, tape and library products and a strong U.S. dollar. The Company's service margins in 1994 are expected to be adversely affected by incremental costs associated with the installation of new products, coupled with longer warranty periods for new DASD products.

Research and Product Development

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Research and product development expenditures increased 13% in the first quarter of 1994, compared to the first quarter of 1993, due to the continuing investment in a significant number of new products. The Company continues to invest in the development of new DASD, tape, library, and software and network communication products that expand applications for its library and DASD products.

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Marketing, General, Administrative and Other

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Marketing, general, administrative and other income and expense (MG&A) increased 14% in the first quarter of 1994, compared to the first quarter of 1993. The increase in MG&A was primarily due to a charge associated with settlement of litigation, an increase in marketing expenses as the Company prepares to bring its new products to market, and reserves taken on a midrange product line investment. Gains and losses associated with foreign currency transactions and translation adjustments, net of associated hedging results, aggregated a net loss of \$1.4 million in the first quarter of 1994, compared to a net loss of \$3.2 million in the first quarter of 1993.

See "INTERNATIONAL OPERATIONS AND HEDGING ACTIVITIES" for further discussion of the foreign exchange risks associated with the Company's international operations and the related foreign currency hedging activities.

Interest Income and Expense

Interest income decreased 17% in the first quarter of 1994, compared to the first quarter of 1993, due primarily to a reduction in net investment in sales-type lease balances and lower interest rates.

Interest expense decreased 21% in the first quarter of 1994, compared to the first quarter of 1993, due primarily to a reduction in the Company's nonrecourse borrowings and lower interest rates.

Income Taxes

A one-time benefit of \$40 million was recognized in the first quarter of 1993 as a result of the required adoption of SFAS No. 109, Accounting for Income Taxes, on a prospective basis.

SFAS No. 109 requires that deferred income tax assets be recognized to the extent realization of such assets is more likely than not. The Company evaluates a variety of factors in determining the amount of the deferred income tax assets to be recognized pursuant to SFAS No. 109, including the number of years the Company's operating loss and tax credits can be carried forward, the existence of taxable temporary differences, the Company's earnings history, the Company's near-term earnings expectations and possible reductions in the Company's net operating loss carryforwards as a result of proposed adjustments by the Internal Revenue Service to the Company's previously filed federal income tax returns. Based on the currently available information, management has determined that the Company will more likely than not realize \$55 million of its deferred income tax assets as of April 1, 1994.

The Company's provision for income taxes relates primarily to taxable earnings associated with its international operations. The Company's effective tax rate can be

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subject to significant fluctuations due to dynamics associated with the mix of its U.S. and international taxable earnings.

Liquidity and Capital Resources

Working Capital

The Company's cash balances decreased \$12.9 million and short-term investments decreased \$16.0 million from December 31, 1993, to April 1, 1994. Net cash from operating activities was \$29.7 million for the first quarter of 1994 compared to \$65.1 million in the first quarter of 1993. The decrease in cash and short-term investments during the first quarter of 1994 is due primarily

to investments in property, plant and equipment, and a reduction in nonrecourse borrowings.

The current ratio decreased to 2.1 at April 1, 1994, from 2.2 at December 31, 1993. Accounts receivable decreased from \$218.7 million at December 31, 1993, to \$196.3 million at April 1, 1994, due primarily to lower comparable revenue. Inventories increased from \$203.3 million at December 31, 1993, to \$228.8 million at April 1, 1994, principally as a result of a build-up of inventories associated with new DASD products.

Available Financing Lines

The Company has a \$150 million secured multicurrency credit agreement with a group of U.S. and international banks (the Revolver) which expires in March 1995. The interest rates available under the Revolver depend on the type of advance selected; however, the primary advance rate is the agent bank's prime lending rate (6.25% at April 1, 1994). The total amount available under the Revolver is limited to a percentage of the Company's eligible U.S. accounts receivable and lease assets (primarily net investments in sales-type leases not previously utilized for secured borrowings). To obtain funds under the Revolver, the Company is required to comply with certain financial and other covenants, including restrictions on the payment of cash dividends on its common stock. There were no advances under the Revolver during the first quarter of 1994. Based on the amount of eligible accounts receivable and lease assets assigned to the Revolver, the Company had approximately \$56 million of available credit under the Revolver as of April 1, 1994.

As of April 1, 1994, the Company had approximately \$49 million of lease assets available for financing. The Company can, subject to lender credit approval, borrow against a portion of these lease assets through its unused committed lease discounting lines. The Company believes it can increase its lease discounting lines, if needed, or fund its operating and capital requirements through other forms of lease asset financings. At the Company's option, a portion of these lease assets can also be utilized for borrowings under the Revolver.

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The Company believes it has adequate working capital and financing capabilities to meet its anticipated 1994 operating and capital requirements, including new product offerings.

Long-Term Debt-to-Equity

The Company's long-term debt-to-equity ratio decreased to 34% as of April 1, 1994, from 36% as of December 31, 1993, principally as a result of a reduction in nonrecourse borrowings. These debt-to-equity ratios include \$78.6 million and \$97.0 million, respectively, of long-term nonrecourse borrowings secured by customer lease commitments included within total assets (primarily net

investment in sales-type leases). Excluding long-term nonrecourse borrowings, the Company's long-term debt-to-equity ratio remained unchanged at 26% from December 31, 1993, to April 1, 1994.

Repayment Obligations

Pursuant to the indenture related to the Company's 8% Convertible Subordinated Debentures due 2015 (Convertible Debentures), the Company is required to make semiannual interest payments on the \$145.6 million principal amount of Convertible Debentures outstanding. The Convertible Debentures became redeemable at the option of StorageTek beginning May 31, 1993, at a premium of 5.6%, and are redeemable at decreasing premiums through May 30, 2000. Convertible Debentures in the principal amount of \$8 million per annum, plus accrued interest, must be redeemed beginning May 31, 2000, through a sinking fund which provides for the retirement of 75% of the Convertible Debentures prior to their maturity on May 31, 2015. Convertible Debentures purchased by the Company in the open market and Convertible Debentures converted to common stock may be applied to the sinking fund requirements. As of April 1, 1994, the Company held Convertible Debentures in the principal amount of \$14.3 million available for sinking fund payments.

In connection with the Company's 9.53% Senior Secured Notes due August 31, 1996 (the Notes), the Company is required to make semiannual interest payments on the \$55 million principal amount outstanding. The Notes are redeemable at the option of the Company, in whole or in part, from time to time, at a premium which is determined based on current interest rates and the time remaining until maturity. Any principal amounts not previously redeemed are due and payable on August 31, 1996.

The Company's Preferred Stock provides for cumulative dividends payable quarterly in arrears at an annual rate of \$3.50 per share, when and as declared by the Company's board of directors. Based on the 3.45 million shares outstanding, annual dividends will aggregate \$12.1 million. The Notes contain restrictions which limit the payment of dividends; however, these restrictions are not expected to limit the ability of the Company to pay dividends on its Preferred Stock.

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International Operations and Hedging Activities

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A significant portion of the Company's revenue is generated by its international operations. As a result, the Company's operations and financial results can be materially affected by changes in foreign currency exchange rates. An increase in the exchange value of the U.S. dollar reduces the U.S. dollar value of revenue and profits generated by the Company's international operations because the functional currency for the Company's foreign subsidiaries is the U.S. dollar and a significant portion of the costs

associated with this revenue are incurred in the United States.

In an attempt to mitigate the impact of foreign currency fluctuations, the Company employs a hedging program which utilizes foreign currency options and forward exchange contracts. The Company utilizes foreign currency options, generally with maturities of less than one year, to hedge its exposure to exchange-rate fluctuations in connection with anticipated sales revenue from its international operations. Gains and losses on the options are deferred and subsequently recognized as an adjustment to the associated sales revenue. The Company also utilizes forward exchange contracts, generally with maturities of less than two months, to hedge its exposure to exchange-rate fluctuations in connection with monetary assets and liabilities held in foreign currencies. Gains and losses on forward contracts are recognized currently within MG&A as adjustments to the foreign exchange gains and losses on the translation of net monetary assets.

Other Factors That May Affect Future Results

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The Company believes that successful and timely development and shipment of its new products will play a key role in determining its competitive strength during the next several years. During 1994, the Company plans to introduce a number of new products. There can be no assurance that the Company will successfully develop, manufacture or market these products.

The Company's strategic plans assume that its new DASD product family will serve as a significant source of revenue beginning in the second half of 1994. While the Company believes the schedules for these products are achievable, there is no assurance that they can be met. If, as part of the development and testing of these DASD products, significant problems arise which result in material delays in their availability, expected revenue would be further delayed or may be lost, and such delays would continue to adversely affect the Company's financial results.

The Company competes with several large, multinational companies having substantially greater resources than the Company's, principally, IBM, Fujitsu Limited and Hitachi Ltd., as well as other mid-sized companies. Because of the significance of the IBM mainframe and midrange operating environments, many of the Company's products are designed to be compatible with certain IBM operating systems and many of its products function like IBM equipment. As a result, the Company's business has been and in the future may be adversely affected by a number of factors including,

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among others, modifications in the design or configuration of IBM computer systems; the announcement and introduction of new products by competitors; continuing changes in customer requirements such as migration toward networked computing and reductions in the pricing of comparable systems, equipment or

services. The Company's ability to sustain or increase sales levels depends to a significant extent upon acceptance of the many new and enhanced products it has introduced in 1993 and products planned for introduction in 1994. There can be no assurance that the Company's current products, products in development, or products in the early stages of market introduction will achieve or sustain market acceptance.

The market for the Company's products is characterized by rapid technological advances which can result in frequent product introductions and enhancements, unpredictable product transitions and shortened product life cycles. To be successful in this market, the Company must make significant investments in research and product development and introduce competitive new products and enhancements to existing products on a timely basis. These factors can reduce the effective life of product-line-specific assets. There can be no assurance that new products developed by the Company will be accepted in the marketplace. Moreover, certain components of the Company's products operate near the present limits of electronic and physical capabilities of performance and are designed and manufactured with relatively small tolerances. If flaws in design or production occur, the Company may experience a rate of failure in its products that results in substantial costs for the repair or replacement of defective products and potential damage to the Company's reputation.

The Company's manufacturing process has increased in complexity as it has increased the number and diversity of products offered to customers. The Company generally uses standard parts and components for its products and believes that, in most cases, there are a number of alternative, competent vendors for most of those parts and components. The Company purchases certain important components and products from single suppliers that the Company believes are currently the only manufacturers of the particular components that meet the Company's specifications. In addition, the Company manufactures some key components or its products include components for which alternative sources of supply are not readily available. In the past, certain suppliers have experienced occasional technical, financial or other problems that have delayed deliveries to the Company, without significant effect on it. An unanticipated failure of any sole-source supplier to meet the Company's requirements for an extended period, or an interruption of the Company's ability to secure comparable components, could have a material adverse effect on its revenue and profitability. In addition, the Company markets a number of products acquired from other manufacturers on an original equipment manufacturer (OEM) basis. These products are often available only from a single manufacturer. Some of these OEM suppliers are, or may in the future be, competitors of the Company. In the event that an OEM product is no longer available, second sourcing is not always feasible and there could be a material adverse effect on the Company's profitability.

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The Company's earnings can fluctuate significantly from quarter to quarter due to the effects of (i) customers' tendencies to make purchase decisions near

the end of the calendar year, (ii) the timing of the announcement and availability of products and product enhancements by the Company and its competitors, and (iii) fluctuating foreign currency exchange rates.

STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

See Supplementary Note 3 to the Consolidated Financial Statements.

On June 10, 1993, the Company filed suit against EMC Corp. in U.S. District Court for the District of Colorado. The suit currently alleges infringement of a patent pertaining to the Company's disk storage technology. The complaint seeks an injunction prohibiting further infringement, treble damages in an unspecified amount, and an award of attorney fees and costs. EMC Corp. filed an answer and counterclaim on July 20, 1993, alleging, among other things, patent misuse and seeking the invalidation of the Company's patents, damages in an unspecified amount and an award of attorney fees, costs and interest. Discovery has commenced and a trial has been scheduled for October 1994.

On January 21, 1994, Bell Atlantic Business Systems Services, Inc. (BABSS) filed suit in U.S. District Court for the Northern District of California, alleging that a number of the Company's service business policies are illegal, including price increases and parts and maintenance software availability. BABSS has asked the court to order the Company to stop or change these practices. BABSS motion for preliminary injunction was denied on March 18, 1994. The case is now in the discovery phase. The complaint appears to focus on conduct of the Company since December 1, 1993.

On February 23, 1994, the Company and its subsidiary XL/Datacomp, Inc., filed suit in Boulder County, Colorado, District Court against Array Technology Corporation (Array) and Tandem Computers Incorporated (Tandem). The suit asks that the court order Array and Tandem to either support certain disk drives purchased from them or provide the Company with the technical data necessary for StorageTek to provide such customer support. On March 15, 1994, Array and Tandem filed their answer and also filed counterclaims against the Company alleging breach of contract. Discovery has commenced and a preliminary injunction hearing on the Company's claim is now in progress.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- *10.1 Amendment No. 1 and Waiver to Note Agreement.
- *10.2 Third Amendment to Credit Agreement.
- *10.3 Employment Agreement between the Company and Gregory A. Tymn, dated February 27, 1987.

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- *11.0 Computation of Earnings (Loss) Per Common Share.

(b) Reports on Form 8-K

None.

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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 thereunto duly authorized.

STORAGE TECHNOLOGY CORPORATION
(Registrant)

May 13, 1994

/s/ GREGORY A. TYMN

(Date)

Gregory A. Tymn
Senior Vice President and
Chief Financial Officer

May 13, 1994

/s/ DAVID E. LACEY

(Date)

David E. Lacey
Corporate Vice President

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AMENDMENT NO. 1 AND WAIVER
TO
NOTE AGREEMENT

This Amendment No. 1 and Waiver (the "Amendment") to that certain Note Agreement, dated as of August 30, 1991, between Storage Technology Corporation, a Delaware corporation (the "Company"), and the purchasers listed in the Purchaser Schedule attached thereto (the "Note Agreement") is entered into as of April 1, 1994 by and between the Company and the holders of the Company's 9.53% Senior Secured Notes due August 31, 1996 ("Notes") which are signatories hereto. Capitalized terms defined in the Note Agreement which are used herein shall have the meanings set forth in the Note Agreement unless otherwise specified herein.

WITNESSETH:

WHEREAS, pursuant to Section 11C of the Note Agreement, the Company has requested certain amendments to the financial covenants contained in the Note Agreement and the holders of the Notes ("Holders") which are signatories hereto have agreed, subject to the terms and conditions contained herein, to amend such financial covenants as set forth herein.

NOW, THEREFORE, in consideration of the premises set forth above, the mutual covenants contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Note Agreement. Subject to the terms and conditions specified herein, effective as of the Effective Date (as defined below), the Agreement is amended as of April 1, 1994 as follows:

1.1 Schedule 6C(4)(iv) to the Note Agreement is hereby amended and restated in its entirety to read as set forth in Exhibit 1.1 attached hereto.

1.2 Schedule 8A(1) to the Note Agreement is hereby amended and restated in its entirety to read as set forth in Exhibit 1.2 attached hereto.

1.3 Certain subparagraphs set forth in paragraph 5 of the Note Agreement are hereby amended as follows:

(a) Paragraph 5A(1) of the Note Agreement is hereby amended and restated in its entirety as set forth below:

(1) as soon as practicable and in any event within 55 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a

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consolidated statement of income and statement of cash flows of the Company and its Subsidiaries for such quarterly period and for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from ordinary year-end adjustments;

(b) Paragraph 5A(2) of the Note Agreement is hereby amended and restated in its entirety as set forth below:

(2) as soon as practicable and in any event within 100 days after the end of each fiscal year, a consolidated statement of income and statement of cash flows of the Company and its Subsidiaries for such year, and a consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit all in reasonable detail and, as to the consolidated financial statements, certified to the Company by independent public accountants of recognized national standing selected by the Company whose certificate shall be in scope and substance satisfactory to you;

(c) The second paragraph after clause (9) of paragraph 5A of the Note Agreement is hereby amended by deleting the words "6C(3)".

(d) Paragraph 5C of the Note Agreement is hereby amended by deleting the words "if the Company acquires XL".

1.4 Certain subparagraphs set forth in paragraph 6 of the Note Agreement are hereby amended as follows:

(a) Paragraph 6A(1) of the Note Agreement is hereby amended by deleting the amount "\$525,000,000" and inserting in lieu thereof the amount "\$700,000,000."

(b) Paragraph 6B(b) of the Note Agreement is hereby amended

by deleting the words "(other than XL unless the Subsidiary paying such dividends is a wholly owned Subsidiary of XL)".

(c) Paragraph 6B(f) of the Note Agreement is hereby amended by deleting the words "(other than XL and any Subsidiary of XL)".

(d) Paragraph 6C(2) of the Note Agreement is hereby amended and restated in its entirety as set forth below:

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6C(2). Debt -- Create, incur or assume any Debt or Contingent Obligation, except:

(i) Debt of the Company represented by the Notes,

(ii) Debt of the Company to any Subsidiary of the Company,

(iii) Debt of any Subsidiary of the Company to any other Subsidiary of the Company,

(iv) Debt of any Subsidiary of the Company to the Company , and

(v) Other Debt of the Company or of any Subsidiary of the Company and Contingent Obligations if as of the last day of the Company's fiscal quarter in which such Debt or Contingent Obligation is created, incurred or assumed (including, without limitation, each borrowing under the Revolving Loan Agreement and each borrowing under any other revolving credit facility) and after giving effect thereto, (a) the sum of the aggregate outstanding principal amount of all Senior Recourse Debt plus the amount of all Contingent Obligations of the Company and its Subsidiaries does not exceed an amount equal to 40% of Tangible Net Worth, (b) the sum of the aggregate outstanding principal amount of all Consolidated Debt (including, without limitation, Subordinated Debt and Consolidated Non-Recourse Debt) plus the amount of all Contingent Obligations of the Company and its Subsidiaries does not exceed an amount equal to 115% of Tangible Net Worth and (c) the amount of all Contingent Obligations of the Company and its Subsidiaries does not exceed 10% of Tangible Net Worth. For purposes of this clause (v), the amount of Contingent Obligations shall be the aggregate outstanding face amount of all obligations guaranteed, endorsed or otherwise subject to becoming a direct obligation (upon the occurrence of any contingency or otherwise) under all

Contingent Obligations of the Company and its Subsidiaries (including, without limitation, the face amount of all undrawn letters or credit).

(e) Paragraph 6C(3) of the Note Agreement is hereby deleted in its entirety.

(f) Paragraph 6C(4) of the Note Agreement is hereby amended and restated in its entirety as set forth below:

6C(4). Restricted Investments -- Make or permit to remain outstanding any loan or advance to, or own, purchase or acquire any stock, obligations or securities

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of, or any other interest in, or make any capital contribution to any Person (all of the foregoing loans, advances, purchases, acquisitions, extensions and permissions to remain outstanding, other than those set forth in clauses (i) through (vi) below, being collectively referred to as "Restricted Investments" and individually as a "Restricted Investment"), except:

(i) any Subsidiary of the Company may make or permit to remain outstanding loans or advances to the Company or any other Subsidiary and the Company may make or permit to remain outstanding loans or advances to any of its Subsidiaries,

(ii) the Company and each of its Subsidiaries may own, purchase or acquire stock or other securities of another Subsidiary or of a corporation which immediately after such purchase or acquisition will be a Subsidiary,

(iii) the Company and each of its Subsidiaries may acquire and own stock, obligations or securities received in settlement of debts (created in the ordinary course of business) owing to the Company or any such Subsidiary,

(iv) the Company and each of its Subsidiaries may make investments in accordance with its written cash investment policy as set forth as Schedule 6C(4) (iv) attached hereto,

(v) the Company may permit to remain outstanding the Company's present investments described on Schedule 6C(4) (v) attached hereto, and

(vi) Restricted Investments permitted to be made

pursuant to paragraph 6B.

(g) Paragraph 6C(6) of the Note Agreement is hereby amended and restated in its entirety as set forth below:

6C(6). Merger and Sale of Assets -- Merge or consolidate with any other corporation or sell, lease, transfer or otherwise dispose of all of its assets or a Substantial Part of its assets, to any Person, except that:

(i) any Subsidiary of the Company may merge with the Company (provided that the Company shall be the continuing or surviving corporation) or with any one or more other such wholly-owned Subsidiaries,

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(ii) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Company or another such Subsidiary, and

(iii) the Company may merge with any other corporation, provided that (a) the Company shall be the continuing or surviving corporation, and (b) both before and immediately after such merger (1) the Company shall not be in violation of the covenants set forth in paragraphs 6A(1) and 6A(2) hereof, as of the date of such merger, and (2) the Company shall be able to incur at least \$1.00 of additional Senior Recourse Debt and \$1.00 of additional Contingent Obligations under paragraph 6C(2) (assuming such Debt and Contingent Obligations were incurred in the fiscal quarter of the Company immediately preceding the then existing fiscal quarter),

provided, however, that with respect to each of clauses (i), (ii) and (iii) above, there shall exist no Default or Event of Default either immediately before or after giving effect to any such merger, sale, lease, transfer or other disposition.

(h) Paragraph 6C(9) of the Note Agreement is hereby amended and restated in its entirety as set forth below:

6C(9). Transactions with Affiliates -- Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise deal with in the ordinary course of business or otherwise (i) any Affiliate of the Company, or (ii) any Person related by blood, adoption or marriage to any Affiliate

of the Company; provided, however, that this paragraph shall not be deemed to prohibit transactions the terms of which are at least as favorable to the Company and its Subsidiaries (as applicable) as the terms that could be obtained by the Company and such Subsidiary on an arm's length basis with a Person other than a Person described in clause (i) or (ii) above.

1.5 Paragraph 11D of the Note Agreement is hereby amended by deleting the amount "\$1,000,000" each time it appears and inserting in lieu thereof the amount "\$500,000."

1.6 Paragraph 10B of the Note Agreement is hereby amended by amending and restating in their entirety as set forth the definitions of "Revolving Loan Agreement" and "Subsidiary."

"Revolving Loan Agreement" shall mean that certain Multicurrency Credit Agreement dated as of March 31, 1993 among the Company, Bank of America,

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National Trust and Savings Association and certain other parties.

"Subsidiary" shall mean, as to any Person, any corporation 100% of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned by such Person either directly or through Subsidiaries.

1.7 Paragraph 10B of the Note Agreement is hereby amended by deleting in their entirety the definitions of "Secured XL Debt" and "XL Merger Agreement".

2. Waiver. Subject to the terms and conditions specified herein, effective as of the Effective Date, the Holders which are signatories hereto hereby waive the Company's compliance with paragraph 6I of the Note Agreement solely with respect to the fiscal quarters ending April 1, July 1 and September 30, 1994.

3. Conditions to Effectiveness. The effectiveness of this Amendment is subject to satisfaction of the following conditions on April 1, 1994 or any other date on or before April 1, 1994 on which the Company and the Holders which are signatories hereto may mutually agree (the date upon which such conditions are satisfied being called the "Effective Date"):

3.1 Execution and Delivery of Amendment by Holders. This

Amendment shall have been executed and delivered by the Company and holders of at least 66-2/3% of the aggregate principal amount of the outstanding Notes.

3.2 Representations and Warranties by the Company; No Default. The representations and warranties contained in Section 4 hereof and in paragraph 8 of the Note Agreement shall be true on and as of the Effective Date (and for purposes of this Amendment all references in such representations and warranties to "date of closing" or "closing" shall mean the Effective Date), both before and after giving effect to the effectiveness of this Amendment; there shall exist on the Effective Date no Event of Default or Default, both before and after giving effect to the effectiveness of this Amendment; and the Company shall have delivered to the Holders an Officer's Certificate, dated the Effective Date, to both such effects and demonstrating (with computations in reasonable detail) compliance as of March 4, 1994 with Paragraphs 6E, 6F, 6G, 6H and 6I (after taking into effect this Amendment) of the Note Agreement.

3.3 Certain Payments. The Company shall have paid all expenses payable by the Company pursuant to paragraph 11B of the Agreement relating to the fees and expenses of the Holders' special counsel to the extent the Company has received an invoice therefor.

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3.4 Amendment Permitted By Applicable Laws. The transactions contemplated by this Amendment shall not violate any applicable law or governmental regulation and shall not subject the Holders to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and the Holders shall have received such certificates or other evidence as you may request to establish compliance with this condition.

3.5 Payment of Fee. The Company shall have paid to each Holder a fee equal to such Holder's pro rata share (based on the proportion of the outstanding principal amount of the Notes held by such Holder) of \$50,000.

3.6 Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in form and substance to the Holders which are signatories hereto, and the Holders shall have received all such counterpart originals or certified or other copies of such documents as the Holders which are signatories hereto may reasonably request.

4. Representations and Warranties. The Company represents, covenants and warrants:

4.1 Power and Authority. The Company is a corporation duly organized and existing in good standing under the laws of the state of its incorporation. The Company has all requisite corporate power to conduct its business as currently conducted and as currently proposed to be conducted. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Amendment. The execution, delivery and performance by the Company of this Amendment has been duly authorized by all requisite corporate action on the part of the Company and the Company has duly executed and delivered this Amendment, and this Amendment constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

4.2 No Conflicts. Neither the execution and delivery of this Amendment by the Company, nor the consummation of the transactions contemplated hereby, nor fulfillment of nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary pursuant to, the charter or by-laws of the Company, or any such Subsidiary, any award of any arbitrator or any agreement (including any Assigned Contract and agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any such Subsidiary is subject.

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4.3 Governmental Consent. No circumstance in connection with this Amendment is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body in connection with the execution and delivery of this Amendment or fulfillment of or compliance with the terms and provisions hereof or thereof.

5. Reference to the Effect on the Agreement.

a. Upon the effectiveness of this Amendment, (i) each reference, if any, in the Note Agreement to "this Agreement," "hereunder," "hereof," or words of like import shall mean and be a reference to the Note Agreement as amended hereby and (ii) each reference to the Note Agreement in the other Transaction Documents shall mean and be a reference to the Note Agreement, as amended hereby.

b. Except as specifically amended above, the Agreement shall remain in full force and effect, and is hereby ratified and

confirmed.

c. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as an amendment to any provision of the Note Agreement nor a waiver of any right, power or remedy of the Holders, nor constitute a waiver of any provision of the Note Agreement or any other document, instrument or agreement executed and delivered in connection with the Note Agreement.

6. Descriptive Headings. The descriptive headings of the several paragraphs of this Amendment are inserted for convenience only and do not constitute a part of this Amendment.

7. Governing Law. This Amendment has been delivered in and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Illinois.

8. Counterparts. This Amendment may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

[Signature pages to follow]

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IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the day and year first written above.

STORAGE TECHNOLOGY CORPORATION

By: /s/ Gregory A. Tymn

Title: Senior Vice President and
Chief Financial Officer

THE TRAVELERS INSURANCE COMPANY

Aggregate Principal
Amount of Notes Held

By: /s/ Thomas T. S. Li

Title: Investment Officer

\$19,000,000

THE PHOENIX INSURANCE COMPANY

By: /s/ Thomas T.S. Li

Title: Investment Officer \$ 7,000,000

THE TRAVELERS INDEMNITY COMPANY

By: /s/ Thomas T.S. Li

Title: Investment Officer \$ 3,000,000

THE TRAVELERS LIFE AND ANNUITY COMPANY

By: /s/ Thomas T.S. Li

Title: Investment Officer \$ 1,000,000

PRINCIPAL MUTUAL LIFE INSURANCE
COMPANY

By: /s/ Dennis D. Ballard

Title: Counsel

By: /a/ Nora M. Everett

Title: Counsel \$20,000,000

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CANADA LIFE ASSURANCE COMPANY

By:

Title: \$ 5,000,000

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THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT ("Third Amendment"), dated as of March 1, 1994, is entered into by and among the following parties:

STORAGE TECHNOLOGY CORPORATION ("STK");

STORAGETEK FINANCIAL SERVICES CORPORATION ("New SFSC");

STORAGETEK RELOCATION OPERATIONS, INC. ("Old SFSC");

STORAGE TECHNOLOGY DE PUERTO RICO, INC. ("STPR");

XL/DATACOMP, INC. ("XL/DC") (STK, New SFSC, STPR and XL/DC are collectively referred to as the "Borrowers");

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as agent for itself and the Lenders (the "Agent"); and

The several financial institutions party to the Credit Agreement referred to below (collectively, the "Lenders").

RECITALS

A. The Borrowers (other than New SFSC), Old SFSC, the Lenders and the Agent are parties to that certain \$150,000,000 Multicurrency Credit Agreement dated as of March 31, 1993, as amended by the First Amendment to Credit Agreement dated as of August 6, 1993, and as further amended by the Second Amendment to Credit Agreement dated as of September 24, 1993 (the "Prior Credit Agreement"), pursuant to which the Agent and the Lenders have extended certain credit facilities and other financial accommodations to the Borrowers.

B. The Borrowers have requested that the Lenders agree to amend Schedule 1.01(c)(1) of the Prior Credit Agreement in order to reflect accurately the changes in the Borrowers' corporate cash investment policy. A copy of the Borrowers' new corporate cash investment policy is attached hereto as EXHIBIT A (the "New Schedule 1.01(c)(1)").

C. The Borrowers have also requested that the Lenders

agree to certain other amendments to the Prior Credit Agreement.

D. The Borrowers have also informed the Lenders that (i) Old SFSC, which was a party to the Prior Credit Agreement and the other Loan Documents intends to change its name to

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"StorageTek Relocation Operations Inc.," and (ii) New SFSC has been formed for the purpose of acquiring equipment manufactured and/or distributed by STK and, in turn, leasing or selling such equipment to other Persons. The Old SFSC is, at present, a dormant shell company that does not hold any assets, does not have any liabilities (other than to the Lenders) and does not conduct any business operations.

E. STK intends to (i) transfer, assign and convey to New SFSC all of its right, title and interest in and to certain existing leases and installment sales agreements entered into by STK prior to January 6, 1994, together with the related equipment and upgrades, and (ii) have New SFSC be the lessor under all leases of the equipment manufactured and/or distributed by STK entered into on or after January 6, 1994. Consistent with the terms and provisions of the Credit Agreement and the other Loan Documents, STK intends to provide New SFSC with financing in connection with New SFSC's on-going purchases of equipment and, as may from time to time be warranted, contribute additional capital to New SFSC.

F. In connection with the intended name change for Old SFSC and the formation of New SFSC, the Borrowers have requested that (i) Old SFSC be deleted as a Borrower under the Loan Documents, and (ii) New SFSC be added as a Borrower under the Loan Documents. New SFSC has agreed to assume and be bound by all of the obligations, duties and Indebtedness imposed on the Borrowers under the Loan Documents.

G. The Lenders are willing to agree to the Borrowers requested amendments to the Prior Credit Agreement, pursuant to Section 9.01 of the Prior Credit Agreement and subject to the terms and conditions of this Third Amendment.

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

1. Defined Terms; General Principles.

(a) Definitions. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if

any, assigned to them in the Prior Credit Agreement. This Third Amendment is incorporated into the Prior Credit Agreement by this reference and made a part thereof. The Prior Credit Agreement, as modified by this Third Amendment, is herein referred to as the "Credit Agreement."

(b) SFSC. Unless otherwise specified, all references to "SFSC" in the Prior Credit Agreement, this Third

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Amendment or any other Loan Documents (including, without limitation, all Collateral Documents) shall refer to New SFSC.

2. Amendment of Prior Credit Agreement.

(a) Release of Old SFSC; New SFSC Added as Party. Old SFSC is hereby released from its Indebtedness and obligations under the Prior Credit Agreement (other than Section 9.06 [Indemnity] of the Prior Credit Agreement) and all other Loan Documents. New SFSC hereby (i) assumes and agrees to be bound by all of Old SFSC's Indebtedness and obligations under the Loan Documents, and (ii) succeeds to all of Old SFSC's right, title and interest in and under the Loan Documents. New SFSC hereby adopts, ratifies and agrees to be bound by all of the Loan Documents (including, without limitation, the Collateral Documents) as if such Loan Documents were fully set forth herein. New SFSC and Old SFSC hereby agree that they will take all action that the Agent may reasonably request to make sure that none of the Liens granted by Old SFSC in favor of the Agent, which Liens are hereby expressly assumed, ratified and reaffirmed by New SFSC, is in any way released, impaired or adversely affected. New SFSC and Old SFSC also agree to execute and deliver any other agreements or documents that the Agent may reasonably request to implement the provisions of this Section 2(a).

(b) Schedule 1.01(c)(1). Schedule 1.01(c)(1) of the Prior Credit Agreement is hereby deleted and replaced in its entirety by the New Schedule 1.01(c)(1).

(c) Certain Definitions. Section 1.01 of the Prior Credit Agreement is hereby amended as follows:

(i) The definition of "Assessment Rate" is hereby amended by deleting it in its entirety and inserting in its place the following:

"Assessment Rate" means, for each Interest Period, the rate determined by the Agent as equal to the annual assessment rate in effect on the first day of such

Interest Period payable to the FDIC by a member of the Bank Insurance Fund that is classified as adequately capitalized and within supervisory subgroup "A" (or a comparable successor assessment risk classification within the meaning of 12 C.F.R. Section 327.3(d)) for insuring time deposits at offices of such member in the United States; or, in the event that the FDIC shall at any time hereafter cease to assess time deposits based upon such classifications or successor classifications, equal to the maximum annual assessment rate in effect on the first day of such Interest Period that is

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payable to the FDIC by commercial banks (whether or not applicable to the Banks) for insuring time deposits at offices of such banks in the United States.

(ii) The following defined term shall be inserted in the Prior Credit Agreement, to appear in the appropriate alphabetical order:

"Amperif" means Amperif Corporation.

(iii) Subsection (g) of the definition of "Eligible Lease Receivables" set forth in the Prior Credit Agreement is hereby amended by deleting it in its entirety and inserting in place thereof the following:

"(g) the Lease Receivable, when combined with the Adjusted Value of all other Lease Receivables owing by the Account Debtor and its Apparent Affiliates to the Borrower, would not exceed 10% (or, solely in the case of those Account Debtors that are Investment Grade Obligors, 30%) of the total Adjusted Value of Eligible Lease Receivables of the Borrower in the aggregate, except to the extent that the Adjusted Value of such Lease Receivable would, together with the Adjusted Value of all such other Lease Receivables, not exceed 10% (or, solely in the case of those Account Debtors that are Investment Grade Obligors, 30%) of the Adjusted Value of total Eligible Lease Receivables of such Borrower;"

(iv) The definition of "Net Income" is hereby amended by inserting the phrase "(including cumulative effects of accounting changes)" following the phrase "extraordinary items".

(v) The definition of "Net Loss" is hereby amended by inserting the phrase "(including cumulative effects of accounting

changes)" following the phrase "extraordinary items".

(d) Financial Results of Amperif. Solely for the purposes of calculating the financial covenants set forth in Section 6.03 of the Prior Credit Agreement, Amperif's financial performance and results (i) will not be included for purposes of determining compliance with the Credit Agreement for all periods prior to, and including, the third Fiscal Quarter of Fiscal Year 1993, and (ii) will be included for purposes of determining compliance with the Credit Agreement for all periods beginning with the fourth Fiscal Quarter of Fiscal Year 1993 and each Fiscal Quarter thereafter.

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(e) Consolidated Tangible Net Worth. Section 6.03(a) of the Prior Credit Agreement is hereby amended by (i) deleting the number "\$730,000,000" and inserting in its place the number "\$690,000,000", and (ii) inserting the phrase "(excluding any Net Loss)" following the phrase "Consolidated Net Income" in clause (i).

(f) Fixed Charge Coverage Ratio. Section 6.03(c) of the Prior Credit Agreement is hereby amended by deleting the required ratios set forth for all periods following the Fiscal Quarter ending on September 24, 1993, and inserting in place thereof the following:

Fiscal Quarter Ending On	Ratio
December 31, 1993	1.75:1.00
April 1, 1994	1.10:1.00
July 1, 1994	1.10:1.00
September 30, 1994	1.75:1.00
December 30, 1994 and thereafter	2.75:1.00

(g) Net Income. Section 6.03(d) of the Prior Credit Agreement is hereby amended by deleting it in its entirety and inserting in place thereof the following:

"(d) Net Income. Not permit (i) any Consolidated Net Loss of STK and its Subsidiaries to occur for each of any two consecutive Fiscal Quarters (calculated as of the last day of each such Fiscal Quarter), provided, however, that STK may permit a Consolidated Net Loss for each of the first two Fiscal Quarters of Fiscal Year 1994; (ii) Consolidated Net Loss of STK and its subsidiaries for any Fiscal Quarter to be greater than

\$10,000,000, provided, however, that in respect of the Fiscal Quarter ending April 1, 1994, such Consolidated Net Loss shall not be greater than \$35,000,000; or (iii) any Consolidated Net Loss of STK and its Subsidiaries for any Fiscal Quarter to occur if STK and its Subsidiaries also incur a Consolidated extraordinary loss, as determined in accordance with GAAP, of more than \$15,000,000 for such Fiscal Quarter."

(h) Leverage Ratio. Section 6.03(e) of the Prior Credit Agreement is hereby amended by inserting at the end of that section the following provision:

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"provided, however, that with respect to each of the third Fiscal Quarter of 1994 and the fourth Fiscal Quarter of 1994, the Consolidated Leverage Ratio of STK and its Subsidiaries shall not be greater than 1.15:1.00."

(i) Total Leverage Ratio. Section 6.03(f) of the Prior Credit Agreement is hereby amended by inserting at the end of that section the following provision:

"; provided, however, that with respect to each of the third Fiscal Quarter of 1994 and the fourth Fiscal Quarter of 1994, the Consolidated Total Leverage Ratio of STK and its Subsidiaries shall not be greater than 1.20:1.00."

3. Waiver.

(a) Subject to the terms and conditions hereof, the Lenders hereby waive the Existing Defaults. For purposes hereof, the "Existing Defaults" shall mean the Events of Default existing under Section 7.01(c) of the Prior Credit Agreement as of the date hereof solely by virtue of the default by the Borrowers under Section 6.03(c) of the Prior Credit Agreement as of December 31, 1993.

(b) Nothing contained herein shall be deemed a waiver of (or otherwise affect the Agent's or the Lenders' ability to enforce) any other default or Event of Default other than the Existing Defaults.

4. Representations and Warranties. The Borrowers hereby represent and warrant to the Agent and the Lenders as follows:

(a) Other than the Existing Defaults, no Event of Default has occurred and is continuing;

(b) The execution, delivery and performance by each Borrower of this Third Amendment are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, do not contravene (i) such Borrower's charter or bylaws, (ii) any law, rule, regulation (including, without limitation, Regulations G, T, U or X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award binding on or affecting such Borrower or any of its properties, or (iii) any contractual restriction binding on or affecting such Borrower or any of its properties, except, in each case, where any such contravention would not cause a Material Adverse Effect or render any Loan

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Document unenforceable against such Borrower or any third party, and do not result in or require the creation of any Lien (other than pursuant to the Credit Agreement or pursuant to the Collateral Documents) upon or with respect to any of its material properties;

(c) No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery and performance by any Borrower of this Third Amendment;

(d) This Third Amendment, the Prior Credit Agreement, as amended hereby, and all other Loan Documents are each the legal, valid and binding obligation of each Borrower enforceable against such Borrower (including, without limitation, New SFSC) in accordance with their terms;

(e) All representations and warranties of the Borrowers contained in Article V of the Credit Agreement are true and correct;

(f) Old SFSC does not currently have any assets or conduct any business operations;

(g) Upon the filing of the Financing Statements, the transactions described in Section 2(a) of this Third Amendment do not in any way waive, impair, adversely affect or lower the priority of the Liens granted by Borrowers and Old SFSC in favor of the Agent in and to the Collateral;

(h) New SFSC has not granted or permitted to exist any Liens on the Collateral in favor of any Person other than the Agent (except for Liens created by or pursuant to the Loan Documents and Permitted Liens); and

(i) The Borrowers are entering into this Third Amendment on the basis of their own investigation and for their own reasons, without reliance upon the Agent and the Lenders or any other Person.

5. Effective Date. This Third Amendment shall be deemed effective as of March 1, 1994 (the "Effective Date"), provided that each of the following conditions precedent has been satisfied:

(a) The Agent has received from the Borrowers and each of the Majority Lenders a complete and duly executed original of this Third Amendment;

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(b) The Agent has received from each of the Borrowers a certificate signed by the Secretary or Assistant Secretary of such Borrower, certifying that the resolution passed by the board of directors of such corporation in connection with the execution delivery and performance of the Prior Credit Agreement authorizes the execution, delivery and performance of this Third Amendment and the Credit Agreement and that such resolution is in full force and effect as of the date of delivery of such certificate;

(c) The Agent has received evidence of the due filing of proper financing statements (Form UCC-1) naming New SFSC as debtor (the "Financing Statements") under the Uniform Commercial Code in all jurisdictions as may be necessary or, in the reasonable opinion of the Agent, desirable to perfect or maintain the perfection of the security interests created by the U.S. Security Agreements;

(d) The Agent shall have received from the Borrowers, for the pro rata account of each Lender, an amendment fee equal to 0.10% times the amount of each Lender's Commitment; and

(e) All representations and warranties contained herein (including statements contained in the recitals hereof) are true and correct as of the date the Agent has received a duly executed original of this Third Amendment from all of the parties hereto.

6. Reservation of Rights. The Borrowers acknowledge and agree that the execution and delivery by the Agent and the Lenders of this Third Amendment shall not be deemed (i) to create a course of dealing or otherwise obligate the Agent or the Lenders to execute similar agreements or provide other accommodations under the same or similar circumstances in the future, or (ii) to waive, relinquish or impair any right of the Agent or the Lenders to receive any indemnity or similar payment from any Person.

7. Miscellaneous.

(a) Except as herein expressly amended, all terms, covenants and provisions of the Prior Credit Agreement are and shall remain in full force and effect and all references therein to the Credit Agreement shall henceforth refer to the Prior Credit Agreement as amended by this Third Amendment. This Third Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

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(b) The Borrowers agree to pay or reimburse the Agent, on demand, for all reasonable Attorney Costs and expenses incurred in connection with the development, preparation, negotiation, execution and delivery of this Third Amendment.

(c) This Third Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Third Amendment.

(d) This Third Amendment shall be governed by and construed in accordance with the law of the State of California.

(e) This Third Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(f) This Third Amendment, together with the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This Third Amendment supersedes all prior drafts and communications with respect thereto. This Third Amendment may not be amended except in accordance with the provisions of Section 9.01 of the Credit Agreement.

(g) If any term or provision of this Third

Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Third Amendment or the Credit Agreement, respectively.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Third Amendment as of the date first above written.

THE BORROWERS:

STORAGE TECHNOLOGY CORPORATION

By: /s/ Mark D. McGregor

Name: Mark D. McGregor
Title: Assistant Treasurer

STORAGE TECHNOLOGY DE PUERTO RICO, INC.

By: /s/ Mark D. McGregor

Name: Mark D. McGregor
Title: Assistant Treasurer

XL/DATACOMP, INC.

By: /s/ Mark D. McGregor

Name: Mark D. McGregor
Title: Assistant Treasurer

STORAGETEK FINANCIAL SERVICES CORPORATION

By: /s/ Robert J. Kali

Name: Robert J. Kali
Title: Vice President & Chief
Operating Officer

STORAGETEK RELOCATION OPERATIONS, INC.

By: /s/ Robert J. Kali

Name: Robert J. Kali
Title: Vice President & Chief
Operating Officer

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THE AGENT:

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION,
as Agent

By: /s/ Judith L. Kramer

Name: Judith L. Kramer
Title: Vice President

THE SWING LINE BANK:

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION, as Swing
Line Bank

By: /s/ Kevin McMahon

Name: Kevin McMahon
Title: Vice President

THE ISSUING BANK:

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION, as Issuing
Bank

By: /s/ Kevin McMahon

Name: Kevin McMahon
Title: Vice President

THE LENDERS:

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By: /s/ Kevin McMahon

Name: Kevin McMahon
Title: Vice President

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THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Andrea Lamp Peabody

Name: Andrea Lamp Peabody
Title: Division Executive

BANK OF MONTREAL

By: /s/ Daniel A. Brown

Name: Daniel A. Brown
Title: Director

NBD BANK, N.A.

By: /s/ James Gregory Mickens

Name: James Gregory Mickens
Title: Vice President

CONTINENTAL BANK N.A.

By: /s/ Elizabeth M. Nolan

Name: Elizabeth M. Nolan
Title: Vice President

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FIRST INTERSTATE BANK OF DENVER

By: /s/ Alex J. McCombs

Name: Alex J. McCombs

Title: Vice President

BANQUE NATIONALE DE PARIS

By:

Name:

Title:

By:

Name:

Title:

February 27, 1987

Mr. Gregory A. Tymm
Storage Technology Corporation
Louisville, Colorado 80028

Dear Greg:

The purpose of this letter is to set forth the compensation arrangement that will govern your employment with Storage Technology Corporation (the "Company") until that employment terminates or until your compensation arrangement changes. This letter (the "Letter") is not intended to change in any way your employment relationship with the Company, which has been and will continue to be "at will" under a general hiring for an indefinite term, terminable at any time by either the Company or you with or without cause, under an oral employment arrangement. Set forth below are the principal elements of your compensation:

1. Base Compensation. For your services, the Company will pay you a base salary, at an annual rate, effective January 1, 1987, of \$120,000 per year. Such salary shall be payable in installments in accordance with the regular payroll policies of the Company in effect from time to time during your employment by the Company. The amount of your base salary may be adjusted from time to time during your employment.

2. Bonuses.

(a) MBO Bonus Program. The Company currently maintains a Management By Objective Bonus Program (the "MBO Program"). During 1987, you shall be eligible for such bonuses in accordance with the MBO Program as may be established from time to time by the Company's Board of Directors (the "Board"). Any such payments under the MBO Program shall be made in accordance with the provisions, and under the conditions contained in, the MBO Program and the terms of any bonus award authorized for you by the Board. For 1987, the Board has established an On Plan Bonus potential for you of 30% of your base salary.

(b) Reorganization Bonus. Effective on the date a Plan of Reorganization is confirmed under Chapter 11 of the Bankruptcy Code ("Reorganization Date"), you shall be paid a cash bonus in the amount of \$45,000.

3. Stock Options.

(a) Previously Granted Option. Pursuant to that certain letter from the Company to you dated May 15, 1985 (the "Prior Letter"), you were granted certain options (the "Prior

Options") to acquire voting shares of common stock of the Company ("Common Stock"). A portion of the Prior Options is to become effective as of the Reorganization Date (the "First Reorganization Option"). The grant of the Prior Option in accordance with the Prior Letter shall continue in full force and effect in accordance with the provisions of such grant, except as modified herein.

(b) Reorganization Option. On the Reorganization Date, if the Company is successfully reorganized and a Plan of Reorganization is confirmed, the Company will grant you an additional option (the "Second Reorganization Option") for the purchase of 30,000 shares of Common Stock.

(c) Exercise Price - Vesting. The exercise price for both the First Reorganization Option and the Second Reorganization Option (collectively, the "Reorganization Options") shall be equal to the lowest final closing price of the Common Stock on the New York Stock Exchange during the period commencing on the Reorganization Date and ending 60 calendar days thereafter. For purposes of this Letter, if the Common Stock is not then listed on the New York Stock Exchange, the applicable closing price shall be the closing price on any other national securities exchange on which the Common Stock is listed or, if not so listed, the closing price as reported by NASDAQ in the National Market System. The Second Reorganization Option shall be exercisable as follows: one-third of the number of shares covered by such Option shall be exercisable one year from the Reorganization Date, one-third shall be exercisable two years from the Reorganization Date, and the remaining one-third shall be exercisable three years from the Reorganization Date. Shares as to which the right of exercise have vested are hereinafter referred to as "Vested Shares".

4. Termination of Employment.

(a) Termination Without Cause. If the Company elects to terminate your employment without "cause" (as that term is defined in subparagraph 4(c)), or if you should die, without cause existing at such time, you shall be entitled to receive, as a severance payment, a payment equal to the sum of your then current rate of annual base compensation for one full calendar year and 100% of your bonus amount under the MBO Program for the year of termination. Such amount shall be paid to you in a cash lump sum within thirty days after your termination of employment pursuant to this subparagraph 4(a).

(b) Termination in the Event of Sale, Merger or Change of Control. If, during your employment, the Company is sold, or merged with or into another company (in a transaction in which the Company is not the surviving entity), or all or substantially all of the assets of the Company are sold, or more than 25% of the outstanding voting capital stock of the Company is acquired by another person or persons (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) acting as a group, excepting stock issued to creditors of the Company under a Plan of Reorganization, you shall have the right to terminate your employment by written notice to the Company,

given within six months after the date of any such event, and upon such termination the Company will pay you an amount equal to the sum of your then current rate of annual base compensation for one full calendar year and 100% of your then current bonus amount pursuant to the MBO Program. The amount payable pursuant to this subparagraph shall be paid in a cash lump sum within 30 days after your termination of employment or, at your option, over such period of time as you shall determine.

(c) Termination for Cause. If the Company elects to terminate your employment for cause (as that term is defined below), your employment will terminate on the date fixed for termination by the Company, and thereafter the Company will not be obligated to pay you any additional compensation, whether in the way of base compensation, bonus or otherwise, other than the compensation due and owing through the date of termination. "Cause," for purposes of this Agreement, shall mean any of the following: (i) willful breach by you of any provision of this Agreement; (ii) gross negligence or dishonesty in the performance of your duties hereunder; (iii) engaging in conduct or activities or holding any position that materially conflicts with the interest of, or materially interferes with your duties owed to, the Company; (iv) engaging in conduct which is materially detrimental to the business of the Company; or (v) any intentional violation of Company policies applicable to employees of your position with the Company.

Very truly yours,

STORAGE TECHNOLOGY CORPORATION

By: /s/ Ryal R. Poppa

Ryal R. Poppa, Chairman and
Chief Executive Officer

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EXHIBIT 11

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<TABLE>

STORAGE TECHNOLOGY CORPORATION AND SUBSIDIARIES
 COMPUTATION OF EARNINGS PER COMMON SHARE
 (In thousands, except per share amounts)

<CAPTION>

	Quarter Ended	
	04/01/94	03/26/93
<S>	<C>	<C>
PRIMARY (a)		
Earnings (loss)		
Income (loss) before cumulative effect of accounting change	(\$19,588)	\$4,017
Cumulative effect on prior years of change in method of accounting for income taxes		40,000
Net income (loss)	(19,588)	44,017
Preferred dividend requirement	3,019	749
Income (loss) applicable to common shares	(\$22,607)	\$43,268
Shares		
Weighted average common shares outstanding	43,154	42,592
Dilutive effect of outstanding options and warrants (as determined under the treasury stock method)		592
Weighted average common shares and equivalents	43,154	43,184
Earnings (loss) per common share		
Income (loss) before cumulative effect of accounting change	(\$0.52)	\$0.08
Cumulative effect on prior years of change in method of accounting for income taxes		0.92
	(\$0.52)	\$1.00

	Quarter Ended	
	04/01/94	03/26/93
FULLY DILUTED (b)		
Earnings (loss)		
Income (loss) before cumulative effect of accounting change	(\$19,588)	\$4,017

Adjustment for interest and amortization of debt issue costs on 8% Convertible Debentures, net of estimated tax effects	2,465	2,578
	-----	-----
Income (loss) before cumulative effect of accounting change, as adjusted	(17,123)	6,595
Cumulative effect on prior years of change in method of accounting for income taxes		40,000
	-----	-----
Net income (loss), as adjusted	(\$17,123)	\$46,595
	=====	=====
Shares		
Weighted average common shares outstanding	43,154	42,592
Dilutive effect of outstanding options and warrants (as determined under the treasury stock method)	1,184	730
Adjustment for shares issuable upon assumed conversion of \$3.50 Convertible Exchangeable Preferred Stock	7,340	1,855
Adjustment for shares issuable upon assumed conversion of 8% Convertible Debentures	4,132	4,132
	-----	-----
Weighted average common shares and equivalents, as adjusted	55,810	49,309
	=====	=====
Earnings (loss) per common share		
Income (loss) before cumulative effect of accounting change	(\$0.31)	\$0.13
Cumulative effect on prior years of change in method of accounting for income taxes		0.81
	-----	-----
	(\$0.31) (b)	\$0.94 (a)
	=====	=====

(a) These figures agree with the related amounts in the Consolidated Statement of Operations.

(b) This calculation is submitted in accordance with Regulation S-K, Item 601(b)(11) although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti-dilutive result.

</TABLE>