

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

QUALMARK CORP

CIK: **1006691** | IRS No.: **841232688** | State of Incorporation: **CO** | Fiscal Year End: **1231**
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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended: DECEMBER 31, 1998

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-28484

QUALMARK CORPORATION
(Name of small business issuer in its charter)

COLORADO 84-1232688
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

1329 WEST 121ST AVENUE, DENVER, COLORADO 80234
(Address of principal executive offices, including zip code)

(303) 254-8800
(Registrant's Telephone Number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT: None
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE EXCHANGE ACT:

COMMON STOCK (NO PAR VALUE)
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or
for such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Check if there is no disclosure of delinquent filers in response to
Item 405 of Regulation S-B contained in this form, and no disclosure will be
contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form
10-KSB or any amendment to this Form 10-KSB. []

Issuer's revenues for its most recent fiscal year. \$13,742,099

The aggregate market value of the voting stock held by nonaffiliates
computed by reference to the average bid and asked prices of such stock as of
March 9, 1999 was \$15,262,002.

The number of shares outstanding of the issuer's Common Stock as of
March 9, 1999 was 3,539,015.

DOCUMENTS INCORPORATED BY REFERENCE

Registrant's definitive Proxy Statement to be filed pursuant to
Regulation 14A under the Securities Exchange Act of 1934 is incorporated by
reference in Part III of this report.

Transitional Small Business Disclosure Format (Check One):
Yes No X

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

QualMark Corporation ("QualMark" or "the Company") designs,
manufactures, and markets proprietary systems that rapidly and efficiently

expose product design and manufacturing-related defects for the purpose of improving product quality and reliability. The Company's high performance physical stress systems support significant improvements in the process of Design Verification Testing ("DVT") and Environmental Stress Screening ("ESS"). DVT is the process by which electronic product manufacturers ensure their products perform within the previously determined operating ranges (commonly known as "specifications"). ESS is the testing process used by these same manufacturers to expose production-related defects.

The Company's systems allow manufacturers to determine the true operating limits of their products. This gives manufacturers the necessary information to reduce design costs, improve product reliability, shorten time to market, reduce warranty costs, and extend warranty periods. The Company's systems are used by manufacturers in a wide range of industries to perform highly accelerated stress testing on products such as circuit boards, personal computers, monitors, flight navigation systems, cellular telephones, LAN/WAN equipment and consumer electronics.

The Company evolved from a business manufacturing and marketing its proprietary OVS (Omni-axial Vibration System) equipment to a full service organization offering HALT (Highly Accelerated Life Test) and HASS (Highly Accelerated Stress Screen) test services as well. The Company operates a network of test centers, known as Accelerated Reliability Test Centers ("ARTC"), which provide comprehensive HALT and HASS test and support services to industry. These services include accelerated reliability improvement test services (HALT and HASS) using QualMark's OVS physical stress systems performed either in the ARTC test centers or at the customer's site.

QualMark currently has eight test centers located in the metropolitan areas of Denver, Colorado, Huntington Beach, California, Santa Clara, California, Boston, Massachusetts, Minneapolis-Saint Paul, Minnesota, Detroit, Michigan, Raleigh, North Carolina and Orlando, Florida. In addition, in 1998, the Company established strategic alliances with TUV Product Service Ltd. and Anecto Ltd., to operate testing centers in London, England, Galway, Ireland and Mannheim, Germany. In 1999, the Company expects to add additional OVS capacity to existing test centers and offer additional accelerated test services. In February 1999, the Company announced a strategic alliance with Maser Engineering B.V. to operate a testing center in Enshede, The Netherlands. As international demand for its products and services grows, the Company may further expand its domestic and international presence by expanding strategic alliance arrangements with other test lab organizations.

The Company was organized in July 1991 as a Colorado limited liability company and was later incorporated in Colorado in March 1992. The Company completed its initial public offering in April 1996.

PRODUCTS AND SERVICES

THE OVS COMBINED STRESS SYSTEM

The Company's OVS Combined Stress Systems for HALT and HASS are comprised of two main subassemblies: the OmniAxial Vibration Assembly, which applies vibrational stresses, and the UltraRate Thermal Chamber Assembly, which applies thermal stresses and houses the vibration assembly.

THE OMNIAXIAL VIBRATION ASSEMBLY

The OmniAxial Vibration Assembly is a true multi-axis vibration system comprised of a table and vibrators and is the heart of the Company's technology. The vibration table moves simultaneously in three linear axes and three angular rotations. Each axis has broad-band random vibration, with all frequencies present, all of the time. While the traditional frequency range used for Design Verification Testing (DVT) and Environmental Stress Screening (ESS) is from 2Hz to 2,000 Hz, the Company's system creates vibrational forces between 2Hz and 10,000 Hz. This provides extremely complex motion across a broad frequency range, which is desirable for many current electronic technologies. Thus, the system creates virtually any vibration that could occur naturally during product use. This is important in testing and screening applications to expose most flaws, whether it is design or process related, before the product is placed into service.

The OmniAxial Vibration Assembly consists of two major components:

VIBRATION TABLE

The patented vibration table is constructed out of solid aluminum that contains cored-out voids to enhance uniform distribution of vibration energy across the table. The unique properties of this table allow the Company to produce it in a number of different dimensions, from a 2.25 square foot table size to a 16 square foot table size. As market demand dictates, the Company will continue to explore opportunities to extend the present product line to include vibration tables of different dimensions. The Company uses an outside source to produce its vibration tables; however, the Company is not dependent on a single source of supply and controls all design and documentation.

ASX AND AUTOSMEAR VIBRATORS

Attached to the bottom surface of the table are a set of pneumatic, piston driven actuators (vibrators) that contain certain patented properties, which help to maximize random motion of the vibration table. These actuators are mounted to the bottom of the vibration table and are oriented in different directions to promote random motion of the table. Compressed air is routed to the vibrator housings, forcing the pistons to impact the top surface of each vibrator, translating the energy to the vibration table.

The unique design of the Company's AutoSmear Vibrator piston and housing allow for a variation in the amount of energy produced by each AutoSmear. During 1998, the Company released and began selling the new ASX vibrator, which features several improvements to the design of the AutoSmear. Improved low frequency energy and vibrator durability are examples of these improvements.

THE ULTRARATE THERMAL CHAMBER ASSEMBLY

The UltraRate Thermal Chamber, which houses the OmniAxial Vibration Assembly, changes temperature at rates up to 60 DEG. Centigrade per minute as measured on the product being tested. This high rate of change results in highly effective design verification during HALT and extremely short production screens during HASS, requiring less equipment and personnel to perform a given series of thermal cycles. The Company believes that its UltraRate Thermal Chambers, comprised of patented and patent pending features, have one of the highest rate of thermal change available in the environmental stress screening industry. This capability significantly reduces test time, with resulting cost reductions in equipment and personnel.

In spite of rapid temperature change and complex vibration spectra, the UltraRate Thermal Chamber is extremely quiet, allowing it to be used in standard lab and manufacturing environments without the necessity of building costly special stress screening rooms.

THE OVS COMBINED STRESS SYSTEM PRODUCT LINE

The Company's OVS Combined Stress Systems for HALT and HASS are presently available in four sizes. The number after the "OVS" in the Company's product models represents the linear footage of the vibration table as explained below. Therefore, an OVS-1.5 contains a one and one half foot by one and one half foot table, an OVS-2.5 contains a two and a half foot by two and a half foot table, and so on. Through this product spectrum, the Company provides systems capable of meeting virtually every accelerated design ruggedization and production screening requirement. The variety of chamber sizes allows customers to purchase equipment that meets their requirements and to consume only the energy necessary to meet their requirements. The OVS-3 and OVS-4 systems have a unique patented feature which allows the user to raise the shaker table, thus decreasing the internal volume of the chambers to the minimum size required. By cooling and heating a smaller volume, the customer can save considerably on power and liquid nitrogen requirements.

OVS-1.5:

The OVS-1.5 is a small, bench top version of the OVS product line. The OVS-1.5 is a truly portable, multi-axis vibration and high performance thermal chamber. Equipped with all the same operating features of the larger OVS systems, including PC controller, the OVS-1.5 is primarily used by manufacturers of small products (such as "palm size" circuit boards, modem cards for notebook computers, disk drives, etc.) and usually in the product development (HALT) area.

The OVS-1.5 can generate random vibration forces in excess of 90 Grms (2Hz-10,000 Hz) on the 18"x18" vibration table and up to 60 DEG. Centigrade per minute change on the product under test within the 18"x17"x13" internal dimension (ID) thermal chamber. The domestic price of the OVS-1.5 is approximately \$69,000.

OVS-2.5:

The OVS-2.5 is the most popular system in the OVS product line. A mid-size system, the PC-controlled OVS-2.5 is available in two configurations: a standard version that is equipped with four large vibrators mounted to the vibration table, and a high performance version that comes equipped with eight large vibrators, for heavier product applications. The OVS-2.5 standard vibration system can generate 50 Grms (the high performance system generates greater force than the standard version with heavy loads) from 2Hz to 10,000 Hz. The vibration table is 30"x30", and is enclosed within a thermal chamber that is 36"x36"x37" (ID). The thermal chamber is capable of up to 60 DEG. Centigrade per minute change on the product under test. Typical uses of the OVS-2.5 include mid-size product HALT applications (disk drives, small computers, power supplies, monitors, etc.) and small volume HASS applications (multiple disk drives, multiple modem cards for notebook computers, etc.) The domestic price for a standard OVS-2.5 is approximately \$116,500 and the high performance version for heavy load applications is approximately \$125,500.

OVS-3:

The OVS-3 is commonly used for production screening (HASS) applications, or for HALT on system-level products (such as work stations and other large computers). The PC- controlled OVS-3 contains a 36"x36" vibration table equipped with nine large vibrators that generate at least 60 Grms random vibration force (2Hz-10,000 Hz). The thermal chamber is 43"x42"x54" (ID) (table in lower position) and can produce temperature changes on the product under test of up to 60 DEG. Centigrade per minute. The OVS-3 sells for approximately \$137,000.

OVS-4:

The OVS-4 is the largest system in the OVS product line and is available in a standard and high performance version. By far, the most common application for the OVS-4 is for large volume production screening (HASS) on computers, monitors, communications systems, etc. The PC-controlled OVS-4 is equipped with a 48"x48" vibration table housed within a 55"x54"x54" (internal dimension) (table in lower position) thermal chamber capable of producing temperature changes of up to 60 DEG. Centigrade per minute on the product under test. The OVS-4 standard vibration system is equipped with eight large vibrators that produce up to 50 Grms random vibration force, while the high performance version is equipped with sixteen large vibrators for heavy load applications. The standard OVS-4 sells for approximately \$169,500; the high performance version for heavy load applications is approximately \$178,500.

A two year limited warranty is included with each OVS system. Various options and accessories are available for each OVS model, including oxygen monitors, vacuum hold down apparatus (for product fixturing requirements), extended warranties, and on-site applications assistance.

ACCELERATED RELIABILITY TEST CENTERS

The Company has a network of ARTC test centers throughout the United States, which provide test services and on-site applications support services. The Company is uniquely positioned to offer comprehensive HALT/HASS test services to manufacturers. The QualMark test service business includes accelerated reliability test services performed in the Company's test centers and on-site applications support services. These services allow a broad range of customers convenient access to the Company's technology while also serving as valuable sales tools for gaining system orders. Each test center is equipped with the high performance version of the Company's mid-range system, the OVS-2.5, at least one applications engineer and ancillary testing equipment. Offering these services as an ISO-registered accelerated test lab significantly differentiates the Company from its equipment and lab competition.

The Company opened its first ARTC facility in Denver in October 1993 and subsequently opened additional facilities in Marlborough (Boston), Massachusetts and Santa Clara, California in July 1994 and May 1995, respectively. Since opening these facilities, many test service clients have placed orders to purchase systems as a result of the data gathered and analyzed at the Company. The test center is a valuable tool for the Company sales people to stimulate system sales from those clients who are not willing to commit capital without being able to experience a demonstration of the benefits using their own product. Of strategic importance to the Company, the

testing service business should help insulate the Company from external economic factors that affect capital spending and provide for more consistent revenues.

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In addition to its Boston, Denver and Santa Clara test centers, during 1996 the Company opened test centers in the metropolitan areas of Minneapolis-Saint Paul, Minnesota, Detroit, Michigan, and Raleigh, North Carolina. In 1997 the Company opened its seventh and eighth test centers in Huntington Beach, California and Orlando, Florida. The Company established its first test center presence outside the U.S. via a strategic alliance with TUV Product Service Ltd. near London, England. This lab began operations in February 1998. The second international alliance was established in Galway, Ireland with Anecto, Ltd. This lab commenced operations in August 1998. The Company established a third international alliance in Mannheim, Germany with TUV Product Service Ltd. as the partner. The Mannheim lab commenced operations in November 1998. Under these alliances, the Company contributed one OVS 2.5 system and the strategic partner provided the lab facility, personnel and sales management. In return, the Company receives a percentage of the revenues generated by the OVS systems.

The Company may open additional test centers principally in metropolitan areas with a heavy concentration of potential client companies and in which the Company has a factory sales representative responsible for the target metro area. Management believes demand for its test services will continue to grow, allowing for controlled expansion into additional metro areas. Finally, the Company may expand its international presence via strategic alliance arrangements with other test lab organizations.

Based on client demand, the Company offers on-site applications support services, principally through its ARTC network, to its clients as well as competitors' customers. Specifically, the Company advises customers how to apply HALT and HASS techniques to their products. The Company also incorporates applications support services into equipment quotations.

MARKETING

The Company increased its market exposure in 1998 by continuing to conduct a number of "open houses" at each of its nationwide ARTC's. Prospects for these open houses are usually found in various electronic manufacturers databases. In-house and field sales personnel use these tools to identify and invite key engineering and reliability decision makers to find out how they can dramatically increase their product reliability. Attendees are qualified to determine which companies are high probability prospects to use the ARTC and/or to begin in-house accelerated testing. Through the open houses, the Company identifies many new customers for its products and services, while rapidly expanding the market acceptance of HALT and HASS as premier accelerated testing techniques.

In addition, the Company's marketing plan for the next twelve months includes the following:

- 1) The Company will continue to encourage individuals and companies in the electronic and reliability engineering market segments to publish articles concerning accelerated reliability techniques and their successes associated with using the techniques.
- 2) The Company will selectively advertise in periodicals that have significant exposure with design engineers and reliability/ESS engineers.
- 3) The Company intends to attend approximately fifteen trade shows in 1999 in the U.S. and internationally.
- 4) Management intends to have its marketing staff continue to effectively orchestrate activities in the areas of public relations, advertising, trade show attendance, point of sale materials development and telemarketing.
- 5) The Company may make additions to its existing field sales staff in the U.S. and abroad.

SALES STRATEGY

The Company's sales strategy combines telemarketing with regional vice presidents who are primarily responsible for OVS system sales and regional account executives who are responsible for ARTC service sales. At year end 1998, the Company had three regional vice presidents and eleven regional

account executives. In addition, the Company uses independent sales/service agents in Europe, the Middle East and the Far East. During the next twelve months, the Company intends to add to its international sales/service agent network and may add additional regional account representatives in the United States.

The regional vice presidents, each of whom have multiple ARTC facilities within their geographic areas of responsibility, direct the efforts of the regional account executives in selling ARTC services. When customers express interest to the regional account executive in buying an OVS system rather than using an ARTC, the regional vice president assumes responsibility for

the customer to close the OVS sale.

Telemarketing resources are located at corporate headquarters to provide follow-up phone calls on local mailings, advertisement inquiries and other leads that are generated within each sales region. Telemarketing also handles geographical areas not covered by regional offices, international areas and any corporate campaigns that are developed by the Chief Operating Officer. The telemarketing staff also encourages prospective customers to attend local ARTC open houses and to follow up on leads from geographical areas around the world that have no Company representation.

CUSTOMERS

The Company's systems are used by manufacturers in a wide variety of industries. As of December 31, 1998, the Company had sold 254 systems to 135 different customers, in the following industries: Telecommunications and Computer, 57; Defense and Aerospace, 22; Medical Electronics, 14; and Other, 42. The QualMark customer list includes major corporations such as Allied Signal, AT&T, Cessna, Dupont, Cummins Engine, Hewlett-Packard, Honeywell, Hughes, Intel, Lucent Technologies, Johnson & Johnson, Medtronic, Motorola, National Semiconductor, Magnavox, Nortel (formerly Northern Telecom), Sequent Computers, Tektronix, 3-COM and United Technologies. During 1998, there were no customers that comprised 10% or more of the Company's revenue.

The following table sets forth some of the major industries and a number of products that have undergone HALT or HASS testing protocol using the Company's systems as part of the manufacturer's testing procedures.

<TABLE>
<CAPTION>

Aerospace and Defense -----	Computer Related Products -----	Other -----
<S>	<C>	<C>
Aviation electronics	Circuit boards	Automotive circuitry
Display switches	Disk drives	Electronic oil and gas flow meters
Flight navigation systems	Modems	Global positioning systems
Marine navigation systems	Monitors	
	Power supplies	
	Printers	
	Tape backup drives	

Telecommunications -----	Medical Electronics -----
<S>	<C>
Automated teller machines	Electronic thermometers
Air conditioning electronics	Glucose monitors
Cordless telephones	Infusion pumps
Fax machines	IV pumps
	Laboratory centrifuges
	Medical imaging systems
	Patient monitors

</TABLE>

RESEARCH AND PRODUCT DEVELOPMENT

Research and development expenditures for the fiscal years ending December 31, 1998 and 1997 were \$684,000 and \$236,000, respectively. During the fourth quarter of 1998, the announced the Company availability of its new OVS PC-based controller, which features a number of improvements over the previous controller and is also CE (Certified for Europe) compliant. In 1999, the Company intends to devote considerable efforts in the development of the specifications for its next generation OVS product line and expects its research and development expenditures to increase to over \$1,000,000 in 1999. This research and development effort is expected to be funded by cash flows

from operations. In 1997, the Company refined the OVS product line by discontinuing the OVS-1 and OVS-2 and adding the OVS-1.5. However, the OVS-1 may be reintroduced in an abbreviated version to accommodate that part of the market that desires a lower cost version of the OVS combined stress technology.

Of great benefit to the Company is that its technology is extremely flexible in regard to the physical size of its OVS systems; consequently, product line extension opportunities normally do not require sizable expenditures on product development.

The Company intends to continue taking advantage of design refinement opportunities specific to its OVS combined stress technology. As discussed in the following "Intellectual Property" section, the Company currently holds domestic and foreign patents on its products and continues to seek patent protection of current and new products. The Company is optimistic that the flexibility and scalability of its fundamental OVS combined stress technology will allow the Company to add to its product line as new opportunities develop.

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Through its association with the University of Maryland's CALCE EPRC (Computer Aided Life Cycle Enhancement, Electronic Packaging Research Center) research program, the Company has aligned itself with one of the premier electronic packaging research centers in the world. As a CALCE EPRC affiliate, the Company has ongoing access to leading-edge technology development in the areas of highly accelerated test methods and virtual verification. As the demand and viability of these new test methods and technologies are verified, the Company intends to add them to its ARTC service offering.

The association with the University of Maryland allows the Company to better manage its investment in research and development, while enjoying the benefit of having an OVS system on site at CALCE EPRC for visiting prospective client representatives to observe its operation.

INTELLECTUAL PROPERTY

The Company has maintained the practice, where possible, to pursue patent protection on its products. The Company has been issued ten United States patents (the "Patents") and one foreign patent issued in six countries. These patents protect certain features of the OmniAxial Vibration Assembly of the Company's OVS Combined Stress Systems or certain design features of the pneumatic, piston-driven actuators (vibrators) that help create random motion of the vibration table. The Company was issued U.S. Patent No. 5,365,788 on November 22, 1994, for certain design features of pneumatic, piston driven actuators that create motion for a vibration table. The Company was issued U.S. Patent No. 5,412,991 on May 9, 1995, for certain design features of the Company's vibration table. The Company was issued U.S. Patent No. 5,517,857 on May 21, 1996, for certain design features related to positioning of a vibration table within a stress screening chamber. The Company was issued U.S. Patent No. 5,540,109 on July 30, 1996, and U.S. Patent No. 5,675,098 on October 7, 1997, for certain design features related to use of multiple stress screening chambers. The Company was issued U.S. Patent No. 5,589,637 on December 31, 1996, for certain design features of mountings of actuators to a vibration table. The remaining duration of each of the Patents is between twelve and seventeen years.

The Company has three United States patent applications and two foreign patent applications pending relating to its OVS Combined Stress Systems. The Company plans to make additional patent applications as appropriate.

There are six foreign patents issued for certain design features of the pneumatic, piston-driven actuators (vibrators) that help create random motion of the vibration table. The countries in which these patents have been issued are France, Germany, Italy, Luxembourg, Sweden, and the United Kingdom.

The Patents provide barriers to competition in the equipment sales portion of its business. The loss of some or all of the protection of the Patents would make it easier for other companies to enter the Company's market and compete against the Company by eroding the Company's ability to differentiate itself on the basis of technical superiority.

In addition to the Patents, the Company tries to protect its proprietary technology and know-how through established security practices and confidentiality agreements with each of its employees, consultants, suppliers and technical advisors. There can be no assurance, however, that these agreements or procedures will provide meaningful protection for the Company's

trade secrets in the event of unauthorized use or disclosure of such information.

While the Company believes the protection afforded by the Patents is strong, there can be no assurance that other companies will not be able to design and build competing vibration tables in a manner that does not infringe the Patents. On March 22, 1996, Screening Systems, Inc. filed a patent infringement action against the Company alleging that the Company infringed U.S. Patent No. 4,181,026. See "Item 3. Litigation."

The Company has the following registered marks with the United States Patent and Trademark Office: QUALMARK, ACCELERATE THE FUTURE, ACCELERATED RELIABILITY TEST CENTER, ARTC, and AUTOSMEAR. The Company has one U.S. trademark pending for OVS, one U.S. certification mark application for QHT and one foreign mark application pending for OVS and QualMark. The Company plans to make additional trademark, service mark, and certification mark applications as appropriate.

COMPETITION

EQUIPMENT

There are many companies that could be considered competitors of QualMark. These companies provide either electrodynamic shaker tables or temperature/humidity chambers. Companies will occasionally team to provide a shaker table within a separate temperature/humidity chamber. However, the Company believes that there are only three companies that can

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be considered major direct equipment competitors that offer a six-axis vibration table integrated into a thermal chamber which can be used for HALT/HASS applications.

Screening Systems, Inc. ("SSI") (Laguna Hills, California) has been in the ESS and DVT business since the early 1980's. They operated for many of those years with technology licensed from Hughes Electronic ("Hughes"). On March 22, 1996, Screening Systems, Inc. filed a patent infringement suit against the Company in federal district court in Santa Ana, CA. See "Business -- Litigation," and see "Risk Factors - Patent Litigation."

MV/Hanse Environmental, Inc. (Allegan, MI) is a company that began assembly and sales in 1993 of combined stress systems essentially equivalent to the Company's technology. The president of Hanse Environmental is a former employee of the Company.

Thermotron Industries (Holland, MI) announced their offering of a competitive product to the Company's OVS system in the first quarter of 1998. Thermotron is a broad line environmental chamber manufacturer and has also begun manufacturing and selling a chamber with an integrated vibration system that directly competes with QualMark's OVS product offering.

Several traditional ESS equipment manufacturing companies, such as Tobai Espec and Weiss, enjoy annual revenues in excess of \$50 million dollars, according to the Thomas Register, which is an industrial products directory. These firms manufacture thermal chambers and single/multiple axes vibration systems that support traditional screening methods.

The equipment manufactured by traditional ESS equipment manufacturers is well accepted in the market, since ESS supports traditional "pass-fail" specification test protocols that have been in use for several decades. The Company's technology supports new accelerated test protocols that relate to improving product design and manufacturing processes rather than the "pass-fail" test processes. As such, the Company is attempting to expand a new market segment and plans to allocate considerable resources to an effort to convince prospective customers to adopt accelerated test protocols in addition to, or in replacement of, traditional methods.

ARTC AND APPLICATIONS SUPPORT SERVICES

As emerging test methods, HALT and HASS acceptance in industry remains at the introduction stage. The Company is unaware of any multi-site national commercial testing laboratory similar to its ARTC's offering of HALT/HASS accelerated testing services using the Company's or Screening Systems Inc. equipment or providing on-site applications support services. However, the Company knows of at least three independent environmental test labs using SSI equipment. The terms of these arrangements are not known by the Company. Since several hundred commercial testing laboratories exist in the U.S., the Company anticipates that new competitors will aggressively enter the

accelerated testing market.

MANUFACTURING

The Company's manufacturing facility is located in Denver, Colorado. QualMark's assembly of the OVS systems evolved from a "job shop" approach into a manufacturing line approach in which drawings of all subassemblies used by the Company are maintained using computer aided design (CAD). The manufacture of the Company's products is organized around three major elements that include vibration systems, chamber systems and control systems.

To ensure that all subassemblies meet specifications when received, key suppliers remain actively involved throughout product design. Key suppliers perform source inspection at the point of manufacture. Most key suppliers are local companies. The Company intends to further develop local suppliers, with back-up suppliers as required. To date, the components and assemblies from these suppliers have met or exceeded all specifications. The Company is not dependent on any one or a few major suppliers for any of the key parts or components of its systems. However, the Company has developed relationships with what it considers critical vendors that manufacture three components of its OVS system. While the Company is not dependent on these suppliers, it would take as much as 60 days to locate, qualify and begin taking delivery of these components from new suppliers.

While the Company maintains a small inventory of OVS systems in finished goods, the Company primarily uses a rolling-quarter sales forecast in determining the number of OVS-1.5, OVS 2.5, OVS-3, OVS-4 systems to build during the quarter. Special order systems are still treated as non-recurring-engineering ("NRE") orders. Because of increased sales volume, the Company is producing certain common subassemblies that are integrated into the final systems when orders are booked. This helps provide a more even manufacturing flow and minimizes the "peaks and valleys" associated with small volume manufacturing.

The Company is in the process of implementing Material Requirements Planning, a computer software driven inventory management process, to maximize the effectiveness in which an order can be filled while minimizing required inventory.

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Management uses fully-costed Bills of Materials (BOM) which ensure that all parts of an OVS system are identified and ordered in a timely manner.

PRODUCT WARRANTIES AND SERVICE

The Company offers a limited, two-year parts and labor warranty on all new OVS systems. OVS customers can purchase extended warranties on their OVS systems, which may include two preventive maintenance visits during the year by a qualified Company representative. In addition, the Company offers for sale a comprehensive spare parts kit for each OVS system, which further minimizes OVS system down time. Because of the efficient design of OVS systems, the Company rarely sends its technicians into the field for warranty repairs. Most problems can be diagnosed over the phone and, if necessary, replacement parts are sent to the customer via overnight mail.

GOVERNMENT REGULATION

To its knowledge, the Company complies with all international, federal, state, and local regulations, including environmental regulations, governing the conduct of its business and the costs of such compliance are minimal. The Company has no significant environmental issues or impact in its manufacturing or service delivery and there are no significant costs or compliance issues with any government agencies or laws in this area.

EMPLOYEES

As of December 31, 1998, the Company had 70 employees, all of which are full-time. Forty seven of the Company's employees are employed at its principal offices and headquarters in Denver, Colorado, four are employed at its facilities in Santa Clara, CA, three in Huntington Beach, CA, two in New Brighton, MN, three in Farmington Hills, MI, four in Marlborough, MA, two in Morrisville, NC, two in Winter Park, FL, one in Baltimore, MD, one in Chicago, IL and one in Dallas TX. No employees are represented by labor organizations and there are no collective bargaining agreements. Employee relations are believed to be good.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company operates out of leased facilities located at 1321, 1329, 1331, 1343 and 1351 West 121st Avenue, Denver, Colorado. The three-year lease for the properties expires on May 31, 2000. The leased properties consists of approximately 18,093 square feet. The lease calls for monthly payments over the term of the lease of \$14,007. The Company also leases 2,400 square feet in a space in the same building, 1313 West 121st Avenue. This space has a separate lease agreement that expires on November 30, 2001. The lease calls for monthly payments over the term of the lease of \$2,018. In addition to both of these leases, the Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's manufacturing, sales, administrative operations and regional ARTC services are conducted at this facility.

The suburban Boston ARTC facility is located at 41 Brigham Street, Unit 11, Marlborough, Massachusetts. The five-year lease expires June 31, 1999. The leased property consists of approximately 2,250 square feet. The lease calls for average monthly payments over the term of the lease of \$1,734. In addition, The Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility. The Company is in negotiations to move the facility to a larger location at the conclusion of the current lease.

The Silicon Valley ARTC facility is located at 2225 Martin Avenue, Suite K, Santa Clara, California. The three-year lease expires on February 28, 2001. The leased property consists of approximately 4,660 square feet. The lease calls for average monthly payments of \$7,222. In addition, the Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility.

The suburban Minneapolis ARTC facility is located at Rush Lake Business Park, 1775 Old Highway 8, Suite 110, New Brighton, Minnesota. The five-year lease expires in February 2001. The leased property consists of 2,783 square feet. The lease calls for average monthly payments of \$2,748. In addition, the Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility.

The suburban Raleigh ARTC facility is located at 215 Southport Drive, Suite 300, Morrisville, North Carolina. The five-year lease expires in July 2001. The leased property consists of approximately 4,692 square feet. The lease calls for average monthly payments of \$3,175. In addition, The Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility.

The suburban Detroit ARTC facility is located at 39255 Country Club Drive, Suite B-8, Farmington Hills, Michigan. The five-year lease expires in September 2001. The leased property consists of approximately 4,491 square feet. The lease calls

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for average monthly payments of \$5,427. In addition, the Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility.

The southern California ARTC facility is located at 15661 Producer Lane, Unit H, Huntington Beach, California. The five-year lease expires in December 2002. The leased property consists of 3,420 square feet. The lease calls for average monthly payments of \$2,154. In addition, the Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility.

The suburban Orlando facility is located at Crossroads Business Center, Suite 212, 931 Semoran Boulevard, Winter Park, Florida. The five-year lease expires April 30, 2002. The lease calls for average monthly payments of \$2,969. In addition, the Company is responsible for certain expenses, including property taxes, insurance and maintenance. The Company's regional ARTC service business is conducted at this facility.

The Company believes that its facilities are adequate for its current needs and that suitable additional space can be acquired if needed. All of the premises are of recent construction, are in good condition, are neat in their appearance and are located in business complexes with business of similar quality.

ITEM 3. LEGAL PROCEEDINGS

On March 22, 1996, the Company was served with a summons and complaint in the U.S. District Court in the Central District of California from Screening Systems, Inc. ("SSI"), a competitor. The complaint, as amended, alleges that the Company's vibration system infringes three patents owned by Hughes Electronics ("Hughes") and licensed to SSI, and seeks injunctive relief, monetary damages and costs of litigation. Because Hughes would not voluntarily join the action as a plaintiff, SSI has named Hughes as a defendant in the action.

The Company has been aware of the patents in question since the Company commenced its operations and, with advice from patent counsel, designed its vibration system, components of which are also patented, so as to not infringe the patents. The Company's vibration system has been used continuously in its products since 1991. On two prior occasions, Hughes put the Company on notice that the Company's vibration system might infringe its patents, although no litigation was commenced. On both occasions, the Company concluded, after consultation with patent counsel, that infringement did not exist and has seen nothing since to change that conclusion.

Discovery in the action has been completed; however, the trial date has been vacated. In April 1997, the court conducted a "Markman hearing" to determine the scope and meaning of the relevant claims and terms of the patents-in-suit. In October 1997, the court issued its Order re: Construction of Patent Claims. The court has not yet set a trial date.

In response to the current litigation, the Company consulted with its current legal and patent counsel, who agreed with prior patent counsels' opinions that the Company's vibration system does not infringe the SSI patents. Consequently, management intends to vigorously defend this litigation. However, no assurances can be given that the Company will be successful in its defense. The Company believes that the suit may have a material adverse effect on the results of operations and financial condition of the Company in terms of legal fees and costs for defending the claim, the possibility of an unfavorable outcome and an award of damages, and of the loss of management time needed to deal with the suit. At December 31, 1997, the Company accrued an estimate provided by its legal counsel as to the costs related to cover the legal fees associated with defending this suit. No additional accrual was warranted during 1998.

The Company believes that the legal action by the plaintiff is without merit and will continue to vigorously defend itself in these matters.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of shareholders during the last quarter of the fiscal year ended December 31, 1998.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The common stock of the Company is traded on the NASDAQ (National Association of Securities Dealers Automated Quotations) Small-Cap Market. The following table sets forth the range of high and low closing bid prices of the Company's

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common stock as reported by NASDAQ during fiscal years 1998 and 1997:

<TABLE>
<CAPTION>

	Fiscal Year Ended December 31, 1998	
<S>	High Close <C>	Low Close <C>
First Fiscal Quarter	\$7.750	\$6.250
Second Fiscal Quarter	8.500	6.875
Third Fiscal Quarter	7.875	3.500
Fourth Fiscal Quarter	6.250	3.625

<CAPTION>

	Fiscal Year Ended December 31, 1997	
<S>	High Close <C>	Low Close <C>
First Fiscal Quarter	\$3.500	\$2.750

Second Fiscal Quarter	5.000	3.000
Third Fiscal Quarter	5.250	3.625
Fourth Fiscal Quarter	6.500	4.625

The foregoing quotations represent quotations between dealers without adjustment for retail markups, markdowns or commissions and may not represent actual transactions.

At December 31, 1998, the Company had approximately 1,065 beneficial shareholders and 46 shareholders of record. The Company has never paid a dividend, and does not anticipate the payment of dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth for the fiscal periods indicated the percentage of total revenues, unless otherwise indicated, represented by certain items reflected in the Company's consolidated statement of operations:

<TABLE>
<CAPTION>

	Fiscal Year Ended	
	December 31, 1998	December 31, 1997
Statement of Operations Data:		
Revenues.....	100.0%	100.0%
Cost of Revenues.....	55.7	57.9
Gross Profit.....	44.3	42.1
Selling, general and administrative Expenses.....	32.5	48.5
Research and development Expenses.....	5.0	2.2
Income (loss) from operations.....	6.8	(8.6)
Other income (expense).....	(.4)	.1
Income (loss) before income taxes.....	6.4	(8.5)
Income tax benefit.....	6.1	
Net income (loss).....	12.5%	(8.5)%

</TABLE>

RESULTS OF OPERATIONS

The Company's annual and quarterly operating results could be subject to fluctuations for a variety of reasons. The Company operates with a small backlog relative to its revenue; thus most of its sales in each quarter result from orders received in the current or prior quarter. In addition, because prices for the Company's products are relatively substantial, a significant portion of net sales for each quarter is attributable to a relatively small number of units.

COMPARISON OF YEARS ENDED DECEMBER 31, 1998 AND 1997

REVENUE

Total revenue in the year ended December 31, 1998 increased \$3,103,000 (29.2%) as compared with the year ended December 31, 1997.

System revenue increased \$2,468,000 (32.1%) in 1998 from \$7,683,000 to \$10,151,000 as compared to 1997. Unit shipments increased from 58 to 70 for 1997 and 1998, respectively. The Company experienced a greater concentration of larger, more expensive systems in 1998 compared to 1997, which was a significant factor in system revenue growth of 32.1% on systems unit sales growth of 20.7% over such period.

Test center revenue for 1998 increased \$635,000 (21.5%) from \$2,956,000 to \$3,591,000 over 1997. At December 31, 1998 and 1997, the Company operated eight test centers containing ten systems. During 1998, the Company initiated its international ARTC expansion program by creating strategic alliances with two companies operating test labs in three different countries: TUV Product

Service in the U.K. and Germany and Anecto, ltd. in Ireland. Under the strategic alliance agreements, QualMark provides an OVS 2.5 to each lab location and the strategic partner provides the facility, labor, and sales management. QualMark receives a percentage of the revenue that the OVS system generates. During 1998, the revenue from these strategic alliances totaled \$137,000.

GROSS MARGIN

The gross margin in 1998 was 44.3% compared to 42.1% for 1997. The increase in gross margin is mostly attributable to efficiencies gained from increased throughput in both the OVS and ARTC businesses. Pursuant to a royalty agreement with the Company's founder a royalty expense of 3% on all revenue continued to be charged to cost of sales in 1998. The Company's royalty expense was \$412,000 in 1998 and \$324,000 in 1997 under this agreement. The agreement expires at the end of 1999.

OPERATING EXPENSE

General and administrative expenses decreased in 1998 to \$2,113,000 from \$3,450,000 in 1997. The decrease reflects a substantial reduction in legal costs incurred from the Company's involvement in the patent litigation matter with SSI described in "Item 3. Legal Proceedings" above. The Company incurred \$131,000 in legal fees in 1998 compared to \$1,608,000 in 1997. Although still pending, the Company established a reserve in 1997 to cover expected legal expenses associated with the litigation. At December 31, 1998, management felt the remaining reserve was adequate to complete the case.

Sales and Marketing expenses increased \$651,000, from \$1,704,000 in 1997 to \$2,355,000 in 1998. This increase was primarily due to increases in the number of sales and marketing personnel and increased sales and marketing efforts over the comparable period in 1997.

Research and development costs increased from \$236,000 in 1997, to \$684,000 in 1998. This increase is due to increased efforts and personnel in the Company's research and development department. It is the intent of the Company in 1999 to devote considerable effort to the development of new technologies and product offerings and expects its research and development expenditures to increase to over \$1,000,000 in the next year.

Net interest expense in 1998 was \$73,000 compared with a net interest income of \$22,000 in 1997. The decrease in interest income and increase in interest expense was due to a decrease in interest-earning cash and short-term investment balances and an increase in borrowings.

INCOME TAX BENEFIT

During the fourth quarter, management considered a variety of factors, such as 1997 profitability excluding litigation expenses, 1998 profitability and projected future taxable income, in evaluating the need for a valuation allowance against deferred tax assets. Based on that evaluation, management concluded that it was more likely than not that all recorded deferred tax assets would be realized. Accordingly, the Company recognized an income tax benefit of \$842,000 in 1998 primarily as a result of releasing a previously recorded valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

During 1998, the Company devoted \$551,000 of cash to operating activities, invested \$567,000 for equipment, received \$112,000 as proceeds from disposal of property and equipment, paid \$11,000 in capital lease payments, borrowed \$2,836,000

from banks and repaid \$1,609,000 of those borrowings. The Company also loaned its president and CEO \$104,000 and employees and investors exercised options and warrants to purchase 97,881 shares of common stock for proceeds of \$103,000. Together, these activities resulted in a cash increase of \$209,000 to a balance of \$668,000 at December 31, 1998. These numbers compare to 1997, when the Company devoted \$1,365,000 to operating activities, invested \$846,000 for equipment, received \$81,000 as proceeds from disposal of property and equipment, paid \$33,000 in capital lease payments, purchased short term investments of \$200,000 and redeemed short-term investments of \$2,111,000. The Company borrowed \$200,000 from its bank and repaid \$16,000 of those borrowings in 1997. Also in 1997, former employees exercised options to purchase 55,000 shares of common stock for proceeds of \$116,000. Together, these 1997 activities resulted in a cash increase of \$48,000 to a balance of \$459,000 at December 31, 1997.

In December 1998, the Company established a line of credit arrangement with a new bank, replacing a credit facility it had with another bank. The new credit line provides for draws up to \$5,000,000, including term loan and revolving credit line portions.

The term loan portion may not exceed \$2,000,000 and bears interest at a variable rate equal to either the LIBOR rate plus applicable margin or the prime rate plus applicable margin. Under the LIBOR option, the applicable margin ranges between 2.25% and 3.75%, depending on the financial condition of the Company. Under the prime rate option, the applicable margin ranges between 0% and 1.25%, depending on the financial condition of the Company. As of December 31, 1998, the Company had utilized \$1,411,000 of the available term loan amount and had chosen the LIBOR option.

The revolving credit portion may not exceed \$3,000,000 and bears interest at a variable rate equal to either the LIBOR rate plus applicable margin or the prime rate plus applicable margin. Under the LIBOR option, the applicable margin ranges between 2.00% and 3.55%, depending on the financial condition of the Company. Under the prime rate option, the applicable margin ranges between -0.25% and 1%, depending on the financial condition of the Company. As of December 31, 1998, the Company had not borrowed any available amounts under the revolving credit line agreement.

Both portions of the credit facility are secured by substantially all of the assets of the Company. The Company must maintain certain financial and other covenants in order to draw amounts available under the line of credit. The total amounts of funds available to the Company under both of the agreements is limited to the sum of 85% of the Company's eligible accounts receivable, 30% of eligible inventory and 50% of equipment located in the United States. As of December 31, 1998, the eligible amount available under both portions of the credit facility was approximately \$3,495,000.

The Company expects to meet long term liquidity requirements through cash flows generated by operations, existing cash balances and its line of credit. The Company is dependent, however, on its ability to maintain and grow its systems and test center businesses in order to generate adequate operating cash flows.

YEAR 2000 ISSUE

During the year ended December 31, 1998, management initiated a program to prepare the Company's financial, manufacturing, service and other critical systems and applications for the Year 2000. The program involves the Company's upper management as well as project leaders from each department. The focus of the program is to identify affected software and hardware, develop a plan to correct that software or hardware in the most effective manner and implement and monitor that plan. The program will also include communications with the Company's significant suppliers and customers to determine the extent to which the Company is vulnerable to any of their Year 2000 issues. Although the Company's Year 2000 program is in various stages of completion in each department, the Company anticipates it will have all modifications and replacements in place by June 30, 1999.

OVS SYSTEMS

The Company's OVS products include embedded controllers that have been tested and have been determined to be Year 2000 compliant. The Company expects that there will be no Year 2000 issues in regards to its products.

The Company's proprietary OVS operating system software that controls all of the products in the OVS product line has been upgraded this year as part of an overall product improvement program. Part of that program ensured that the software control system be made Year 2000 compliant. Management believes that this has been achieved. There were no material added costs for this compliance. Previous versions of the control system have been investigated for compliance issues. The findings do not indicate compliance problems for operating system version 5.0 and later. Upgrade packages for versions prior to 5.0 are now available.

INTERNAL HARDWARE AND SOFTWARE

Each department is currently reviewing all of the software and hardware that could affect its operations. With the exception of the OVS operating system software, all software products in use were purchased from Microsoft or other major software publishing companies. Anticipated costs for Year 2000 compliance for these software package upgrades are considered to be part of

the Company's normal ongoing business plan and are not expected to add materially to the plan. Management has included approximately \$23,000 for software upgrades in its 1999 plan.

A vast majority of the employees of the Company utilize personal computers in their work. One of the risks identified is that these personal computers may not function or function properly due to the internal embedded controllers not being Year 2000 compliant. The same problem may exist in the Company's local network server, wide-area network server equipment and the Company's internal telephone system. Management believes the potential for problems primarily involves older equipment. Most of the personal computers and network server equipment have been purchased within the last two- years and are believed to be at lower risk than the smaller population of older computer equipment in use around the Company. The internal telephone system was purchased from and is supported by a leading manufacturer of that type of equipment. Software to diagnose Year 2000 compliance for the personal computers and network servers has been identified and procurement is underway. The cost for this software is less than \$1,000. It is unknown at this time how much of this equipment is subject to the Year 2000 problem, however a worst case scenario assumes the cost of replacing non-compliant equipment to be \$105,000. The most likely scenario of replacing affected computer and telephone equipment has not been determined at this time. However, management has included approximately \$60,000 in computer and telephone system upgrades into its 1999 operating plan.

The Company expects to incur internal staff costs as well as consulting fees and other expenses related to the Year 2000 project. The Company has already purchased and installed new accounting and manufacturing control software that is Year 2000 compliant. The cost to do this was less than \$10,000. This upgrade was done in response to the Year 2000 issue, however this and many other upgrades are part of the Company's normal business plan.

EXTERNAL FACTORS

The Company uses outside service providers for all of its human resource administration functions. This includes payroll and employee benefits management. It has been confirmed that the service provider is Year 2000 compliant in regard to the services it provides the Company.

An area that has been identified as bringing potential problems in Year 2000 compliance involves key suppliers of inventory materials. The Company utilizes three key vendors as suppliers in the manufacture of its OVS systems. The Company cannot guarantee that the systems of these suppliers, or other companies on which the Company relies, will be Year 2000 compliant. Other than those three vendors, the Company's inventory suppliers are commodity or off-the-shelf parts distributors that can be replaced with little or no notice. It is believed that the three critical key-component suppliers could be replaced in the event that one or all were determined to be subject to critical shipment delays due to Year 2000 issues. Due to the lead times associated with bringing new suppliers on-line, early determination of vendor Year 2000 compliance is necessary. It is not known at this time which, if any, vendors are Year 2000 compliant. Management has set a compliance deadline of March 31, 1999 for its key vendors. If one or more of these vendors has not satisfied this requirement, management is developing a contingency plan to identify new vendors and prepare them to provide the key components to the Company by the end of 1999. The cost of this could include significant amounts of management time but is not expected to add materially to the cost of the Company's products. Every attempt will be made to ensure that a continuous supply of the key components is maintained.

FORWARD-LOOKING STATEMENTS

The statements contained in this report which are not historical facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by forward-looking statements, including but not limited to the risk of an unfavorable outcome in the SSI litigation, problems resulting from the Year 2000 issue, variability in order flow and operating results, the ability of the Company to find and retain qualified personnel to staff its manufacturing and marketing operations and existing and anticipated test centers, and the risk that the demand for the Company's systems will not continue to grow.

ITEM 7. FINANCIAL STATEMENTS.

<TABLE>
<CAPTION>

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<S>	<C>
Report of Independent Public Accountants	F-1
Balance Sheet	F-2
Statement of Operations	F-3
Statement of Changes in Shareholders' Equity	F-4
Statement of Cash Flows	F-5
Notes to Financial Statements	F-6

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The Company's definitive Proxy Statement to be filed pursuant to Schedule 14A under the Securities Exchange Act of 1934 is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION.

The Company's definitive Proxy Statement to be filed pursuant to Schedule 14A under the Securities Exchange Act of 1934 is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The Company's definitive Proxy Statement to be filed pursuant to Schedule 14A under the Securities Exchange Act of 1934 is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Company's definitive Proxy Statement to be filed pursuant to Schedule 14A under the Securities Exchange Act of 1934 is incorporated herein by reference.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) Exhibits - See Index to Exhibits
- (b) Reports on Form 8-K during the last quarter of the Company's fiscal year ended December 31, 1997 - None

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of QualMark Corporation

In our opinion, the accompanying balance sheet and the related statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of QualMark Corporation at December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management,

and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Denver, Colorado
February 16, 1999

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QUALMARK CORPORATION

BALANCE SHEET
(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 668	\$ 459
Trade accounts receivable, net of allowance for doubtful accounts of \$164 and \$21, respectively	3,916	3,100
Inventories	1,363	608
Deferred income taxes	861	
Other current assets	132	52
	-----	-----
Total current assets	6,940	4,219
Property and equipment, net	1,315	1,428
Note receivable from officer	104	
Other assets	141	51
	-----	-----
	\$ 8,500	\$ 5,698
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 869	\$ 646
Accrued expenses	1,411	1,893
Customer deposits and deferred revenue	63	59
Current portion of long-term debt	436	62
Current portion of capital lease obligations	5	11
	-----	-----
Total current liabilities	2,784	2,671
Noncurrent portion of long-term debt	975	122
Noncurrent portion of capital lease obligations		5
	-----	-----
Total liabilities	3,759	2,798
	-----	-----
Commitments and contingencies (Notes 6 and 12)		
Shareholders' equity:		
Convertible preferred stock; no par value; 2,000,000 shares authorized; 490,929 designated as Series A, none outstanding; 99,619 designated as Series B, none outstanding		
Common stock; no par value; 15,000,000 shares authorized; 3,485,015 and 3,387,134 shares issued and outstanding, respectively	6,396	6,270
Accumulated deficit	(1,655)	(3,370)
	-----	-----
Total shareholders' equity	4,741	2,900
	-----	-----
	\$ 8,500	\$ 5,698
	-----	-----

</TABLE>

The accompanying notes are an integral
part of these financial statements.

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QUALMARK CORPORATION

STATEMENT OF OPERATIONS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Revenues	\$ 13,742	\$ 10,639
Cost of revenues	7,659	6,164
	-----	-----
Gross profit	6,083	4,475
Selling, general and administrative expenses	4,467	5,154
Research and development expenses	684	236
	-----	-----
Total operating expenses	5,151	5,390
Income (loss) from operations	932	(915)
Other income (expense):		
Interest expense	(73)	(15)
Interest income	2	37
Other income (expense), net	12	(8)
	-----	-----
Income (loss) before income taxes	873	(901)
Income tax benefit	842	
	-----	-----
Net income (loss)	\$ 1,715	\$ (901)
	-----	-----
Net income (loss) per basic share of common stock	\$ 0.50	\$ (0.27)
	-----	-----
Net income (loss) per diluted share of common stock	\$ 0.45	\$ (0.27)
	-----	-----
Weighted average shares outstanding - basic	3,450	3,363
	-----	-----
Weighted average shares outstanding - diluted	3,806	3,363
	-----	-----

</TABLE>

The accompanying notes are an integral
part of these financial statements.

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QUALMARK CORPORATION

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

<TABLE>

<CAPTION>

	COMMON STOCK	ACCUMULATED		
	SHARES	AMOUNT	DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>
Balance December 31, 1996	3,330,484	\$ 6,131	\$ (2,469)	\$ 3,662
Exercise of options for common stock	55,000	116		116
Exercise of warrants for common stock	1,650			-
Amortization of deferred compensation related to issuance of warrants and options		23		23
Net loss			(901)	(901)
Balance December 31, 1997	3,387,134	6,270	(3,370)	2,900
Exercise of options for common stock	63,824	51		51
Exercise of warrants for common stock	34,057	52		52
Amortization of deferred compensation related to issuance of warrants and options		23		23
Net income			1,715	1,715
Balance December 31, 1998	3,485,015	\$ 6,396	\$ (1,655)	\$ 4,741

</TABLE>

The accompanying notes are an integral part of these financial statements.

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QUALMARK CORPORATION

STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 1,715	\$ (901)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Gain on disposal of equipment	(45)	(35)
Depreciation and amortization	652	483
Deferred income tax benefit	(861)	
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable, net	(816)	(1,854)
Inventories	(755)	(72)
Other assets and patents	(186)	146
Increase (decrease) in:		
Accounts payable and accrued expenses	(259)	856
Customer deposits and deferred revenue	4	12
Net cash used in operating activities	(551)	(1,365)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(567)	(846)
Proceeds on disposal of property and equipment	112	81
Purchase of short-term investments		(200)
Proceeds on sale/redemption of short-term investments		2,111
Note receivable from officer	(104)	

Net cash (used in) provided by investing activities	(559)	1,146
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,836	200
Repayments of borrowings	(1,609)	(16)
Proceeds from issuance of common stock	103	116
Principal payments on capital lease obligations	(11)	(33)
Net cash provided by financing activities	1,319	267
Net increase in cash and cash equivalents	209	48
Cash and cash equivalents at beginning of year	459	411
Cash and cash equivalents at end of year	\$ 668	\$ 459
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 73	\$ 14
Taxes paid	\$ 25	\$

</TABLE>

The accompanying notes are an integral part of these financial statements.

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QUALMARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

QualMark Corporation (the "Company") was incorporated on March 11, 1992 in the State of Colorado. Its principal business activity is the manufacture and sale of vibration and thermal chambers for quality control testing of various electronic devices. The Company's sole manufacturing facility is located in Denver, Colorado. The Company also operates service centers, called Accelerated Reliability Test Centers ("ARTC"), where vibration and thermal chambers are available to customers for daily rental which are located at the Company's Denver, Colorado facility, in Marlborough, Massachusetts, Santa Clara, California, Huntington Beach, California, Minneapolis, Minnesota, Detroit, Michigan, Orlando, Florida and Raleigh, North Carolina. During 1998, the Company formed international alliances for service centers in Germany, the United Kingdom and Ireland.

CASH AND CASH EQUIVALENTS

Cash on hand and in banks, together with repurchase agreements and marketable securities having original maturities of three months or less, are classified as cash and cash equivalents by the Company.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, management continually monitors the financial condition of its customers to reduce the risk of loss.

INVENTORIES

Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over estimated useful lives of three to ten years. Amortization of leasehold improvements and equipment under capital leases is provided over the shorter of the assets useful lives or the lives of the leases and is included in depreciation expense.

ACCRUED LEGAL EXPENSE

Legal fees relating to litigation in which the Company is a defendant are accrued when the liability is probable and the amount is reasonably estimable.

REVENUE RECOGNITION

Revenues are recognized upon the shipment of product or the performance of services. Prepayments and progress billings are deferred until shipment occurs or services rendered.

ADVERTISING EXPENSE

The Company charges advertising, including production costs, to expense on the first date of the advertising period. Advertising and marketing expense for 1998 and 1997 was \$135,000 and \$148,000, respectively.

PREOPENING COSTS

The Company charges to selling, general and administrative expense the preopening costs of new service centers as incurred. These costs are primarily labor, supplies, preopening marketing and advertising and other expendable items.

INCOME TAXES

Deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and the tax basis of individual assets and liabilities.

FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, customer deposits and long term debt approximate fair value.

QUALMARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

NET INCOME (LOSS) PER SHARE

Net income (loss) per basic share of common stock is based on the weighted average number of shares of common stock outstanding during each respective period. Net income (loss) per diluted share of common stock adds to basic weighted shares the weighted average number of shares of potential common shares (diluted stock options and warrants) outstanding during each respective period. Proceeds from the exercise of the potential common shares are assumed to be used to repurchase outstanding shares of the Company's common stock at the average fair market value during the period. In a period in which a loss is incurred, only the weighted average number of common shares is used to compute the diluted loss per share as the inclusion of potential common shares would be antidilutive. The calculation of basic and diluted earnings per share is as follows (in thousands):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>

Basic earnings per share computation		
Net income (loss)	\$ 1,715	\$ (901)
	-----	-----
	-----	-----
Weighted average shares outstanding - basic	3,450	3,363
	-----	-----
	-----	-----
Basic earnings (loss) per share	\$ 0.50	\$ (0.27)
	-----	-----
	-----	-----
Diluted earnings per share computation		
Net income (loss)	\$ 1,715	\$ (901)
	-----	-----
	-----	-----
Weighted average shares outstanding - basic	3,450	3,363
Dilutive stock options and warrants	356	
	-----	-----
	3,806	3,363
	-----	-----
	-----	-----
Diluted earnings (loss) per share	\$ 0.45	\$ (0.27)
	-----	-----
	-----	-----

</TABLE>

Options to purchase 55,500 shares of common stock were excluded from dilutive stock option calculations for 1998, because their exercise prices were greater than the average fair market value of the Company's stock for the period, and as such they would be antidilutive.

Options and warrants to purchase 617,293 shares were not included in the computation of earnings per share assuming dilution at December 31, 1997, because including the options would result in an antidilutive effect on earnings per share.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year's presentation.

NEW ACCOUNTING PRONOUNCEMENTS

In 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company does not have any items that are required to be recognized as components of comprehensive income.

In 1998, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." This statement establishes standards for the way public business enterprises report information about operating segments. It also establishes standards for related disclosures about products and services,

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geographical areas, and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did affect the disclosure of segment information. (See Note 10.)

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued June 1998. This statement establishes accounting and reporting standards for derivative instruments and for hedging

activities. It requires the recognition of all derivatives as either assets or liabilities in the statement of financial position at fair value. This statement is effective for the Company's financial statements for the year ending December 31, 2000. Currently, the Company does not engage in such activities and the adoption of this standard is not expected to have an effect on the Company's financial position.

2. INVENTORIES

Inventories consist of the following (in thousands):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Raw materials	\$ 708	\$ 457
Work in process	198	121
Finished goods	457	30
	-----	-----
	\$ 1,363	\$ 608
	-----	-----

</TABLE>

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Machinery and equipment	\$ 2,130	\$ 1,679
Furniture and fixtures	167	165
Leasehold improvements	421	400
Less: Accumulated depreciation and amortization	(1,403)	(816)
	-----	-----
	\$ 1,315	\$ 1,428
	-----	-----

</TABLE>

Depreciation expense was \$613,000 and \$445,000 for the years ended December 31, 1998 and 1997, respectively.

The Company leases certain office and service center equipment under capital leases. Property and equipment above include the following amounts for leases that have been capitalized (in thousands):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Machinery and equipment	\$ 76	\$ 76
Less: Accumulated amortization	(52)	(38)
	-----	-----
	\$ 24	\$ 38
	-----	-----

</TABLE>

QUALMARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

4. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

<TABLE>
<CAPTION>

DECEMBER 31,

	1998	1997
<S>	<C>	<C>
Accrued warranty	\$ 444	\$ 190
Accrued legal expense	390	1,152
Accrued employee related	231	359
Accrued royalties payable	207	109
Other	139	83
	-----	-----
	\$ 1,411	\$ 1,893
	-----	-----
	-----	-----

</TABLE>

5. INDEBTEDNESS

In May 1996, the Company entered into a line of credit arrangement with a bank. The credit line, as amended August 1997, provided for draws up to \$1,300,000, bore interest at prime plus 1.5%, matured August 2000 and was secured by substantially all the assets of the Company. The Company maintained certain financial and other covenants in order to draw amounts available under the line of credit. Through December 31, 1997, the Company had not drawn any amounts under the line of credit.

During September 1997, the Company borrowed \$200,000 from a bank to purchase equipment. Interest on the loan accrued at a rate equal to the prime rate plus 1.75%, which was 10.25% at December 31, 1997. The loan was secured by substantially all equipment of the Company and was payable in equal installments over three years.

During September 1998, the Company drew \$750,000 from the above line of credit. Additionally, during September 1998, the Company borrowed additional amounts from a bank to purchase equipment, for a total equipment loan outstanding of \$675,000. Interest on the loan accrued at a rate equal to the prime rate plus 1.5%. The loan was secured by substantially all equipment of the Company and was payable in equal installments over three years.

During December 1998, the Company terminated the above equipment loan and line of credit and entered into a new line of credit arrangement and term loan agreement with a bank. The credit line provides for draws up to \$3,000,000, bears interest at the reserve adjusted LIBOR rate plus the applicable margin (as defined), matures December 2001 and is secured by substantially all the assets of the Company. The Company must maintain certain financial and other covenants in order to draw amounts available under the line of credit. Through December 31, 1998, the Company had not drawn any amounts under the line of credit.

The term loan agreement provides for draws up to \$2,000,000, bears interest at the reserve adjusted LIBOR rate plus the applicable margin (as defined), which was 7.41% at December 31, 1998. The term loan matures December 2001 and is secured by substantially all the assets of the Company. The Company must maintain certain financial and other covenants in order to draw amounts available under the line of credit, with which the Company was in compliance at December 31, 1998. Through December 31, 1998, the Company had drawn \$1,411,000 under the term loan agreement. The following represents future amounts payable at December 31, 1998 (in thousands).

<TABLE>

<CAPTION>

Year ended December 31,	<C>
<S> 1999	\$ 436
2000	470
2001	505

	\$ 1,411

</TABLE>

6. LEASE COMMITMENTS

The Company leases equipment, office space, and operating facilities under capital and operating lease arrangements. Future minimum lease payments consist of the following at December 31, 1998 (in thousands):

<TABLE>
<CAPTION>

<S>	CAPITAL LEASES		OPERATING LEASES		TOTAL
	<C>		<C>		
Year ended December 31,					
1999	\$	3	\$	472	\$ 475
2000		3		381	384
2001		-		178	178
2002		-		41	41
2003		-		-	-
		-----		-----	-----
		6	\$	1,072	\$ 1,078
		-----		-----	-----
Less: Interest		(1)			

		5			
Current portion		(5)			

Long-term portion	\$	0			

</TABLE>

Rent expense for the years ended December 31, 1998 and 1997 was \$489,000 and \$389,000, respectively. The Company sublet some of the office space under a cancelable agreement in 1997. Sublease income for the years ended December 31, 1998 and 1997 was \$23,000 and \$13,000, respectively.

7. INCOME TAXES

Income tax expense (benefit) consists of the following (in thousands):

<TABLE>
<CAPTION>

<S>	YEARS ENDED DECEMBER 31,	
	1998	1997
Current tax expense (benefit)	<C>	<C>
Federal	\$ 14	\$ -
State	5	-
	-----	-----
	19	
Deferred tax expense (benefit)		
Federal	(743)	-
State	(118)	-
	-----	-----
	(861)	-
	-----	-----
	\$ (842)	\$ -
	-----	-----

</TABLE>

A reconciliation of the statutory Federal income tax rate to the income tax provision (benefit) is as follows (in thousands):

<TABLE>
<CAPTION>

<S>	YEARS ENDED DECEMBER 31,			
	1998		1997	
	AMOUNT	%	AMOUNT	%
Computed "expected" tax	\$ 297	34.0%	\$ (306)	(34.0)%
State income taxes, net of Federal income tax effect	54	6.1	(30)	(3.3)
Utilization of NOL	(323)	(37.0)		
Recording (release) of valuation allowance	(914)	(104.7)	339	37.6
Other	44	5.1	(3)	(0.3)
	-----	-----	-----	-----

\$	(842)	(96.5)%	\$	-	-	%
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----

</TABLE>

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QUALMARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

Deferred tax assets and liabilities represent the future impact of temporary differences between the financial statement and tax bases of assets and liabilities and are as follows (in thousands):

<TABLE>
<CAPTION>

<S>	DECEMBER 31,	
	1998	1997
	<C>	<C>
Deferred tax liabilities:		
Depreciation	\$ (26)	\$ -
	-----	-----
Gross deferred tax liabilities	(26)	-
	-----	-----
Deferred tax assets:		
NOL carryforwards	419	718
Accrued liabilities	208	402
Accrued warranty payable	175	76
Amortization	5	33
Allowance for doubtful accounts	65	8
Other	15	
	-----	-----
Gross deferred tax assets	887	1,237
Valuation allowance	-	(1,237)
	-----	-----
Net deferred tax assets	887	-
	-----	-----
Net deferred tax asset (liability)	\$ 861	\$ -
	-----	-----

</TABLE>

As of December 31, 1998 and 1997, the Company had net operating loss ("NOL") carryforwards of approximately \$1,063,000 and \$1,820,000, respectively, which are available to offset future taxable income. The ultimate realization of these assets are dependent upon the generation of future taxable income sufficient to offset the related deductions and loss carryforwards within the applicable carryforward period. The release of the valuation allowance in 1998 is based on management's conclusion that sufficient positive evidence regarding realization of certain tax carryforward items does now exist.

8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

STOCK WARRANTS

In 1995, warrants to purchase 72,000 shares of common stock at an exercise price of \$2.13 per share were issued to a principal shareholder, in connection with the Company's sale of Hobbs Engineering Corporation to the shareholder (Note 11). The warrants vest and are exercisable in 25% increments on December 31, 1996, 1997, 1998 and 1999. All warrants expire five years from the grant date. Compensation expense relative to these warrants of \$62,000 will be charged to expense over the four-year vesting period which began January 1, 1996.

Also in 1995, warrants to purchase 50,009 shares of common stock at an exercise price of \$3.375 per share were issued in connection with the issuance of \$500,000 of 10% secured notes. During 1998 and 1997, 15,002 and 5,001 of these warrants were exercised to purchase 15,002 and 1,650 shares of common stock, respectively.

During 1996, the Company offered its stock for sale to the public. In connection therewith, the Company issued to the underwriter a five-year warrant to purchase up to 132,170 shares of common stock at \$4.50 per share. During 1998, 44,277 of these warrants were used to purchase 19,055 shares of common stock.

QUALMARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

STOCK OPTIONS

In 1993, the Company adopted an incentive stock option plan (the "1993 Plan") which provides employees and officers with an opportunity to purchase an aggregate of 159,746 shares of the Company's common stock. The 1993 Plan requires that incentive stock options be issued at exercise prices which are at least 100% of the fair value of the stock at the date of the grant. Options issued under the 1993 Plan vest at a rate of 25% per year over four years and expire up to ten years from the date of grant at the discretion of the Board of Directors.

Stock option transactions of the 1993 Plan are summarized below:

<TABLE>
<CAPTION>

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Outstanding at December 31, 1996	159,746	\$ 2.10
Exercised	(54,750)	2.12
Forfeited	(2,250)	2.04
	-----	-----
Outstanding at December 31, 1997	102,746	2.10
Exercised	(1,874)	2.13
Forfeited	(375)	2.13
	-----	-----
Outstanding at December 31, 1998	100,497	\$ 2.10
	-----	-----

</TABLE>

At December 31, 1998 and 1997, options were exercisable with respect to 86,709 and 64,774 shares, respectively, with exercise prices ranging from \$2.00 to \$2.13 and a weighted average exercise price of \$2.09 for both year ends.

During 1998 and 1997, compensation expense of \$7,000 was recorded in connection with a November 1995 grant of 31,895 options to three employees of the Company. There is no unamortized deferred compensation at December 31, 1998 as 1998 was the final year of the vesting period.

An additional 175,788 nonqualified stock options have been issued to the Company's president outside of the plan described above. During 1998, nonqualified options of 59,700 shares of common stock were exercised at an exercise price of \$.67 per share. At December 31, 1998, nonqualified options to purchase 116,088 shares at a price of \$2.00 per share are exercisable. At December 31, 1997, nonqualified options to purchase 59,700 shares of common stock at an exercise price of \$.67 per share and 116,088 shares of common stock at an exercise price of \$2.00 per share were exercisable.

In 1995, the Company adopted the 1996 Stock Option Plan (the "1996 Plan"). Under the 1996 Plan, grants of both incentive stock options and non-qualified options are permitted. Incentive stock options may only be granted to employees of the Company, including officers and directors who are also employees. Non-qualified options may be issued to officers, directors, employees or consultants of the Company. The exercise price of incentive stock options granted under the 1996 Plan must be at least 100% (or 110% in the case of a holder of 10% or more of the voting power of all classes of stock of the Company) of the fair market value of the Company's stock at the grant date, while the exercise price of non-qualified options is at the discretion of the Board of Directors. Aggregate common shares of 472,000 are reserved for issuance under the 1996 Plan, as amended. Shares forfeited can be reissued under the 1996 Plan. Options issued under the 1996 Plan vest at a rate of 25% per year over four years and expire up to ten years from the date of grant at the discretion of the Board of Directors.

Stock option transactions of the 1996 Plan are summarized below:

<S>	SHARES <C>	WEIGHTED AVERAGE
		EXERCISE PRICE <C>
Outstanding at December 31, 1996	162,250	\$ 3.59
Granted	236,750	4.67
Exercised	(250)	3.25
Forfeited	(10,750)	3.76
Outstanding at December 31, 1997	388,000	4.25
Granted	76,250	6.56
Exercised	(2,250)	3.41
Forfeited	(31,000)	4.38
Outstanding at December 31, 1998	431,000	\$ 4.63

</TABLE>

At December 31, 1998 and 1997, options were exercisable with respect to 123,375 and 35,688 shares, respectively, with exercise prices ranging from \$3.25 to \$7.00 and a weighted average exercise price of \$4.06 and \$3.56, respectively.

FAIR VALUE

Had compensation cost for the Company's stock option plans been determined based on the fair values at the grant dates for awards under the plans consistent with the method of accounting prescribed by SFAS No. 123, the Company's results would have been changed to the pro forma amounts indicated below (in thousands):

<S>	YEARS ENDED DECEMBER 31,	
	1998 <C>	1997 <C>
Net income (loss):		
As reported	\$ 1,715	\$ (901)
Pro forma	\$ 1,596	\$ (1,001)
Basic income (loss) per share:		
As reported	\$ 0.50	\$ (0.27)
Pro forma	\$ 0.46	\$ (0.30)
Fully diluted income (loss) per share:		
As reported	\$ 0.45	\$ (0.27)
Pro forma	\$ 0.42	\$ (0.30)

</TABLE>

The fair value of each option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the years ended December 31, 1998 and 1997: dividend yield of zero; expected volatility of 46% and 42%, respectively; risk-free interest rates of 4.54% and 5.80%, respectively, and an expected term of six years. The risk-free interest rate used in the calculation is the yield on the grant date of a U.S. Treasury Strip with a maturity equal to the expected term of the option. The pro forma effect on net income for 1998 and 1997 is not representative of the pro forma effect on operations in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

9. PROFIT SHARING PLAN

The Company maintains an employee profit sharing plan under Section 401(k) of the Internal Revenue Code (the "Plan") covering personnel who have been employed at least three months. Employees may contribute up to the federal limit of their compensation to the Plan each year. The Company may make discretionary contributions, as determined by the Board of Directors each year, to employee participants who have more than one year of service. Participants vest in employer contributions at a rate of 20% per year over five years. During 1998, the Company contributed \$20,000 to the Plan. No employer contributions were made during 1997.

10. SEGMENT INFORMATION

In 1998, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company operates in two business segments, equipment and Accelerated Reliability Test Centers ("ARTC"). The equipment segment ("Equipment") is engaged in the manufacture and sale of vibration and thermal chambers for quality control testing of various electronic devices. The ARTC segment operates service centers where vibration and thermal chambers are available to customers for daily rental.

The accounting policies for these segments are the same as those described in Note 1 and there are no intersegment transactions. The Company evaluates the performances of its segments and allocates resources to them based primarily on gross profit. All operating revenues and expenses are allocated to business segments in determining their gross profit. All other expenses are not utilized in determining the allocation of resources on a segment basis.

The table below summarizes information about reported segments (in thousands):

<TABLE>				
<CAPTION>				
	YEAR ENDED DECEMBER 31, 1998	EQUIPMENT	ARTC	TOTAL
<S>		<C>	<C>	<C>
	Sales	\$ 10,151	\$ 3,591	\$ 13,742
	Gross profit	4,609	1,474	6,083
	Property and equipment, net	303	1,012	1,315
<CAPTION>				
	YEAR ENDED DECEMBER 31, 1997			
<S>		<C>	<C>	<C>
	Sales	\$ 7,683	\$ 2,956	\$ 10,639
	Gross profit	3,343	1,132	4,475
	Property and equipment, net	304	1,124	1,428
</TABLE>				

The following is sales by geographic area (in thousands):

<TABLE>			
<CAPTION>			
		YEARS ENDED DECEMBER 31,	
		1998	1997
<S>		<C>	<C>
	United States	\$ 12,820	\$ 10,294
	International	922	345
		-----	-----
	Total	\$ 13,742	\$ 10,639
		-----	-----
</TABLE>			

International sales are based on where the products were shipped and where ARTC services were rendered.

11. RELATED PARTY TRANSACTIONS

In 1995, the Company sold the assets of Hobbs Engineering Corporation (HEC), excluding any patents or other intellectual property, to Dr. Hobbs, a principal shareholder of the Company. In connection with the sale, the Company agreed to make quarterly royalty payments to Dr. Hobbs equal to two percent of the Company's total revenues, increasing to a maximum of three percent if certain revenue levels are achieved, for the period January 1, 1996 through December 31, 1999, in exchange for Dr. Hobbs being available to actively promote the Company's products and services. Royalties in excess of the 2% base royalty are calculated as .5% and 1% of total revenues if the following revenue levels are achieved:

<TABLE>
<CAPTION>

YEAR	ADDITIONAL 0.5% ROYALTY IF REVENUES EXCEED:	ADDITIONAL 1.0% ROYALTY IF REVENUES EXCEED:
1998	\$ 11,000,000	\$ 12,000,000
1999	13,000,000	14,000,000

</TABLE>

During 1998 and 1997, royalties of \$412,000 and \$324,000, respectively, were expensed relating to this agreement.

During 1998, the Company lent \$104,000 to the Company's president pursuant to a note secured by his primary residence, with interest accruing at a rate equal to the 10% annually. The note is payable over five years, with 5% of the principal due at each anniversary date and the remaining balance due to the end of the term.

12. LEGAL MATTERS

On March 22, 1996, the Company was served with a summons and complaint from Screening Systems, Inc. ("SSI"), a competitor. The complaint, as amended, alleges the Company's vibration system infringes three patents owned by Hughes Electronics ("Hughes") and licensed to SSI, and seeks injunctive relief, monetary damages and costs of litigation. Because Hughes would not voluntarily join the action as plaintiff, SSI has named Hughes as a defendant in the action.

The Company has been aware of the patent in question since the Company commenced its operations and, with advice from patent counsel, designed its vibration system, components of which are also patented, so as to not infringe the patents. The Company's vibration system has been used continuously in its products since 1991. On two prior occasions, Hughes put the Company on notice that the Company's vibration system might infringe its patent, although no litigation was commenced. On both occasions, the Company concluded, after consultation with patent counsel, that infringement did not exist and has seen nothing since to change that conclusion.

Discovery in the action has been completed; however, the trial date has been vacated. In April 1997, the court conducted a "Markman hearing" to determine the scope and meaning of the relevant claims and terms of the patents-in-suit. In October 1997, the court issued its Order re Construction of Patent Claims. Based on that Order, in November 1997, the Company moved for summary judgment of non-infringement with respect to each of the patents in issue. SSI has moved for summary judgment of infringement with respect to one of the patents in issue and filed a summary judgment motion on several of the Company's defenses. The court has not yet ruled on any of these motions and has not yet set a trial date.

QUALMARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

In response to the current litigation, the Company consulted with its current legal and patent counsel, who agreed with prior patent counsels' opinions that the Company's vibration system does not infringe the SSI patent. Consequently, management intends to vigorously defend this litigation. However, no assurances can be given that the Company will be

successful in its defense. The Company believes that the suit may have a material adverse effect on the results of operations and financial condition of the Company in terms of legal fees and costs for defending the claim, the possibility of an unfavorable outcome and an award of damages, and of the loss of management time needed to deal with the suit. At December 31, 1998, the Company has an accrual of \$390,000 to cover the estimated remaining legal fees associated with defending this suit.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 26, 1999

QUALMARK CORPORATION

By: /s/ W. PRESTON WILSON

W. Preston Wilson, President and
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE> <CAPTION> Signature ----- <S>	Title ----- <C>	Date ----- <C>
/s/ W. Preston Wilson ----- W. Preston Wilson	President, Chief Executive Officer and Director	March 26, 1999
/s/ Vernon W. Settle ----- Vernon W. Settle	Vice President, Finance and Administration Principal Accounting Officer	March 26, 1999
/s/ H. Robert Gill ----- H. Robert Gill	Director	March 26, 1999
/s/ Philip A. Gordon ----- Philip A. Gordon	Director	March 26, 1999
/s/ Charles A. French ----- Charles A. French	Director	March 26, 1999
/s/ William B. Phillips ----- William B. Phillips	Director	March 26, 1999
/s/ William J. Sanko ----- William J. Sanko	Director	March 26, 1999

</TABLE>

INDEX TO EXHIBITS

<TABLE> <CAPTION> Exhibit Number ----- <S>	Description ----- <C>	Sequential Page No. ----- <C>
3.1	Amended and Restated Articles of Incorporation of the Company. (1)	
3.2	Amended and Restated Bylaws of the Company. (1)	

4.1	Form of Certificate for Shares of Common Stock. (1)
4.6	Form of Warrant issued to holders of 10% secured promissory notes. (1)
10.1	QualMark Corporation 1993 Incentive Stock Option Plan. (1)
10.2	QualMark Corporation 1996 Stock Option Plan. (3)
10.3	Employment Agreement dated March 1, 1993 by and between the Company and W. Preston Wilson. (1)
10.4	Employment Agreement dated August 15, 1994 by and between the Company and J. Wayne Farlow. (1)
10.5	Agreement dated September 30, 1995 by and between the Company and Gregg K. Hobbs. (1)
10.8	Addendum to Agreement dated as of December 21, 1995 by and between the Company and Gregg K. Hobbs. (1)
10.11	Loan and Security Agreement dated April 30, 1996, by and between QualMark Corporation and Silicon Valley Bank, as amended by Amendment to Loan and Security Agreement dated August 18, 1997. (2)
10.12	Loan and Security Agreement dated December 22, 1998, by and between QualMark Corporation and U.S. Bank National Association.
10.13	Waiver and Amendment to Loan Agreement dated March 15, 1999 by and between QualMark and U.S. Bank National Association.
27.1	Financial Data Schedule

</TABLE>

-
- (1) Incorporated by reference from the Company's Registration Statement No. 333-1454-D on Form SB-2.
- (2) Incorporated by reference from the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1997.
- (3) Filed as an Exhibit to the Company's Proxy Statement for the 1996 Annual Meeting of Shareholders.

REVOLVING CREDIT AND TERM LOAN AGREEMENT

This Revolving Credit and Term Loan Agreement (the "Agreement") is made as of December 22 1998, between QUALMARK CORPORATION, a Colorado corporation ("Borrower") and U.S. BANK NATIONAL ASSOCIATION, a national banking association ("Bank").

RECITALS:

- i. Borrower has requested that Bank make available to Borrower a revolving line of credit in the amount of \$3,000,000 and a separate term loan in the amount of \$2,000,000 for the purposes of refinancing existing debt and funding the expansion of test centers as well as for general corporate purposes; and
- ii. Bank is willing to make such line of credit and term loan available as requested by Borrower, upon and subject to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained in this Agreement, Borrower and Bank agree as follows:

1. TERMS OF BORROWING

1.01 REVOLVING CREDIT LINE.

1.01.1 COMMITMENT TO LEND. Subject to the following terms and conditions, Bank agrees to make a line of credit available to Borrower (the "Revolving Credit Line") in the maximum amount of \$3,000,000 (the "Maximum Line") or, if less, the amount of the Borrowing Base (defined below), pursuant to which Bank will make loans to Borrower (each an "Advance") in such amounts as Borrower may request from time to time, the proceeds of which shall be used for refinancing existing debt and funding the expansion of test centers as well as for general corporate purposes. The aggregate outstanding principal balance of all Advances made hereunder may not exceed the Maximum Line. Amounts borrowed under the Revolving Credit Line may be repaid prior to the Termination Date (defined below) without penalty and may be reborrowed subject to the terms hereof.

1.01.2 LIMITS ON COMMITMENT. Bank's commitment to make Advances hereunder is subject to the conditions in Section 4 below and the following limitations:

- a. Bank's commitment to lend hereunder terminates on December 31, 2001 (the "Termination Date"), if not sooner terminated under Section 8 below;
- b. Bank shall not be obligated to make any Advance which would cause the outstanding principal balance of the Revolving Credit Line (the "Line Balance") to exceed the Maximum Line or which would cause the sum of the Line Balance plus the outstanding principal balance of the Term Loan (defined below) (said sum being the "Balance") to exceed the Borrowing Base; and
- c. Bank shall not be obligated to make any Advance if an Event of Default, as defined in Section 7 below, or an event which, with the giving of notice or lapse of time, or both, would become an Event of Default (a "Potential Default"), has occurred and has not been cured or waived by Bank.

1.01.3 LINE NOTE. Borrower's indebtedness to Bank for amounts borrowed under the Revolving Credit Line and for interest accrued thereon shall be evidenced by Borrower's promissory note to Bank, on Bank's standard form for commercial promissory notes and otherwise satisfactory to Bank, in the principal amount of the Maximum Line (the "Line Note").

1.01.4 INTEREST. Borrower agrees to pay interest on the Line Balance from time to time as provided herein. Interest will accrue on the daily outstanding balance of each Advance at a fluctuating rate per annum equal at all times to the sum of the Reference Rate plus the Applicable Margin (defined below), which rate will change when and as the Reference Rate changes, or at Borrower's option, equal to the sum of the applicable "Reserve Adjusted LIBOR Rate" plus the Applicable Margin as set forth below for the selected Interest Period (see the attached EXHIBIT A which will be attached to and incorporated into each Note for terms and definitions which will apply to the interest rates based on a Reserve Adjusted LIBOR Rate). Borrower shall have the option to select a fixed Interest Period for each Advance as provided in said Exhibit A. The interest rate for any new Advance made on or after the date of determination of Borrower's Cash Flow Leverage Ratio for each fiscal quarter, will be subject to adjustment, as of the date of such determination each fiscal quarter, as follows: When Borrower's Cash Flow Leverage Ratio is within one of the ranges set forth below, then the "margin" or "spread" (the "Applicable Margin") to be added to the Reserve Adjusted LIBOR Rate or Reference Rate, as the case may be, shall be the rate per annum set forth below opposite such range:

Applicable Margin
to be added to

<TABLE>
<CAPTION>

Cash Flow Leverage Ratio	Reserve Adjusted LIBOR Rate	Reference Rate
<S>	<C>	<C>
> 3.00	3.50%	1.00%
-		
2.00 < 3.00	3.00%	0.50%
1.00 < 2.00	2.50%	0.00%
< 1.00	2.00%	(0.25)%

</TABLE>

Accrued interest on each Advance shall be due and payable (i) for LIBOR Rate Advances at the end of each fixed Interest Period but not less than at the end of each 3 months, (ii) for Reference Rate Advances on the first day of each quarter, (iii) at maturity of the Line Note and (iv) on demand after such maturity.

1.01.5 DEFINITIONS RELATING TO INTEREST. As used herein the following terms have the following meanings:

"REFERENCE RATE" means the rate of interest per annum announced publicly from time to time as Bank's "reference rate", which may be a rate at, above or below the rate or rates at which the Bank lends to other parties, and it is not necessarily the lowest rate charged by Bank on commercial loans.

"CASH FLOW LEVERAGE RATIO" means the ratio which Borrower's aggregate Debt (as defined in Section 6.02 below) as of the date of determination bears to Borrower's EBITDA. For purposes of establishing the INITIAL Cash Flow Leverage Ratio hereunder and under Section 1.02.3 below, the amount of the actual litigation expense plus the reserve for litigation expense relating to the Screening Systems, Inc. litigation shall be added to EBITDA.

"EBITDA" means the amount of earnings before interest, taxes, depreciation and amortization for the period being tested.

1.01.6 REPAYMENT OF PRINCIPAL. Borrower agrees to repay all Advances made hereunder. The Line Balance will be due and payable in full at the maturity of the Line Note, which will be December 22, 2001, subject to acceleration upon the occurrence of an Event of Default. Borrower will repay on demand from time to time any part of the Balance which exceeds the Borrowing Base.

1.01.7 BORROWING BASE. The "Borrowing Base" means from time to time an amount

equal to the sum of:

- i. 85% of Borrower's Eligible Accounts; plus
- ii. 30% of Borrower's Eligible Inventory; plus

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- iii. 50% of the net book value of Borrower's equipment located in the United States of America, including, but not limited to, computer equipment, general equipment and furniture;

all as shown on the most recent Borrowing Base Certificate (defined below) delivered to Bank. "Borrowing Base Certificate" means a certificate showing the calculation of the Borrowing Base, executed by an appropriate officer of Borrower in the form attached as EXHIBIT B.

1.01.8 ELIGIBLE ACCOUNTS. "Eligible Accounts" means all accounts receivable arising in the ordinary course of Borrower's business, excluding:

- A. Any account for which no invoice has been sent or delivered to the account debtor;
- B. Any account which is unpaid more than sixty (60) days past the date when payment is due on the invoice therefor or which remains unpaid more than ninety (90) days after the original invoice date;
- C. Any account or part thereof which is disputed, or against which any defense, counterclaim or right of setoff has been threatened or asserted, or upon which the account creditor's right to payment is contingent upon any matter whatsoever, including retainage;
- D. Any account of the United States government or any department or agency thereof arising under a contract with any such account debtor, unless such account is assignable and has been duly assigned to Bank and acknowledged in accordance with federal law;
- E. Any account of an account debtor whose chief executive office or principal place of business is located outside the United States of America, unless such account debtor is specifically approved by Bank or such account is supported by a letter of credit issued or confirmed by a bank acceptable to Bank, or is covered by an export credit insurance policy issued by the Export-Import Bank of the United States, and the proceeds of such letter of credit or policy have been duly assigned to Bank;
- F. Any account of a person or entity which controls or is controlled by or is under common control with the account creditor or any account of an employee of the account creditor (any such person, entity or employee being an "affiliate"); and
- G. All accounts of any account debtor if 10% or more of the total amount owed the account creditor by such account debtor is ninety (90) days or more past due.

1.01.9 ELIGIBLE INVENTORY. "Eligible Inventory" means all Inventory of Borrower remaining after deducting the following: any Inventory which is work-in-process; any Inventory which is obsolete, damaged, defective or otherwise unable to be sold or used in the ordinary course of business; any Inventory not located within the United States of America; and any Inventory in which Bank does not have a valid, perfected, first priority security interest, including any in which another creditor claims a purchase money security interest. "Inventory" means all inventory of Borrower in all of its forms, wherever located, now or hereafter existing, including, but not limited to, all of the following named items or types of inventory: Omni-Axial Vibration Systems and other

stress test systems and environmental test equipment.

1.01.10 LETTERS OF CREDIT. In the event and to the extent Bank issues a letter of credit (an "L/C") on behalf of Borrower under the Revolving Credit Line in lieu of an advance, the Maximum Line shall be considered utilized by the amount of such L/C. Borrower shall pay fees for any such L/C at the time of issuance and any renewal according to Bank's schedule of fees relating to letters of credit in effect from time to time; and Borrower shall execute Bank's then current standard form application and agreement for such L/C. Amounts drawn under any such L/C and honored by Bank but not immediately reimbursed by Borrower to Bank shall become an Advance hereunder in such amount at such time evidenced by the Line Note and subject to all the terms of this Agreement, whether or not any Event of Default or Potential Default has occurred. No such L/C shall expire later than the Termination Date.

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1.01.11 METHOD OF BORROWING. Requests for Advances may be submitted by Borrower in writing or by telephone. Bank shall be entitled to honor any such request it reasonably believes to be genuine, whether or not the person making the request is named as an authorized person in any corporate resolution or instruction furnished Bank by Borrower. Advances shall be disbursed only by deposit to a demand deposit account maintained by Borrower at Bank. Proceeds of an Advance shall be disbursed on the Banking Day (as defined in the Colorado Uniform Commercial Code) Bank receives Borrower's request if such request is received by 2:00 p.m. Denver time on such day, and on the next Banking Day if received after 2:00 p.m. on such day, and in either case if the conditions of Section 4 are met.

1.01.12 COMMITMENT FEE. As additional consideration for the commitment to lend hereunder, Borrower agrees to pay Bank a commitment fee on the average daily unused portion of the Maximum Line from the date of closing until the Termination Date at a rate of one quarter of one percent (.25%) per annum, payable quarterly in arrears on the first day of each calendar quarter during the term of the Revolving Credit Line commencing April 1, 1999 and on the Termination Date.

1.02 TERM LOAN.

1.02.1 COMMITMENT. Subject to the following terms and conditions, Bank agrees to make a loan to Borrower (the "Term Loan") in not more than two advances on the dates requested by Borrower, the first being no later than one month following the date hereof and the second being not more than one year following the date hereof, in the maximum aggregate amount of \$2,000,000, the proceeds of which shall be used for refinancing existing debt and funding the expansion of test centers as well as for general corporate purposes.

1.02.2 TERM NOTE. Borrower's indebtedness to Bank for the amount borrowed hereunder as a Term Loan and for interest accrued thereon shall be evidenced by Borrower's promissory note to Bank, on Bank's standard form for commercial promissory notes and otherwise satisfactory to Bank, in the amount of the Term Loan (the "Term Note" and together with the Line Note, the "Notes" or singly, a "Note").

1.02.3 INTEREST. Borrower agrees to pay interest on the Term Loan from time to time as provided herein. Interest will accrue on the daily outstanding Term Loan balance at a fluctuating rate per annum equal at all times to the sum of the Reference Rate plus Applicable Margin, which rate will change when and as the Reference Rate changes, or Borrower's option, equal to the sum of the applicable "Reserve Adjusted LIBOR Rate" plus the Applicable Margin as set forth below for the selected Interest Period. Borrower shall have the option to select fixed Interest Periods as provided in Exhibit A to the Note. The interest rate will be subject to adjustment, as of the date of determination of Borrower's Cash Flow Leverage Ratio for each fiscal quarter, as follows: When Borrower's Cash Flow Leverage Ratio is within one of the ranges set forth below,

then the "margin" or "spread" (the "Applicable Margin") to be added to the Reserve Adjusted LIBOR Rate or Reference Rate, as the case may be, shall be the rate per annum set forth below opposite such range:

<TABLE>
<CAPTION>

Cash Flow Leverage Ratio	Applicable Margin to be added to	
	Reserve Adjusted LIBOR Rate	Reference Rate
-----	-----	-----
<S>	<C>	<C>
> 3.00	3.75%	1.25%
-		
2.00 < 3.00	3.25%	0.75%
1.00 < 2.00	2.75%	0.25%
< 1.00	2.25%	0.00%

</TABLE>

Accrued interest shall be due and payable (i) for LIBOR Rate Advances at the end of each fixed Interest Period but not less than at the end of each 3 months, (ii) for Reference Rate Advances on the first day of each quarter, (iii) at final maturity of the Term Loan and (iv) on demand after such maturity.

1.02.4 REPAYMENT OF PRINCIPAL. Borrower agrees to repay the Term Loan made hereunder in installments by eleven quarterly principal payments each in the amount of \$100,000, each due on the first day of each

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fiscal quarter, commencing April 1, 1999, and a final installment of all unpaid principal and accrued interest due and payable in full at the final maturity of the Term Loan, which will be December 31, 2001, subject to acceleration upon the occurrence of an Event of Default. All or any part of the Term Loan may be repaid prior to maturity without penalty except as set forth in Exhibit A to the Term Note, but may not be reborrowed. Payments shall be applied by Bank first to interest and then to principal. Prepayments of principal shall be applied to installments in the inverse order of maturity.

1.02.5 FEE. As additional consideration for the commitment to make the Term Loan hereunder, Borrower agrees to pay Bank a fee of .00625% of the amount of the Term Loan (being \$12,500) payable on the date of closing hereunder.

1.03 TERMS APPLICABLE TO ADVANCES AND TERM LOAN

1.03.1 INTEREST CALCULATION. Interest shall be computed using the actual number of days in the period for which such computation is made and a per diem rate equal to 1/360 of the rate per annum.

1.03.2 DEFAULT INTEREST. After the occurrence of an Event of Default and any necessary acceleration of maturity of either Note, at Bank's option, the interest rate applicable to either Note may be increased as provided in such Note and Borrower agrees to pay any such increased interest.

2. COLLATERAL AND OTHER CREDIT SUPPORT

2.01 COLLATERAL. The repayment of all of Borrower's indebtedness to Bank shall be secured by first priority security interests (the "Security Interests") in all accounts, general intangibles, inventory and equipment (such terms having the meanings given them in the Colorado Uniform Commercial Code) now owned or hereafter acquired by Borrower and in all proceeds thereof (the "Collateral"). The Security Interests shall be created and perfected by security agreements, UCC financing statements, and any other collateral documents deemed necessary or advisable by Bank in its sole discretion, each in form satisfactory to Bank, duly executed by Borrower (the "Collateral Documents").

Hereafter, Borrower shall from time to time execute and deliver to Bank such other documents in form and substance satisfactory to Bank, and perform such other acts, as Bank may reasonably request, to perfect and maintain valid Security Interests in the Collateral. In addition Borrower hereby grants to Bank a security interest in all Borrower's deposit accounts at Bank to secure all obligations of Borrower to Bank now or hereafter arising.

2.02 SUBORDINATED DEBT. Any and all loans or advances made to Borrower by any of Borrower's shareholders or any other affiliates of Borrower shall be subordinated to all indebtedness of Borrower to Bank now or hereafter existing and such subordination shall be evidenced by agreements in form and substance satisfactory to Bank in Bank's sole discretion, duly executed by each such other creditor (the "Subordinated Debt").

3. REPRESENTATIONS AND WARRANTIES

To induce Bank to enter into this Agreement, Borrower represents and warrants as follows:

3.01 INCORPORATION. Borrower is a corporation duly organized, validly existing, and in good standing under the laws of the State of indicated at the beginning of this Agreement, and Borrower is duly qualified or licensed and in good standing to do business as a foreign corporation in all jurisdictions in which the nature of Borrower's business requires qualification.

3.02 BORROWER'S AUTHORIZATION. The execution, delivery and performance by Borrower of this Agreement, the Notes and the Collateral Documents are within Borrower's corporate powers, have been authorized by all necessary corporate action and do not and will not contravene Borrower's Articles of Incorporation or Bylaws, violate any provision of law or result in a breach of or default under any other agreement to which Borrower is a party.

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3.03 LITIGATION. Except as described on Schedule 3.03 hereto, there is no pending or threatened action, claim, investigation, lawsuit or proceeding against or affecting Borrower before any court, governmental agency, arbitrator or arbitration panel, which if decided adversely to Borrower would have a material adverse affect on the financial condition or operations of Borrower or in any event which claims or involves an amount exceeding \$250,000 ("Material Litigation").

3.04 FINANCIAL CONDITION. The audited balance sheet of Borrower as at December 31, 1997, and the related statements of income and retained earnings for the fiscal year then ended, and the unaudited balance sheet of Borrower as at September 30, 1998, and the related statements of income and retained earnings for the period then ended, copies of which have been furnished to Bank, fairly present the financial condition of Borrower as at such dates and the results of the operations of Borrower for the periods ended on such dates, all in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis, subject to year-end audit adjustments for the unaudited September 30, 1998 financial statements, and since September 30, 1998 there has been no material adverse change in such condition or operations.

3.05 LIENS. Borrower is the legal and beneficial owner of the property granted as collateral hereunder, free from any lien, encumbrance, or restriction whatsoever, and has full power and authority to grant liens and security interests in such property as collateral for its indebtedness.

3.06 VALID OBLIGATIONS. This Agreement constitutes, and each of the Notes and the Collateral Documents when delivered hereunder will be, a legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its respective terms.

- 3.07 TAXES. Borrower (i) has filed all tax reports and returns required to be filed, including but not limited to reports and returns concerning income, franchise, employment, sales and use, and property taxes; (ii) has paid all of its tax liabilities which were due on or prior to the date hereof; and (iii) is not aware of any pending investigation by any taxing authority or of any pending assessments or adjustments which would materially increase its tax liability.
- 3.08 REGULATION U. Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of the Term Loan or any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.
- 3.09 DISCLOSURE. No information, exhibit or report furnished by Borrower to Bank in connection with the negotiation of this Agreement knowingly contains any material misstatement of fact or omitted to state a material fact necessary to make the statement contained therein not misleading.
- 3.10 ENVIRONMENTAL COMPLIANCE. To the best of Borrower's knowledge, the ownership and operation of Borrower's properties have been and are in compliance with all applicable federal, state, and local environmental protection and hazardous waste disposal statutes and regulations. Borrower has not received any notice of claim under or violation of any such laws affecting Borrower's properties.
4. CONDITIONS PRECEDENT
- 4.01 CONDITIONS PRECEDENT TO TERM LOAN OR INITIAL ADVANCE. The obligation of Bank to make either the Term Loan or the initial Advance is subject to the condition precedent that Bank shall have received on or before the day of such Term Loan or Advance the following, each in form and substance satisfactory to Bank:

- i. the Notes and such Collateral Documents as may be specified by Bank, each duly executed by Borrower, and any fees specified above;
 - ii. copies of the Articles of Incorporation and By-laws of Borrower, each certified by the Secretary of Borrower to be a true and correct copy thereof, including all amendments thereto, if any;
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- iii. certified copies of the resolutions of the Board of Directors of Borrower approving this Agreement, the Notes and the Collateral Documents, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement, the Notes and the Collateral Documents;
 - iv. a certificate of the Secretary of Borrower certifying the names and true signatures of the officers of Borrower authorized to sign this Agreement, the Notes and the Collateral Documents;
 - v. a certificate of the Secretary of State of Colorado certifying that Borrower is a corporation duly organized and in good standing under the laws of such State or other evidence thereof satisfactory to Bank;
 - vi. a year 2000 compliance representation letter, on Bank's form; and
 - vii. a letter addressed to Bank from Borrower's counsel stating such counsel's belief that Borrower's products do not infringe on Screening Systems, Inc. patents.

4.02 CONDITIONS PRECEDENT TO ALL ADVANCES. The obligation of Bank to make the Term Loan and each Advance (including the initial Advance) shall be subject to the further conditions precedent that on the date of the Term Loan or any such Advance:

- i. the following statements shall be true:
 - a. the representations and warranties contained in Section 3 are correct on and as of the date of the Term Loan or such Advance as though made on and as of such date; and
 - b. no event has occurred and is continuing, or would result from the Term Loan or such Advance, which constitutes an Event of Default or Potential Default;
- and Bank may request a certificate of an officer of Borrower stating the foregoing;
- ii Bank shall have received such other approvals, opinions or documents as Bank may reasonably request; and
 - iii. Bank's legal counsel is reasonably satisfied as to all legal matters incident to the making of the Term Loan or such Advance.

5. AFFIRMATIVE COVENANTS

So long as either Note or any indebtedness of Borrower to Bank remains unpaid or Bank has any commitment to lend hereunder, Borrower will:

- 5.01 ACCOUNTING RECORDS. Maintain adequate books and accounting records in accordance with GAAP, consistently applied, reflecting all financial transactions of Borrower.
- 5.02 INSPECTIONS. At any reasonable time and from time to time, permit any agents or representatives of Bank to examine and make copies of and abstracts from records and books of account of Borrower, to visit and inspect the properties of Borrower and to discuss the affairs, finances and accounts of Borrower with any of its officers or directors; and, when any such examination or visit is characterized by Bank as a "field examination," Borrower will pay Bank a fee related to its costs of any such field examination in an amount not to exceed \$1,500 per year.
- 5.03 MAINTENANCE OF PROPERTY. Maintain and preserve all of its properties and assets necessary or useful in the performance of its business in good working order, repair and condition, ordinary wear and tear excepted.
- 5.04 INSURANCE. Maintain insurance with responsible and reputable insurance companies in such amounts and covering such risks as is usually and customarily carried by companies engaged in similar businesses and

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owning similar properties, including, but not limited to, public liability, property damage and worker's compensation, and deliver to Bank, at Bank's request, schedules setting forth all insurance then in effect and copies of policies or certificates of insurance on property granted or pledged as collateral; cause Bank to be named loss payee on any insurance covering property granted or pledged as collateral, and furnish to Bank certificates indicating such status.

- 5.05 PAYMENT OF TAXES, LIENS. Pay and discharge, before the same become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon Borrower or upon its owned property, and (ii) all lawful claims which, if unpaid, might by law become a lien upon its owned property, except any thereof which is being contested in good faith and by appropriate proceedings.
- 5.06 COMPLIANCE WITH LAWS. Comply in all material respects with all applicable laws, rules, regulations and orders of any government

authority, non-compliance with which would materially adversely affect its business or credit.

5.07 CORPORATE EXISTENCE. Preserve and maintain its corporate existence and rights and franchises in its State of incorporation, and all licenses necessary to do business; and qualify and remain qualified and in good standing as a foreign corporation in each jurisdiction in which such qualification is necessary in view of its operation or ownership of its properties.

5.08 REPORTING. Furnish Bank the following as soon as available and in any event:

- i. Within ninety (90) days after the end of each fiscal year of Borrower, a copy of the annual audited financial statements of Borrower as at the end of such fiscal year, including a balance sheet and income statement, audited by an independent Certified Public Accountant ("CPA") reasonably acceptable to Bank, with an unqualified opinion thereon by said CPA, together with Borrower's annual report on Form 10K;
- ii. Within forty five (45) days after the end of each fiscal quarter of Borrower, (a) a copy of the quarterly financial statements of Borrower as at the end of such fiscal quarter, including a balance sheet and income statement, certified by an appropriate officer of Borrower to have been prepared substantially in accordance with GAAP, together with Borrower's quarterly report on Form 10Q and (b) a certificate in the form of Exhibit C attached or in such other form as may be acceptable to Bank demonstrating compliance with the financial condition requirements set forth in Section 5.09 of this Agreement, executed by an appropriate officer of Borrower (a "Compliance Certificate").
- iii. Within thirty (30) days after the end of each month, (a) an itemized report of Borrower's accounts receivable, indicating the aging thereof, and (b) a Borrowing Base Certificate; and
- iv. From time to time such other information as Bank may reasonably request.

5.09 FINANCIAL CONDITION. Maintain the financial condition of Borrower, determined in accordance with GAAP, so that it meets the following requirements all determined on a quarterly basis as of the end of each fiscal quarter and, where indicated, for the preceding or trailing 12 month period (the "TTMP") commencing with the quarter ending December 31, 1998;

- i. Borrower's ratio of EBITDA to interest expense will be not less than 2.00:1, for the TTMP;
- ii. Borrower's ratio of Free Cash Flow to Debt Service will be not less than 1.15:1 for the TTMP;
- iii. Borrower's ratio of Debt as of the end of such fiscal quarter to EBITDA for the TTMP will be not more than 3.00:1; and
- iv. Borrower's Tangible Net Worth will be not less than \$4,000,000 as of the end of each fiscal quarter.

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For purposes hereof "Free Cash Flow" means EBITDA less cash taxes and cash capital expenditures and cash dividends; and "Debt Service" means interest expense plus all mandatory principal payments on Debt; and "Tangible Net Worth" means stockholders' equity less intangible assets.

5.10 DEPOSIT ACCOUNTS. Maintain all material deposit accounts at Bank.

- 5.11 NOTICE OF SIGNIFICANT EVENTS. Promptly notify Bank in writing of 1) the occurrence of any Event of Default or Potential Default; 2) any change in its name, address, form of entity, or organizational or capital structure; or 3) the threat of or commencement of any Material Litigation.
6. NEGATIVE COVENANTS
So long as the either Note or any indebtedness of Borrower to Bank remains unpaid or Bank has any commitment to lend hereunder, without the prior written consent of Bank, Borrower will not:
- 6.01 USE OF FUNDS. Use any of the amounts loaned to it by Bank pursuant to this Agreement for any purpose except for refinancing existing debt and funding the expansion of test centers as well as for general corporate purposes;
- 6.02 DEBT. Create, incur, assume or permit to exist any Debt except 1) Debt to Bank; 2) Debt which is trade debt incurred by Borrower in the ordinary course of business on a short term basis for the acquisition of supplies or services; 3) Subordinated Debt; and 4) unsecured Debt up to an aggregate amount outstanding of \$750,000 as long as Borrower is in compliance with all the terms of this Agreement (including the financial condition requirements) both before and after incurring any such unsecured Debt. "Debt" means (i) indebtedness for borrowed money or for the deferred purchase price of property or services; (ii) obligations as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases, (iii) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (i) or (ii) above, and (iv) liabilities in respect of unfunded vested benefits under plans covered by Title IV of ERISA;
- 6.03 LIENS. Create or permit to exist any lien against any of Borrower's property except those created under the Collateral Documents and liens for taxes not yet due and payable, deposits or pledges in connection with or to secure payment of workmen's compensation, unemployment insurance or other social security or in connection with the good faith context of any tax lien.
- 6.04 LOANS, INVESTMENTS. Make loans or advances to or investments in any person or entity except investments in U.S. Government securities and except investments by way of acquisitions of assets or equity interests in any person or entity up to an aggregate amount of \$750,000 as long as Borrower is in compliance with all the terms of this Agreement (including the financial condition requirements) both before and after any such acquisition;
- 6.05 GUARANTY. Guarantee or become liable in any way as surety for any liability or obligation of any other person or entity except by endorsement of instruments for deposit or collection in the ordinary course of business;
- 6.06 MERGER OR SALE. Merge into or consolidate with any corporation or other entity; or sell, lease, assign or otherwise transfer or dispose of all or any material portion of its assets except for sales of inventory in the ordinary course of business; or
- 6.07 NATURE OF BUSINESS. Materially change the scope or nature of its business.
7. DEFAULT
If any of the following events shall occur, it shall be an event of default ("Event of Default"):

- 7.01 NON-PAYMENT. Borrower fails to pay any principal of either Note or any

other sums payable by Borrower to Bank pursuant to this Agreement when due, including any part of the Balance which exceeds the Borrowing Base and which is due on demand pursuant to Section 1.01.6, or Borrower fails to pay any interest on either Note within 10 days after any such interest is due;

- 7.02 REPRESENTATIONS. Any representation or warranty made by Borrower herein or in connection herewith proves to have been incorrect in any material respect when made;
- 7.03 BREACH OF NEGATIVE COVENANTS. Borrower fails to observe or comply with any of the covenants in Section 6 of this Agreement;
- 7.04 BREACH OF COVENANTS. Borrower fails to perform or observe any other term, covenant or agreement contained in this Agreement (other than those referred to in Section 7.01 and 7.03) or in any Collateral Document and such failure has not been cured within ten (10) days after Bank has notified Borrower of such failure;
- 7.05 DEFAULT ON OTHER DEBT. Borrower shall fail to pay any Debt of Borrower in excess of \$100,000 (other than Debt evidenced by the Notes) or any interest or premium thereon when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other default or event under any agreement or instrument relating to any such Debt shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; it being understood that for purposes of this Section 7.05 Debt shall not include any of Borrower's accrued warranty expense;
- 7.06 INSOLVENCY. Borrower shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property and, if instituted against Borrower, shall remain undismissed for a period of thirty days; or Borrower shall take any corporate action to authorize any of the actions set forth above in this subsection;
- 7.07 JUDGMENTS. Any judgment or order for the payment of money in excess of \$250,000 shall be rendered against Borrower and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or
- 7.08 CHANGE IN CONTROL. A majority of the members of the Board of Directors of Borrower cease to be members who were members of such Board on the date hereof or were nominated for election or elected to such Board with the approval of a majority of members who were members of such Board on the date hereof.

8. REMEDIES

Upon the occurrence of any Event of Default, Bank shall have the right by notice to Borrower:

- 8.01 FURTHER LOANS. To terminate its commitment to make Advances;

8.02 ACCELERATION. To declare the Line Balance and the balance of the Term Loan and all interest accrued thereon and all other amounts payable under this Agreement to be immediately due and payable whereupon all such indebtedness of Borrower to Bank shall become and be immediately due and payable

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without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower; and

8.03 OTHER RIGHTS. To exercise any other rights or remedies available to it whether under the Collateral Documents or at law or in equity.

9. MISCELLANEOUS

9.01 WAIVER; AMENDMENTS. No waiver by Bank or any amendment of any provision of this Agreement, nor any consent of Bank to any failure to comply with the terms hereof by Borrower, shall be effective unless made in writing and signed by Bank. No waiver by Bank of any default or of any right to enforce this Agreement shall operate as a waiver of any other default, or of the same default on a future occasion, or of the right to enforce this Agreement on any future occasion. No delay in or discontinuance of the enforcement of this Agreement, nor the acceptance by Bank of installments of principal or interest after the occurrence of any Event of Default, shall operate as a waiver of any default.

9.02 RIGHTS CUMULATIVE. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies afforded by any security agreement, promissory note or other agreement executed in connection herewith, or provided by law. Bank's remedies may be exercised concurrently or separately, in any order, and the election of one remedy shall not be deemed a waiver of any other remedy.

9.03 EXPENSES. In addition to the fees specified elsewhere in this Agreement but subject to the limitations on such fees, Borrower agrees to pay to Bank on demand all expenses, including reasonable fees and expenses of attorneys, paid or incurred by Bank in connection with the creation and perfection of Bank's security interests in collateral, the collection of the Term Loan or the Advances made pursuant to this Agreement, or the protection, preservation or enforcement of Bank's rights hereunder and in property pledged or granted as collateral.

9.04 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of Borrower, Bank and their respective successors and assigns. However, Borrower shall not have the right to assign or otherwise transfer any rights in or under this Agreement without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in the Term Loan or the Advances provided for herein. In connection therewith Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to the Term Loan or the Advances, Borrower, Borrower's business or any of the Collateral.

9.05 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado.

9.06 NOTICES. All notices, requests and demands given to or made upon either party must be in writing and shall be deemed to have been given or made when personally delivered or two (2) days after having been deposited in the United States Mail, first class postage prepaid, addressed as follows:

<TABLE>

<S>

If to Borrower: QualMark Corporation
Attn: Mr. Vernon Settle
1329 W. 121st Avenue
Denver, CO 80234

<C>

If to Bank: U.S. Bank National Association
Attn: Melissa Forbes
Commercial Loan Department
918 17th St.

</TABLE>

- 9.07 ACCOUNTING TERMS. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein.
- 9.08 RECITALS. The recitals to this Agreement and any definitions set forth therein are made a part hereof and incorporated in this Agreement.

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- 9.09 ENTIRE AGREEMENT The following documents contain the entire agreement between the parties concerning the subject matter hereof: this Agreement, the Notes and the Collateral Documents (collectively, the "relevant documents"). Any representation, understanding or promise concerning the subject matter hereof, which is not expressly set forth in any of the relevant documents, shall not be enforceable by any party hereto or its successors or assigns. In the event of any conflict or inconsistency between the terms of this Agreement and the terms of any other relevant document, the terms of this Agreement shall govern.
- 9.10 SEVERABILITY. The unenforceability of any provision of this Agreement shall not affect the enforceability or validity of any other provision hereof.
- 9.11 JURY TRIAL WAIVER. BANK AND BORROWER EACH IRREVOCABLY WAIVES ITS RIGHT TO A JURY TRIAL IN ANY ACTION OR PROCEEDING OF ANY ISSUE, CLAIM, COUNTERCLAIM OR OTHER CAUSE OF ACTION, WHETHER IN CONTRACT OR TORT, BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE CREDIT EXTENDED HEREUNDER, ANY COLLATERAL PROPERTY SECURING SUCH CREDIT, OR ANY OTHER AGREEMENT OR DEALINGS RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties have executed this Agreement the date first stated above for the purposes set forth herein.

QUALMARK CORPORATION

U.S. BANK NATIONAL ASSOCIATION

By: _____

By: _____

Title: _____

Title: _____

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EXHIBIT A

[Interest Rate - Reserve Adjusted LIBOR Rate-Fixed Interest Periods]

This Exhibit A contains provisions expressly incorporated into that certain promissory note (the "Note") dated December 22, 1998 in the original principal amount of \$_____ executed by QualMark Corporation (the "Borrower") and payable to the order of U.S. Bank National Association (the "Bank"). In the event of any inconsistency between the provisions of this Exhibit A and the terms of the Note, the terms of this Exhibit A shall control.

1. DEFINITIONS. Unless otherwise defined in the Note, capitalized terms shall have the following meanings:

"ADVANCE": Each amount borrowed by the Borrower under the credit facility between the Borrower and the Bank and evidenced by the Note to which

this Exhibit A is attached. Advances may be either LIBOR Rate Advances or Reference Rate Advances.

"BOARD": The Board of Governors of the Federal Reserve System.

"BUSINESS DAY": Any day of the year on which the Bank's main Denver office is open for carrying on substantially all of its business and which is also a day for trading by and between banks in United States dollar deposits in the interbank Eurodollar market and a day on which banks are open for business in New York City.

"EUROCURRENCY RESERVE RATE": A percentage equal to the daily average during the applicable Interest Period of the aggregate maximum reserve requirements (including all basic, supplemental, marginal and other reserves), as specified under Regulation D of the Board, or any other applicable regulation that prescribes reserve requirements applicable to Eurocurrency liabilities (as presently defined in Regulation D) or applicable to extensions of credit by member banks the rate of interest on which is determined with regard to rates applicable to Eurocurrency liabilities. Without limiting the generality of the foregoing, the Eurocurrency Reserve Rate shall reflect any reserves required to be maintained by the Bank against (i) any category of liabilities that includes deposits by reference to which the LIBOR Rate is to be determined, or (ii) any category of extensions of credit or other assets that includes loans or advances having an interest rate based upon the LIBOR Rate. Any LIBOR Rate Advance shall be deemed to be "Eurocurrency liability" as defined in Regulation D of the Board.

"INTEREST PERIOD": as to any LIBOR Rate Advance, a period commencing on (and including) the date the funds of such LIBOR Rate Advance are advanced or the date the immediately preceding Interest Period ends, and ending on the numerically corresponding day in the calendar month at the end of whichever period has been specified in the Borrower's Interest Period Election, PROVIDED, HOWEVER, that (i) if any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; (ii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; (iii) interest shall accrue from and including the first day of the Interest Period to but excluding the last day of such Interest Period, and (iv) no Interest Period applicable to any LIBOR Rate Advance may end after the maturity date of the Note.

"INTEREST PERIOD ELECTION": The number of months in any Interest Period as selected by the Borrower or as otherwise determined in accordance with Section 2 of this Exhibit A.

"LIBOR RATE": The offered rate for deposits in United States Dollars for delivery of such deposits on the first day of an Interest Period, for the number of days comprised therein, which appears on the Reuters Screen LIBO Page as of 11:00 a.m., London time, on the day that is two Business Days preceding the first day of the Interest Period. If at least two rates appear on the Reuters Screen LIBO page, the rate for such Interest Period shall be the arithmetic mean of such rates (rounded to the nearest 1/100th). If fewer than two rates appear, the rate for such Interest Period shall be determined by the Bank based on rates offered to banks for United States Dollar deposits in the interbank Eurodollar market. "Reuters Screen LIBO Page" means the display designated as page "LIBO" on the

Reuters Monitor Money Rates Service (or such other page as may replace the LIBO Page on that service for the purpose of displaying London interbank offered rates of major banks for United States Dollar deposits).

"LIBOR RATE ADVANCE": Any Advance as to which the Borrower elects an interest rate per annum based upon the LIBOR Rate.

"MARGIN": Whatever interest rate factor (sometimes known as the spread) is to be added to the Reserve Adjusted LIBOR Rate as specified in the Note or the credit facility between the Borrower and the Bank.

"RESERVE ADJUSTED LIBOR RATE": With respect to each LIBOR Rate Advance, the rate per annum (rounded to the nearest 1/100th) equal to the rate obtained by dividing (a) the LIBOR Rate for the first day of the applicable Interest Period, by (b) a percentage equal to 1.00 minus the Eurocurrency Reserve Rate. The Reserve Adjusted LIBOR Rate as to any LIBOR Rate Advance then outstanding shall be adjusted automatically on and after the date as to which any change in the reserve requirement percentage referred to above is published by the Board (or any successor thereto), regardless of whether such change falls within an existing Interest Period.

"REFERENCE RATE": The per annum interest rate publicly announced from time to time as such by or on behalf of the Bank, which is not necessarily the lowest rate charged by the Bank; and the Bank may lend to its customers at per annum rates that are at, above or below the Reference Rate. The Reference Rate shall be adjusted automatically from time to time simultaneously with any change in the Reference Rate.

"REFERENCE RATE ADVANCE": Any Advance as to which the interest rate per annum is based upon the Reference Rate.

2. INTEREST PERIOD ELECTIONS. Interest Period Elections for purposes hereof shall be determined as follows:

Borrower shall make Interest Period Elections, from time to time. Borrower shall be entitled to select Interest Periods of 1,2,3 or 6 months in duration; and the terms of Section 3 below shall apply.

3. DETERMINATION OF RATES. If the Borrower has chosen to make periodic Interest Period Elections, then not later than 12:00 noon (Denver time) two Business Days prior to the Business Day on which any LIBOR Rate Advance is made or is to be made or which is the first day of the selected Interest Period therefor, the Borrower shall give notice to the Bank specifying the duration of the Interest Period as specified above. If, upon the expiration of any Interest Period, the Borrower has failed to elect the duration of a new Interest Period, the Advance shall automatically become a Reference Rate Advance bearing interest at the Reference Rate, plus the Margin.

4. INTEREST RATE NOT ASCERTAINABLE/PREPAYMENTS. The following provisions apply to all Advances:

(a) If it becomes unlawful for the Bank to make any LIBOR Rate Advance, or the Bank determines (which determination will be binding on the Borrower) that: (i) adequate and reasonable means do not exist for determining the interest rate applicable for any LIBOR Rate Advance; or (ii) the Bank cannot obtain funds in the amount or for the maturity in the market relating to any LIBOR Rate Advance, the Bank will not be required to make or continue to maintain any such LIBOR Rate Advance and all such LIBOR Rate Advances then existing shall automatically convert to Reference Rate Advances bearing interest at the Reference Rate plus the Margin; and the Borrower shall be required to pay the Make-Whole Fee described in sub-section (b) (ii) below upon such conversion. In addition, if there is a change in law or regulation as a result of which the Bank determines that the interest rate applicable to any LIBOR Rate Advance no longer represents the effective cost to the Bank for funding such LIBOR Rate Advance, the Borrower will pay to the Bank an amount sufficient to cause the Bank to receive interest at the rate that reflects the increase in effective rate caused by the change. Bank agrees that for purposes of this sub-section (a) Borrower shall not be treated any differently or more severely than any other customer of the Bank being charged interest based on the LIBOR Rate.

(b) (i) The Borrower understands that upon the making by the Bank of any LIBOR Rate Advance, the Bank intends to enter into funding arrangements with third parties (based in whole or in part on such LIBOR Rate Advance) on terms and conditions which could result in losses to the Bank if

the LIBOR Rate Advance is not made or does not remain outstanding for the entire Interest Period. Therefore, if either (A) after the Borrower

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requests a LIBOR Rate Advance, the LIBOR Rate Advance is not made on the first day of the specified Interest Period for any reason (including, but not limited to, the failure of the Borrower to comply with one or more of the conditions precedent to any Advance) other than a wrongful failure by the Bank to make the LIBOR Rate Advance, or (B) such LIBOR Rate Advance is prepaid in whole or in part prior to the last day of the applicable Interest Period, whether as a result of acceleration of or demand under the Note, voluntary prepayment, mandatory prepayment, termination of this arrangement, operation of law or otherwise (the full amount of the Advance requested in the case of clause (i)(A) above and the full amount of the Advance prepaid in the case of clause (i)(B) above (each being referred to as an "Affected Amount")), the Borrower agrees to pay on demand to the Bank, as liquidated damages and not as a penalty and in addition to any other payments required hereunder, the Make-Whole Fee applicable to the Affected Amount.

(ii) The Make-Whole Fee applicable to each Affected Amount shall be the sum of (A) the present value of the excess, if any, of (1) the amount of interest that would have accrued on the Affected Amount during the remaining portion of the applicable Interest Period, calculated at the interest rate that otherwise would have been applicable to the Affected Amount, over (2) the amount of interest that would accrue on the Affected Amount during the remaining portion of the applicable Interest Period, calculated using the Reserve Adjusted LIBOR Rate that would be applicable to a loan in the Affected Amount having a maturity corresponding with the last day of the applicable Interest Period, plus (B) all out-of-pocket costs and expenses (including, without limitation, any interest paid by the Bank to lenders of funds borrowed by it to make or carry any LIBOR Rate Advance and, to the extent not capable of being determined in accordance with clause (A)(2) above, any loss sustained by the Bank in connection with the re-deployment of funds with respect to any such LIBOR Rate Advance) incurred by the Bank. Present value, as used above, will be determined in accordance with standard financial practice, using the Reserve Adjusted LIBOR Rate applicable under clause (A)(2) above as the discount factor.

(iii) The Make-Whole Fee will be determined (A) in the case of situations falling within clause (i)(A) above, on the first day of the Interest Period that would have applied to the Affected Amount, and (B) in the case of situations falling within clause (i)(B) above, the date on which the Affected Amount is prepaid.

5. BANK'S FUNDING. The Bank shall be entitled to fund and maintain its funding of all or any part of the Advances in any manner it elects; it being understood, however, that for purposes of this Exhibit A, all determinations hereunder shall be made as if the Bank had actually funded and maintained each LIBOR Rate Advance during the Interest Period for such Advance through the purchase of deposits having a term corresponding to such Interest Period and bearing an interest rate equal to the Reserve Adjusted LIBOR Rate for such Interest Period.

6. BANK'S RECORDS. The Bank's records shall be rebuttably presumptive evidence of the dates for each Interest Period and the interest rate for each such period as well as the dates and amounts of payments of principal and interest on the Note.

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EXHIBIT B

BORROWING BASE CERTIFICATE
of

QUALMARK CORPORATION
"Borrower"

As Of The Period Ending _____

This Certificate is submitted to U.S. Bank National Association ("Bank") in connection with the Revolving Credit and Term Loan Agreement dated as of December 22, 1998, as it may be amended from time to time (the "Agreement") between Bank and Borrower. Capitalized terms used herein are defined in the Agreement.

The undersigned hereby certifies to Bank that the undersigned is familiar with the following financial information which has been taken from Borrower's books and records which are complete and accurate and that the following calculations of the Borrowing Base the remaining amount available under the Borrowing Base, aging of accounts receivable and categories of inventory are true and correct:

<TABLE>
<CAPTION>

		BORROWING BASE		

<S>		<C>	<C>	<C>
A.	1. Total Accounts Receivable:			
	Exclusions per Agreement:			
	No invoice for A/R			
	A/R over 60 days past due	-----		
	Disputed A/Rs	-----		
	Federal government contract A/Rs	-----		
	Foreign A/Rs	-----		
	Affiliates A/Rs	-----		
	10% rule	-----		
	Doubtful Value A/Rs	-----		
	Bonded A/Rs	-----		
	No first lien on A/Rs	-----		
	2. Subtotal of excluded A/Rs:	-----		
	3. Eligible Accounts (Line 1 - Line 2)		x 85%	-----
B.	4. Total Inventory:			
	Exclusions per Agreement			
	Work-in-Process	-----		
	Obsolete, defective inventory	-----		
	Foreign inventory	-----		
	No first lien on inventory	-----		
	5. Subtotal of excluded inventory	-----		

6.	Eligible Inventory (Line 4 - Line 5)	-----	x 30%	-----
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C.	7. Total Equipment (net book value):	-----		
	Exclusions per Agreement			
8.	Foreign Equipment	-----		
9.	Eligible Equipment (Line 7 - Line 8)	-----	x 50%	-----
D.	10. Borrowing Base: (Line 3 + Line 6 + line 9)	-----	,	
11.	Less - Balance (i.e. outstandings under Revolving Credit Line and Term Loan)	-----	,	
12.	[Excess/Deficit] Borrowing Base:	-----	,	

</TABLE>

<TABLE>

<CAPTION>

Aging of Accounts Receivable		Categories of Inventory	
-----		-----	
<S>	<C>	<C>	<C>
Current:	-----	Raw Materials	-----
1-30 days past due:	-----	Work in Process	-----
31-60 days past due:	-----	Finished Goods	-----
Over 60 days past due:	-----		

</TABLE>

The undersigned further certifies that (a) Borrower is in compliance with all of the covenants contained in the Agreement, and (b) there has been no Event of Default under the Agreement which has not been cured or waived, and no Potential Default has occurred.

By: _____

Title: _____

Date: _____

EXHIBIT C

CERTIFICATE OF COMPLIANCE
of
QUALMARK CORPORATION
"Borrower"

This Certificate is submitted to U.S. Bank National Association ("Bank") in connection with the Revolving Credit and Term Loan Agreement dated as of December 22, 1998, as it may be amended from time to time (the "Agreement") between Bank and Borrower. Capitalized terms used herein are defined in the Agreement.

The undersigned hereby certifies to Bank that the undersigned is familiar with the following financial information which has been taken from Borrower's books and records which are complete and accurate and that the following calculations of the financial covenants specified in the Agreement are true and correct:

FINANCIAL COVENANT COMPLIANCE

<TABLE>
<CAPTION>

Covenant	Required	Actual	In Compliance Yes/No
<S>	<C>	<C>	<C>
Min. EBITDA/Interest Expense	> 2.00:1	-----	-----
Min. Free Cash Flow/Debt Service	> 1.15:1	-----	-----
Max. Cash Flow Leverage Ratio	< 3.00:1	-----	-----
Min. Tangible Net Worth	> \$4,000,000	-----	-----

</TABLE>

The undersigned further certifies that (a) Borrower is in compliance with all of the covenants contained in the Agreement, and (b) there has been no Event of Default under the Agreement which has not been cured or waived, and no Potential Default has occurred.

By: _____

Title: _____

Date: _____

Borrower: QUALMARK CORPORATION

Bank: U.S. BANK NATIONAL ASSOCIATION

Address: 918 17TH STREET
DENVER, CO 80202

Address: 1329 W. 112TH AVENUE
DENVER, CO 80234

SECURITY INTEREST. THIS SECURITY INTEREST SECURES (CHECK ONE):

X the payment and performance of each and every debt, liability and obligation of every type and description which the Borrower may now or at any time owe to the Bank, whether now existing or hereafter arising, direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, independent, joint, several, or joint and several; or

the payment of a promissory note dated _____, executed and delivered by the Borrower to the Bank in the original principal sum of \$ _____, with interest and other charges as therein provided: or

the payment of a _____ dated _____, executed and delivered by the Borrower to the Bank in the original principal sum of \$ _____, with interest and other charges as therein provided;

This security interest also secures all extensions, renewals and replacements of the above described obligations. Such obligations are hereinafter collectively referred to as the "Secured Obligations";

The Borrower grants the Bank a security interest in the following property (hereinafter the "Collateral");

INVENTORY

X All inventory (as the term is defined in the applicable Uniform Commercial Code) now owned or hereafter at any time acquired by Borrower or in which Borrower obtains rights;

Specific inventory, described as follows:

EQUIPMENT

X All equipment (as the term is defined in the applicable Uniform Commercial Code) now owned or hereafter at any time acquired by Borrower or in which Borrower obtains rights:

Specific equipment, described as follows:

ACCOUNTS, INSTRUMENTS, CHATTEL PAPER, AND OTHER RIGHTS TO PAYMENT

X Each and every right of Borrower to the payment of money, whether such right to payment now exists or hereafter arises, together with all other rights and interests (including all liens and security interests) which Borrower may at any time have by law or agreement against any account debtor (as defined in the applicable Uniform Commercial Code) or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor;

Specific accounts, instruments, chattel paper and other rights to payment, described as follows:

GENERAL INTANGIBLES

X All intangibles (as defined in the applicable Uniform Commercial Code) now owned or hereafter at any time acquired by Borrower;

Specific intangibles, described as follows:

The Collateral shall include (i) all substitutions and replacements for and proceeds of any and all of the foregoing property, and in the case of all tangible Collateral, all accessions, accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in

connection with any such goods and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter coverings such goods.

Borrower warrants, represents and agrees that:

1. The Collateral will X will not be acquired with the proceeds of the loan or advance made on or about the date hereof. If the Collateral will be so acquired, the Bank is authorized to disburse such proceeds directly to the seller(s) of the Collateral.

2. If part of the Collateral now constitutes, or as and when acquired by Borrower will constitute, Inventory and Equipment (as those terms are defined in the applicable Uniform Commercial Code) such collateral is or will be kept at the following location or locations:

SEE ATTACHED EXHIBIT A HERETO.

and will not be removed from such location or locations unless, prior to any such removal, Borrower has given written notice to the Bank of the location or locations to which the Borrower desires to remove the same, and the Bank has given its written consent to such removal. If any of the locations where Borrower now or hereafter keeps the Collateral are leased by the Borrower, the Borrower shall at Bank's request, obtain a Landlord's waiver in a form satisfactory to Bank.

3. Borrower's place of business, or chief executive office if Borrower has more than one place of business, is located at 1329 WEST 121st STREET, DENVER, CO 80234 Borrower will notify the Bank in writing of any change in location of Borrower's place of business or chief executive office.

4. If any Collateral is or will become a mixture, the recorded owner of the real estate is N/A_____ and the legal description of the real estate is N/A_____.
Borrower will not permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of the Bank that its security interest will be prior and senior to any interest or lien then held or thereafter acquired by any other party.

5. If any of the Collateral is goods of a type normally used in more than one state (whether or not actually so used), Borrower will contemporaneously herewith furnish the Bank a list of such Collateral showing the states wherein the same is or will be used, and such list will identify any Collateral covered by certificates of title and the issuing states thereof. Hereafter Borrower will notify the Bank in writing of any other states in which any of the Collateral is so used or which have issued certificates of title covering any of the Collateral.

6. Borrower has or will acquire title to and will at all times keep the Collateral free of all liens and encumbrances, except the security interest created hereby, and has full power and authority to execute this Security Agreement, to perform Borrower's obligations hereunder and to subject the Collateral to the security interest created hereby. Borrower will pay all fees, assessments, charges or taxes arising with respect to die Collateral. There is no encumbrance or security interest with respect to all or any part of the Collateral which either (i) is superior to the Bank's security interest hereunder, or (ii) has not been disclosed to the Bank by the Borrower. All costs of keeping the Collateral free of encumbrances and security interests prohibited by this Agreement and of removing same if they should arise shall be borne and paid by Borrower.

7. Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) a valid, genuine and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than those arising in the ordinary course of business) of the account debtor or other obligor named therein or in Borrower's records pertaining thereto as be

obligated to pay such obligation. Borrower will not agree to any material modification, amendment or cancellation of any such obligation without Bank's prior written consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.

8. Borrower will at any time or times hereafter execute such financing statements and other documents and instruments and perform such acts as the Bank may from time to time request to establish, maintain, perfect and enforce a valid security interest in the Collateral, and will pay all costs of filing and recording.

9. Borrower will keep all tangible Collateral and all lands, plants, buildings and other property now or hereafter owned or used in connection with its business in good condition, normal depreciation excepted, and insured against loss or damage by fire (including so-called extended coverage), theft, physical damage, and against such other risks, including without limitation public liability, in such amounts, in such companies and upon such terms as Bank may reasonably require. Borrower will obtain loss payable endorsements on applicable insurance policies in favor of Borrower and Bank as their interests may appear and at Bank's request will deposit the insurance policies with Bank. Borrower shall cause each insurer to agree, by Policy endorsement or by issuance of a certificate of insurance or by independent instrument furnished to Bank, that such insurer will give thirty (30) days written notice to Bank before such policy will be altered or cancelled. Borrower irrevocably appoints Bank as Borrower's attorney in fact to make any claim for, to negotiate settlement of claims, to receive payment for and to execute and endorse any documents, checks or other instruments in payment for loss, theft, or damage under any insurance policy covering the Collateral.

10. Borrower will promptly notify Bank of any loss or material damage to any Collateral or of any adverse change, known to Borrower, in the prospect of payment of any sums due on or under any instrument, chattel paper, account or general intangible constituting Collateral.

11. Upon Bank's request (whether a Default as hereinafter defined, has occurred) Borrower will promptly deliver to Bank any instrument, document or chattel paper constituting Collateral.

12. Upon Default by Borrower in performance of its obligations hereunder, Bank shall have the authority, but shall not be obligated to: (i) effect such insurance and necessary repairs and pay the premiums therefor and the costs thereof; and (ii) pay and discharge any fees, assessments, charges, taxes, liens and encumbrances on the Collateral. All sums so advanced or paid by the Bank shall be payable by Borrower on demand with interest at the maximum rate allowed by law and shall be a part of the Secured Obligations.

13. Borrower will not sell, lease or otherwise dispose of the Collateral other than in ordinary course of its business at prices constituting the then fair market value thereof.

14. The Bank shall have the authority (whether or not a Default has occurred), but shall not be obligated to: (a) notify any or all account debtors and obligors on instruments constituting Collateral of the existence of the Bank's security interest and to pay or remit all sums due or to become due directly to the Bank or its nominee; (b) place on any chattel paper received as proceeds a notation or legend showing the Bank's security interest; (c) in the name of the Borrower or otherwise, to demand, collect, receive and receipt for, compound, compromise, settle, prosecute and discontinue any suits or proceedings in respect of any or all of the Collateral; (d) take any action which the Bank may deem necessary or desirable in order to realize on the Collateral, including, without limitation, the power to perform any contract, to endorse in the name of Borrower any checks, drafts, notes, or other instruments or documents received in payment of or on account of the Collateral; (e) to place upon Borrower's books and records relating to the accounts and general intangibles covered by the security interest granted hereby a notation or legend stating that such account or general intangible is subject to a security interest held by the Bank, and (f) after any Default, to enter upon and into and take possession of all or such part(s) of the properties of Borrower, including

lands, plants, buildings, machinery, equipment and other property as may be necessary or appropriate in the judgment of the Bank to permit or enable the Bank to manufacture, produce, process, store or sell or complete the manufacture, production, processing, storing or sale of all or any part of the Collateral, as the Bank may elect, and to use and operate said properties for said purposes and for such length of time as the Bank may deem necessary or appropriate for said purposes without the payment of any compensation to Borrower therefor.

15. Borrower will collect all accounts until receipt of notice from the Bank to notify all account debtors of the existence of the Bank's security interest and to direct such account debtors to pay or remit all sums due or to become due directly to the Bank or its nominee. Borrower will hold all of the proceeds of such collections and all returned and repossessed goods in trust for the Bank, and will not commingle the same with any other funds or property of the Borrower, and will deliver the same forthwith to the Bank at its request; provided, however, that with respect to returned and repossessed goods Borrower will provide written notice to the Bank of each return or repossession and will on demand pay to the Bank the full invoice or contract price thereof.

16. Borrower will keep accurate books, records and accounts with respect to the Collateral, and with respect to the general business of Borrower, and will make the same available to the Bank at its request for examination and inspection; and will make and render to the Bank such reports, accountings and statements as the Bank from time to time may request with respect to the Collateral; and will permit any authorized representative of the Bank to examine and inspect, during normal business hours, any and all premises where the Collateral is or may be kept or located.

17. The occurrence of any of the following events will constitute a Default: (a) failure of Borrower, or of any co-maker, indorser, surety or guarantor to pay when due any amount payable under any of the Secured Obligations; (b) failure to perform any agreement of Borrower contained herein or in any other agreement with the Bank; (c) any statement, representation or warranty of Borrower made herein or at any time furnished to the Bank is untrue in any respect as of the date made; (d) entry of any judgment against Borrower; (e) Borrower becomes insolvent or is generally not paying its debts as such debts become due; (f) appointment of or assignment to a custodian, as that term is defined in the United States Bankruptcy Code, for any property of Borrower, or loss, substantial damage to, destruction, theft, encumbrance, levy, seizure or attachment of any portion of the Collateral; (g) commencement of any proceeding or filing of a petition by or against Borrower under the provisions of the United States Bankruptcy Code for liquidation, reorganization or adjustment of debts, or under any insolvency law or other statute or law providing for the modification or adjustment of the rights of creditors; (h) death of any Borrower who is a natural person or of any partner of any Borrower which is a partnership if such death causes the termination of the partnership; (i) dissolution, consolidation, or merger, or transfer of a substantial part of the property of any Borrower which is a corporation or a partnership; (j) such a change in the condition or affairs (financial or otherwise) of Borrower or any co-maker, indorser, surety or guarantor of any of the Secured Obligations as in the opinion of the Bank impairs the Bank's security or increases its risk; or (k) the Bank deems itself insecure for any reason whatsoever.

18. Whenever a Default shall exist, the Bank may, at its option and without demand or notice, declare all or any part of the Secured Obligations immediately due and payable, and the Bank may exercise, in addition to the rights and remedies granted hereby, all rights and remedies of a secured party under the Uniform Commercial Code or any other applicable law.

19. Borrower agrees, in the event of Default, to make the collateral available to the Bank at a place or places to be designated by the Bank, which is reasonably convenient to both parties, and to pay all costs of the Bank, including reasonable attorney's fees, in the collection of any of the Secured Obligations and the enforcement of any of the Bank's rights. If any notification of intended disposition of any of the Collateral is required by law, such notification shall be deemed properly given if mailed a reasonable

time before such disposition, postage prepaid, addressed to the Borrower at the address shown above. Bank's duty of care with respect to Collateral in its possession shall be deemed fulfilled if Bank exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Bank need not otherwise preserve, protect, insure or care for any Collateral. Bank shall not be obligated to preserve any rights Borrower may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. No delay or failure by the Bank in the exercise of any right or remedy shall constitute a waiver thereof, and no single or partial exercise by the Bank of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy.

20. If more than one party shall sign this Agreement, the term "Borrower" shall mean all such parties, and each of them and all such parties shall be jointly and severally obligated thereunder.

21. This agreement is governed by the laws of the state in which the Bank is located.

22. See Addendum to Borrower' s Security Agreement attached hereto and incorporated herein by this reference.

Executed this, 22ND day of DECEMBER 1998

BOPROWER(S) QUALMARK CORPORATION

By: SIGNATURE/ W. Preston Wilson Its: SIGNED TITLE/ President and CEO
W. Preston Wilson President and CEO

EXHIBIT A TO BORROWER'S SECURITY AGREEMENT

Locations for Qualmark Corporation are as follows:

1329 W. 121st Avenue
Denver, CO 80234

41 Brigham Street, Unit II,
Marlborough, MA 01752

39255 Country Club Drive, #B-8,
Farmington Hills, MI 48331

15661 Producer Lane, Unit H,
Huntington Beach, CA 92649

Rush Lake Business Park
1775 Old Hwy. 8, Suite 110
New Brighton, MN 55112

931 S. Semoran Blvd., #212.
Winter Park, FL 32792

215 Southport Drive, #300,
Morrisville, NC 27560

2225 Martin Avenue, Suite K,
Santa Clara, CA 95050

ADDENDUM TO BORROWER'S SECURITY AGREEMENT
FROM QUALMARK CORPORATION ("BORROWER")
TO U.S. BANK NATIONAL ASSOCIATION ("BANK")

A. SPECIAL PROVISIONS CONCERNING TRADEMARKS

1. ADDITIONAL REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants that it is the true and lawful exclusive owner of or otherwise has the right to use the Marks listed in SCHEDULE A hereto and that, to the best of Borrower's knowledge, said listed Marks include all material United States marks registered in the United States Patent and Trademark Office that Borrower owns as of the date hereof and that said registrations are valid, subsisting and have not been cancelled. Borrower further warrants that it is aware of no third party claim that any aspect of Borrower's present or contemplated business operations infringes or will infringe any trademark, service mark or trade name. Borrower represents and warrants that it is the true and lawful owner of or otherwise has the right to use all U. S. trademark registrations listed in SCHEDULE A hereto and that said registrations are valid, subsisting, have not been cancelled and that Borrower is not aware of any third-party claim that any of said registrations is invalid or unenforceable, or is not aware that there is any reason that any of said registrations is invalid or unenforceable. Borrower hereby grants to Bank an absolute power of attorney to sign, upon the occurrence and during the continuance of an event of Default, any document which may be required by the United States Patent and Trademark Office in order to effect an absolute assignment of all right, title and interest in each Mark and record the same.

2. LICENSES AND ASSIGNMENTS. Except as otherwise permitted by the Revolving Credit and Term Loan Agreement or this Agreement, Borrower hereby agrees not to divest itself of any right under any Mark absent prior written approval of Bank.

3. INFRINGEMENTS. Borrower agrees, promptly upon learning thereof, to notify Bank in writing of the name and address of, and to furnish such pertinent information that may be available with respect to, any party who Borrower believes is infringing or diluting or otherwise violating in any material respect any of Borrower's rights in and to any Mark, or with respect to any party claiming that Borrower's use of any Mark violates in any material respect any property right of that party.

4. MAINTENANCE OF REGISTRATION. Borrower shall, at its own expense, diligently process all documents required to maintain trademark registrations, including but not limited to affidavits of use and applications for renewals of registration in the United States Patent and Trademark Office, for all of its registered Marks, and shall pay all fees and disbursements in connection therewith.

5. FUTURE REGISTERED MARKS. If any Mark registration issues hereafter to Borrower as a result of any application now or hereafter pending before the United States Patent and Trademark Office, within 30 days of receipt of such certificate, Borrower shall deliver to Bank a copy of such certificate, and an assignment for security in such Mark, to Bank and at the expense of

Borrower, confirming the assignment for security in such Mark to Bank hereunder, the form of such security to be substantially the same as the form hereof or attached hereto or otherwise acceptable to Bank.

6. REMEDIES. If an event of Default shall occur and be continuing, Bank may, by written notice to Borrower, take any or all of the following actions: (i) declare the entire right, title and interest of Borrower in and to each of the Marks and the goodwill of the business associated therewith, together with all trademark rights and rights of protection to the same, vested in Bank, in which event such rights, title and interest shall immediately vest, in Bank, and Bank shall be entitled to exercise the power of attorney referred to in Section I hereof to execute, cause to be acknowledged and notarized and record said absolute assignment with the applicable agency; (ii) take and use or sell the Marks and the goodwill of Borrower's business symbolized by the Marks and the right to carry on the business and use the assets of Borrower in connection with which the Marks have been used; (iii) in connection with the exercise of any of the other

remedies provided for in this Agreement or any other related document, direct Borrower to refrain, in which event Borrower shall refrain, from using the Marks in any manner whatsoever, directly or indirectly, and, if requested by Bank, change Borrower's corporate name to eliminate therefrom any use of any Mark; and (iv) direct Borrower to execute such other and further documents that Bank may reasonably request to further confirm the foregoing and to transfer ownership of the Marks and registrations in the United States Patent and Trademark Office to Bank.

B. SPECIAL PROVISIONS CONCERNING PATENTS, COPYRIGHTS AND TRADE SECRETS

1. ADDITIONAL REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants that it is the true and lawful owner or licensee of all rights in (i) all United States trade secrets and proprietary information necessary to operate the business of Borrower (the "Trade Secret Rights"), (ii) the Patents listed in SCHEDULE B hereto for Borrower and that said Patents include, to the best of Borrower's knowledge, all material United States patents that Borrower owns as of the date hereof and (iii) the Copyrights listed in SCHEDULE C hereto for Borrower and that said Copyrights constitute, to the best of Borrower's knowledge, all the material United States copyrights registered with the United States Copyright Office that Borrower now owns. Borrower further warrants that it has no knowledge of any third party claim that any aspect of Borrower's present or contemplated business operations infringes or will infringe any patent or any copyright or Borrower has misappropriated any trade secret or proprietary information. Borrower hereby grants to Bank an absolute power of attorney to sign, upon the occurrence and during the continuance of any Event of Default, any document which may be required by the United States Patent and Trademark Office or United States Copyright Office, as the case may be, in order to effect an absolute assignment of all right, title and interest in each Patent and Copyright, and to record the same.

2. LICENSES AND ASSIGNMENTS. Except as otherwise permitted by the terms of any credit agreement between Borrower and Bank or this Agreement, Borrower hereby agrees not to divest itself of any right under any Patent or Copyright absent prior written approval of Bank.

3. INFRINGEMENTS. Borrower agrees, promptly upon learning thereof, to furnish Bank in writing with all pertinent information available to Borrower with respect to any infringement, contributing infringement or active inducement to infringe in any Patent or Copyright or to any claim that the practice of any Patent or the use of any Copyright violates, in any material respect, any property right of a third party, or with respect to any misappropriation of any Trade Secret Right or any claim that practice of any Trade Secret Right violates any property right of a third party.

4. MAINTENANCE OF PATENTS OR COPYRIGHTS. At its own expense, Borrower shall make timely payment of all post-issuance fees required to maintain in force rights under each Patent or Copyright, absent prior written consent of Bank.

5. OTHER PATENTS OR COPYRIGHTS. Within 30 days of the acquisition or issuance of a Patent or Copyright, Borrower shall deliver to Bank a copy of said certificate or registration of, said Patent or Copyright, as the case may be, with an assignment for security as to such Patent or Copyright, as the case may be, to Bank and at the expense of Borrower, confirming the assignment for security, the form of such assignment for security to be substantially the same as the form hereof or attached hereto or otherwise acceptable to Bank.

6. REMEDIES. If an event of Default shall occur and be continuing, Bank may by written notice to Borrower, take any or all of the following actions: (i) declare the entire right, title, and interest of Borrower in each of the Patents and Copyrights vested in Bank, in which event such right, title, and interest shall immediately vest in Bank, in which case Bank shall be entitled to exercise the power of attorney referred to in Section I hereof to execute, cause to be acknowledged and notarized and to record said absolute assignment with the applicable agency; (ii) in connection with the exercise of any of the other remedies provided for in this Agreement or any

other related document, take and practice or sell the Patents and Copyrights; (iii) in connection with the exercise of any of the other remedies provided for in this Agreement or any other related document, direct Borrower to refrain, in which event Borrower shall refrain, from practicing the Patents and Copyrights directly or indirectly; and (iv) direct Borrower to execute such other and further documents as Bank may request further to confirm the foregoing and to transfer ownership of the Patents and Copyrights to Bank.

Executed this 22nd day of December, 1998

BORROWER:

QUALMARK CORPORATION

By: SIGNATURE/ W. PRESTON WILSON

Name: PRINTED NAME/ W. PRESTON WILSON

Title: PRINTED TITLE/ PRESIDENT AND CEO

SCHEDULE A - TRADEMARKS
(to be provided by Borrower)

<TABLE>
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MARK	REG. NO.	REG. DATE
<S>	<C>	<C>
Accelerate the Future	2,2024,180	12/17/1996
Accelerate the Future	2,2024,180	12/17/1996
Accelerated Reliability Test	2,064,227	05/20/1997
ARTC	2,077,178	07/08/1997
AUTOSMEAR	2,136,851	02/17/1998
QUALMARK	2,037,258	02/11/1997
QUALMARK	2,037,258	02/11/1997
QUALMARK	2,040,369	02/25/1997

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SCHEDULE B - PATENTS
(to be provided by Borrower)

<TABLE>
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PATENT	PATENT NO.	ISSUE DATE
<S>	<C>	<C>
APPARATUS AND METHOD FOR THERMAL AND VIBRATIONAL STRESS SCREENING	5,675,098	10/07/1997
APPARATUS AND METHOD FOR THERMAL AND VIBRATIONAL STRESS SCREENING	5,540,109	07/30/1996
APPARATUS FOR RAISING SHAKER TABLE WITHIN THERMAL CHAMBER	5,517,857	05/21/1996
EXCITER MOUNTING FOR RANDOM VIBRATION GENERATING TABLE	5,836,202	11/17/1998

EXCITER-MOUNTING FOR SHAKER TABLE	5,589,637	12/31/1996
RANDOM VIBRATION GENERATING APPARATUS	0518954	08/14/1996
RANDOM VIBRATION GENERATING APPARATUS	0 518 954 France	
RANDOM VIBRATION GENERATING APPARATUS	0 518 954 Germany	
RANDOM VIBRATION GENERATING APPARATUS	0 518 954 Italy	
RANDOM VIBRATION GENERATING APPARATUS	0 518 954 Luxembourg	
RANDOM VIBRATION GENERATING APPARATUS	0 518 954 Sweden	
RANDOM VIBRATION GENERATING APPARATUS	0 518 954 United Kingdom	
RANDOM VIBRATION GENERATING APPARATUS	5,365,788	11/22/1994
RANDOM VIBRATION GENERATING APPARATUS	5,412,991	05/09/1995
VERSATILE MOUNTING FOR CONTROL CONSOLE FOR TESTING CHAMBER	5,813,541	09/29/1998
RANDOM VIBRATION GENERATING TABLE	5,744,724	04/28/1998

</TABLE>

SCHEDULE C - COPYRIGHTS
(to be provided by Borrower)

REGISTRATION NUMBER	PUBLICATION DATE	COPYRIGHT TITLE
<S>	<C>	<C>
	NONE	

</TABLE>

STATE OF COLORADO }
 } ss.:
CITY AND COUNTY OF DENVER }

On this _____ day of December, 1998, before me personally came W. PRESTON WILSON (PRINTED) who, being by me duly sworn, did state as follows: that [s]he is PRESIDENT-CEO (PRINTED) of QUALMARK CORPORATION, that [s]he is authorized to execute the foregoing Assignment of Security Interest on behalf of said corporation and that [s] he did so by authority of the Board of Directors of said corporation.

BONDA GATES (SIGNATURE AND NOTARY STAMP)

Notary Public 8-17-2001 (PRINTED)

WAIVER AND AMENDMENT TO LOAN AGREEMENT

This Waiver and Amendment to Loan Agreement (the "Amendment") is made as of March 15, 1999, between QUALMARK CORPORATION, a Colorado corporation ("Borrower") and U.S. BANK NATIONAL ASSOCIATION, a national banking association ("Bank").

WHEREAS,

- i. Borrower and Bank entered into a Revolving Credit and Term Loan Agreement dated as of December 22, 1998, pursuant to which Bank made available to Borrower a Revolving Credit Line of \$3,000,000 and a Term Loan of \$2,000,000 (the "Loan Agreement");
- ii. Borrower has requested that Bank waive any default which may have occurred by Borrower's failure to comply with the Tangible Net Worth covenant set forth in subsection iv of Section 5.09 and that the Loan Agreement be amended to change the Tangible Net Worth covenant; and
- iii. Bank is willing to take such action upon and subject to the terms and conditions in this Amendment.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, Borrower and Bank agree as follows:

1. DEFINITIONS. Capitalized terms used herein and in the recitals hereto, but not defined herein or therein, shall have the meanings given them in the Loan Agreement.
2. WAIVER. Subject to Borrower's agreement hereto, Bank hereby waives any default which may have occurred by reason of Borrower's failure to comply with the Tangible Net Worth covenant set forth in subsection iv of Section 5.09 as of December 31, 1998.
3. AMENDMENTS TO LOAN AGREEMENT. The Loan Agreement is amended as follows:
 - a. Subsection iv of Section 5.09 is amended to read as follows:
 - iv. Borrower's Tangible Net Worth will be not less than \$3,500,000 as of the end of each fiscal quarter.
 - b. Exhibit C attached hereto shall be substituted for that attached to the Loan Agreement.
4. REPRESENTATIONS AND WARRANTIES. Borrower hereby remakes each of the representations and warranties contained in Section 3 of the Loan Agreement as of the date of this Amendment, as if made in connection with this Amendment and the Loan Agreement.
5. CONDITIONS PRECEDENT. The foregoing amendments shall not be effective

until Borrower has delivered to Bank this Amendment duly executed in form satisfactory to Bank.

The delivery of such document shall constitute Borrower's representation to Bank that Borrower is not in default under the Loan Agreement, as amended, and that no event of default or event which, with the giving of notice or passage of time or both, would become an event of default, has occurred except that which is waived hereby; and Bank may request a certificate of an officer of Borrower stating the foregoing.

6. ENTIRE AGREEMENT. This Amendment and the Loan Agreement contain the entire agreement of the parties concerning the subject matter hereof and thereof. No promise, representation or understanding which is not expressly set forth in, or incorporated into, either the Loan Agreement or this Amendment shall be enforceable by either party. Nothing in this Amendment shall be construed to be or constitute any novation of Borrower's obligations to Bank. Neither Bank's agreement to grant the waiver contained herein, nor any statement or representation made in discussions related to the granting of the waiver, shall be deemed a waiver by Bank, either

express or implied, of any other breach of any other covenant or term in the Loan Agreement or any other or of future non-compliance with Section 5.09.

7. EFFECTIVENESS. The Revolving Credit Line shall continue to be governed by and subject to all of the provisions of the Loan Agreement as amended hereby. The Loan Agreement, as amended hereby, and all of the Collateral Documents, to which Borrower is a party, remain in full force and effect and are hereby ratified and confirmed. Any reference to "this Agreement" or "the Loan Agreement" in the Loan Agreement or in any promissory note, security agreement, guaranty, or other instrument relating to the Loan Agreement is deemed to be a reference to the Loan Agreement as amended hereby.

8. MISCELLANEOUS. Borrower agrees to pay all of the expenses, including reasonable attorneys' fees and expenses (including, but not limited to those incurred by in-house counsel) incurred by Bank in connection with this Amendment. This Amendment may be executed in different counterparts with the same effect as if the signatures thereon were in the same instrument, and will be effective upon delivery of all such counterparts to Bank. This Amendment is governed by the laws of the State of Colorado.

IN WITNESS WHEREOF, Borrower and Bank have caused this Amendment to be executed the date first set forth above.

U.S. BANK NATIONAL ASSOCIATION

By: _____

Title:

QUALMARK CORPORATION

By:

Title:

EXHIBIT C

CERTIFICATE OF COMPLIANCE
of
QUALMARK CORPORATION
"Borrower"

As Of The Period Ending

This Certificate is submitted to U.S. Bank National Association ("Bank") in connection with the Revolving Credit and Term Loan Agreement dated as of December 22, 1998, as it may be amended from time to time (the "Agreement") between Bank and Borrower. Capitalized terms used herein are defined in the Agreement.

The undersigned hereby certifies to Bank that the undersigned is familiar with the following financial information which has been taken from Borrower's books and records which are complete and accurate and that the following calculations of the financial covenants specified in the Agreement are true and correct:

FINANCIAL COVENANT COMPLIANCE

<TABLE>

<CAPTION>

Covenant	Required	Actual	In Compliance Yes/No
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Min. EBITDA/Interest Expense	> 2.00:1		

Min. Free Cash Flow/Debt Service	> 1.15:1	-	-----	-----
Max. Cash Flow Leverage Ratio	< 3.00:1	-	-----	-----
Min. Tangible Net Worth	> \$3,500,000	-	-----	-----

</TABLE>

The undersigned further certifies that (a) Borrower is in compliance with all of the covenants contained in the Agreement, and (b) there has been no Event of Default under the Agreement which has not been cured or waived, and no Potential Default has occurred.

By: _____

Title: _____

Date: _____

<TABLE> <S> <C>

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1998 AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<MULTIPLIER> 1,000

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