

April 3, 2018

Dear Fellow Shareholders:

This past year was an important rebuilding year for Lifeloc. New product releases in 2017 were very limited as we made a strategic choice to move from small, incremental line extensions to bigger projects designed to make a more substantial, lasting impact. This along with rising competitive pressures resulted in a 2017 sales decline of 4.7% to \$7.99 million. But we have gotten through that year of rebuilding and we are getting these bigger projects closer to completion.

### **2017 Highlights**

- 2017 was our 16<sup>th</sup> consecutive profitable year.
- Major upgrade to our data infrastructure with an enterprise resource planning software package for materials management, customer relations management and e-commerce.
- Increased Research and Development investment for future growth.
- Acquired the R.A.D.A.R.® (Real-time Alcohol Detection and Recognition) product line and related intellectual property.
- Secured a working prototype of SpinDx for advancement of an easy-to-use marijuana breathalyzer and rapid drug panel for detection of substances including cocaine, methamphetamine, and marijuana.

Lifeloc achieved significant accomplishments during the year. Our customer survey shows that Lifeloc is still the leading brand in workplace alcohol testing, with continued very high levels of satisfaction and a record high reading of future intent to buy. We updated our ISO 9001 quality management registration to the new ISO 9001:2015 standard and were successfully audited to this new standard. We were also audited by the FDA with no adverse findings.

We have demonstrated a continued ability to fund our substantial growth investments from operations, so that there has been no dilution for shareholders. We expect to introduce a new platform of breathalyzers, with updated electronics and new communication modes intended to keep our products at the forefront of technology. The fact that we experienced a sales decline while still maintaining our heavy growth investments is the primary reason for a decrease in net profits in 2017.

### **Our Vision**

Lifeloc is committed to the vision of safer roads and workplaces worldwide. We have executed on that vision for decades by placing cost effective and reliable alcohol testing devices along with automated solutions in the hands of law enforcement and workplace security personnel. Our vision is to make Lifeloc Technologies the leader in real time drug and alcohol testing and monitoring. We believe we are putting the infrastructure and products in place to realize that vision and the growth that would accompany it. We aim for industry-leading customer service. We engage with our customers and use their feedback to improve our business and product offerings. Some of our specific plans are to:

- Grow our core breath alcohol testing business, advancing technology and aggressively gaining market share and geographic reach while providing top customer service.
- Capture more value with existing customers by adding performance through automated solutions like the EASYCAL<sup>®</sup> automatic calibration station and SENTINEL<sup>™</sup> zero tolerance workplace access station.
- Expand our business model to deliver more value through leasing and monitoring services and capture a fair recurring share of that value.
- Accelerate the transformation of our drug detection technology into a roadside marijuana breathalyzer.

## **Remote Testing**

In 2017 Lifeloc acquired the assets related to the R.A.D.A.R. business from the Track Group, Inc. These assets included the R.A.D.A.R. device with cellular reporting for real-time alcohol monitoring, database infrastructure to tabulate and manage subscriber behavior, and biometric methodology and intellectual property to fully automate identity verification. Post-acquisition we have been leveraging our expertise in portable device manufacturing to upgrade the R.A.D.A.R. device and continue prosecuting the relevant outstanding patent applications, with the goal of expanding the R.A.D.A.R. product offering and creating a significant new recurring revenue stream.

The R.A.D.A.R. device was designed to be part of an offender supervision program as an alternative to incarceration. R.A.D.A.R. devices are assigned to offenders as a condition of parole or probation, with random testing throughout the day to demonstrate that they are meeting the conditions of their sentence. We intend to leverage our leading position in workplace testing to expand this base beyond offender monitoring, for example into commercial fleet management.

## **Testing for Drugs of Abuse**

Even as marijuana legalization spreads throughout the United States and internationally, there remains no reliable roadside method to quantitatively assess driver THC levels or impairment. The increasing danger of marijuana impairment on our roads and in our workplaces is seen clearly in Colorado, with the number of drivers involved in fatal accidents that test positive for marijuana doubling since legalization of recreational marijuana. With the continued normalization of consumer, driver and worker attitudes toward marijuana, the need to quickly measure marijuana intoxication is enormous.

We remain committed to completing development of a marijuana breathalyzer operating as similarly as practical to the fast, easy-to-use and reliable alcohol breathalyzers our customers have come to depend upon. Our THC detection method is through SpinDx, utilizing technology developed through our cooperative research and development agreement with Sandia National Laboratory and exclusively licensed by Lifeloc for drugs of abuse. We have detected delta-9-THC (the primary psychoactive component of marijuana) down to concentrations of 5 nanograms per milliliter in our laboratory. This method has also demonstrated the quantitative determination of delta-9-THC level in the presence of interfering THC metabolites, a problem which has plagued many less discriminating methods. In addition to the marijuana breathalyzer, the SpinDx platform has the potential to revolutionize real-time screening for a panel of other high abuse drugs, with the ability to quickly and quantitatively measure very low concentrations of cocaine and methamphetamine as well.

The future is bright as we enhance our information infrastructure, update our core products, expand our acquired products and develop our marijuana breathalyzer and other real-time drug

testing products. On behalf of all our employees, I wish to thank our customers, the board of directors and our shareholders for their continued support with the mission that you have entrusted to us.

Sincerely,

Wayne Willkomm, Ph.D.  
President and CEO  
Lifeloc Technologies, Inc.

EASYCAL® and R.A.D.A.R.® are registered trademarks and SENTINEL™ is a trademark of Lifeloc Technologies, Inc.

### **Cautionary Note Regarding Forward-Looking Statements**

*This letter contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, among others, statements we make regarding our strategies, expectations about new and existing products, market demand, acceptance of new and existing products, technologies and opportunities, market size and growth, and return on investments in products and market. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. More details about these and other risks that may impact our business are included in our Form 10-K for the fiscal year ended December 31, 2017 and in our other SEC filings. You can locate these reports through our website at [www.lifeloc.com](http://www.lifeloc.com). We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.*