

April 5, 2017

Dear Fellow Shareholders:

This letter marks the completion of my first year as CEO of Lifeloc Technologies. It has been a busy year meeting customers, distributors and vendors, evaluating opportunities and preparing for our future. We have sharpened our product development focus to fewer, higher value projects with aggressive timelines that will make a substantial contribution to our future success.

2016 was the 15<sup>th</sup> consecutive profitable year for Lifeloc Technologies. Our financial stability has never been better, with a strong cash position and our only long-term debt being the mortgage on our building. Our financial flexibility has improved, as we were able to refinance the fixed rate term of our building mortgage down to 4.00%, locking in historically low interest rates through 2024. With our strong balance sheet, we have been able to double our available line of credit to \$500,000.

### **2016 Financial Highlights**

- Net Income increased 53% from \$433,151 in 2015 to \$662,854 in 2016.
- Fully diluted earnings per share increased to \$0.17 per share from \$0.11 per share.
- Cash and cash equivalents grew by 17% to \$3.772 million.
- Net Revenue declined by 5% to \$8.381 million.

The revenue decline in 2016 is primarily attributable to OEM component business in 2015 that did not recur in 2016. Also, we began work in 2016 on larger projects, which translated into fewer smaller product launches. We are dissatisfied with this 2016 sales result, but net profit still improved for the year through disciplined spending. Additionally, Lifeloc began investing in sales force expansion in 2015, which was continued in 2016. We expect this to broaden our penetration and be well poised for future product updates and introductions.

### **The Lifeloc Growth Blueprint**

We are confident that we are putting in place the tools to grow. We listen carefully to our customers and provide service unmatched in the industry. Our going forward plans include:

- Growing our core breath alcohol testing business, gaining market share with technically superior products and top customer service.
- Grow the pie by capturing value added performance, through automated solutions like the EASYCAL<sup>®</sup> automatic calibration station and SENTINEL<sup>™</sup> zero tolerance workplace access station.
- Shifting our business model from a series of one off breathalyzer sales to a recurring revenue model via leasing and monitoring services.
- Pushing hard to leverage our core competency in the manufacture of robust, easy-to-use testing devices with trace analytical methods for marijuana and other drugs of abuse detection.

To accelerate that shift in a business model that emphasizes capturing recurring revenue, Lifeloc announced the acquisition in March 2017 of the R.A.D.A.R.<sup>®</sup> product from the Track Group. The R.A.D.A.R. device was designed to be part of an offender supervision program that

serves as an alternative to incarceration. R.A.D.A.R. devices are assigned to offenders as a condition of parole or probation. The parolee/probationer subjects are tested randomly throughout the day to demonstrate that they are meeting the conditions of their program, while the device confirms the subject identity with onboard redundant biometrics. These devices generate leasing and monitoring fees during the period of supervision. This acquisition fits our capabilities and aspirations very well, and we expect this to be an important component of our future business.

### **Commitment to Safety**

Lifeloc is committed to the vision of safer roads and safer workplaces worldwide. We have executed on that vision for decades by placing cost effective and reliable devices for alcohol testing into the hands of law enforcement and workplace compliance personnel. With the increasing legalization of marijuana, the need to identify impairment in drivers and workers becomes ever more important. In Colorado, we have seen a near doubling in the number of drivers who die annually with the psychoactive component of marijuana, delta-9-THC, in their blood since the legalization of recreational marijuana. As with alcohol, real time detection of marijuana and other drugs remains an enormous market need. In pursuit of that goal, we have explored many methods of trace THC detection.

As a result of a cooperative research and development agreement with Sandia National Laboratories, we have signed an exclusive licensing agreement for the commercialization of SpinDx in the field of drugs of abuse. SpinDx has been demonstrated to detect the very low concentrations of THC, cocaine, and methamphetamine to identify impairment. We believe that the SpinDx methodology is the best detection method available and it will be the detection portion of our marijuana breathalyzer system. We look forward to the day that we can deliver to the market tools that quickly identify intoxication by marijuana and other drugs.

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, 2016 and in our other SEC filings. You can locate these reports through our website at*

*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.*