

Dear Fellow Shareholders:

The past year has been difficult with the global pandemic adding costs and impacting demand and the way that we work. Lifeloc Technologies posted annual net revenue of \$6.357 million resulting in a 2020 after tax net loss of \$977 thousand, or a loss of \$0.38 per diluted share. These results compare to net revenue of \$8.752 million for 2019, with net income of \$626 thousand, or \$0.26 per diluted share. The 2019 results included a one-time gain of \$225 thousand from a licensing settlement.

## 2020 Highlights

- COVID-19 pandemic drove revenue down 27%.
- Paycheck Protection Program will offset some losses.
- Study shows Lifeloc breathalyzers have no risk of viral cross contamination.
- Lifeloc achieves ISO 17034 accreditation.

The COVID-19 global pandemic and the government ordered shutdowns that came with the pandemic significantly impacted our business. These unprecedented circumstances caused a departure from Lifeloc's consistent annual profitability and resulted in a decline in revenues for 2020. This pandemic has impacted operations, adding costs while suppressing our workplace, law enforcement and international markets. Ironically, a recent study published online in the Journal of the American Medical Association Network shows an average increase in heavy alcohol drinking days of 19% during the pandemic and lockdown, indicating a greater need for Lifeloc products and potentially a pent-up market demand. On top of the pandemic, extended protests across the country impacted domestic law enforcement, diverting attention and funding. On a brighter note, with a greater emphasis on workplace hygiene, the pandemic did create opportunities and demonstrated the value of our hands-free Sentinel™ access control unit.

The Federal government's response to the pandemic included efforts to stabilize the economy and employment. The program most relevant to Lifeloc was the Paycheck Protection Program (PPP). As previously reported, Lifeloc received a \$465 thousand SBA guaranteed loan, which could be completely forgiven by the SBA if the proceeds were spent in accordance with the program rules. Lifeloc complied with this program and applied for forgiveness in 2020, which was granted by the SBA in early 2021. The financial impact of the forgiveness will be realized in the first quarter of 2021. The PPP program was quite successful in mitigating the negative effect of the significant demand suppression on cash flow from the pandemic while allowing Lifeloc to carefully reduce structural costs and retain critical personnel, thus enabling us to continue our product development efforts.

Lifeloc qualified for and received a round two PPP loan of \$471 thousand in Q1 of 2021. As with the first loan, Lifeloc intends to comply with all requirements and will apply for forgiveness of this loan when the program conditions are satisfied and the opportunity to apply becomes available.

Despite all the challenges of 2020, Lifeloc has made substantial progress on several fronts toward our vision of becoming the leading company in real-time drug and alcohol detection and monitoring. In 2020, Lifeloc was audited and achieved first time accreditation under the ISO 17034 standards. As a result, our Plus 4™ alcohol simulator solution can now be called Certified Reference Solution. We now have a few additional state governments evaluating Lifeloc as a preferred vendor of these solutions to their various facilities. We believe we can manufacture and distribute this product more cost effectively than can the individual states.

Concerns over virus spread led to significant attention to the hygiene and safety of every activity in the marketplace, including breath alcohol testing. As previously reported, Lifeloc commissioned an independent third-party laboratory to test for any potential of viral cross contamination of test subjects using Lifeloc brand breath alcohol testers. The conclusion was there is no risk of viral cross contamination using Lifeloc brand breath alcohol testers, which has increased confidence in the Lifeloc brand.

Our new platform LX9 and LT7 devices were introduced late in 2019. Even in the difficult market conditions of 2020, the features and performance of the new L-series products has driven penetration and opened previously unaddressable market needs, such as requirements for a wide temperature range and fast customization in local languages. We expect that most L-series sales will be incremental to FC-series devices rather than replacing FC-series sales.

We continue to invest in the significant growth opportunities of alcohol monitoring and drug detection. The monitoring opportunity will be addressed primarily through the redesigned Real-Time Alcohol Detection and Reporting (R.A.D.A.R.<sup>®</sup>) device. This new R.A.D.A.R.<sup>®</sup> device features improved mechanics and 4G communication capabilities. The upgrades to the R.A.D.A.R.<sup>®</sup> device facilitate cellular reporting for real-time alcohol monitoring and also improve database infrastructure (required for tabulating and managing subscriber behavior). Our patented biometric methodology will enable full automation and identity verification. Manufacture of the second generation R.A.D.A.R.<sup>®</sup> 200 prototype devices began in early 2020. Testing of these redesigned R.A.D.A.R.<sup>®</sup> devices and integration with the monitoring system has been extensive, requiring additional modification before final release. This design has been finalized with several devices now in field testing and sales release planned very soon. We expect these improvements will provide better service and facilitate transformation to a recurring revenue business model.

The continuous expansion of marijuana legalization critically increases the need to distinguish whether a driver or worker is presently impaired by marijuana. The demand for a solution to rapidly quantify the level of delta-9-THC (the primary psychoactive component of marijuana) influencing a driver or worker at a given moment in time is higher than ever. Rapid detection of drugs of abuse is the best convergence of current market need and Lifeloc's capabilities, and therefore this is our most important goal. Following the release of the R.A.D.A.R.<sup>®</sup> 200 device, the next big milestone for Lifeloc will be the commercialization of the SpinDx<sup>™</sup> platform. Additional resources are being deployed to finalizing the development of the SpinDx technology. We have improved the detection sensitivity for delta-9-THC as well as the test robustness. Work continues to build this system into a device that can be used for roadside testing. The initial SpinDx product release is expected to be a liquid analysis method for a rapid detection of a panel of drugs, followed by a rapid, quantitative marijuana breathalyzer built on that platform. Speeding the SpinDx commercialization will be prioritized even at the expense of short-term profitability.

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. The future is bright, and I am excited about the products that we are rolling out. We aim for industry-leading customer service by engaging with our customers and using their feedback to improve our business and product offerings. On behalf of all our employees, I wish to thank our customers, the board of directors and our shareholders for their continued support on the critical mission of Lifeloc Technologies.

Sincerely,

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

R.A.D.A.R.<sup>®</sup> is a registered trademark of Lifeloc Technologies, Inc.  
Sentinel<sup>™</sup> and Plus 4<sup>™</sup> are trademarks of Lifeloc Technologies, Inc.  
SpinDx<sup>™</sup> is a trademark of Sandia Corporation.

### **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, 2020 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.*