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Lifoloc Technologies Inc

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No.: 000-54319

LIFELOC TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of incorporation or organization)

84-1053680

(I.R.S. Employer Identification No.)

12441 W 49th Ave., Wheat Ridge, Colorado

(Address of principal executive offices)

80033

(Zip Code)

Registrant's telephone number, including area code: **(303) 431-9500**

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, no par value**

Securities registered under Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes
No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 28, 2013, the aggregate market value of the shares of common stock held by non-affiliates of the issuer on such date was \$634,211.

The number of shares outstanding of each of the issuer's classes of common equity, as of March 14, 2014.

Common Stock, no par value 2,432,416

Documents Incorporated by Reference: Part III is incorporated by reference from the registrant's Definitive Proxy Statement for the 2013 Annual Shareholders' Meeting, expected to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2013.

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Forward-Looking Statements

Statements contained in this Annual Report on Form 10-K include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve substantial risks and uncertainties that may cause actual results to differ materially from those indicated by the forward-looking statements. All forward-looking statements in this Annual Report on Form 10-K, including statements about 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, are based on information available to us on the date of this document, and we assume no obligation to update such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “could”, “expects”, “plans”, “intends”, “anticipates”, “believes”, “estimates”, “predicts”, “potential”, or “continue” or the negative of such terms or other comparable terminology. Readers of this Annual Report on Form 10-K are strongly encouraged to review the section entitled “*Risk Factors*”.

PART I

Item 1. Business

Overview

Lifeloc Technologies, Inc. (“Lifeloc” or the “Company”) is a Colorado based developer, manufacturer and marketer of portable hand-held and fixed station breathalyzers and related accessories, supplies and education. We design, produce and sell fuel-cell based breath alcohol testing equipment. We compete in all major segments of the portable breath alcohol testing instrument market, including law enforcement, workplace, corrections, original equipment manufacturing (“OEM”) and consumer markets. In addition, we offer a line of supplies, accessories, services, and training to support customers’ alcohol testing programs. We sell globally through distributors and sales agents, as well as directly to users.

Lifeloc incorporated in Colorado in December 1983. We filed a registration statement on Form 10 with the Securities and Exchange Commission, which became effective on May 31, 2011. Our fiscal year end is December 31. Our principal executive offices are located at 12441 West 49th Avenue, Unit 4, Wheat Ridge, Colorado 80033-3338. Our telephone number is (303) 431-9500. Our websites are www.lifeloc.com, www.lifeguardbreathtester.com, alcohol-analyzers.com, and www.lifeloc.fr. Information contained on our websites does not constitute part of this Form 10-K.

Principal Products and Services and Methods of Distribution

In 1989, we introduced our first breath alcohol tester, the PBA3000. Our Phoenix Classic was completed and released for sale in 1998, superseding the PBA3000. In turn, the Phoenix Classic has been superseded by our FC Series and Workplace Series of portable breath alcohol testers. Neither the PBA3000 nor the Phoenix Classic is actively sold today.

In 2001, we completed and released for sale an additional product line, our new FC Series, designed specifically for the law enforcement and corrections markets. The FC Series of portable breath alcohol testers are currently being sold worldwide, having contributed to our growth since their introduction. The FC Series is designed to meet the needs of domestic and international law enforcement for roadside drink/drive testing and alcohol offender monitoring. The FC Series is approved by the U.S. Department of Transportation (“DOT”) as an evidential roadside breath tester, making it suitable for sale to state law enforcement agencies for preliminary roadside breath alcohol testing. The FC Series is routinely updated with firmware, software and component improvements as they become available. It is readily adaptable to the specific requirements and regulations of domestic and international markets. The FC Series is currently sold worldwide.

In 2005 and 2006, we introduced two new models, the EV30 and Phoenix 6.0, which constitute our Workplace Series of testing devices. Like their predecessor, the Phoenix Classic, these instruments are also DOT approved. The DOT’s specifications support the DOT’s workplace alcohol testing programs, including those applicable to workplace alcohol testing for the federally regulated transportation industry. We also sell supplies used in alcohol testing, such as mouthpieces used by our breathalyzers, as well as forms and labels used for record keeping, and calibration products for user re-calibration of our devices. We offer optional service agreements on our equipment, re-calibration services, and spare parts, and we sell supporting instrument training and user certification training to our workplace customers.

In 2006, we commenced selling breath alcohol equipment components that we manufacture to other original equipment manufacturers (“OEMs”) for inclusion as subassemblies or components in their breath alcohol testing devices.

In late 2009, Lifeloc released the LifeGuard Personal Breathalyzer, a personal alcohol breath tester that incorporates the same fuel-cell technology used in our professional devices. Intended for the global consumer breathalyzer market, LifeGuard is sold directly to

consumers in the U.S. and marketed through distributors worldwide.

In 2011 and 2012 Lifeloc introduced Bluetooth wireless keyboard and printer communication options for our popular Phoenix 6.0 Evidential Breath Tester along with a series of web based workplace training courses. We believe these two product innovations have been key to our success and leadership in workplace breath testing.

In 2013 Lifeloc expanded our FC Series of professional breath alcohol testers sold to law enforcement, corrections and international markets with the addition of the FC5 Hornet. The FC5 is a portable handheld alcohol screening device that competes directly against passive (no mouthpieces required) alcohol screeners from our competitors in the education, law enforcement, workplace and corrections markets. In 2013 we also introduced the Sentinel zero tolerance alcohol screening station, a fully automated wall mounted screening station for employees in safety sensitive industries such as oil and gas and mining. Both devices expand Lifeloc's products for passive alcohol screening.

In late 2013 Lifeloc began field trials and presales of our new EasyCal automatic calibration station. The EasyCal automates the process of manual portable breathalyzer calibration and calibration verification, preventing human error and reducing operator time. The EasyCal is scheduled for launch in the first quarter of 2014.

Competition and Markets

We sell our products in a highly competitive market and we compete for business with both foreign and domestic manufacturers. Most of our current competitors are larger and have substantially greater resources than we do. In addition, there is an ongoing risk that other domestic or foreign companies who do not currently service or manufacture products for our target markets may seek to produce products or services that compete directly with ours.

We believe that competition for sales of our alcohol monitoring products and services is based on regulatory approvals, product performance, product delivery, quality, service, training, price, device reliability, ease of use and speed. We sell certain of our components to customers for incorporation into their own product lines and for resale under their own name. We believe that, while our resources are more limited than those of our competitors, we will continue to compete successfully on the basis of product innovation, quality, reputation and continued customer service excellence.

Workplace testing sales represented approximately 42% and international sales represented approximately 33% of our equipment sales in 2012, with sales in the law enforcement, corrections, and OEM markets accounting for the remainder. We are unable to estimate our market penetration as there is little market size information available.

One leading competitor is Intoximeters, Inc. of St. Louis, Missouri, a long-established company with strong name recognition in the field of alcohol testing. It has well established sales channels, a large customer base, and a broad product line. CMI of Owensboro, Kentucky, another major competitor, also has a well established name, strong position in stationary units used in police work, and international market coverage. Draegerwerk AG & Co. KGaA ("Draeger"), based in Germany, manufactures safety and gas testing equipment. Its breath alcohol testers are respected for their quality and performance.

In addition, other technologies for the measurement of breath alcohol exist and are employed in other market and application segments where the technology may be more suitable or developed to specific requirements. These include:

- Infrared devices, which use infrared light absorption to detect breath alcohol. These devices generally lack portability, and are usually found in fixed locations, such as police stations, where subjects are brought for testing. This technology has the advantage of being mandated by law in most states for evidential use in breath testing.
- Semi-conductor breath testing technology, which is used primarily in consumer breathalyzers. Its primary advantage is low cost, but the technology is not widely accepted by professional users as being as accurate as fuel cell technology.
- Chemical tests, which are based on urine testing. This approach to alcohol testing is more intrusive, less convenient than breath testing, and requires subsequent analysis by trained technicians for results.
- Blood alcohol tests, which require blood samples. These tests are widely believed to be the most accurate form of alcohol testing because they measure blood alcohol content directly from a sample of the subject's blood. However, the results are not instantaneous and the tests are more intrusive than breath alcohol testing.

Marketing

Marketing activities associated with our business include the communication of our value proposition through direct mail, direct and indirect sales channels, trade shows and an information-rich online presence. We sell our products to the workplace and international markets primarily through distributors and sales agents. We sell our law enforcement, corrections and consumer products directly to the end user and our OEM products directly to manufacturers. Leveraging our installed base is important, as is maintaining a well trained distributor network. In 2009, we revised our workplace distributor program to place additional emphasis on volume incentives for growth in the form of a rebate program. Under the program distributors receive a progressively greater percentage rebate based on the dollar sales they generate. We believe this program helps incentivize our distributors to achieve a higher level of sales than would otherwise be the case.

In April 2011 we loaned \$62,500 to a recently formed company, Tipping Point, Inc. ("TPI"), for the purpose of implementing a mobile breath testing service. Although the loan was paid down by \$34,000 from inception to December 31, 2013, we do not expect to realize any significant sales to TPI in the near term. We have provided a reserve against the loan of \$28,500. TPI is considered a related party as certain of our board members were also TPI board members during a portion of 2011.

Domestic Distribution

The majority of our sales into the workplace market are made through distributors. Sales are made by these distributors pursuant to agreements that renew automatically each year unless terminated by either party with advance notice, and such agreements typically grant protected lead generation areas.

International Distribution

Based on reports from our international distributors, we believe that many countries around the world are instituting tougher alcohol abuse prevention laws, strengthening the enforcement of current laws, or both. These laws set limits on the amount of alcohol an individual may have in the blood at specific times (e.g., while driving or during safety-sensitive work activities), or at any time for certain parolees and probationers. Over 90% of our international sales for all product lines are made by local distributors, who are given territories pursuant to agreements that renew automatically each year unless terminated by either party with advance notice. Lifeloc has sold instruments to customers in over 60 countries on six continents worldwide.

Research and Development

We believe that our future success depends to a large degree on our ability to conceive and develop new alcohol detection and measurement products and related services that (1) open new markets to Lifeloc, (2) enhance the performance of our current products and (3) lower our costs or otherwise improve our methods of manufacture. Accordingly, we expect to continue to invest in research and development. We spent \$929,517 and \$523,055 during 2013 and 2012, respectively, on research and development. The amount spent in 2013 was higher than the amount spent in 2012 because we stepped up new product development for our core workplace and law enforcement product lines as well as customized certain of our devices to meet specific in-country language and procedural requirements. Spending increased in 2013 over 2012 as we added to our engineering organization, and accelerated spending on various internal and external new product initiatives.

Raw Materials and Principal Suppliers

A basic component of our instrument product line is the fuel cell, which we obtain from only a few suppliers. We believe that our demand for this component is small relative to the total supply, and that the materials and services required for the production of our products are currently available in sufficient production quantities and will be available for the foreseeable future. However, there are relatively few suppliers of the high-quality fuel cell which our breathalyzers require. Any sudden disruption to the supply of our fuel cells would pose a significant risk to our business. New sources of fuel cells are uncertain at this time and changes to our fuel cells require approval by the DOT, which could have a material effect on our revenues in the law enforcement and workplace areas. We purchase most of our fuel cells from Draeger; we have no master agreement with Draeger, and purchase fuel cells as needed pursuant to individual purchase orders.

Patents and Trademarks

We rely, in part, upon patents, trade secrets and proprietary knowledge as well as personnel policies and employee confidentiality agreements concerning inventions and other creative efforts (collectively, "Lifeloc IP") to develop and to maintain our competitive position. We do not believe that our business is dependent upon any patent, patent pending or license, although we believe that trade secrets and confidential know-how may be important to our commercial success.

We file for patents, copyrights and trademarks to protect our intellectual property rights to the extent practicable. We hold the rights to four United States patents and have seven patent applications pending. These patents have expiration dates ranging from July 2023 to September 2031. In 2013 we filed five utility patent applications and one design patent application related to our calibration station, and one patent application related to a substance detector. We are not aware of any infringements of our patents. We protect our patents from infringement in each instance where we determine that doing so would be economical in light of the expense involved and the level and availability of our financial resources. While we believe that our pending applications relate to a patentable device or concept, the patents may not be issued.

Employees

As of December 31, 2013, we had thirty two full-time employees and three part-time employees. There were eleven employees in manufacturing, seven in engineering/research and development, twelve in sales and marketing and five in finance and administration. We are not a party to any collective bargaining agreements. We believe our relations with our employees are good.

Customers

Revenues from our largest customers, as a percentage of total revenues, for 2013 and 2012 were as follows:

2013

2012

Customer A	7%	10%
Customer B	7%	5%
Customer C	4%	-
Customer D	-	4%
All Others	82%	81%
	<u>100%</u>	<u>100%</u>

No other customer accounted for more than 4% of our revenues in 2013 and 2012. At December 31, 2013, receivables included \$152,855 (36%) from one customer, and no more than 7% from any other single customer.

Environmental Matters

Our operations are subject to a variety of federal, state and local laws and regulations relating to the discharge of materials into the environment or otherwise relative to the protection of the environment. Lifeloc sells cylinders of ethanol in nitrogen (UN1956, Class 2.2) for use in calibrating breath alcohol testers. The gas mixture is a hazardous material as defined by the DOT (see 49 CFR 172). We fully comply with the appropriate DOT regulations for the handling and shipment of dry gas containers, as well as all other state or local laws governing the transportation of hazardous materials. The DOT regulations include strict labeling and packaging requirements, as well as requirements pertaining to shipping papers and declaration forms that must be completed by the shipper. In addition, we provide a Material Safety Data Sheet ("MSDS") with every tank, and all employees involved in shipping hazardous materials are required to have appropriate certification. Failure to comply with these regulations could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability, which could have a material impact on our business. The cost of complying with these regulations is considered as an ongoing cost of operations, and is negligible.

Government Regulation of the Business

All breath testers sold in the United States explicitly for personal use are regulated as Class I medical devices by the Food and Drug Administration ("FDA"). These regulations apply to the manufacture and sale of our LifeGuard product, and we are subject to inspections by the FDA to determine our compliance with these regulations. FDA inspections are conducted periodically at the discretion of the FDA. As of December 31, 2013, we had not been inspected by the FDA; however, we believe we were in substantial compliance with the regulations described above.

International Regulations

Many countries into which our products are sold recognize the United States DOT Conforming Product list in their selection criteria or have no regulations applicable to the sale of our products. In the case of sales into countries that do not recognize the United States DOT Conforming Product list in their selection criteria, our products conform to in-country developed specifications or are not subject to significant government regulation.

State and Local Regulations

Portable fuel-cell based technology has been used to show probable cause in many state jurisdictions, based on the individual device's DOT approval.

In certain states, the results of portable fuel cell breath testers are admissible as evidence of intoxication in DUI prosecution. In other states, infra-red technology is considered the standard for evidence of intoxication, because of its ability to perform real-time analysis of the entire breath exhalation thereby giving it the ability to detect interference from mouth alcohol. In those states, portable fuel cell based breath testers are not admissible as evidence of intoxication, although they may still be used to establish probable cause.

Insurance

We are covered under comprehensive general liability insurance policies, which have per occurrence and aggregate limits of \$1 million and \$2 million, respectively, and a \$5 million umbrella policy. We maintain customary property and casualty, workers' compensation, employer liability and other commercial insurance policies.

Item 1A. Risk Factors

You should carefully consider the risk factors described below. If any of the following risk factors actually occur, our business, prospects, financial condition or results of operations would likely suffer. In such case, the trading price of our common stock could fall, resulting in the loss of all or part of your investment. You should look at all these risk factors in total. Some risk factors may stand on their own. Some risk factors may affect (or be affected by) other risk factors. You should not assume we have identified these connections. You should not assume that we will always update these and future risk factors in a timely manner. We are not undertaking any obligation to update these risk factors to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

The current worldwide economic downturn could have a negative impact on our business, operating results and financial condition.

If the economic downturn continues, our customers may delay, reduce or cancel their purchases of our products, particularly if they or their customers have reduced capital budgets or have difficulty obtaining credit, and this would reduce our revenues. The economic downturn could also increase competition, which could have the effect of forcing us to reduce our prices. We could incur losses if a customer's business fails and the customer is unable to pay us, or pay us on a timely basis. Likewise, if our suppliers have difficulty in obtaining credit or in operating their businesses, they may not be able to provide us with the materials we use to manufacture our products. These actions could result in reduced revenues and higher operating costs, and have an adverse effect on our results of operations and financial condition.

We rely on customers who may not consistently purchase our products in the future and if we lose any one of these customers, our revenues may decline.

Fourteen percent of our total sales in 2013 were attributable to two customers, with whom we do not have a long-term contract. If orders from those customers are not renewed, our revenues will be adversely affected. Furthermore, at December 31, 2013, our accounts receivable balance included approximately \$152,855 or 31% from one customer.

In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. These customers may not consistently purchase our products at a particular rate over any subsequent period. A loss of any of these customers could adversely affect our revenues.

We rely heavily upon the talents of our Chief Executive Officer, the loss of whom could severely damage our business.

Our performance depends to a large extent on a small number of key managerial personnel. In particular, we believe our success is highly dependent upon the services and reputation of our Chief Executive Officer, Mr. Barry R. Knott. Loss of Mr. Knott's services could severely damage our business.

We must continue to be able to attract employees with the scientific and technical skills that our business requires, and if we are unable to attract and retain such individuals, our business could be severely damaged.

Our ability to attract employees with a high degree of scientific and technical talent is crucial to the success of our business. There is intense competition for the services of such persons, and we cannot guarantee that we will continue to be able to attract and retain individuals possessing the necessary qualifications. If we cannot attract such individuals, we may not be able to keep our products current, bring new innovation to market or produce our products. As a result, our business could be damaged.

We are subject to a high degree of regulatory oversight and, if we do not continue to receive the necessary regulatory approvals, our revenues may decline.

We are subject to regulation by the United States Department of Transportation ("DOT") and by various state departments of transportation. The Omnibus Transportation Employee Testing Act of 1991 requires drug and alcohol testing of safety-sensitive transportation employees in aviation, trucking, railroads, mass transit, pipelines, and other transportation industries. The DOT Office of Drug & Alcohol Policy & Compliance (ODAPC) publishes, implements, and provides authoritative interpretations of these rules. These regulations cover all transportation employers, safety-sensitive transportation employees, and service agents. Manufacturers submit devices to the DOT for testing and approval. Instruments are tested according to their model specifications and, if passed, included on the Conforming Products List of Evidential Devices published periodically in the Federal Register. Law enforcement applications also require that portable breath testing instruments be included on the DOT Conforming Products List. Lifeloc's FC10, FC20, EV30, Phoenix and Phoenix 6.0 are included on the conforming products list. We believe that we were in substantial compliance with the regulations described above as of December 31, 2013 for our products sold into these markets and states. In addition, our LifeGuard product is regulated as a Class I medical device by the Food and Drug Administration ("FDA").

The FDA and the DOT have cleared us to market the alcohol monitoring products we currently sell in the United States. However, further FDA or DOT approval will be required before we can domestically market additional alcohol monitoring products that we may develop in the future. We may also seek to sell current or future medical or drug-related products that require us to obtain FDA or DOT clearance to market such products. We may also be required to obtain regulatory approvals or licenses from other federal, state or local agencies or comparable agencies in other countries.

We may not continue to receive FDA or DOT clearance to market our current products or we may not obtain the necessary regulatory clearance, approvals or licenses for the marketing of any of our future products. Also, we cannot predict the impact on our business of FDA or DOT regulations or determinations arising from future legislation or administrative action. If we lose FDA or DOT permission to market our current products or we do not obtain regulatory permission to market our future products, our revenues may decline and our business may be harmed.

Our business in the domestic law enforcement area is susceptible to changes in state policies and DUI laws.

Portable breath testers (“PBTs”) are not used to the same degree in each state. Usage is determined by a complex combination of individual state DUI laws, historical practice, and individual state directions for alcohol testing. Some states do not accept breath alcohol testing as evidence. Other states may prefer different breath alcohol testing technology, such as infrared. Lifeloc cannot control the direction or timing of changes to individual state DUI laws, public and political sentiment toward the use of PBTs, or individual state preferences for a specific breath alcohol testing technology. These factors may threaten current state contracts and future state contracts and our revenues may decline, harming our business.

Our business relies on state contracts, governed by state contracting policies that are beyond our control.

Many state purchases of PBTs are governed by state contracts with competitive price bids, multiple year terms and without guarantees of purchases. Other states prefer to share PBT usage across several vendors, also without guarantees of volume. These state practices limit Lifeloc's ability to retain current business, forecast volumes and win new business. Furthermore, a significant amount of our law enforcement business is concentrated in four states (California, Michigan, Idaho, and Colorado). Loss of this business, or delays or cancellations in purchasing by these states, could seriously impact our law enforcement business.

Third parties may infringe on our patents, and as a result, we could incur significant expense in protecting our patents or not have sufficient resources to protect them.

We hold several patents that are important to our business. Although we are not currently aware of any past or present infringements of our patents, we plan to protect these patents from infringement and obtain additional patents whenever feasible. To this end, we have obtained confidentiality agreements from our employees and consultants and others who have access to the design of our products and other proprietary information. Protecting and obtaining patents, however, is both time consuming and expensive. We therefore may not have the resources necessary to assert all potential patent infringement claims or pursue all patents that might be available to us. If our competitors or other third parties infringe on our patents, our business may be harmed.

Third parties may claim that we have infringed on their patents and as a result, we could be prohibited from using all or part of any technology used in our products.

Should third parties claim a proprietary right to all or part of any technology that we use in our products, such a claim, regardless of its merit, could involve us in costly litigation. If successful, such a claim could also result in us being unable to freely use the technology that was the subject of the claim, or sell products embodying such technology. If we engage in litigation, our expenses may increase and our business may be harmed. If we are prohibited from using a particular technology in our products, our revenues may decline and our business may be harmed.

We depend on the availability of certain key supplies and services that are available from only a few sources, and if we experience difficulty with a supplier, we may have difficulty finding alternative sources of supply.

We require certain key supplies for our products, particularly fuel cells, that are available from only a few sources. Based upon our ordering experience to date, we believe the materials and services required for the production of our products are currently available in sufficient quantities. However, this does not mean that we will continue to have timely access to adequate supplies of essential materials and services in the future or that supplies of these materials and services will be available on satisfactory terms when the need arises. Our business could be severely damaged if we become unable to procure essential materials and services in adequate quantities and at acceptable prices.

From time to time, subcontractors may produce certain of our products for us, and our business is subject to the risk that these subcontractors may fail to make timely delivery and/or become unable to acquire essential supplies and services from third parties in a timely fashion. If this occurs, we may not be able to deliver our products on a timely basis and our revenues may decline. Our products and services are also from time to time used as components in the products of other manufacturers. We are therefore subject to the risk that manufacturers that integrate our products or services into their own products may change their source of supply to other vendors, may change their product designs in a way that eliminates our components, and/or may choose to have their components manufactured by other means. If this occurs, our sales may decline and our business may be harmed.

We may be exposed to claims of liability.

Like any manufacturer, we are and always have been exposed to liability claims resulting from the use of our products. We maintain product liability insurance to cover us in the event of liability claims, and as of December 31, 2013, no such claims have been asserted or threatened against us. However, our insurance may not be sufficient to cover all possible future product liabilities.

We could be liable if our business operations harmed the environment, and a failure to maintain compliance with environmental laws could severely damage our business.

Our operations are subject to a variety of federal, state and local laws and regulations relating to the protection of the environment. From time to time, we use hazardous materials in our operations. Although we believe that we are in material compliance with all applicable environmental laws and regulations, our business could be severely damaged by any failure to maintain such compliance.

Our quarterly financial results vary quarter to quarter, which may adversely affect our stock price. We cannot predict with any certainty our operating results in any particular fiscal quarter.

Our quarterly operating results may vary significantly depending upon factors such as:

- the timing of completion of significant orders;
- the timing and amount of our research and development expenditures;
- the costs of initial production in connection with new products;
- the availability, quality and cost of key components that go into the assembly of our products;
- the timing of new product introductions — both by us and by our competitors;
- changes in the regulatory environment and regulations under which we operate;
- the loss of a major customer;
- the timing and level of market acceptance of new products or enhanced versions of our existing products;
- our ability to retain existing employees, customers and our customers' continued demand for our products and services;
- our customers' inventory levels, and levels of demand for our customers' products and services; and
- competitive pricing pressures.

We may not be able to grow or sustain revenues or achieve or maintain profitability on a quarterly or annual basis, and levels of revenue and/or profitability may vary from one such period to another.

We identified material weaknesses in 2012 in our internal control over financial reporting which could, if they recur, result in material misstatements in our financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During the fourth quarter of fiscal year 2012, management identified material weaknesses in our internal control over financial reporting as discussed in Item 9A of this Annual Report on Form 10-K. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in Internal Control-An Integrated Framework. We have developed and implemented a remediation plan designed to address these material weaknesses. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could lead to substantial additional costs for accounting and legal fees and shareholder litigation.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

We monitor our capital adequacy on an ongoing basis. To the extent that our funds are insufficient to fund future operating requirements, we may need to raise additional funds through corporate finance transactions or curtail our growth and reduce our liabilities. Any equity, hybrid or debt financing, if available at all, may be on terms that are not favorable to us. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition and operating results could be adversely affected.

We have a number of large, well-financed competitors who have research and marketing capabilities that are superior to ours.

The industry in which we operate is highly competitive. Many of our existing and potential competitors have greater financial resources and manufacturing capabilities, more established and larger marketing and sales organizations and larger technical staffs than we have. Other companies, some with greater experience in the alcohol monitoring industry, produce products and services that compete with our products and services. If any of our competitors are successful in developing products that are superior to our products, or competing products that sell for lower prices, this may cause a reduction in the demand for our products and a reduction in our revenue and our profits.

Our products rely on technology that may become outdated or out of favor.

All of Lifeloc's products use fuel cell technology for the measurement of breath alcohol results. This technology has been developed and refined over many years by Lifeloc and our major competitors. While we expect it to remain as the dominant technology in breath testing devices, other technologies for the measurement of breath alcohol exist and are employed in other market and application segments where the technology is more suitable or developed to the specific requirements. It is possible that future development of these technologies could pose a risk to Lifeloc's business. See "Item 1. Business – Competition and Markets" for more information about these other technologies.

Risks Related to Our Stock

Shares of our common stock lack a significant trading market.

Shares of our common stock are not eligible for trading on any national securities exchange. Our common stock may be quoted in the over-the-counter market on the OTC Bulletin Board or in what are commonly referred to as “pink sheets.” However, these markets are highly illiquid. There is no assurance that an active trading market in our common stock will develop, or if such a market develops, that it will be sustained. In addition, there is a greater chance for market volatility for securities quoted on the OTC Bulletin Board as compared with securities traded on a national exchange. This volatility may be caused by a variety of factors, including the lack of readily available quotations, the absence of consistent administrative supervision of “bid” and “ask” quotations and generally lower trading volume. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock, or to obtain coverage for significant news events concerning us, and our common stock could become substantially less attractive for margin loans, for investment by financial institutions, as collateral for borrowing, as consideration in future capital raising transactions or for other purposes.

Under Exchange Act Rule 144, a person who has beneficially owned restricted shares of our common stock for at least one year is entitled to sell their securities provided that such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding a sale. Persons who have beneficially owned restricted shares of our common stock for at least one year but who are our affiliates at the time of, or at any time during the three months preceding a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following: 1% of the total number of securities of the same class then outstanding; or the average weekly trading volume of such securities during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale. Such sales by affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144. A sale under Rule 144 or under any other exemption from the Securities Act of 1933, as amended (the “Securities Act”), if available, or pursuant to registration of shares of common stock of present stockholders, may have a depressive effect upon the price of our common stock in any market that may develop.

Additionally, the price of our securities may be volatile as a result of a number of factors, including, but not limited to, the following:

- our ability to successfully conceive and to develop new products and services to enhance the performance characteristics and methods of manufacture of existing products;
- our ability to retain existing customers and customers’ continued demand for our products and services;
- the timing of our research and development expenditures and of new product introductions;
- the timing and level of acceptance of new products or enhanced versions of our existing products; and
- price and volume fluctuations in the stock market at large which do not relate to our operating performance.

Our principal stockholder has significant voting power and may take actions that may not be in the best interests of other stockholders.

Vern D. Kornelsen, Chairman of the Board of Directors, secretary, and Chief Financial Officer, beneficially owned approximately 78% of our outstanding common stock as of December 31, 2013. Through this ownership, Mr. Kornelsen is able to control the composition of our board of directors and direct our management and policies. Accordingly, Mr. Kornelsen has the direct or indirect power to:

- elect all of our directors and thereby control our policies and operations;
- amend our bylaws and some provisions of our articles of incorporation; and
- prevent mergers, consolidations, sales of all or substantially all our assets or other extraordinary transactions.

Mr. Kornelsen's significant ownership interest could adversely affect investors' perceptions of our corporate governance. In addition, Mr. Kornelsen may have an interest in pursuing acquisitions, divestitures and other transactions that involve risks to us and you. For example, Mr. Kornelsen could cause us to make acquisitions that increase our indebtedness or to sell revenue generating assets. Mr. Kornelsen may from time to time acquire and hold interests in businesses that compete directly or indirectly with us.

“Penny stock” rules may make buying or selling our securities difficult, which may make our stock less liquid and make it harder for investors to buy and sell our securities.

Trading in our securities is subject to the SEC’s “penny stock” rules and it is anticipated that trading in our securities will continue to be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations

for the securities they offer. The additional burdens imposed upon broker-dealers by these requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities.

Blue Sky considerations may limit sales in certain states.

The holders of our securities and persons who desire to purchase them in any trading market that might develop in the future should be aware that there may be significant state law restrictions upon the ability of investors to resell our securities. Investors should consider any secondary market for our securities to be a limited one. The “manual exemption” permits a security to be distributed in a particular state without being registered if the company issuing the security has a listing for that security in a securities manual recognized by the state. However, it is not enough for the security to be listed in a recognized manual. The listing entry must contain (1) the names of issuers, officers, and directors, (2) an issuer's balance sheet, and (3) a profit and loss statement for either the fiscal year preceding the balance sheet or for the most recent fiscal year of operations. Since June 14, 2011, we have been listed in Standard & Poors. While many states expressly recognize this manual, a smaller number of states declare that they “recognize securities manuals” but do not specify the recognized manuals, making applicability of the manual exemption uncertain in those states. The following states do not have provisions expressly recognizing the manual exemption: Alabama, Georgia, Illinois, Kentucky, Louisiana, Montana, South Dakota, Tennessee, Vermont and Wisconsin. While we may, in our discretion, cause our securities to be registered under the state securities laws of these or other states, there is no guarantee that we will do so.

Compliance with changing regulations of corporate governance and public disclosure may result in additional expenses.

Because we are a publicly-traded company, we are subject to certain federal, state and other rules and regulations, including those required by the Sarbanes-Oxley Act of 2002, new regulations promulgated by the SEC and the rules of the OTC Market. These and other laws relating to corporate governance and public disclosure have increased our general and administrative expenses. These new or changed laws, regulations and standards are subject to varying interpretations in many cases, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards result in different outcomes from those intended by regulatory or governing bodies, our business may be harmed.

We may issue shares in the future, diluting your interest in us.

Our 2002 Stock Option Plan expired in 2012. In January 2013, our board of directors adopted a new Stock Option Plan, which provides for the grant of options to purchase up to 150,000 shares of our common stock. The new Plan was submitted to our shareholders and approved at their annual meeting on April 1, 2013. Moreover, we expect to issue additional shares and options to purchase shares of our common stock to compensate employees, consultants and directors, and we may issue additional shares to raise capital. Any such issuances will have the effect of further diluting the interest of the holders of our securities.

Stockholders should not anticipate receiving cash dividends on our stock.

We have never declared or paid any cash dividends or distributions on our capital stock. We currently intend to retain future earnings to support operations and to finance expansion and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Item 1B. Unresolved Staff Comments

Not required for smaller reporting companies.

Item 2. Properties

We currently lease our facilities in Wheat Ridge, Colorado under a lease agreement containing cancellation terms of 180 days written notice on or after April 15, 2015 and upon remittance of any unamortized tenant improvements made by the landlord in excess of \$16,000.

Item 3. Legal Proceedings

We may be involved from time to time in litigation, negotiation and settlement matters that may have a material effect on our operations or finances. We are not aware of any pending or threatened litigation against us or our officers or directors in their capacity as such that could have a material impact on our operations or finances.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of December 31, 2013, we had 83 shareholders of record. Our common stock is not listed on an established public trading market. Since January 17, 2012, our stock has been quoted by the OTC Markets Group, Inc., in the non-NASDAQ over the counter market. The symbol for our shares is LCTC. Only limited and sporadic trading occurs. Subject to the foregoing qualification, the following table sets forth the range of bid quotations, for the fiscal quarters indicated, as quoted by OTC Markets Group, Inc., and reflects inter-dealer prices, without retail mark up, mark down or commission and may not necessarily represent actual transactions.

Fiscal 2013	Bid Price	Fiscal 2012	Bid Price
1st Quarter	\$1.00 – 2.32	1st Quarter(1)	\$2.50 – 4.00
	\$2.32 –		
2nd Quarter	2.32	2nd Quarter	\$2.50 – 4.00
	\$2.32 –		
3rd Quarter	2.32	3rd Quarter	\$2.50 – 2.50
	\$2.32 –		
4th Quarter	2.32	4th Quarter	\$0.51 – 3.51

(1) Represents the period beginning January 17, 2012, the date of the first bid made on the Company's stock, through March 30, 2012.

Dividend Policy

We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance our operations and expand our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, operating results, capital requirements, and other factors the board of directors deems relevant.

Item 6. Selected Financial Data

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations, and should be read in conjunction with our financial statements and the related notes included elsewhere in this Form 10-K. Certain statements contained in this section are not historical facts, including statements about our strategies and expectations about new and existing products, market demand, acceptance of new and existing products, technologies and opportunities, market and industry segment growth, and return on investments in products and markets. These statements are forward-looking statements and involve substantial risks and uncertainties that may cause actual results to differ materially from those indicated by the forward-looking statements. All forward-looking statements in this section are based on information available to us on the date of this document, and we assume no obligation to update such forward-looking statements. Readers of this Form 10-K are strongly encouraged to review the section titled "Risk Factors."

Overview

We have been a developer and manufacturer of advanced alcohol testing instruments since 1986. We design and produce high-quality, precise and rapid recovery alcohol testing instruments for use in the workplace, clinics, schools, law enforcement, corrections, and other applications. We offer our customers accessories, service support, training and supplies. Our internet websites are www.lifeloc.com, www.lifeguardbreathtester.com, alcohol-analyzers.com and www.lifeloc.fr.

The areas in which we do business are highly competitive and include both foreign and domestic competitors. Our major competitors are larger and have substantially greater resources than we do. Furthermore, other domestic or foreign companies, some with greater financial resources than we have, may seek to produce products or services that compete with ours.

We believe that our future success depends to a large degree on our ability to develop new alcohol testing products and services to enhance the performance characteristics and methods of manufacture of existing products. Accordingly, we expect to continue to invest in research and development, to the extent funds are available.

Outlook

Installed Base of Breathalyzers. We believe the installed base of our breathalyzers will increase as the inherent risks associated with drinking while driving, and of working in safety sensitive jobs, become more widely acknowledged and as our network of direct and independent sales representatives grows. We believe that increased marketing efforts, the introduction of new products and the expansion of our network of sales representatives may provide the basis for increased sales and continuing profitable operations. However, these measures, or any others that we may adopt, may not result in either increased sales or continuing profitable operations.

Possibility of Operating Losses. Over the past several years we have operated profitably; however, prior to that we incurred losses. There is no assurance that we will not incur losses in any given quarter or year in the future.

Sales Growth. We expect to increase sales in the U.S. and worldwide as our network of direct and independent sales representatives grows, becomes more proficient and expands the number of new accounts. Orders for all of our products, particularly ignition interlock components and breath alcohol testing kiosks, are on an intermittent purchase order basis and there is no assurance they will continue at any given rate, or that orders will repeat.

Sales and Marketing Expenses. We continue our efforts to expand our domestic and international distribution capability, and we believe that sales and marketing expenses will need to be maintained at a healthy level in order to do so. Sales and marketing expenses are expected to increase as we increase our direct sales representatives and marketing efforts.

Research and Development Expenses. Research and development expenses are expected to increase to support refinements to our products, and the development of additional new products.

Results of Operations

Net sales. Our product sales for the year ended December 31, 2013 ("FY 13") were \$8,043,538, an increase of 23% from \$6,538,701 in the fiscal year ended December 31, 2012 ("FY 12"). Domestic sales, as well as our international business increased as a result of improving economic conditions in our markets. Our OEM business was higher as a result of completing a large order. Royalties on product sales by an OEM customer that licensed our patented breath alcohol testing algorithms also increased.

Royalties. In 2012 we entered into a royalty agreement with an OEM customer which provides for the monthly payment of royalties to us on all products containing certain of our software sold by our customer. In 2013 we entered into a second royalty agreement with another customer which provides for the monthly payment of royalties to us on all products containing certain of our software sold by our customer. Royalties increased from \$299,850 in FY 12 to \$382,128 in FY 13, an increase of 27%.

Gross profit. Gross profit for FY 13 of \$4,046,613, represented an increase of 28% from gross profit of \$3,157,647 for FY 12 as a result of increased sales volume. Cost of sales increased from \$3,680,904 in FY 12 to \$4,379,053 in FY 13, or 19%, primarily as a result of additional labor and materials required for the increased sales volume. Gross profit as a percentage of sales of products (gross margins) increased from 44% in 2012 to 46% in 2013 as a result of increased sales without a proportional increase in costs.

Research and development expenses. Research and development expenses were \$929,517 in FY 13, an increase of \$406,462 or 78% from \$523,055 in FY 12. The increase was primarily a result of headcount increases and increases in outsourced services in connection with several product development efforts and from increased compensation.

Sales and marketing expenses. Sales and marketing expenses were \$1,151,235 in FY 13, an increase of \$296,042, or 35% from \$855,193 in FY 12. The increase resulted primarily from increased marketing expenditures, headcount increases and higher compensation due to increased sales volume.

General and administrative expenses. General and administrative expenses were \$1,283,918 in FY 13, an increase of \$202,018, or 19%, from \$1,081,900 in FY 12. The increase consisted mostly of increased compensation.

Other income. Interest income increased from \$16,151 in FY 12 to \$19,069 in FY 13 primarily as the result of a larger amount of cash available for investment. We recovered \$12,000 on the Tipping Point, Inc. loan in FY 12 and in FY 13, which accounted for all of the bad debt recovery in both years.

Net income. Net income in FY 13 of \$574,755 represented an increase of \$95,770 compared to FY 12 net income of \$478,985. The increase of 20% is a result of the increase in sales, augmented in part by a lower provision for federal and state income taxes which resulted primarily from filing amended returns for 2010 through 2012.

Trends and Uncertainties That May Affect Future Results

Revenues in 2013 were up compared to revenues in 2012. We believe this was due in part to improving economic conditions in our markets, as well as to international, law enforcement, workplace and OEM orders. We expect our year-to-year and quarter-to-quarter revenue fluctuations to continue, due to the unpredictable timing of large orders from customers and the size of those orders in relation to total revenues. Going forward, we intend to focus our development efforts on products we believe offer the best prospects to increase our intermediate and near-term revenues.

Our 2014 operating plan is focused on growing sales, increasing gross profits, increasing research and development costs as appropriate while increasing profits and positive cash flows. We cannot predict with certainty the expected sales, gross profit, net income or loss and usage of cash and cash equivalents for 2014. However, we believe that cash resources and borrowing capacity will be sufficient to fund our operations for the next twelve months under our current operating plan. If we are unable to manage the business operations in line with our budget expectations, it could have a material adverse effect on business viability, financial position, results of operations and cash flows. Further, if we are not successful in sustaining profitability and remaining at least cash flow break-even, additional capital may be required to maintain ongoing operations.

Liquidity and Capital Resources

We compete in a highly technical, very competitive and, in most cases, price driven alcohol testing marketplace, where products can take years to develop and introduce to distributors and end users. Furthermore, manufacturing, marketing and distribution activities are regulated by the FDA, the DOT, and other regulatory bodies that, while intended to enhance the ultimate quality and functionality of products produced, can contribute to the cost and time needed to maintain existing products and develop and introduce new products.

We have traditionally funded working capital needs through product sales and close management of working capital components of our business. Historically, we have also received cash from private offerings of our common stock, warrants to purchase shares of our common stock, and notes. In 2013 we sold 10,000 shares of common stock for \$15,200 versus none in 2012 and none in the previous four years. In our earlier years, we incurred quarter to quarter operating losses to develop current product applications, utilizing a number of proprietary and patent-pending technologies. Although we have been profitable during the last several years, we expect that operating losses could well occur in the future. Should that situation arise, we may not be able to obtain working capital funds necessary in the time frame needed and at satisfactory terms or at all.

On June 1, 2013, our credit facility agreement with Citywide Bank matured and was not renewed.

As of December 31, 2013, cash and cash equivalents were \$3,357,260, trade accounts receivable were \$426,248 and current liabilities were \$751,026 resulting in a net liquid asset amount of \$3,023,482. We believe that the introduction of several new products during the last several years, along with new and on-going customer relationships, will continue to generate sufficient revenues, which are required in order for us to maintain profitability. If these revenues are not achieved on a timely basis, we will be required to implement cost reduction measures, as necessary.

We made a loan of \$62,500 to Tipping Point, Inc. ("TPI"), an early stage company during Q2 of FY11. Although the loan was paid down by \$34,000 by the end of FY 13, we do not expect to realize any significant sales to TPI in the near term. We have provided a reserve against the loan of \$28,500. This note has a provision entitling us to convert it into stock of TPI.

As a result of expected continuing growth and increased staffing needs, equipment expenditures during FY 13 were \$176,439, compared to \$140,577 for 2012. We filed patent applications at a cost to us of \$31,632 in 2013 vs. \$0 in 2012.

We generally provide a standard one-year warranty on materials and workmanship to our customers. We provide for estimated warranty costs at the time product revenue is recognized. Warranty costs are included as a component of cost of goods sold in the accompanying statements of operations. For the year ended December 31, 2013 and for the year ended December 31, 2012, warranty costs were not deemed significant.

Critical Accounting Policies and Estimates

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, sales returns, warranty, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required, which would increase our expenses during the periods in which any such allowances were made. The amount recorded as a provision for bad debts in each period is based upon our assessment of the likelihood that we will be paid on our outstanding receivables, based on customer-specific as well as general considerations. To the extent that our estimates prove to be too high, and we ultimately collect a receivable previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Any write-downs of inventory would reduce our reported net income during the period in which such write-downs were applied.

Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally five years (three years for software and technology licenses). We use the double declining method of depreciation for property and equipment, and the straight line method for software and technology licenses. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized.

Stock-based compensation is presented in accordance with the guidance of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718, Compensation — Stock Compensation (“ASC 718”). Under the provisions of ASC 718, companies are required to estimate the fair value of share-based payment awards made to employees and directors including employee stock options based on estimated fair values on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our statement of operations.

Off-Balance Sheet Transactions

We currently have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

The following financial statements are included in this Report:

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Statements of Cash Flows for the Years Ended December 31, 2013 and 2012	19
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To the Board of Directors and Stockholders of
Lifeloc Technologies, Inc.
Wheat Ridge, Colorado

We have audited the accompanying balance sheets of Lifeloc Technologies, Inc. as of December 31, 2013 and 2012, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2013. Lifeloc Technologies, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifeloc Technologies, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP
Eide Bailly LLP
Greenwood Village, Colorado
March 15, 2014

LIFELOC TECHNOLOGIES, INC.
Balance Sheets
December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash	\$3,357,260	\$2,338,012
Accounts receivable, net	426,248	405,321
Inventories, net	736,697	832,670
Income taxes receivable	131,577	174,129
Deferred taxes	87,940	130,172
Prepaid expenses and other	67,700	31,529
Total current assets	<u>4,807,422</u>	<u>3,911,833</u>
PROPERTY AND EQUIPMENT, at cost:		
Production equipment	363,370	258,703
Office equipment	145,116	144,202
Sales and marketing equipment	211,427	175,344
Purchased software	44,356	46,203
Less accumulated depreciation	<u>(473,538)</u>	<u>(365,728)</u>
Total property and equipment, net	290,731	258,724
OTHER ASSETS:		
Technology licenses, net	3,333	55,139
Patents, net	40,812	11,953
Deferred taxes, long term	4,762	2,112
Deposits and other	<u>12,514</u>	<u>54,704</u>
Total other assets	<u>61,421</u>	<u>123,908</u>
Total assets	<u><u>\$5,159,574</u></u>	<u><u>\$4,294,465</u></u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 149,949	\$ 82,796
Customer deposits	186,682	294
Accrued expenses	321,692	278,324
Deferred revenue, current portion	69,603	158,527
Reserve for warranty expense	<u>23,100</u>	<u>23,100</u>
Total current liabilities	751,026	543,041
DEFERRED REVENUE, net of current portion	12,532	5,559
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, no par value; 50,000,000 shares authorized, 2,432,416 shares outstanding (2,422,416 at December 31, 2012)	4,385,093	4,309,697
Retained earnings (deficit)	<u>10,923</u>	<u>(563,832)</u>
Total stockholders' equity	<u>4,396,016</u>	<u>3,745,865</u>
Total liabilities and stockholders' equity	<u><u>\$5,159,574</u></u>	<u><u>\$4,294,465</u></u>

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.
 Statements of Income
 Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES:		
Product sales	\$8,043,538	\$6,538,701
Royalties	382,128	299,850
Total	<u>8,425,666</u>	<u>6,838,551</u>
 COST OF SALES	 <u>4,379,053</u>	 <u>3,680,904</u>
 GROSS PROFIT	 4,046,613	 3,157,647
OPERATING EXPENSES:		
Research and development	929,517	523,055
Sales and marketing	1,151,235	855,193
General and administrative	1,283,918	1,081,900
Total	<u>3,364,670</u>	<u>2,460,148</u>
 OPERATING INCOME	 681,943	 697,499
OTHER INCOME:		
Interest income	19,069	16,151
Bad debt recovery	12,000	12,000
Total	<u>31,069</u>	<u>28,151</u>
 NET INCOME BEFORE PROVISION FOR TAXES	 713,012	 725,650
 PROVISION FOR FEDERAL AND STATE INCOME TAXES	 <u>(138,257)</u>	 <u>(246,665)</u>
 NET INCOME	 <u>\$ 574,755</u>	 <u>\$ 478,985</u>
 NET INCOME PER SHARE, BASIC	 <u>\$ 0.24</u>	 <u>\$ 0.20</u>
 NET INCOME PER SHARE, DILUTED	 <u>\$ 0.24</u>	 <u>\$ 0.20</u>
 WEIGHTED AVERAGE SHARES, BASIC	 <u>2,431,484</u>	 <u>2,422,416</u>
 WEIGHTED AVERAGE SHARES, DILUTED	 <u>2,431,484</u>	 <u>2,442,706</u>

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.
Statement of Stockholders' Equity
Years Ended December 31, 2013 and 2012

	Common Stock		Retained	Total
	Shares	Amount	Earnings (Deficit)	
BALANCES, DECEMBER 31, 2011	2,422,416	\$4,309,697	\$(1,042,817)	\$3,266,880
Net income	-	-	478,985	478,985
BALANCES, DECEMBER 31, 2012	2,422,416	4,309,697	(563,832)	3,745,865
Net income	-	-	574,755	574,755
Compensation expense related to stock options	-	60,196	-	60,196
Sale of common stock	10,000	15,200	-	15,200
BALANCES, DECEMBER 31, 2013	<u>2,432,416</u>	<u>\$4,385,093</u>	<u>\$ 10,923</u>	<u>\$4,396,016</u>

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	2013	2012
Net income	\$ 574,755	\$ 478,985
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	199,011	179,315
Provision for bad debt	-	(63,917)
Deferred taxes	39,582	(42,547)
Compensation expense related to stock options	60,196	-
Changes in operating assets and liabilities-		
Accounts receivable	(20,927)	108,432
Inventories	95,973	214,541
Income taxes receivable	42,552	(174,129)
Prepaid expenses and other	(36,171)	19,741
Deposits and other	42,190	(28,643)
Accounts payable	67,153	25,021
Customer deposits	186,388	(2,053)
Accrued expenses	43,368	(52,962)
Income taxes payable	-	(121,280)
Reserve for warranty expense	-	3,850
Deferred income	(81,951)	89,433
Net cash provided from operating activities	<u>1,212,119</u>	<u>633,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(176,439)	(140,577)
Purchase of patents	(31,632)	-
Net cash (used in) investing activities	<u>(208,071)</u>	<u>(140,577)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of common stock	<u>15,200</u>	<u>-</u>
NET INCREASE IN CASH	1,019,248	493,210
CASH, BEGINNING OF PERIOD	<u>2,338,012</u>	<u>1,844,802</u>
CASH, END OF PERIOD	<u>\$3,357,260</u>	<u>\$2,338,012</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income tax	<u>\$ 83,455</u>	<u>\$ 289,212</u>

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.
Notes to Financial Statements
December 31, 2013 and 2012

1. ORGANIZATION AND NATURE OF BUSINESS

Lifeloc Technologies, Inc. ("Lifeloc" or the "Company") is a Colorado based developer, manufacturer and marketer of portable hand-held breathalyzers and related accessories, supplies and education. We design, produce and sell fuel-cell based breath alcohol testing equipment. We compete in all major segments of the portable breath alcohol testing instrument market, including law enforcement, workplace, corrections, original equipment manufacturing ("OEM") and consumer markets. In addition, we offer a line of supplies, accessories, services, and training to support customers' alcohol testing programs. We sell globally through distributors and sales agents, as well as directly to users.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. For purposes of reporting cash flows, we consider all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2013 and 2012.

Fair Value of Financial Instruments. Our financial instruments consist of cash and cash equivalents, short-term trade receivables, and payables. The carrying values of cash and cash equivalents, short-term receivables, and payables approximate their fair value due to their short term maturities.

Concentration of Credit Risk. Financial instruments with significant credit risk include cash and accounts receivable. The amount of cash on deposit with three financial institutions exceeded the \$250,000 federally insured limit at December 31, 2013 by \$2,485,239. However, we believe that the financial institutions are financially sound and the risk of loss is minimal.

We have no significant off-balance sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements.

Note Receivable. We made a loan of \$62,500 to Tipping Point, Inc. (TPI), an early stage company during the second quarter of 2011. Although the loan has been paid down by \$34,000, including a repayment of \$3,000 in the fourth quarter of 2013, we do not expect to realize any significant sales to TPI in the near term. We have provided a reserve against the loan for the full amount, leaving a net amount of \$0, which is not included in our balance sheet at December 31, 2013. This note has a provision entitling us to convert any outstanding balance into stock of TPI. TPI is considered a related party as certain of our board members were also TPI board members during a portion of 2011.

Accounts Receivable. Accounts receivable are typically unsecured and are derived from transactions with and from entities primarily located in the United States or from international distributors with a proven payment history; we require pre-payment for most international orders. Accordingly, we may be exposed to credit risks generally associated with the alcohol monitoring industry. Our credit policy calls for payment in accordance with prevailing industry standards, generally 30 days. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. A summary of the activity in our allowance for doubtful accounts is as follows:

Years Ended December 31	2013	2012
Balance, beginning of year	\$ 40,000	\$ 10,000
Provision for estimated losses	-	63,917
Write-off of uncollectible accounts	(13,733)	(33,917)
Balance, end of year	<u>\$ 26,267</u>	<u>\$ 40,000</u>

The net accounts receivable balance at December 31, 2013 of \$426,248 included an account from one customer of \$152,855 (36%) and no more than 7% from any one other customer. The net accounts receivable balance at December 31, 2012 of \$405,321 included an account from one customer of \$113,106 (28%), \$52,850 (13%) from a second customer, and no more than 7% from any one other customer.

Inventories. Inventories are stated at the lower of cost (first-in, first-out basis) or market. We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. At December 31, 2013 and 2012, inventory consisted of the following:

	2013	2012
Raw materials & deposits	\$ 283,865	\$ 271,865
Work-in process	87,374	126,209
Finished goods	440,458	479,596
Total gross inventories	811,697	877,670
Less reserve for obsolescence	(75,000)	(45,000)
Total net inventories	<u>\$ 736,697</u>	<u>\$ 832,670</u>

A summary of the activity in our inventory reserve for obsolescence is as follows:

Years Ended December 31	2013	2012
Balance, beginning of year	\$ 45,000	\$ 50,000
Provision for estimated obsolescence	61,538	31,130
Write-off of obsolete inventory	(31,538)	(36,130)
Balance, end of year	<u>\$ 75,000</u>	<u>\$ 45,000</u>

Property and Equipment. Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally five years (three years for software and technology licenses). We utilize the double-declining method of depreciation for property and equipment due to the expected usage of the property and equipment over time. This method is expected to continue throughout the life of the equipment. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized. Depreciation expense for the years ended December 31, 2013 and 2012 was \$144,432 and \$129,783 respectively.

Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A long-lived asset is considered impaired when estimated future cash flows related to the asset, undiscounted and without interest, are insufficient to recover the carrying amount of the asset. If deemed impaired, the long-lived asset is reduced to its estimated fair value. Long-lived assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less cost to sell. No impairments were recorded for the years ended December 31, 2013 and 2012.

Technology Licenses. In 2011 we entered into a technology license agreement with an unrelated third-party manufacturer, pursuant to which we acquired a perpetual-term license to technology that will allow us to manufacture our own fuel cells. We have made three equal lump-sum payments, based on achievement of milestones related to our establishment of successful production facilities. The total, \$120,000, is being amortized over three years commencing in 2011, using the straight line method, with amortization expense of \$40,000 for the year 2013 and \$40,000 for the year 2012. The agreement was terminated on March 30, 2013 for a payment by us of \$1,859. At December 31, 2012 we had accrued \$1,683 for this payment.

In 2011 we acquired a software license relating to Kiosk software technology for \$25,000, which has been amortized over 2 years commencing in 2011, using the straight line method, with amortization expense of \$11,806 for the year 2013 and \$8,333 for the year 2012.

Patents. The costs of applying for patents are capitalized and amortized on a straight-line basis over the lesser of the patent's economic or legal life (20 years in the United States, except design patents which are 14 years). Amortization expense for the year ended December 31, 2013 was \$2,773 and for the year ended December 31, 2012 it was \$1,199. Capitalized costs are expensed if patents are not granted. We review the carrying value of our patents periodically to determine whether the patents have continuing value and such reviews could result in the conclusion that the recorded amounts have been impaired. A summary of our patents at December 31, 2013 and 2012 is as follows:

	2013	2012
Patents issued	\$ 22,775	\$ 22,775
Patent applications	31,632	-
Accumulated amortization	(13,595)	(10,822)
Total net patents	<u>\$ 40,812</u>	<u>\$ 11,953</u>

Accrued Expenses. We have accrued various expenses in our December 31 balance sheets, as follows:

	<u>2013</u>	<u>2012</u>
Compensation	\$ 230,032	\$ 190,266
Rebates	68,325	64,111
401(k) plan and health insurance	8,078	5,581
Property and other taxes	7,844	7,495
Lease normalization	7,413	9,188
Technology royalty termination	-	1,683
Total accrued expenses	<u>\$ 321,692</u>	<u>\$ 278,324</u>

Product Warranty Reserve. We provide for the estimated cost of product warranties at the time sales are recognized. Our warranty obligation is based upon historical experience and will be affected by product failure rates and material usage incurred in correcting a product failure. Should actual product failure rates or material usage costs differ from our estimates, revisions to the estimated warranty liability would be required. A summary of the activity in our product warranty reserve is as follows:

Years Ended December 31	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 23,100	\$ 19,250
Provision for estimated warranty claims	19,080	25,337
Claims made	<u>(19,080)</u>	<u>(21,487)</u>
Balance, end of year	<u>\$ 23,100</u>	<u>\$ 23,100</u>

Income Taxes. We account for income taxes under the provisions of Accounting Standards Codification Topic 740, "Accounting for Income Taxes" ("ASC 740"). ASC 740 requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. ASC 740 also requires recognition of deferred tax assets for the expected future tax effects of all deductible temporary differences, loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements, uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. For the years ended December 31, 2013 and 2012, we did not have any interest or penalties or any significant uncertain tax positions.

Revenue Recognition. Revenue from product sales is recorded when we ship the product and title has passed to the customer, provided that we have evidence of a customer arrangement and can conclude that collection is probable. The prices at which we sell our products are fixed and determinable at the time we accept a customer's order. We recognize revenue from sales to stocking distributors when there is no right of return, other than for normal warranty claims, and generally have no ongoing obligations related to product sales, except for normal warranty.

Deferred revenues arising from service and extended warranty contracts are booked as sales over their life on a straight-line basis. Supplies are recognized as sales when they are shipped. Training revenues are recognized at the time the training occurs. On occasion we arrange for customer financing and leasing through unrelated third parties. We recognize as revenue a fee from this arrangement at the time of the transaction. Occasionally, we rent used breathalyzers to customers, and in those cases, we recognize the revenues as they are earned over the life of the contract.

Royalty income is recognized in accordance with agreed upon terms, when performance obligations are satisfied, the amount is fixed or determinable and collectability is reasonably assured.

On occasion we receive customer deposits for future product orders. Customer deposits are initially recorded as a liability and recognized as revenue when the product is shipped and title has passed to the customer.

Deferred Revenue. Deferred revenues arise from service contracts and from development contracts. Revenues from service contracts are recognized on a straight-line basis over the life of the contract, generally one year. However, there are occasions when they are written for longer terms up to four years. The revenues from that portion of the contract that extend beyond one year are shown in our balance sheet as long term. Deferred revenues also result from progress payments received on development contracts; those revenues are recognized when the contract is complete. All development contracts are for less than one year and all deferred revenues from this source are shown in our balance sheet as short term.

Rebates. Our rebate program is available to selected North American Workplace Distributors in good standing who are responsible for sales equaling at least \$30,000 in one calendar year. Distributors who meet the required sales threshold automatically earn a rebate, paid in January of the following year, equal to between 1 and 10 percent of that distributor's total sales of the Company's products. We accrue for these rebates monthly, and they are shown in the Company's balance sheets as accrued expenses.

Rent Expense. We recognize rent expense on a straight-line basis over the reasonably assured lease term as defined in ASC Topic 840, Leases ("ASC 840"). In addition, our building lease agreement provides for scheduled rent increases during the lease term. We include any rent escalations in its determination of straight-line rent expense.

Research and Development Expenses. We expense research and development costs for products and processes as incurred.

Medical Device Tax. In March 2010, the Patient Protection and Affordable Care Act was enacted in the United States. This legislation includes a provision that imposes a 2.3% excise tax on the sale of certain medical devices by a manufacturer, producer or importer of such devices in the United States after December 31, 2012. We expense the medical device tax in General and Administrative Expense.

Stock-Based Compensation. Stock-based compensation is presented in accordance with the guidance of ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). Under the provisions of ASC 718, companies are required to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our statement of income.

ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the accompanying statement of income.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. We used the Black-Scholes option-pricing model (“Black-Scholes model”) to determine fair value. Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Although the fair value of employee stock options is determined in accordance with ASC 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Stock-based compensation expense recognized under ASC 718 for fiscal years 2013 and 2012 was \$60,196 and \$0, respectively, which consisted of stock-based compensation expense related to employee stock options. Stock-based compensation expense related to employee stock options under ASC 718 for 2013 was allocated to General and Administrative Expense.

Change in Accounting Policy. During the quarter ended March 31, 2012, management changed its policy of accounting for shipping and handling costs. The Company now classifies freight billed to customers as sales revenue and the related freight cost as cost of sales. The change to the accounting policy was made in order to better manage this facet of operations as a profit center.

Segment Reporting. We have concluded that we have one operating segment.

Basic and Diluted Income and Loss per Common Share. Net income or loss per share is calculated in accordance with ASC Topic 260, Earnings Per Share (“ASC 260”). Under the provisions of ASC 260, basic net income or loss per common share is computed by dividing net income or loss for the period by the weighted average number of common shares outstanding for the period. Diluted net income or loss per share is computed by dividing the net income or loss for the period by the weighted average number of common and potential common shares outstanding during the period if the effect of the potential common shares is dilutive. There was no dilution from potential common shares outstanding at December 31, 2013 and at December 31, 2012 because the market price of our shares was less than the exercise price of the stock options outstanding.

Recent Accounting Pronouncements. We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

3. STOCKHOLDERS’ EQUITY

Stock Option Plan. We adopted our 2002 Stock Option Plan (the “Plan,” as summarized below) to promote our and our stockholders’ interests by helping us to attract, retain and motivate our key employees and associates. Under the terms of the Plan, the Board of Directors may grant either “nonqualified” or “incentive” stock options, as defined by the Internal Revenue Code and related regulations. The purchase price of the shares subject to a stock option will be the fair market value of our common stock on the date the stock option is granted. Generally, vesting of stock options occurs immediately at the time of the grant of such option and all stock options must be exercised within five years from the date granted. The number of common shares reserved for issuance under the Plan is 375,000 shares of common stock, subject to adjustment for dividend, stock split or other relevant changes in our capitalization. The Plan expired March 4, 2012. In January, 2013 our board of directors adopted a new Plan for approval by our shareholders at their regular annual meeting on April 1, 2013, which provides for 150,000 shares to be reserved for issuance under the new Plan on terms similar to those of the expired Plan.

Under ASC 718, the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of financial information in accordance with ASC 718. The use of a Black-Scholes model requires the use of actual employee exercise behavior data and the use of a number of assumptions including expected volatility, risk-free interest rate and expected dividends. Employee stock options for 69,000 and 0 shares of stock were granted during fiscal years 2013 and 2012, respectively. The assumptions for employee stock options granted in 2013 are summarized as follows:

Risk-free interest rate	1.4%
Expected life (in years)	5.0

Expected volatility	41%
Expected dividend	0%

Cumulative compensation cost recognized in net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of compensation expense in the period of forfeiture. The volatility of the stock is based on a comparable public company's historical volatility since our stock is rarely traded. Fair value computations are highly sensitive to the volatility factor; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted was computed to be approximately \$60,196 and \$0, for the years ended December 31, 2013 and 2012, respectively. Effects of stock-based compensation, net of the effect of forfeitures, totaled \$60,196 and \$0 for the years 2013 and 2012, respectively.

The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the use of assumptions, including the expected stock price volatility. Because our employee stock options have characteristics significantly different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options. A summary of our stock option activity and related information for equity compensation plans approved by security holders for each of the fiscal years ended December 31, 2013 and 2012 is as follows:

A summary of our stock option activity and related information for each of the fiscal years ended December 31, 2013 and 2012 is as follows:

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted- Average Exercise Price per Share
BALANCE AT DECEMBER 31, 2011	23,000	\$ 3.69
Granted	-	-
Exercised	-	-
Forfeited/expired	-	-
BALANCE AT DECEMBER 31, 2012	23,000	-
Granted	69,000	\$2.32
Exercised	-	-
Forfeited/expired	-	-
BALANCE AT DECEMBER 31, 2013	92,000	\$ 2.66

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2013:

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	Number Outstanding	Weighted- Average Remaining Contractual Life (in Years)	Weighted- Average Exercise Price per Share	Number Exercisable	Weighted- Average Exercise Price per Share
\$3.69	23,000	3	\$ 3.69	23,000	\$3.69
\$2.32	69,000	4.75	\$ 2.32	69,000	\$2.32
	92,000			92,000	

Of the 92,000 options exercisable as of December 31, 2013, all are incentive stock options. The exercise price of all options granted through December 31, 2013 has been equal to or greater than the fair market value, as determined by our Board of Directors. As of December 31, 2013, 81,000 options for our common stock remain available for grant under the new Plan adopted in 2013.

4. RELATED PARTY TRANSACTIONS

During 2011, we made a loan of \$62,500 to Tipping Point, Inc. ("TPI") of which \$34,000 has been repaid. Based on market conditions and expectations, we have provided a reserve against the remaining outstanding principal of \$28,500. Outstanding principal accrues interest at 10.0% per annum, payable monthly. This note has a provision entitling us to convert any outstanding balance into stock of TPI. TPI is considered a related party as certain of our board members were also TPI board members during a portion of 2011.

During the year ended December 31, 2013, we paid a consulting fee of \$15,000 to a director. No consulting fee was paid during the year ended December 31, 2012.

5. COMMITMENTS AND CONTINGENCIES

We currently lease our facilities in Wheat Ridge, Colorado under a lease agreement containing cancellation terms of 180 days written notice on or after April 15, 2015 and upon remittance of any unamortized tenant improvements made by the landlord in excess of \$16,000. The minimum future lease payments by year are as follows:

Fiscal Year	Amount
2014	\$ 111,681
2015	37,592
Total	\$ 149,273

Rent expense for our facilities for the years ended December 31, 2013 and 2012 was \$106,653 and \$106,137 respectively.

Our obligation with respect to employee severance benefits is minimized by the “at will” nature of the employee relationships. As of December 31, 2013 we had no obligation with respect to contingent severance benefit obligations.

Aside from the operating lease and credit facility commitments, we do not have any material contractual commitments requiring settlement in the future.

We are subject to regulation by the United States Food and Drug Administration ("FDA") so far as our LifeGuard product is concerned. The FDA provides regulations governing the manufacture and sale of our LifeGuard product, and we are subject to inspections by the FDA to determine our compliance with these regulations. FDA inspections are conducted periodically at the discretion of the FDA. As of December 31, 2013, we had not been inspected by the FDA; however, we believe we are in substantial compliance with all known regulations.

We are also subject to regulation by the United States Department of Transportation and by various state departments of transportation so far as our other products are concerned. We believe that we are in substantial compliance with all known regulations.

We entered into a development contract in March 2013, which calls for an initial deposit of \$31,602, followed by payments totaling \$94,804 to be made as work is performed; this contract has been completed as of December 31, 2013.

6. LINE OF CREDIT

Our line of credit for \$150,000 with Citywide Bank matured on June 1, 2013, and was not renewed. There was no balance due on the line of credit as of December 31, 2012.

7. INCOME TAXES

We account for income taxes under ASC 740, which requires the use of the liability method. ASC 740 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

Our income tax provision is summarized below:

Years Ended	December 31, 2013	December 31, 2012
Current:		
Federal	\$ 158,101	\$ 248,216
State	32,972	40,996
Total current	191,073	289,212
Deferred:		
Federal	34,759	(37,363)
State	4,823	(5,184)
Total deferred	39,582	(42,547)
Refunds from amending prior years:		
Federal	(80,852)	-
State	(11,546)	-
Total refunds	(92,398)	-
Total	\$ 138,257	\$ 246,665

The refunds from amending prior years arose as a result of an additional deduction.

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes consists of the following:

Years Ended	December 31, 2013	December 31, 2012
Federal statutory rate	\$ 242,424	\$ 258,502
Effect of:		
State taxes, net of federal tax benefit	37,795	27,057
Research & development credit	(72,814)	(38,894)
Other	(69,148)	-
Total	\$ 138,257	\$ 246,665

The components of the deferred tax asset are as follows:

Years Ended	December 31, 2013	December 31, 2012
Current Deferred Tax Assets:		
Deferred service income	\$ 26,449	\$ 60,240
Bad debt reserve	20,811	30,590
Accrued vacation	16,702	13,464
Inventory reserve	15,200	17,100
Warranty reserve	8,778	8,778
Total current deferred tax assets	87,940	130,172
Long Term Deferred Tax Assets:		
Deferred service income	4,762	2,112
	\$ 92,702	\$ 132,284

8. LEGAL PROCEEDINGS

We are involved in two legal proceedings that arose in the normal course of business. One legal proceeding relates to the alleged mishandling by a third party of a breath alcohol test involving a product that we manufacture. The other legal proceeding relates to the conduct of an independent contractor who conducted a training session utilizing our training course. We are not a party to either of these legal proceedings but there is a possibility that we may become a defendant in them. Based on currently available information, we believe that we will have meritorious defenses to these actions if we are named and that the resolution of these cases is not likely to have a material adverse effect on our business, financial position or future results of operations. In accordance with generally accepted accounting principles in the United States (U.S. GAAP), we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. At December 31, 2013 we have accrued \$0 for legal proceedings and \$0 at December 31, 2012.

9. MAJOR CUSTOMERS/SUPPLIERS

We depend on sales that are generated from our customers' ongoing usage of alcohol testing instruments. Except for two customers who each contributed 7% (\$599,712 and \$580,645 respectively) to our total sales in 2013, no other customer contributed more than 4% (\$325,236). One customer contributed 10% (\$683,261) to our total sales in 2012, with two customers contributing 5% and 4% respectively (\$332,898 and \$261,983). In making this determination, we considered the federal government, state governments, local governments, and foreign governments each as a single customer. In 2013, we depended upon three vendors for approximately 28% of our purchases (three vendors and 24% respectively in 2012).

10. DEFINED CONTRIBUTION EMPLOYEE BENEFIT PLAN

We have adopted a 401(k) Profit Sharing Plan which covers all full-time employees who have completed 3 months of full-time continuous service and are age eighteen or older. Participants may defer up to 100% of their gross pay up to Plan limits. Participants are immediately vested in their contributions. We may make discretionary contributions based on corporate financial results for the year, which was determined to be 3% of the total payroll of the participating employees in 2013 and 2012. In 2013 and 2012 we contributed \$38,966 and \$34,381 respectively. The participants vest in Company contributions based on years of service, with a participant fully vested after six years of credited service.

11. LICENSE OF SOFTWARE

In 2012 we entered into a non-exclusive license agreement with Smart Start Inc. for the use of our patented breath alcohol testing algorithms. The agreement provides for termination with 6 months notice, and further provides for royalties based on the number of units sold which incorporate our software. The transaction is being accounted for under the guidance of ASC 605-10, Revenue Recognition which states, in part, revenue can be recognized when collection of the fee agreement can be reasonably assured.

12. SUBSEQUENT EVENTS

We evaluated subsequent events through the date the financial statements were issued and determined that none have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) (the "Exchange Act").

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Internal Control over Financial Reporting

(a) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the criteria in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control-Integrated Framework* issued by the COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

(b) Attestation report of the registered public accounting firm

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Annual Report.

(c) Changes in Internal Control over Financial Reporting

At December 31, 2012 our management determined that our disclosure controls and procedures were not effective because of the material weaknesses in our internal control over financial reporting discussed below:

1. Insufficient access to appropriate technical research materials and insufficient technical accounting knowledge within the accounting department related to accounting for complex transactions and to evolving generally accepted accounting principles.
2. Insufficient technical accounting knowledge within the audit committee to adequately provide oversight of the Company's accounting and reporting functions.

During the year ended December 31, 2013 we updated our internal controls, acquiring access to additional technical research materials and evaluating the need to retain additional personnel to enable our accounting department to adequately respond to changes in our operations and to changes within generally accepted accounting principles.

We also appointed a new member to our audit committee with the required credentials to serve as our audit committee financial expert.

Management has evaluated the effectiveness of our internal controls over financial reporting and believes that the material weaknesses which previously existed at December 31, 2012 have been fully remediated as of December 31, 2013.

Except as otherwise noted above, there were no significant changes in our internal controls over financial reporting during the year

ended December 31, 2013 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our management, including our Chief Executive Officer and our Chief Financial Officer, do not expect that the Company's disclosure controls will prevent or detect all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2013 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2013.

Item 11. Executive Compensation

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2013 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2013 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2013.

The following table summarizes certain information regarding our equity compensation plan as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	92,000	\$ 2.66	81,000
Equity compensation plans not approved by security holders	-	-	-
Total	92,000	\$ 2.66	81,000

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2013 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2013.

Item 14. Principal Accountant Fees and Services

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2013 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2013.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this Annual Report or incorporated by reference:

- (1) Our consolidated financial statements are provided under Item 8 of this Annual Report.

(b) The following exhibits are filed with this Annual Report or incorporated by reference, as indicated:

Exhibit No.	Description of Exhibit
3.1	Articles of Incorporation, dated as of December 29, 1983 (1)
3.2	Articles of Amendment to the Articles of Incorporation, dated as of July 10, 1986 (1)
3.3	Articles of Amendment to the Articles of Incorporation, dated as of August 18, 1986 (1)
3.4	Articles of Amendment to the Articles of Incorporation, dated as of April 18, 1988 (1)
3.5	Articles of Amendment to the Articles of Incorporation, dated as of April 1, 1991 (1)
3.6	Articles of Amendment to the Articles of Incorporation, dated as of May 10, 1993 (1)
3.7	Articles of Amendment to the Articles of Incorporation, dated as of May 11, 1992 (1)
3.8	Articles of Amendment to the Articles of Incorporation, dated as of November 17, 1997 (1)
3.9	Articles of Amendment to the Articles of Incorporation, dated as of July 15, 1998 (1)
3.10	Articles of Amendment to the Articles of Incorporation, dated as of April 1, 1994 (1)
3.11	Bylaws (3)
4.1	Form of Certificate representing Common Stock (1)
10.1	2002 Stock Option Plan (1)
10.2	Lease by and between Lifeloc Technologies, Inc. and Ward West Properties LLC, dated December 12, 2006 (1)
10.3	First Lease Amendment and Extension, dated May 1, 2010, to the Lease by and between Lifeloc Technologies, Inc. and Ward West Properties LLC, dated December 12, 2006 (1)
10.4	Contract No. 071B0200005 between the State of Michigan and Lifeloc Technologies, Inc., dated October 5, 2009 (1)
10.5	Technology Transfer Agreement between Lifeloc Technologies, Inc. and Fuel Cell Sensors, dated June 1, 2010 (1)
10.6	Form of Standard Distribution Agreement(1)
10.7	Business Loan Agreement between Lifeloc Technologies, Inc. and Citywide Banks, dated May 11, 2010, as amended (1)
10.8	Representation Agreement between Crossco Manufacturers Representatives, Inc. and Lifeloc Technologies, Inc., dated February 2, 2009(2)
31.1	Certification of Principal Executive Officer Pursuant To Section 302 Of The Sarbanes—Oxley Act Of 2002
31.2	Certification of Principal Financial Officer Pursuant To Section 302 Of The Sarbanes—Oxley Act Of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T.

(1) Incorporated by reference to our Registration Statement on Form 10-12G, filed on March 31, 2011.

(2) Incorporated by reference to our Registration Statement on Form 10-12G (Amendment 1), filed on May 11, 2011.

(3) Incorporated by reference to our Current Report on Form 8-K filed on September 4, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 17, 2014

LIFELOC TECHNOLOGIES, INC.

By: /s/ Barry R. Knott

Barry R. Knott

President and Chief Executive Officer

Pursuant to the requirements of 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.

/s/ Barry R. Knott

March 17, 2014

Barry R. Knott
President and Chief Executive Officer
(Principal Executive Officer)
Director

/s/ Vern D. Kornelsen

March 17, 2014

Vern D. Kornelsen
Chief Financial Officer
(Principal Financial Officer)
Director

/s/ Kristie L. LaRose

March 17, 2014

Kristie L. LaRose
Controller
(Principal Accounting Officer)

/s/ Robert Greenlee

March 17, 2014

Robert Greenlee
Director

/s/ Wayne Willkomm

March 17, 2014

Wayne Willkomm
Director

/s/ Gurumurthi Ravishankar

March 17, 2014

Gurumurthi Ravishankar
Executive Vice President
Director

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry R. Knott, certify that:

1. I have reviewed this report on Form 10-K of Lifeloc Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 17, 2014

/s/ Barry R. Knott

Barry R. Knott

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vern D. Kornelsen, certify that:

1. I have reviewed this report on Form 10-K of Lifeloc Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 17, 2014

/s/ Vern D. Kornelsen

Vern D. Kornelsen
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry R. Knott, President and Chief Executive Officer of Lifeloc Technologies, Inc. (the "Company"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by the Report.

Dated: March 17, 2014

/s/ Barry R. Knott

Barry R. Knott

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vern D. Kornelsen, Chief Financial Officer of Lifeloc Technologies, Inc. (the "Company"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by the Report.

Dated: March 17, 2014

/s/ Vern D. Kornelsen

Vern D. Kornelsen

Chief Financial Officer

(Principal Financial Officer)