

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Lifeloc Technologies, Inc

**Form: 10-K**

**Date Filed: 2017-03-27**

Corporate Issuer CIK: 1493137

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, 2016

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:

Title of each class  
**Common Stock, no par value**

Name of each exchange on which registered  
**None**

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 Securities Exchange Act of 1934 during the preceding 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 (§232.405 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 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value, computed by reference to the price at which the registrant's common equity was last sold, of the 305,067 shares of common stock held by non-affiliates of the issuer on such date was \$1,266,028.

The number of shares outstanding of each of the issuer's classes of common equity, as of March 10, 2017:

<b>Common Stock, no par value</b>	2,454,116
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the end of the fiscal year ended December 31, 2016.

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Statements contained in this Annual Report on Form 10-K (this "Annual Report") 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*".

Lifeloc®, Easycal®, Lifeguard®, and Phoenix® are registered trademarks of Lifeloc Technologies, Inc. This report may also contain trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

## **PART I**

### **Item 1. Business**

#### **Overview**

Lifeloc Technologies, Inc., a Colorado corporation ("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 as well as directly to users.

We define our business as providing "near and remote sensing" products and solutions. Today, the majority of our revenues are derived from products and services for alcohol detection and measurement. We remain committed to growing our breath alcohol testing business. In the future, we anticipate the commercialization of new sensing and measurement products that may allow Lifeloc to successfully expand our business into new growth areas where we do not presently compete or where no satisfactory product solutions exist today.

In addition, with the October 2014 purchase of our corporate headquarters and certain adjacent property, we added a new reporting segment focused on the ownership and rental of real property through existing commercial leases.

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](http://www.lifeloc.com), [www.lifeguardbreathtester.com](http://www.lifeguardbreathtester.com) and [www.stsfirst.com](http://www.stsfirst.com). Information contained on our websites does not constitute part of this Form 10-K.

#### **Principal Products and Services and Methods of Distribution**

##### *Breath Testers*

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, which are discussed below. Neither the PBA3000 nor the Phoenix® Classic is actively sold today.

In 2001, we completed and released for sale our new FC Series, designed specifically for domestic and international law enforcement and corrections markets. The portable breath alcohol testers comprising our FC Series 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 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.

In 2005 and 2006, we introduced two new models, the EV30 and Phoenix® 6.0 Evidential Breath Tester ("Phoenix® 6.0"), which constitute our Workplace Series of testing devices. Like their predecessor, the Phoenix® Classic, and our FC Series, these instruments are 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 component parts used in alcohol testing devices, 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 OEMs for inclusion as subassemblies or components in their breath alcohol testing devices.

In late 2009, Lifeloc released the LifeGuard® Personal Breathalyzer ("LifeGuard®"), 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 primarily sold directly to consumers in the U.S. and marketed internationally through global distributors.

In 2011 and 2012 Lifeloc introduced Bluetooth wireless keyboard and printer communication options for our popular Phoenix® 6.0 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 targeted at domestic and international law enforcement and corrections markets with the addition of the FC5 Hornet (the "FC5"). The FC5 is a passive (no mouthpieces required) portable handheld alcohol screening device that competes directly with passive 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 use in safety sensitive industries such as oil and gas and mining. Both devices expand Lifeloc's products for passive alcohol screening.

In the third quarter of 2014 we received approval from DOT for our EASYCAL® automatic calibration station for use with our Phoenix® 6.0 Evidential Breath Testers, and we began shipments of the EASYCAL® to our law enforcement, corrections, workplace and international customers. The EASYCAL® is a first of its kind device that automatically performs breath tester instrument calibration, calibration verification and gas management. As compared to manual instrument calibration, the EASYCAL® reduces the opportunity for human error, saves time and reduces operating costs.

In October 2014 we were awarded a \$250,000 grant from the Colorado Office of Economic Development to accelerate development of a breathalyzer that tests for Tetrahydrocannabinol ("THC"), the principal psychoactive constituent in cannabis. In 2016 the breathalyzer development effort was broadened to include the SpinDx technology as a potential detection method. SpinDx has demonstrated the ability to detect very low levels of THC under laboratory conditions. Terms of the grant require us to submit invoices as work is performed, with an anticipated completion date of August 31, 2017. This development effort is ongoing. These reimbursements are included in our Statements of Income as reductions in Research and Development cost. No revenue has been recognized from these grant reimbursements. We received \$25,000, \$42,396 and \$44,523 of grant reimbursements in 2014, 2015 and 2016 respectively. There is no assurance that this effort to develop a THC breathalyzer will be successful or that significant sales will result from such development if successful.

In October 2015 we expanded our Sentinel™ line with the Sentinel™ VA alcohol screening station, a full automated station to control vehicular access to safety critical facilities, such as mines, refineries, power stations and nuclear facilities. All drivers entering a secure area can be tested quickly and efficiently.

In August 2016 we entered into an exclusive patent license agreement with Sandia Corporation pursuant to which we acquired the exclusive rights to develop, manufacture and market Sandia's patented SpinDx™ technology for the detection of drugs of abuse. SpinDx uses a centrifugal disk with micro fluidic flow paths allowing multiple tests to be carried out on a single small sample. We intend to use this technology, sometimes referred to as "Lab on a Disk", to develop devices and tests that could be used at roadside, emergency rooms and in workplace testing to get a rapid and quantitative measure for a panel of drugs of abuse. While we do not believe this license agreement is material at this time, we believe it signifies the beginning of a relationship that could become material to the Company in the future.

### *Real Property*

On October 31, 2014, we purchased the commercial property we use as our corporate headquarters and certain adjacent property in Wheat Ridge, Colorado. The building consists of 22,325 square feet, of which 7,913 are currently leased to two tenants under leases that expire at various times ranging from June 30, 2017 to December 31, 2017. We intend to continue to lease the space we are not occupying, but in the future may elect to expand our own operations into space currently leased to other tenants. Our purchase of the property was partially financed through a term loan in an original principal amount of \$1,581,106, secured by a first-priority mortgage on the property. The loan matures in October 2024.

### *Additional Areas of Interest*

Consistent with our business goal of providing "near and remote sensing" products and solutions, our acquisition strategy involves purchasing businesses, development resources and assets that are aligned with our areas of interest and that can further aid in our entering additional markets.

In December 2014, we acquired substantially all of the assets of Superior Training Solutions, Inc. ("STS"), a company that develops and sells online drug and alcohol training and refresher courses. The assets we acquired from STS complement our existing drug and alcohol training courses.

On March 8, 2017, we acquired certain assets comprised of: (1) handheld hardware device technology (the "Device"), designed to measure breath alcohol content of the user; and (2) software technology called RADAR Reporting Center designed to allow the Device to be configured and to capture and manage the data being returned from the Device (together with the Device, the "RADAR Assets"). The purchase price under the Asset Purchase Agreement was \$860,000.

We expect to actively research and engage in the acquisition of resources that can expedite our entrance into new markets or strengthen our position in existing ones.

### **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 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 considerations regarding competition for sales of alcohol monitoring products and services include 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.

One of our leading competitors 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, Inc. 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. Drägerwerk AG & Co. KGaA, 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.
- Semiconductor 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 and saliva testing. This approach to alcohol testing is more invasive, less convenient than breath testing, and may require subsequent analysis 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 invasive and expensive 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. 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.

## **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**

Over 90% of our international sales for all product lines are made by local distributors, who are given territories generally pursuant to agreements that renew automatically each year unless terminated by either party with advance notice. 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. Lifeloc has sold instruments to customers in over 60 countries on six continents worldwide.

## **Research and Development**

Lifeloc defines its business broadly to include "near and remote sensing" applications in markets including those outside of our traditional alcohol testing. We believe that our future success depends to a large degree on our ability to conceive and develop improved alcohol detection and measurement products, as well as to identify attractive opportunities for growth outside of breath alcohol testing. Accordingly, we expect to continue to invest in research and development. We spent \$1,037,035 and \$1,224,045 during 2016 and 2015, respectively, on research and development. The amount spent in 2016 was lower than the amount spent in 2015 due primarily to timing differences resulting from scheduling of work on various projects. We expect to increase our emphasis on new product development efforts for existing and new markets.



## **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 quantities and will be available for the foreseeable future. However, there are relatively few suppliers of the high-quality fuel cells 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, if not received, could have a material effect on our revenues. While we have traditionally used only one supplier of fuel cells, we have recently developed fuel cells of our own manufacture. The manufacturing process for these fuel cells is still being developed, and upon satisfactory completion of this development, we intend to submit to the Department of Transportation for approval in our Evidential Breath Testers. If our own fuel cells are approved, Lifeloc will pursue a two-supplier strategy as necessary to meet the needs of the Company.

## **Patents, Intellectual Property and Royalties**

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 five United States patents and have three patent applications pending, along with international patent applications on our EASYCAL<sup>®</sup> calibration station. These patents have expiration dates ranging from October 2020 to September 2031. In 2015 we filed two utility patent applications related to our volatile substance testing equipment and methods, and we amended two previous filings. We are not aware of any infringements of our patents. We act to 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 each of our pending applications relate to a patentable device or concept, there is no guarantee that the patents will be issued.

We also enter into royalty agreements from time to time. 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. The agreement is of perpetual duration, but is terminable by the OEM customer upon six months' notice. In 2013 we began receiving royalties from another customer as a result of entering into a second royalty agreement, which provides for the monthly payment of royalties to us on all products containing certain of our software sold by our customer. The agreement is of perpetual duration, but is terminable by the customer upon six months' notice or by us upon 12 months notice.

## **Employees**

As of December 31, 2016, we had 32 full-time employees and 3 part-time employees. We are not a party to any collective bargaining agreements.

## Customers

Revenues from our largest customers, as a percentage of total revenues, for 2016 and 2015 were as follows:

	2016	2015
Customer A	7%	8%
Customer B	5%	8%
Customer C	4%	3%
All others	84%	81%
Total	100%	100%

## 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 related 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 believe we are in substantial compliance 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 not material.

## 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, 2016, we had not been inspected by the FDA; however, we believe we were in substantial compliance with applicable FDA regulations.

In connection with its production of cylinders of ethanol in nitrogen for use in calibrating breath alcohol testers (described above under "—Environmental Matters"), Lifeloc has trained on and is following the requirements of OSHA's Hazardous Communications Standard of 2012 (referred to as "HazCom 2012"). Compliance with HazCom 2012 requires providing employee information and training, labeling of chemicals used by Lifeloc and updating MSDS to the new harmonized Safety Data Sheets ("SDS") as they become available. It also requires us to prepare and implement a hazard communication program to follow for workers potentially exposed to hazardous chemicals.

We are also 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 Breath Alcohol Measurement Devices (the "CPL") published periodically in the Federal Register. Law enforcement applications also require that portable breath testing instruments be included on the CPL. Lifeloc's FC10, FC20, EV30, Phoenix® and Phoenix® 6.0 are included on the CPL. We believe that we were in substantial compliance with the regulations described above as of December 31, 2016 for our products sold into these markets and states.

See also Item 1A. Risk Factors – "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."

## **International Regulations**

Outside of the United States, Lifeloc is subject to applicable regional and foreign regulations. In order to sell our products in the European Union, a CE mark is required, which declares product conformity to relevant directives. Product directives include electromagnetic compatibility and environmental directives which restrict the use of certain hazardous substances in electronic equipment. Lifeloc has a number of CE marked products and we follow other foreign regulations as they apply.

Many countries into which our products are sold recognize the CPL 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 CPL in their selection criteria, our products conform to in-country developed specifications or are not subject to significant government regulation.

## **State and Local Regulations**

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. Except as required under applicable securities laws, 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.

### **Risks Related to Our Business and Industry**

***Global economic conditions could have a negative impact on our business, operating results and financial condition.***

Our business can be positively or negatively affected by fluctuations in exchange rates and country by country economic conditions. Our international customers may increase, reduce, delay or cancel their purchases of our products if exchange rates are unfavorable to importation. Unfavorable economic and currency situations may force us to adjust prices downward to remain competitive. 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. Our law enforcement business is dependent on the availability of federal and state grants to fund new equipment purchases. Should this funding not be available or delayed, our volume may be negatively affected. Our workplace business may be affected by the health of industries with safety sensitive jobs such as oil and gas and transportation. Demand for our products may be affected by downturns in these segments. 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.***

Sixteen percent of our total sales in 2016 were attributable to three customers, with whom we do not have long-term contracts. If orders from those customers are not renewed, our revenues may be adversely affected. Furthermore, at December 31, 2016, our accounts receivable balance included approximately \$113,948 or 23% 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 and President, Dr. Wayne R. Willkomm. Loss of Dr. Willkomm'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 CPL. Law enforcement applications also require that portable breath testing instruments be included on the CPL. Lifeloc's FC10, FC20, EV30, Phoenix® and Phoenix® 6.0 are included on the CPL. We believe that we were in substantial compliance with the regulations described above as of December 31, 2016 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 new medical or drug-related products, or market current products for new uses, either of which could 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 seven states (Arizona, Arkansas, California, Colorado, Michigan, Idaho and Texas). 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, 2016, 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.

***Identification of material weakness in internal control may adversely affect our financial results.***

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. Those provisions provide for the identification of material weaknesses in internal control. If such a material weakness is identified, it could indicate a lack of adequate controls to generate accurate financial statements. We routinely assess our internal controls, but we cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods, or maintain all of the controls necessary for continued compliance.

***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 and pink sheets 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.

Under certain circumstances, shares of our common stock may be sold without registration pursuant to the safe harbor provided in Exchange Act Rule 144 ("Rule 144"). Any 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;
- price and volume fluctuations in the stock market at large which do not relate to our operating performance; and
- outside news reports which may or may not accurately convey information about us, our products, our prospects and opportunities.

***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 our Board of Directors, Secretary, and Chief Financial Officer, beneficially owned approximately 76% of our outstanding common stock as of December 31, 2016. Through this ownership, Mr. Kornelsen is able to control the composition of our Board and direct our management and policies. Accordingly, Mr. Kornelsen has the direct or indirect power to:

- amend our bylaws and some provisions of our articles of incorporation; and
- cause or 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.

***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 & Poor's. 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, Illinois, Kentucky, Louisiana, Montana, New York, Pennsylvania, Tennessee and Virginia. 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.***

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. The expense of compliance with these and other laws relating to corporate governance and public disclosure is included in our general and administrative expenses. These 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 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.***

We issue options to purchase shares of our common stock to compensate employees, consultants and directors under our 2013 Stock Option Plan, 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

On October 31, 2014, we purchased the commercial property the Company uses as its corporate headquarters and certain adjacent property in Wheat Ridge, Colorado. The building consists of 22,325 square feet, of which approximately 14,412 square feet are occupied by us and approximately 7,913 square feet are currently leased to two tenants under leases that expire at various times ranging from June 30, 2017 to December 31, 2017. We intend to continue to lease the space we are not occupying, but in the future may elect to expand our own operations into space currently leased to other tenants.

Our purchase of the property was partially financed through a term loan in an original principal amount of \$1,581,106, secured by a first-priority mortgage on the property. The loan matures in October 2024.

## 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 material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is subject.

## 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, 2016, we had 75 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. Trading in our common stock is limited and sporadic. 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 2016	Bid Price	Fiscal 2015	Bid Price
1st Quarter	\$ 6.70 – 8.83	1st Quarter	\$ 15.00 – 35.00
2nd Quarter	\$ 4.15 – 7.08	2nd Quarter	\$ 13.80 – 21.00
3rd Quarter	\$ 3.80 – 5.20	3rd Quarter	\$ 13.80 – 24.50
4th Quarter	\$ 4.15 – 14.08	4th Quarter	\$ 8.25 – 17.75

### **Dividend Policy**

We have never declared or paid any cash dividend on shares of our common stock. 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.

### **Recent Sales of Unregistered Securities**

In the quarter ended March 31, 2015, 6,700 options were exercised for total proceeds of \$15,544.

## 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

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

Lifeloc Technologies, Inc., a Colorado corporation ("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 as well as directly to users.

We define our business as providing "near and remote sensing" products and solutions. Today, the majority of our revenues are derived from products and services for alcohol detection and measurement. We remain committed to growing our breath alcohol testing business. In the future, we anticipate the commercialization of new sensing and measurement products that may allow Lifeloc to successfully expand our business into new growth areas where we do not presently compete or where no satisfactory product solutions exist today.

In addition, with the October 2014 purchase of our corporate headquarters and certain adjacent property, we added a new reporting segment focused on the ownership and rental of real property through existing commercial leases.

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](http://www.lifeloc.com), [www.lifeguardbreathtester.com](http://www.lifeguardbreathtester.com) and [www.stsfirst.com](http://www.stsfirst.com). Information contained on our websites does not constitute part of this Form 10-K.

### Outlook

*Installed Base of Breathalyzers.* We believe the installed base of our breathalyzers will increase as the inherent risks associated with drinking while driving or while working in safety sensitive jobs become more widely acknowledged and as our network of distributors and our direct sales force grows. We believe that increased marketing efforts, the introduction of new products and the expansion of our sales network 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 customers and distributors grows and becomes more proficient and expands the number of new accounts. Our growth efforts have focused on expanding our global reach and broadening our product offering in alcohol and drug detection. Orders for all of our products, particularly ignition interlock components, 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.* We expect to increase our research and development expenses to support refinements to our products, and the development of additional new products.

## **Recent Developments**

On March 8, 2017, we entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Track Group Inc., a Delaware corporation, and its wholly owned subsidiary Integrated Monitoring Systems, LLC, a Colorado limited liability company. Pursuant to the terms and conditions of the Asset Purchase Agreement, we acquired certain assets comprised of: (1) handheld hardware device technology (the "Device"), designed to measure breath alcohol content of the user; and (2) software technology called RADAR (Real-time Alcohol Detection and Reporting) Reporting Center designed to allow the Device to be configured and to capture and manage the data being returned from the Device (together with the Device, the "RADAR Assets"). The purchase price under the Asset Purchase Agreement was \$860,000. Under the Asset Purchase Agreement, we assumed certain liabilities and obligations, including contractual obligations, and various other liabilities and obligations arising out of or relating to the RADAR Assets, including obligations related to current customers of the RADAR Assets. The Asset Purchase Agreement contains customary representations, warranties, and covenants and provides for indemnification rights with respect to a breach of a representation, warranty or covenant by either party.

## **Results of Operations**

### ***For the year ended December 31, 2016 compared to the year ended December 31, 2015 .***

*Revenues.* Our product sales for the year ended December 31, 2016 ("FY 16") were \$7,888,786, a decrease of 5% from \$8,323,913 in the fiscal year ended December 31, 2015 ("FY 15"). This decrease is attributable to decreased sales of products due to decreased demand as evidenced by lower customer orders. When royalties of \$392,603 and revenues from rentals of \$99,746 are included, total revenues of \$8,381,135 decreased by \$445,338, or 5%, for the year ended December 31, 2016 when compared to the year ended December 31, 2015, primarily due to OEM sales to a single customer in 2015 that did not repeat in 2016. Royalties of \$392,603 for the year ended December 31, 2016 represented a decrease of \$2,292 over the \$394,895 in the same period a year ago as a result of customers selling fewer products which incorporated our algorithms. Rental income declined by \$7,919, or 1%, from \$107,665 in the year ended December 31, 2015 to \$99,746 in the year ended December 31, 2016 as a result of the expiration of a tenant's lease which was not renewed and which we are now using for our operations.

*Gross profit.* Total gross profit for FY 16 of \$4,178,406 represented a decrease of 5% from total gross profit of \$4,401,367 for FY 15 as a result of decreased sales volume due to OEM sales to a single customer in 2015 that did not repeat in 2016, and as a result of lower royalties and rental income. Cost of product sales decreased from \$4,337,083 in FY 15 to \$4,137,206, or 5%, primarily as a result of decreased labor and materials required for the decreased sales volume.

*Research and development expenses.* Research and development expenses were \$1,037,035 in FY 16, a decrease of \$187,010 or 15% from \$1,224,045 in FY 15. The decrease was primarily a result of timing resulting from scheduling of work on various projects.

*Sales and marketing expenses.* Sales and marketing expenses were \$1,359,043 in FY 16, a decrease of \$108,301, or 7% from \$1,467,344 in FY 15. The decrease resulted mostly from lower expenditures for advertising, for rebates and for incentives as a result of lower sales.

*General and administrative expenses.* General and administrative expenses were \$1,147,349 in FY 16, a decrease of \$120,423, or 10%, from \$1,267,772 in FY 15. The decrease consisted mostly of decreased compensation and legal fees.

*Other income.* Interest income decreased from \$14,737 in FY 15 to \$13,270 in FY 16 primarily as the result lower balances in installment receivables from customers. We recovered \$4,500 on the Tipping Point, Inc. loan in FY 16 vs. \$12,000 in FY 15 as a result of the loan being paid in full in 2016.

*Interest expense.* In connection with the financing of our building purchase on October 31, 2014 we obtained a 10-year term loan in an initial principal amount of \$1,581,106 bearing interest at 4.45% per annum (which was decreased to 4% in 2016) and secured by a first-priority mortgage in the acquired property, as well as a one-year \$250,000 line of credit (which was increased to \$500,000 in 2016) bearing interest at a rate equal to the LIBOR daily floating rate plus 2.5%, secured by all assets of the Company, from Bank of America. As a result of payments made on the loan, as well as a reduction of the interest rate in July 2016, our interest expense decreased from \$70,986 for FY 15 to \$65,963 for FY 16. There were no borrowings under the line of credit as of December 31, 2016.

Our 2017 operating plan is focused on growing sales, increasing gross profits, increasing our commitment (including additional resources, as appropriate) to research and development and sales force, 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 2017. 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.

In October 2014 we were awarded a \$250,000 grant from the Colorado Office of Economic Development to accelerate development of a breathalyzer that tests for Tetrahydrocannabinol ("THC"), the principal psychoactive constituent in cannabis. In 2016 the breathalyzer development effort was broadened to include the SpinDx technology as a potential detection method. SpinDx has demonstrated the ability to detect very low levels of THC under laboratory conditions. Terms of the grant require us to submit invoices as work is performed, with an anticipated completion date of August 31, 2017.

On October 31, 2014, we purchased the commercial property we use as our corporate headquarters and certain adjacent property in Wheat Ridge, Colorado for a total purchase price of \$1,949,139, of which we paid \$368,033 in cash and financed the remaining \$1,581,106 through a 10-year term loan from Bank of America bearing interest at 4.45% per annum (amended to 4% per annum in 2016), secured by a first-priority security interest in the property we acquired with the loan. In connection with the term loan, we arranged for a one-year \$250,000 line of credit (raised to \$500,000 in 2016) from Bank of America secured by all assets of the Company. The line of credit bears interest at a rate calculated at the LIBOR daily floating rate plus 2.5%. At December 31, 2016 this credit facility had not been used.

Except for normal operating contractual commitments and purchase orders, and aside from the commitments under our term loan and line of credit with Bank of America, we do not have any material contractual commitments requiring settlement in the future. See "Note 5 – Commitments and Contingencies" to our Financial Statements in Part II - Item 8.

In December 2014, we acquired substantially all of the assets of Superior Training Solutions, Inc. ("STS"), a company that develops and sells online drug and alcohol training and refresher courses, for a total purchase price of \$432,375, of which we paid \$300,000 in cash and \$132,375 in the form of 15,000 shares of our common stock.

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 2015 we realized \$15,544 from the exercise of 6,700 stock options. 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 in recent years, we can provide no assurances that operating losses will not 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, if at all.

As of December 31, 2016, cash was \$3,772,064, trade accounts receivable were \$495,397 and current liabilities were \$720,535 resulting in net liquid assets of \$3,546,926. 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 may be required to seek additional sources of capital and/or to implement cost reduction measures, as necessary.

As a result of expected continuing growth and increased staffing needs, property and equipment expenditures during FY 16 were \$42,807 compared to \$402,799 for FY 15. In order to provide for expansion, we purchased our building in October 2014 at a total cost of \$1,949,139 (consisting of cash of \$368,033 and a 10-year term loan in an initial principal amount of \$1,581,106) of which \$317,932 was allocated to land. In 2015 we made major improvements to the building totaling \$280,488. We filed patent applications at a cost to us of \$8,954 in 2016 versus \$28,168 in 2015.

We generally provide a standard one-year limited warranty on materials and workmanship to our customers. In 2014 we began providing a lifetime warranty on fuel cells. 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, 2016 and for the year ended December 31, 2015, 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 have concluded that we have two operating segments, including our primary business which is as a developer, manufacturer and marketer of portable hand-held breathalyzers and related accessories, supplies and education, and a second segment consisting of renting portions of our building to existing tenants.

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. We purchased all of the assets of STS, an online education company, in 2014, which consisted of training courses that are amortized over 15 years using the straight line method. In October 2014, we purchased our building. A majority of the cost of the building is depreciated over 39 years using the straight line method. In addition, based on the results of a third party analysis, a portion of the cost was allocated to components integral to the building. Such components are depreciated over 5 and 15 years, using the double declining method and the straight line method respectively. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized.

Revenue from product sales is generally 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.

Revenues arising from extended warranty contracts are booked as sales over their life on a straight-line basis. Supplies are recognized as sales when they are shipped. The sales of licenses to our training courses and the sale of training courses are recognized as revenue at the time of sale. We have discontinued arranging for customer financing and leasing through unrelated third parties and instead are providing for customer financing and leasing ourselves which we recognize as revenue over the applicable lease term. Occasionally, we rent used equipment 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.

The sales of licenses to our training courses are recognized as revenue at the time of sale.

Rental income from space leased to our tenants is recognized in the month in which it is due.

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.

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 Arrangements**

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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Report of Independent Registered Public Accounting Firm for the Year Ended December 31, 2016	21
Report of Independent Registered Public Accounting Firm for the Year Ended December 31, 2015	22
Balance Sheets as of December 31, 2016 and 2015	23
Statements of Income for the Years Ended December 31, 2016 and 2015	24
Statements of Stockholders' Equity for the Years Ended December 31, 2016 and 2015	25
Statements of Cash Flows for the Years Ended December 31, 2016 and 2015	26
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# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Lifeloc Technologies, Inc.  
Wheat Ridge, Colorado

We have audited the accompanying balance sheet of Lifeloc Technologies, Inc. as of December 31, 2016, and the related statements of income, stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit provides 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, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Causey Demgen & Moore P.C.

Causey Demgen & Moore P.C.

Denver, Colorado

March 24, 2017



To the Board of Directors and Stockholders of  
Lifeloc Technologies, Inc.  
Wheat Ridge, Colorado

We have audited the accompanying balance sheet of Lifeloc Technologies, Inc. as of December 31, 2015, and the related statements of income, stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit provides 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, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Eide Bailly LLP

Denver, Colorado

March 20, 2016

ASSETS

	December 31, 2016	December 31, 2015
CURRENT ASSETS:		
Cash	\$ 3,772,064	\$ 3,227,190
Accounts receivable, net	495,397	603,817
Inventories, net	835,609	801,661
Income taxes receivable	114,673	81,031
Deferred taxes	106,434	114,058
Prepaid expenses and other	52,072	23,279
Total current assets	5,376,249	4,851,036
PROPERTY AND EQUIPMENT, at cost:		
Land	317,932	317,932
Building	1,928,795	1,911,695
Training courses	432,375	432,375
Production equipment and software	456,005	434,148
Office equipment and software	193,332	193,332
Sales and marketing equipment	228,908	232,468
Research and development equipment and software	78,157	78,157
Less accumulated depreciation	(1,112,498)	(876,582)
Total property and equipment, net	2,523,006	2,723,525
OTHER ASSETS:		
Patents, net	71,909	102,252
Deposits and other	98,991	9,314
Deferred taxes, long term	3,293	7,282
Total other assets	174,193	118,848
Total assets	\$ 8,073,448	\$ 7,693,409
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 284,590	\$ 222,976
Term loan payable, current portion	40,218	36,147
Customer deposits	51,611	92,870
Accrued expenses	239,833	274,996
Deferred revenue, current portion	64,283	89,179
Reserve for warranty expense	40,000	33,100
Total current liabilities	720,535	749,268
TERM LOAN PAYABLE, net of current portion and debt issuance costs		
	1,455,604	1,493,793
DEFERRED REVENUE, net of current portion		
	8,665	19,163
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, no par value; 50,000,000 shares authorized, 2,454,116 shares outstanding	4,557,320	4,533,012
Retained earnings	1,331,324	898,173
Total stockholders' equity	5,888,644	5,431,185
Total liabilities and stockholders' equity	\$ 8,073,448	\$ 7,693,409

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.  
Statements of Income

	Years Ended December 31,	
	2016	2015
REVENUES:		
Product sales	\$ 7,888,786	\$ 8,323,913
Royalties	392,603	394,895
Rental income	99,746	107,665
Total	8,381,135	8,826,473
COST OF SALES	4,202,729	4,425,106
GROSS PROFIT	4,178,406	4,401,367
OPERATING EXPENSES:		
Research and development	1,037,035	1,224,045
Sales and marketing	1,359,043	1,467,344
General and administrative	1,147,349	1,267,772
Total	3,543,427	3,959,161
OPERATING INCOME	634,979	442,206
OTHER INCOME (EXPENSE):		
Interest income	13,270	14,737
Bad debt recovery	4,500	12,000
Interest expense	(65,963)	(70,986)
Total	(48,193)	(44,249)
NET INCOME BEFORE PROVISION FOR TAXES	586,786	397,957
PROVISION FOR FEDERAL AND STATE INCOME TAXES	(153,635)	(115,703)
NET INCOME	\$ 433,151	\$ 282,254
NET INCOME PER SHARE, BASIC	\$ 0.18	\$ 0.12
NET INCOME PER SHARE, DILUTED	\$ 0.17	\$ 0.11
WEIGHTED AVERAGE SHARES, BASIC	2,454,116	2,453,293
WEIGHTED AVERAGE SHARES, DILUTED	2,547,430	2,523,676

See accompanying notes.

Lifeloc Technologies, Inc.  
Statement of Stockholders' Equity  
Years Ended December 31, 2016 and 2015

	Common Stock		Retained Earnings	Total
	Shares	Amount		
BALANCES, DECEMBER 31, 2014	2,447,416	\$ 4,517,468	\$ 615,919	\$ 5,133,387
Net income	-	-	282,254	282,254
Common stock options exercised	6,700	15,544	-	15,544
BALANCES, DECEMBER 31, 2015	2,454,116	4,533,012	898,173	5,431,185
Net income	-	-	433,151	433,151
Stock based compensation expense related to stock options	-	24,308	-	24,308
BALANCES, DECEMBER 31, 2016	2,454,116	\$ 4,557,320	\$ 1,331,324	\$ 5,888,644

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.  
Statements of Cash Flows

	Years Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 433,151	\$ 282,254
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	283,165	292,593
Provision for doubtful accounts, net change	(4,500)	17,000
Provision for inventory obsolescence, net change	-	5,000
Deferred taxes, net change	11,613	6,555
Reserve for warranty expense, net change	6,900	-
Stock based compensation expense related to stock options	24,308	-
Changes in operating assets and liabilities-		
Accounts receivable	112,920	234,635
Inventories	(33,948)	138,764
Income taxes receivable	(33,642)	2,244
Prepaid expenses and other	(28,793)	24,280
Deposits and other	(89,677)	50,067
Accounts payable	61,614	(246,594)
Customer deposits and deferred grant revenue	(41,259)	76,852
Accrued expenses	(35,163)	42,866
Deferred revenue	(35,395)	2,104
Net cash provided from operating activities	631,294	928,620
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(42,807)	(402,799)
Patent filing expense	(8,954)	(28,168)
Net cash (used in) investing activities	(51,761)	(430,967)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments made on term loan	(34,659)	(35,261)
Sale of common stock	-	15,544
Net cash (used in) financing activities	(34,659)	(19,717)
NET INCREASE IN CASH	544,874	477,936
CASH, BEGINNING OF PERIOD	3,227,190	2,749,254
CASH, END OF PERIOD	\$ 3,772,064	\$ 3,227,190
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 65,421	\$ 70,353
Cash paid for income tax	\$ 163,337	\$ 106,904

See accompanying notes.

## 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 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 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 as well as directly to users.

We define our business as providing "near and remote sensing" products and solutions. Today, the majority of our revenues are derived from products and services for alcohol detection and measurement. We remain committed to growing our breath alcohol testing business. In the future, we anticipate the commercialization of new sensing and measurement products that may allow Lifeloc to successfully expand our business into new growth areas where we do not presently compete or where no satisfactory product solutions exist today.

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](http://www.lifeloc.com), [www.lifeguardbreathtester.com](http://www.lifeguardbreathtester.com), and [www.stsfirst.com](http://www.stsfirst.com). Information contained on our websites does not constitute part of this Form 10-K.

## 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.

Debt Issuance Costs. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). This standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. ASU 2015-03 is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, and requires a retrospective approach to adoption. As a result of adopting this standard, debt issuance costs of \$10,215 have been reclassified in the accompanying balance sheet for December 31, 2015 as a reduction of the term loan payable.

Fair Value Measurement. Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, ASC 820 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. ASC 820 defines the hierarchy as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equity securities listed on the New York Stock Exchange.

Level 2 - Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reported date. The types of assets and liabilities in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using highly observable inputs.

Level 3 - Significant inputs to pricing that are unobservable as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as complex and subjective models and forecasts used to determine the fair value of financial transmission rights.

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, 2016 and 2015.

Fair Value of Financial Instruments. Our financial instruments consist of cash, short-term trade receivables, payables and a term loan secured by a first mortgage. The carrying values of cash, short-term receivables, and payables approximate their fair value due to their short term maturities. The carrying value of the term loan approximates its fair value based on interest rates currently obtainable.

Concentration of Credit Risk. Financial instruments with significant credit risk include cash and accounts receivable. The amount of cash on deposit with two financial institutions exceeded the \$250,000 federally insured limit at December 31, 2016 by \$3,179,757. 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.

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 with occasional exceptions of up to 60 days for large established international customers. 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:

<b>Years Ended December 31</b>	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 35,000	\$ 40,000
Provision for estimated losses	5,301	6,530
Write-off of uncollectible accounts	(5,301)	(11,530)
Balance, end of year	<u>\$ 35,000</u>	<u>\$ 35,000</u>

The net accounts receivable balance at December 31, 2016 of \$495,397 included an account from one customer of \$113,948 (23%), and no more than 6% from any other single customer. The net accounts receivable balance at December 31, 2015 of \$603,817 included an account from one customer of \$138,909 (23%) and no more than 6% from any other single 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, 2016 and December 31, 2015, inventory consisted of the following:

	<b>2016</b>	<b>2015</b>
Raw materials & deposits	\$ 592,771	\$ 404,104
Work-in-process	42,366	76,903
Finished goods	<u>287,972</u>	<u>408,154</u>
Total gross inventories	923,109	889,161
Less reserve for obsolescence	<u>(87,500)</u>	<u>(87,500)</u>
Total net inventories	<u>\$ 835,609</u>	<u>\$ 801,661</u>

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

<b>Years Ended December 31</b>	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 87,500	\$ 92,500
Provision for estimated obsolescence	30,134	2,640
Write-off of obsolete inventory	(30,134)	(7,640)
Balance, end of year	<u>\$ 87,500</u>	<u>\$ 87,500</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; 15 years for training courses; 39 years for the cost of the building we purchased in October 2014. We utilize the double-declining method of depreciation for property and equipment, and the straight-line method of depreciation for software, training courses, and the building, due to the expected usage of these assets over time. These methods are expected to continue throughout the life of the assets. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized. Depreciation expense for the years ended December 31, 2016 and 2015 was \$243,326 and \$285,688 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. Impairments of \$0 and \$0 were recorded for the years ended December 31, 2016 and 2015 respectively.

**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 for utility patents in the United States, and 14 years for design patents). Amortization expense, including impairments, for the years ended December 31, 2016 and 2015 was \$39,297 and \$6,272 respectively. Amortization expense for each of the next 5 years is estimated to be \$5,699 per year. 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. Impairments of \$29,386 and \$0 were included in amortization expense for the years ended December 31, 2016 and 2015 respectively. A summary of our patents at December 31, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Patents issued	\$ 22,775	\$ 22,775
Patent applications	74,837	102,802
Accumulated amortization	(25,703)	(23,325)
Total net patents	<u>\$ 71,909</u>	<u>\$ 102,252</u>

**Deposits and Other Assets.** We include the long-term portion of installment receivables, the long term portion of prepaid consulting, and the long-term portion of deferred financing loan costs with deposits. Deferred loan costs are amortized over the 20-year life of the term loan on a straight line basis, which approximates the effective interest method. Total amortization during the years ended December 31, 2016 and 2015 was \$542 and \$633, respectively, and is included within interest expense on the statements of income.

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

	<b>2016</b>	<b>2015</b>
Compensation	\$ 135,585	\$ 176,219
Property and other taxes	49,092	51,071
Rebates	37,562	47,706
State income tax	12,408	-
Interest	5,186	-
	<u>\$ 239,833</u>	<u>\$ 274,996</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:

<b>Years Ended December 31</b>	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 33,100	\$ 33,100
Provision for estimated warranty claims	46,980	21,277
Claims made	(40,080)	(21,277)
Balance, end of year	<u>\$ 40,000</u>	<u>\$ 33,100</u>

**Income Taxes.** We account for income taxes under the provisions of ASC 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, 2016 and 2015, we did not have any interest or penalties or any significant uncertain tax positions.

**Revenue Recognition.** Revenue from product sales is generally 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.

Supplies are recognized as sales when they are shipped. Training revenues are recognized at the time the training occurs. We have discontinued arranging for customer financing and leasing through unrelated third parties and instead are providing for customer financing and leasing ourselves which we recognize as revenue over the applicable lease term. Occasionally, we rent used equipment to customers, and in those cases, we recognize the revenues as they are earned over the life of the contract. Revenues from these activities are included in product revenue in our statements of income.

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.

The sales of licenses to our training courses and the sale of training courses are recognized as revenue at the time of sale.

Rental income from space leased to our tenants is recognized in the month in which it is due, which approximates if it were recognized on a straight-line basis over the term of the related lease.

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, and are included in product revenue in our statements of income. 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 sheets as long term. Deferred revenues also result from progress payments received on development contracts; those revenues are recognized when the contract is complete, and are included in product revenue in our statements of income. All development contracts are for less than one year and all deferred revenues from this source are shown in our balance sheets as short term.

Grants. We apply for and receive job training and other grants. In September 2014 we were notified that we had been awarded a \$250,000 grant from the Colorado Office of Economic Development to accelerate development of a marijuana breathalyzer that is currently under development. Grants are recognized as reductions of expense when received. In 2016 and 2015, we received expense reimbursement grants of \$44,523 and \$42,396 respectively.

Rebates. Our rebate program is available to certain of our 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 equal to between 1 and 10 percent of that distributor's total sales of the Company's products. We accrue for these rebates monthly; they are shown in the our balance sheets as accrued expenses and are included in sales and marketing expense in our statements of income.

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

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 years 2016 and 2015 was \$24,308 and \$0 respectively. Stock-based compensation expense related to employee stock options under ASC 718 for 2013 is allocated to General and Administrative Expense when incurred.

Segment Reporting. We have concluded that we have two operating segments, including our primary business which is as a developer, manufacturer and marketer of portable hand-held breathalyzers and related accessories, supplies and education. As a result of purchasing our building on October 31, 2014, we have a second segment consisting of renting portions of our building to existing tenants, whose leases expire at various times until December 31, 2017.

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. Dilution from potential common shares outstanding at December 31, 2016 and 2015 was \$0.01 and \$0.01 per share, respectively.

Recent Accounting Pronouncements. We have reviewed all recently issued, but not yet effective, accounting pronouncements.

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). It outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In August 2015, the FASB issued ASU No. 2015-14, which deferred by one year the mandatory effective date of ASU 2014-09. As a result, public entities are required to adopt the new revenue standard in annual periods beginning after December 15, 2017 and in interim periods within those annual periods. The standard may be applied either retrospectively to prior periods or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted, but not before annual periods beginning after December 15, 2016. We have determined that we will adopt the new revenue standard in 2018. We do not expect this new standard to have a material impact on our financial statements or related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). This standard requires that deferred income tax liabilities and assets be presented as noncurrent assets or liabilities in the balance sheet. ASU 2015-17 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. We have determined that we will adopt this new standard in 2017. We do not expect this new standard to have a material impact on our financial statements or related disclosures, except that our deferred income tax assets will be classified as noncurrent assets.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This update substantially revises standards for the recognition, measurement and presentation of financial instruments. This standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted for certain requirements. We have determined that we will adopt this new standard in 2018. We do not expect this new standard to have a material impact on our financial statements or related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this ASU are effective for us beginning on January 1, 2019 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We have determined that we will adopt this new standard in 2019. We do not expect this new standard to have a material impact on our financial statements or related disclosures.

### 3. BASIC AND DILUTED INCOME AND LOSS PER COMMON SHARE

We report both basic and diluted net income per common share. Basic net income per common share is computed by dividing net income for the period by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing the net income 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. The shares used in the calculation of dilutive potential common shares exclude options to purchase shares where the exercise price was greater than the average market price of common shares for the period.

The following table presents the calculation of basic and diluted net income per common share:

	Years Ended	
	December 31, 2016	December 31, 2015
Net income	\$ 433,151	\$ 282,254
Weighted average shares-basic	2,454,116	2,453,293
Effect of dilutive potential common shares	93,314	70,383
Weighted average shares-diluted	2,547,430	2,523,676
Net income per share-basic	\$ .18	\$ .12
Net income per share-diluted	\$ .17	\$ .11
Antidilutive employee stock options	-	-

#### 4. STOCKHOLDERS' EQUITY

**Stock Option Plan.** We adopted our now-expired 2002 Stock Option Plan (the "2002 Plan") to promote the Company's and its stockholders' interests by helping us to attract, retain and motivate our key employees and associates. Under the terms of the 2002 Plan, our Board of Directors (the "Board") could 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 was the fair market value of our common stock on the date the stock option was granted. Generally, vesting of stock options occurred 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 was 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 (the "2013 Plan"), which was approved by our shareholders at their regular annual meeting on April 1, 2013. The 2013 Plan provides for 150,000 shares to be reserved for issuance under the new Plan. Otherwise, the terms of the 2013 Plan are substantially the same as those of the 2002 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. Options to purchase 50,000 shares of stock at \$8.83 apiece were granted in 2016. No employee stock options were granted in 2015.

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 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, 2016 and 2015 is as follows:

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted Average Exercise Price Per Share
BALANCE AT DECEMBER 31, 2014	92,000	\$ 2.66
Granted	-	-
Exercised	(6,700)	-
Forfeited/expired	(6,300)	-
BALANCE AT DECEMBER 31, 2015	79,000	\$ 2.67
Granted	50,000	-
Exercised	-	-
Forfeited/expired	(43,500)	-
BALANCE AT DECEMBER 31, 2016	85,500	\$ 6.13

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2016:

STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Number Exercisable	Weighted-Average Exercise Price per Share
\$2.32	35,500	1.75	\$2.32	35,500	\$2.32
\$8.83	50,000	4.08	\$8.83	-	-
	85,500			35,500	

Of the 35,500 options exercisable as of December 31, 2016, all are incentive stock options. The exercise price of all options granted through December 31, 2016 has been equal to or greater than the fair market value, as determined by the Board. As of December 31, 2016, 31,000 options exercisable for our common stock remain available for grant under the 2013 Plan.

Options to purchase 50,000 shares of stock at \$8.83 apiece were granted during the year ended December 31, 2016. Vesting of these options is subject to performance achieved during the years ending December 31, 2018, 2019 and 2020. The provisions of ASC 718-10-55 require the measurement and recognition of compensation expense for all share based payment awards made to our employees and directors, including employee stock options, based on estimated fair values. Share-based compensation cost for stock options is measured at the grant date, based on the fair value as calculated by the Black-Scholes-Merton ("BSM") option-pricing model. The BSM option pricing model requires the use of actual employee exercise behavior data and the application of a number of assumptions, including expected volatility, risk free interest rate and expected dividends. For the options granted in 2016, the pricing model assumptions were: risk-free interest rate 1.46%, expected life 5 years, expected volatility 28.67%, expected dividend rate 0%. Applying these assumptions resulted in a fair value of \$123,269, which will result in stock option expense of \$2,054 per month through December 31, 2020 being charged against operations with a corresponding credit to capital. Share-based compensation cost for the year ended December 31, 2016 was \$24,308 and \$0 for the same period in 2015.

No options were exercised during the year ended December 31, 2016. Holders of 6,700 options entitling them to purchase shares of stock at \$2.32 apiece exercised their options during the year ended December 31, 2015.

The total number of authorized shares of common stock continues to be 50,000,000, with no change in the par value per share.

##### 5. COMMITMENTS AND CONTINGENCIES

**Mortgage Expense.** We purchased our facilities in Wheat Ridge, Colorado on October 31, 2014 for \$1,949,139 and took out a term loan secured by a first mortgage on the property in the amount of \$1,581,106 with Bank of America for a portion of the purchase price. Effective June 30, 2016 the note was amended to revise the interest rate from 4.45% to 4.00% per annum. The revised note is payable in 99 equal monthly installments of \$8,417, including interest, plus a final payment of \$1,138,104 (excluding interest) on October 31, 2024. Our minimum future principal payments on this term loan, by year, are as follows:

Year	Amount
2017	\$ 40,707
2018	42,388
2019	44,140
2020	45,807
2021	47,856
2022 - 2024	1,284,597
Total	1,505,495
Less financing cost	(9,673)
Net term loan payable	1,495,822
Less current portion	(40,218)
Long term portion	\$ 1,455,604

**Employee Severance Benefits.** Our obligation with respect to employee severance benefits is minimized by the "at will" nature of the employee relationships. As of December 31, 2016 we had no obligation with respect to contingent severance benefit obligations other than the Company's obligations under the employment agreement with its chief executive officer, Dr. Wayne Willkomm. In the event that Dr. Willkomm's employment is terminated by the Company without Cause (including through a decision by the Company not to renew the employment agreement) or by Dr. Willkomm with Good Reason (as each are defined in the employment agreement), Dr. Willkomm will be eligible, upon satisfaction of certain conditions, for severance equal to two months of salary continuation plus 12 months of health insurance continuation.

Contractual Commitments and Purchase Orders. Contractual commitments under development agreements and outstanding purchase orders issued to vendors in the ordinary course of business totaled \$1,354,198 at December 31, 2016.

Regulatory Commitments. With respect to our LifeGuard® product, we are subject to regulation by the United States Food and Drug Administration ("FDA"). 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, 2016, 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 DOT 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 applicable regulations.

#### 6. LINE OF CREDIT

As part of the long-term financing of our property purchased on October 31, 2014, we obtained a one-year \$250,000 revolving line of credit facility with Bank of America, which matured on October 31, 2015 and was extended to June 30, 2017, and bears interest at a rate equal to the LIBOR daily floating rate of .6882% and .3661% on December 31, 2016 and 2015, respectively, plus 2.5%. The agreement was amended September 20, 2016 to increase the amount of the line to \$500,000 and the maturity date to June 30, 2017. The revolving line of credit facility is secured by all personal property and assets, whether now owned or hereafter acquired, wherever located. There was no balance due on the line of credit as of December 31, 2016 and December 31, 2015.

#### 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. We have a Federal General Business Credit carryover available for 2017 of \$23,923.

Our income tax provision is summarized below:

<b>Years Ended</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Current:		
Federal	\$ 114,335	\$ 88,671
State	27,686	20,477
Total current	142,021	109,148
Deferred:		
Federal	10,199	5,756
State	1,415	799
Total deferred	11,614	6,555
Total	<u>\$ 153,635</u>	<u>\$ 115,703</u>

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:

<b>Years Ended</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Federal statutory rate	\$ 193,896	\$ 143,412
Effect of:		
State taxes, net of federal tax benefit	29,101	21,276
Research & development credit	(67,330)	(54,741)
Other	(2,032)	5,756
Total	<u>\$ 153,635</u>	<u>\$ 115,703</u>

The components of the deferred tax asset are as follows:

	<b>Years Ended December 31, 2016</b>	<b>2015</b>
Current Deferred Tax Assets:		
Bad debt reserve	\$ 13,300	\$ 15,010
Inventory reserve	33,250	33,250
Accrued vacation	20,256	19,332
Deferred income	24,428	33,888
Warranty reserve	15,200	12,578
Total current deferred tax assets	106,434	114,058
Long Term Deferred Tax Assets:		
Deferred income	3,293	7,282
Total Deferred Tax Assets	<u>\$ 109,727</u>	<u>\$ 121,340</u>

Our income tax returns are no longer subject to Federal tax examinations by tax authorities for years before 2013 or state examinations for years before 2012.

#### 9. LEGAL PROCEEDINGS

We were not involved or party to any legal proceedings at December 31, 2016 or December 31, 2015, and therefore made no accruals for legal proceedings in either 2016 or 2015.

#### 10. MAJOR CUSTOMERS/SUPPLIERS

We depend on sales that are generated from our customers' ongoing usage of alcohol testing instruments.

One customer contributed 7% (\$625,874) to our total sales in 2016, a second customer contributed 5% (\$385,840), a third customer contributed 4% (\$369,815), and no other customer contributed more than 3%. One customer contributed 8% (\$737,834) to our total sales in 2015, a second customer contributed 8% (\$734,352), a third customer contributed 3% (\$307,259), and no other customer contributed more than 3%. In making this determination, we considered the federal government, state governments, local governments, and foreign governments each as a single customer.

In 2016, we depended upon three vendors for approximately 24% of our purchases (three vendors and 19% respectively in 2015).

#### 11. DEFINED CONTRIBUTION EMPLOYEE BENEFIT PLAN

We have adopted a 401(k) Profit Sharing Plan ("401(k) 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 401(k) Plan limits. Participants are immediately vested in their contributions. We make monthly discretionary matching contributions of 3% of the total payroll of the participating employees. In 2016 and 2015 we contributed \$45,142 and \$50,223 respectively. The participants vest in Company contributions based on years of service, with a participant fully vested after six years of credited service.

#### 12. LICENSE OF SOFTWARE

In 2012 we granted a non-exclusive license to two customers for the use of our patented breath alcohol testing algorithms. The agreement provides for termination pursuant to notice requirements, 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.

#### 13. BUSINESS SEGMENTS

We currently have two business segments: (i) the sale of physical products, including portable hand-held breathalyzers and related accessories, supplies, education, training ("Product Sales"), and royalties from development contracts with OEM manufacturers ("Royalties" and, together with Product Sales, the "Products" segment), and (ii) rental of a portion of our building (the "Rentals" segment). The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Operating profits for these segments exclude unallocated corporate items. Administrative and staff costs were commonly used by all business segments and were indistinguishable.

The following sets forth information about the operations of the business segments for the years ended December 31, 2016 and 2015:

Revenue:	2016	2015
Product Sales	\$ 7,888,786	\$ 8,323,913
Royalties	392,603	394,895
Products Subtotal	8,281,389	8,718,808
Rentals	99,746	107,665
Total	\$ 8,381,135	\$ 8,826,473
Gross profit:		
Product Sales	\$ 3,751,580	\$ 3,986,830
Royalties	392,603	394,895
Products Subtotal	4,144,183	4,381,725
Rentals	34,223	19,642
Total	\$ 4,178,406	\$ 4,401,367
Interest expense:		
Product Sales	\$ 38,582	\$ 36,584
Royalties	-	-
Products Subtotal	38,582	36,584
Rentals	27,381	34,402
Total	\$ 65,963	\$ 70,986
Net income before taxes:		
Product Sales	\$ 187,341	\$ 17,822
Royalties	392,603	394,895
Products Subtotal	579,944	412,717
Rentals	6,842	(14,760)
Total	\$ 586,786	\$ 397,957

There were no intersegment revenues.

At December 31, 2016, \$667,717 of our assets were used in the Rentals segment, with the remainder, \$7,405,731, used in the Products and unallocated segments.

Future rental income and related expenses will depend on whether existing leases are renewed. Minimum base rents for leases in place at December 31, 2016 are scheduled to be \$75,627 in 2017.



#### 14. SUBSEQUENT EVENTS

We evaluated all of our activity and concluded that no subsequent events have occurred that would require recognition in our financial statements or disclosure in the notes to our financial statements, except as follows.

On March 8, 2017 we acquired certain assets known as the RADAR Assets, which included handheld hardware device technology (the "Device") for measuring the breath alcohol content of the user and software technology designed to allow the Device to be configured and to capture and manage the data being returned from the Device for \$860,000 cash.

Based on Level 3 inputs which consisted of estimates of cost to manufacture the devices, future cash flows, and cost of filing patent applications, the purchase price was allocated as follows:

Reporting Center Software	\$	396,948
Devices		350,552
Patents		100,000
Production Equipment		12,500
Total	\$	<u>860,000</u>

The Reporting Center Software and the Patents will be depreciated over 15 years using the straight line method, and the Devices and Production Equipment will be depreciated over 5 years using the double declining balance method. Amortization expense for 2017 is estimated to be \$27,608, and for the next 4 years it is estimated to be \$33,130 per year. Depreciation expense will vary by year. For 2017 it is estimated to be \$60,508. Revenues are generated by renting or selling devices to direct customers as well as resellers, and are recognized as earned revenue at the time of sale or usage.

## 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 Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") 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, 2016.

#### 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, 2016 based on the criteria in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2014. Based on our evaluation under the framework in *Internal Control-Integrated Framework* issued by the COSO in 2014, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

##### (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, which permit us to provide only management's report in this Annual Report.

##### (c) *Changes in Internal Control over Financial Reporting*

There were no significant changes in our internal controls over financial reporting during the fiscal quarter ended December 31, 2016 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 2017 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2016.

**Item 11. Executive Compensation**

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2017 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2016.

**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 2017 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2016.

The following table summarizes certain information regarding our equity compensation plan as of December 31, 2016:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by security holders	85,500	\$ 6.13	31,000
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>85,500</b>	<b>\$ 6.13</b>	<b>31,000</b>

**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 2017 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2016.

**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 2017 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2016.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules**

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

- (1) Our 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:**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
2.1	Asset Purchase Agreement dated as of March 8, 2017, by and among Lifeloc Technologies, Inc., Integrated Monitoring Systems, LLC, and Track Group Inc. (5)
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 (4)
4.1	Form of Certificate representing Common Stock (1)
10.1†	2002 Stock Option Plan (1)
10.2	Contract No. 071B0200005 between the State of Michigan and Lifeloc Technologies, Inc., dated October 5, 2009 (1)
10.3	Form of Standard Distribution Agreement (1)
10.4	Asset Purchase Agreement by and between Lifeloc Technologies, Inc. and Superior Training Solutions, Inc., dated December 1, 2014 (2)
10.5	Purchase Agreement by and between Lifeloc Technologies, Inc. and Ward West Properties LLC, dated August 13, 2014 (2)
10.6	Loan Agreement with Bank of America (Term Loan), dated October 29, 2014 (2)
10.7	Deed of Trust with Bank of America, dated October 29, 2014 (2)
10.8	Security Agreement with Bank of America, dated October 29, 2014 (2)
10.9	Loan Agreement with Bank of America (Line of Credit), dated October 29, 2014 (2)
10.10†	2013 Stock Option Plan (3)
10.11†	Employment Agreement with Dr. Wayne Willkomm, Ph.D., dated January 18, 2016 (3)
23.1*	Consent of Eide Bailly LLP (contained in Item 8. Financial Statements and Supplementary Data - REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, in this Annual Report)
23.2*	Consent of Causey Demgen & Moore P.C. (contained in Item 8. Financial Statements and Supplementary Data - REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDED DECEMBER 31, 2016, in this Annual Report)
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 Principal 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 Principal 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 Annual Report on Form 10-K for the year ended December 31, 2014.

(3) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2014.

(4) Incorporated by reference to our Current Report on Form 8-K filed on March 2, 2017.

(5) Incorporated by reference to our Current Report on Form 8-K filed on March 10, 2017.

\* Filed herewith.

† Indicates a management contract or compensatory plan or arrangement.

### **Item 16. Form 10-K Summary**

None.

## 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 27, 2017

### **LIFELOC TECHNOLOGIES, INC.**

By: /s/ Wayne R. Willkomm  
Wayne R. Willkomm  
Chief Executive Officer and President

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.

<u>/s/ Wayne R. Willkomm</u> Wayne R. Willkomm Chief Executive Officer and President (Principal Executive Officer) Director	March 27, 2017
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<u>/s/ Vern D. Kornelsen</u> Vern D. Kornelsen Chief Financial Officer (Principal Financial Officer) Director	March 27, 2017
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<u>/s/ Kristie L. LaRose</u> Kristie L. LaRose Controller (Principal Accounting Officer)	March 27, 2017
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<u>/s/ Robert Greenlee</u> Robert Greenlee Director	March 27, 2017
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<u>/s/ Donald E. Siecke</u> Donald E. Siecke Director	March 27, 2017
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Exhibit No.	Description of Exhibit
2.1	Asset Purchase Agreement dated as of March 8, 2017, by and among Lifeloc Technologies, Inc., Integrated Monitoring Systems, LLC, and Track Group Inc. (5)
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)
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23.2*	Consent of Causey Demgen & Moore P.C. (contained in Item 8. Financial Statements and Supplementary Data - REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDED DECEMBER 31, 2016, in this Annual Report)
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 Principal 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 Principal 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 Annual Report on Form 10-K for the year ended December 31, 2014.
(3)	Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2014.
(4)	Incorporated by reference to our Current Report on Form 8-K filed on March 2, 2017.
(5)	Incorporated by reference to our Current Report on Form 8-K filed on March 10, 2017.
*	Filed herewith.
†	Indicates a management contract or compensatory plan or arrangement.

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

I, Wayne R. Willkomm, 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 27, 2017

/s/ Wayne R. Willkomm  
 Wayne R. Willkomm  
 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 27, 2017

/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, Wayne R. Willkomm, 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, 2016 (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 27, 2017

/s/ Wayne R. Willkomm

Wayne R. Willkomm

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, 2016 (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 27, 2017

/s/ Vern D. Kornelsen

Vern D. Kornelsen

Chief Financial Officer

(Principal Financial Officer)