

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Lifeloc Technologies, Inc

**Form: 10-K**

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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, 2015 (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 302,557 shares of common stock held by non-affiliates of the issuer on such date was \$4,175,287.

The number of shares outstanding of each of the issuer's classes of common equity, as of March 10, 2016:

<b>Common Stock, no par value</b>	2,454,116
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Documents Incorporated by Reference: Items 10, 11, 13 and 14, and a portion of Item 12 of Part III are incorporated by reference from portions of the registrant's Definitive Proxy Statement for the 2015 Annual Shareholders' Meeting, expected to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2015.

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

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

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 In turn, the Phoenix® Classic has been superseded by our FC Series and Workplace Series of portable breath alcohol testers, which are discussed below.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

In 2001, we completed and released for sale an additional product line, our new FC Series, designed specifically for 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, these instruments are also DOT approved. The DOT's specifications support the DOT's workplace alcohol testing programs, including those applicable to workplace alcohol testing for the federally regulated transportation industry. We also sell 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 original equipment manufacturers ("OEMs") for inclusion as subassemblies or components in their breath alcohol testing devices.

In late 2009, Lifeloc released the LifeGuard® Personal Breathalyzer ("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 Lifeloc 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. 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. They 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 \$47,947 and \$25,000 of grant reimbursements in 2015 and 2014 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.

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 10,670 are currently leased to three tenants under leases that expire at various times ranging from June 30, 2016 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 November 2025.

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.

In October 2015 Lifeloc introduced 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.

#### *Additional Areas of Interest*

Consistent with our business goal of providing "near and remote sensing" products and solutions, our acquisition strategy involves purchasing companies, development resources and assets that are aligned with our areas of interest and that can further aid in our entering additional markets. 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 competition for sales of our alcohol monitoring products and services is based on regulatory approvals, product performance, product delivery, quality, service, training, price, device reliability, ease of use and speed. We sell certain of our components to customers for incorporation into their own product lines and for resale under their own name. We believe that, while our resources are more limited than those of our competitors, we will continue to compete successfully on the basis of product innovation, quality, reputation and continued customer service excellence.

One leading competitor is Intoximeters, Inc. of St. Louis, Missouri, a long-established company with strong name recognition in the field of alcohol testing. It has well established sales channels, a large customer base, and a broad product line. CMI, 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 ("Dräger"), 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 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 \$1,224,045 and \$1,000,266 during 2015 and 2014, respectively, on research and development. The amount spent in 2015 was higher than the amount spent in 2014 because we increased 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 four 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, 2015, we had 33 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 2015 and 2014 were as follows:

	2015	2014
Customer A	8%	8%
Customer B	8%	6%
Customer C	3%	5%
All others	81%	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, 2015, 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 Devices published periodically in the Federal Register. Law enforcement applications also require that portable breath testing instruments be included on the DOT Conforming Products List. Lifeloc's FC10, FC20, EV30, Phoenix® and Phoenix® 6.0 are included on the conforming products list. We believe that we were in substantial compliance with the regulations described above as of December 31, 2015 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 United States DOT Conforming Product list in their selection criteria or have no regulations applicable to the sale of our products. In the case of sales into countries that do not recognize the United States DOT Conforming Product list in their selection criteria, our products conform to in-country developed specifications or are not subject to significant government regulation.

## State and Local Regulations

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

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

## Insurance

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

## Item 1A. Risk Factors

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

### 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 2015 were attributable to two customers, with whom we do not have a long-term contract. If orders from those customers are not renewed, our revenues will be adversely affected. Furthermore, at December 31, 2015, our accounts receivable balance included approximately \$138,909 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 Conforming Products List of Evidential Devices published periodically in the Federal Register. Law enforcement applications also require that portable breath testing instruments be included on the DOT Conforming Products List. Lifeloc's FC10, FC20, EV30, Phoenix® and Phoenix® 6.0 are included on the conforming products list. We believe that we were in substantial compliance with the regulations described above as of December 31, 2015 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 six states (Arizona, 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, 2015, 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, 2015. 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
- 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 expect to 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 11,655 are occupied by us and approximately 10,670 are currently leased to three tenants under leases that expire at various times ranging from June 30, 2016 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 November 2025.

**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, 2015, we had 77 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 2015	Bid Price	Fiscal 2014	Bid Price
1st Quarter	\$15.00 – 35.00	1st Quarter	\$2.32 – 15.00
2nd Quarter	\$13.80 – 21.00	2nd Quarter	\$4.00 – 9.00
3rd Quarter	\$13.80 – 24.50	3rd Quarter	\$2.75 – 9.00
4th Quarter	\$8.25 – 17.75	4th Quarter	\$7.25 – 15.00

#### **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.

On December 1, 2014, we issued 15,000 shares of our common stock, valued at \$132,375, as part of the purchase price paid for the assets of STS, a company that develops and sells online drug and alcohol training and refresher courses. In accordance with the purchase agreement between Lifeloc and STS, the value of the stock was based on the closing quote on our stock price for a specified period prior to closing. This issuance of common stock constituting a portion of the total consideration paid pursuant to the purchase agreement was made in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended, or another applicable exemption.

#### **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

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

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. Accordingly, we have concluded that we have two operating segments, (i) our primary business focused on developing, manufacturing and marketing "near and remote sensing" products and solutions, including portable hand-held breathalyzers and related accessories, supplies and education, and (ii) a secondary business focused on the rental of portions of our building to existing tenants. See "Note 13 – Business Segments" to our Financial Statements in Part II - Item 8.

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

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

## Outlook

*Installed Base of Breathalyzers.* We believe the installed base of our breathalyzers will increase as the inherent risks associated with drinking while driving 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 January 5, 2016, the Board of Directors appointed Wayne Willkomm as the Company's President and Chief Executive Officer, effective as of January 18, 2016. Dr. Willkomm succeeded Barry Knott, the Company's former Chief Executive Officer, who continues with the Company as a member of the Board of Directors, and G. Ravishankar, the Company's former President.

## Results of Operations

### ***For the year ended December 31, 2015 compared to the year ended December 31, 2014.***

***Net sales.*** Our product sales for the year ended December 31, 2015 ("FY 15") were \$8,323,913, a decrease of 8% from \$9,023,804 in the fiscal year ended December 31, 2014 ("FY 14"). Business decreased from the sale of core products, offset in part by additional revenue attributable to our acquisition of the STS assets and by larger OEM orders. Rental income from tenants occupying a portion of the building we purchased on October 31, 2014 was \$107,665 for FY15 versus \$17,647 for the last two months of 2014.

***Royalties.*** In 2012 we entered into a royalty agreement with an OEM customer which provides for the monthly payment of royalties to us on all products containing certain of our software sold by the customer. In 2013 we entered into a second royalty agreement with another customer which provides for the monthly payment of royalties to us on all products containing certain of our software sold by the customer. As a result of higher sales by our customers, royalties increased from \$300,533 in FY 14 to \$394,895 in FY 15, an increase of 31%.

***Gross profit.*** Total gross profit for FY 15 of \$4,401,367 represented a decrease of 2% from total gross profit of \$4,467,857 for FY 14 as a result of decreased sales volume, offset in part by increased rental income in 2015 and by higher royalties. Cost of product sales decreased from \$4,874,127 in FY 14 to \$4,425,106, or 9%, primarily as a result of decreased labor and materials required for the decreased sales volume.

***Research and development expenses.*** Research and development expenses were \$1,224,045 in FY 15, an increase of \$223,779 or 22% from \$1,000,266 in FY 14. The increase was primarily a result of increases in development of products.

***Sales and marketing expenses.*** Sales and marketing expenses were \$1,467,344 in FY 15, an increase of \$33,505, or 2% from \$1,433,839 in FY 14. The increase resulted from increased marketing expenditures partly offset by lower sales-based compensation due to decreased sales volume.

***General and administrative expenses.*** General and administrative expenses were \$1,267,772 in FY 15, an increase of \$28,534, or 2%, from \$1,239,238 in FY 14. The increase consisted mostly of increased compensation.

***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 and secured by a first-priority mortgage in the acquired property, as well as a one-year \$250,000 line of credit 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, our interest expense increased from \$11,913 for two months in FY 14 to \$70,986 for all of FY 15. There were no borrowings under the line of credit as of December 31, 2015.

***Other income.*** Interest income decreased from \$24,132 in FY 14 to \$14,737 in FY 15 primarily as the result lowered cash balances in money market accounts, and also as a result of less interest billed to delinquent customers. We recovered \$12,000 on the Tipping Point, Inc. loan in each of FY 15 and FY 14, which accounted for all of the bad debt recovery in both years.

Our 2016 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 2016. 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 marijuana breathalyzer.

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, 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 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, 2015 this credit facility had not been used.

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. Although we did not sell any shares of common stock in 2014, we did issue 15,000 shares of our common stock on December 1, 2014 in connection with our purchase of the assets of STS, as described above. 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, 2015, cash was \$3,227,190, trade accounts receivable were \$603,817 and current liabilities were \$749,810 resulting in net liquid assets of \$3,081,197. 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, equipment expenditures during FY 15 were \$402,799 compared to \$132,461 for FY 14. 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 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. On December 1, 2014 we purchased the assets of STS, a company that develops and sells online drug and alcohol training and refresher courses, for a total purchase price of \$432,375 (consisting of cash of \$300,000 and 15,000 shares of our common stock valued at \$132,375). We filed patent applications at a cost to us of \$28,168 in 2015 versus \$43,205 in 2014.

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, 2015 and for the year ended December 31, 2014, 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 handheld 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. 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.

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:

	Page
Report of Independent Registered Public Accounting Firm	22
Balance Sheets as of December 31, 2015 and 2014	23
Statements of Income for the Years Ended December 31, 2015 and 2014	24
Statements of Stockholders' Equity for the Years Ended December 31, 2015 and 2014	25
Statements of Cash Flows for the Years Ended December 31, 2015 and 2014	25
Notes to Financial Statements	27

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

We have audited the accompanying balance sheets of Lifeloc Technologies, Inc. as of December 31, 2015 and 2014, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2015. Lifeloc Technologies, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifeloc Technologies, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Eide Bailly LLP  
Greenwood Village, Colorado  
March 20, 2016

LIFELOC TECHNOLOGIES, INC.  
 Balance Sheets  
 December 31, 2015 and 2014

ASSETS

CURRENT ASSETS:	2015	2014
Cash	\$ 3,227,190	\$ 2,749,254
Accounts receivable, net	603,817	855,452
Inventories, net	801,661	945,425
Income taxes receivable	81,031	83,275
Deferred taxes	114,058	120,392
Prepaid expenses and other	23,821	48,101
Total current assets	4,851,578	4,801,899
PROPERTY AND EQUIPMENT, at cost:		
Land	317,932	317,932
Building	1,911,695	1,631,207
Training courses	432,375	432,375
Production equipment	434,148	401,030
Office equipment and software	193,332	237,724
Sales and marketing equipment	232,468	236,722
Research and development equipment and software	78,157	-
Less accumulated depreciation	(876,582)	(650,576)
Total property and equipment, net	2,723,525	2,606,414
OTHER ASSETS:		
Patents, net	102,252	80,356
Deposits and other	18,987	69,687
Deferred taxes, long term	7,282	7,504
Total other assets	128,521	157,547
Total assets	\$ 7,703,624	\$ 7,565,860

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 222,976	\$ 469,570
Term loan payable, current portion	36,689	35,262
Customer deposits and deferred grant revenue	92,870	16,018
Accrued expenses	274,996	232,130
Deferred revenue, current portion	89,179	86,493
Reserve for warranty expense	33,100	33,100
Total current liabilities	749,810	872,573
TERM LOAN PAYABLE, net of current portion	1,503,466	1,540,154
DEFERRED REVENUE, net of current portion	19,163	19,746
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Common stock, no par value; 50,000,000 shares authorized, 2,454,116 shares outstanding (2,447,416 at December 31, 2014)	4,533,012	4,517,468
Retained earnings	898,173	615,919
Total stockholders' equity	5,431,185	5,133,387
Total liabilities and stockholders' equity	\$ 7,703,624	\$ 7,565,860

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.  
 Statements of Income  
 Years Ended December 31, 2015 and 2014

REVENUES:	2015	2014
Product sales	\$ 8,323,913	\$ 9,023,804
Royalties	394,895	300,533
Rental income	<u>107,665</u>	<u>17,647</u>
Total	8,826,473	9,341,984
COST OF SALES	<u>4,425,106</u>	<u>4,874,127</u>
GROSS PROFIT	4,401,367	4,467,857
OPERATING EXPENSES:		
Research and development	1,224,045	1,000,266
Sales and marketing	1,467,344	1,433,839
General and administrative	<u>1,267,772</u>	<u>1,239,238</u>
Total	<u>3,959,161</u>	<u>3,673,343</u>
OPERATING INCOME	442,206	794,514
OTHER INCOME (EXPENSE):		
Interest income	14,737	24,132
Bad debt recovery	12,000	12,000
Interest expense	(70,986)	(11,913)
Total	<u>(44,249)</u>	<u>24,219</u>
NET INCOME BEFORE PROVISION FOR TAXES	397,957	818,733
PROVISION FOR FEDERAL AND STATE INCOME TAXES	<u>(115,703)</u>	<u>(213,737)</u>
NET INCOME	<u>\$ 282,254</u>	<u>\$ 604,996</u>
NET INCOME PER SHARE, BASIC	<u>\$ 0.12</u>	<u>\$ 0.25</u>
NET INCOME PER SHARE, DILUTED	<u>\$ 0.11</u>	<u>\$ 0.24</u>
WEIGHTED AVERAGE SHARES, BASIC	<u>2,453,293</u>	<u>2,433,690</u>
WEIGHTED AVERAGE SHARES, DILUTED	<u>2,523,676</u>	<u>2,497,502</u>

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.  
Statement of Stockholders' Equity  
Years Ended December 31, 2015 and 2014

	Common Stock		Retained Earnings	Total
	Shares	Amount		
BALANCES, DECEMBER 31, 2013	2,432,416	\$ 4,385,093	\$ 10,923	\$ 4,396,016
Net income	-	-	604,996	604,996
Common stock issued in connection with business combination	15,000	132,375	-	132,375
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	<u>2,454,116</u>	<u>\$ 4,533,012</u>	<u>\$ 898,173</u>	<u>\$ 5,431,185</u>

See accompanying notes.

LIFELOC TECHNOLOGIES, INC.  
Statements of Cash Flows  
Years Ended December 31, 2015 and 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	2015	2014
Net income	\$ 282,254	\$ 604,996
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	292,593	205,094
Provision for bad debt	17,000	49,796
Provision for inventory obsolescence	5,000	
Deferred taxes	6,555	(35,194)
Reserve for warranty expense	-	10,000
Changes in operating assets and liabilities-		
Accounts receivable	234,635	(479,000)
Inventories	138,764	(208,728)
Income taxes receivable	2,244	48,302
Prepaid expenses and other	24,280	19,599
Deposits and other	50,067	(57,173)
Accounts payable	(246,594)	319,621
Customer deposits and deferred grant revenue	76,852	(170,664)
Accrued expenses	42,866	(89,562)
Deferred revenue	2,104	24,104
Net cash provided from operating activities	928,620	241,191
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for property acquired in business combination	-	(368,033)
Cash paid for training courses acquired in business combination	-	(300,000)
Purchases of property and equipment	(402,799)	(132,461)
Patent filing expense	(28,168)	(43,205)
Net cash (used in) investing activities	(430,967)	(843,699)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments made on term loan	(35,261)	(5,498)
Sale of common stock	15,544	-
Net cash (used in) financing activities	(19,717)	(5,498)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>477,936</b>	<b>(608,006)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>2,749,254</b>	<b>3,357,260</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 3,227,190</b>	<b>\$ 2,749,254</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 70,353	\$ 11,913
Cash paid for income tax	\$ 106,904	\$ 248,930
<b>Non cash investing and financing activities:</b>		
Mortgage issued for property and equipment acquired in business combination	\$ -	\$ 1,581,106
Stock issued for property and equipment acquired in business combinations	-	132,275
Total non cash investing and financing Activities	\$ -	\$ 1,713,381

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.

## 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.

### Fair Value Measurement.

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, 2015 and 2014.

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, 2015 by \$2,650,781. However, we believe that the financial institutions are financially sound and the risk of loss is minimal.

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

**Note Receivable.** We made a loan of \$62,500 to Tipping Point, Inc. ("TPI"), an early stage company, during the second quarter of 2011. Although the loan has been paid down by \$58,000, including a repayment of \$3,000 in the fourth quarter of 2015, we do not expect to realize any significant sales to TPI in the near term. We have provided a reserve against the loan for the full amount, leaving a net amount of \$0, which is not included in our balance sheets at December 31, 2015 and 2014. TPI was considered a related party at the time the loan was made, as certain of our board members were also TPI board members during a portion of 2011.

**Accounts Receivable.** Accounts receivable are typically unsecured and are derived from transactions with and from entities primarily located in the United States or from international distributors with a proven payment history; we require pre-payment for most international orders. Accordingly, we may be exposed to credit risks generally associated with the alcohol monitoring industry. Our credit policy calls for payment in accordance with prevailing industry standards, generally 30 days 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>	2015	2014
Balance, beginning of year	\$ 40,000	\$ 26,267
Provision for estimated losses	6,530	49,796
Write-off of uncollectible accounts	(11,530)	(36,063)
Balance, end of year	<u>\$ 35,000</u>	<u>\$ 40,000</u>

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 one other single customer. The net accounts receivable balance at December 31, 2014 of \$855,452 included an account from one customer of \$156,701 (18%) and no more than 12% from any one other customer.

**Inventories.** Inventories are stated at the lower of cost (first-in, first-out basis) or market. We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. At December 31, 2015 and 2014, inventory consisted of the following:

	2015	2014
Raw materials & deposits	\$ 404,104	\$ 476,941
Work-in process	76,903	132,029
Finished goods	<u>408,154</u>	<u>428,955</u>
Total gross inventories	889,161	1,037,925
Less reserve for obsolescence	<u>(87,500)</u>	<u>(92,500)</u>
Total net inventories	<u>\$ 801,661</u>	<u>\$ 945,425</u>

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

<b>Years Ended December 31</b>	2015	2014
Balance, beginning of year	\$ 92,500	\$ 75,000
Provision for estimated obsolescence	2,640	43,894
Write-off of obsolete inventory	(7,640)	(26,394)
Balance, end of year	<u>\$ 87,500</u>	<u>\$ 92,500</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, 2015 and 2014 was \$285,688 and \$201,433 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 \$1,796 were recorded for the years ended December 31, 2015 and 2014 respectively.

**Technology Licenses.** In 2010 we entered into a technology transfer agreement with an unrelated third-party manufacturer of fuel cells, pursuant to which we acquired a perpetual-term license to technology for the manufacture of fuel cells. We made three equal lump-sum payments of \$40,000 each, based on achievement of milestones related to our establishment of successful production facilities. The total, \$120,000, is being amortized over three years commencing in 2011, using the straight line method, with amortization expense of \$0 for the year 2015 and \$3,333 for the year 2014.

**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 for the year ended December 31, 2015 and 2014 was \$6,272 and \$3,661 respectively. Capitalized costs are expensed if patents are not granted. We review the carrying value of our patents periodically to determine whether the patents have continuing value and such reviews could result in the conclusion that the recorded amounts have been impaired. A summary of our patents at December 31, 2015 and 2014 is as follows:

	2015	2014
Patents issued	\$ 22,775	\$ 22,775
Patent applications	102,802	74,634
Accumulated amortization	(23,325)	(17,053)
Total net patents	<u>\$ 102,252</u>	<u>\$ 80,356</u>

**Deposits and Other Assets.** We include the long-term portion of installment receivables, as well as 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, 2015 and 2014 was \$633 and \$0, respectively, and are included within interest expense on the statements of income.

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

	2015	2014
Compensation	\$ 176,219	\$ 157,888
Rebates	47,706	21,280
Property and other taxes	51,071	44,810
401(k) plan and health insurance	-	8,152
Total accrued expenses	<u>\$ 274,996</u>	<u>\$ 232,130</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>	2015	2014
Balance, beginning of year	\$ 33,100	\$ 23,100
Provision for estimated warranty claims	21,277	14,425
Claims made	(21,277)	(4,425)
Balance, end of year	\$ 33,100	\$ 33,100

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

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements, uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. For the years ended December 31, 2015 and 2014, 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.

Deferred revenues arising from service and extended warranty contracts are booked as sales over their life on a straight-line basis. Supplies are recognized as sales when they are shipped. Training revenues are recognized at the time the training occurs. 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.

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

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 2015 and 2014, we received expense reimbursement grants of \$42,396 and \$45,868 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.

Rent Expense. We recognize rent expense on a straight-line basis over the reasonably assured lease term as defined in ASC Topic 840, Leases ("ASC 840"). As a result of purchasing our building, we did not incur rent expense after October 31, 2014.

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 fiscal years 2015 and 2014 was \$0. 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, 2015 and 2014 was \$0.01.

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

The Financial Accounting Standards Board issued Accounting Standards Update 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 Accounting Standards Update 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 not determined when we will adopt the new revenue standard or selected the transition method that we will apply upon adoption. We are assessing the impact of adopting this new accounting standard on our financial statements and related disclosures.

In April 2015, the FASB issued Accounting Standards Update 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. Early adoption is permitted. Based on our preliminary assessment, we do not expect this new standard to have a material impact on our financial statements or related disclosures. We will adopt this standard on the effective date.

In November 2015, the FASB issued Accounting Standards Update 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. Based on our preliminary assessment, we do not expect this new standard to have a material impact on our financial statements or related disclosures. We will adopt this standard on the effective date.

In January 2016, the FASB issued Accounting Standards Update 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 are assessing the impact of adopting this new accounting standard on our financial statements and 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 not yet determined what the effects of adopting this ASU will be on our financial statements.

### 3. BUSINESS COMBINATIONS

Building and Land. On October 31, 2014 we purchased the building formerly leased by us for a total price of \$1,949,139, of which \$317,932 was allocated to land. The allocation between building and land was based on Level 3 inputs and was determined by management based on estimates of rent and return on investment analyses. Based on a third party analysis, we allocated a portion of the building cost to its components. The components are depreciated over 5 and 15 years, using double declining depreciation methods, and the building is depreciated over 39 years using the straight line method. Major improvements to the building totaling \$280,488 were made in 2015; none were made in 2014.

Approximately 48% of the building is leased to third party tenants pursuant to lease agreements expiring on various dates ranging to December 31, 2017. Rental revenue and operating income included in our statement of income for the year ended December 31, 2015 were \$107,665 and \$19,641 respectively.

Actual earnings from rental units for the year ended December 31, 2015 and estimated earnings as though the combination took place at the beginning of the year ended December 31, 2014 are as follows.

	2015	2014 Unaudited)
Rental income	\$ 107,665	\$ 105,880
Expenses:		
Depreciation	59,419	59,150
Maintenance	6,562	20,000
Property taxes	18,460	18,000
Insurance	3,583	4,800
Total expenses	<u>88,024</u>	<u>101,950</u>
Net profit	<u>\$ 19,641</u>	<u>\$ 3,930</u>

Future rental income and related expenses will depend on whether existing leases are renewed. Minimum base rents for leases in place at December 31, 2015 are scheduled to be \$99,746 in 2016 and \$75,627 in 2017.

The purpose of this acquisition was to provide for potential growth and the need for additional space.

Training Courses. On December 1, 2014 we acquired all of the assets of Superior Training Solutions, Inc. ("STS") for \$300,000 cash plus 15,000 shares of our common stock valued at \$132,375, reflecting a total purchase price of \$432,375. In accordance with the purchase agreement between Lifeloc and STS, the value of the stock was based on the closing quote on our stock price for a specified period prior to closing. Based on Level 3 inputs which consisted of estimates of future cash flows, the entire purchase price was allocated to training courses, which will be depreciated over 15 years using the straight line method. Revenues are generated by selling licenses to direct customers as well as resellers, and are recognized as earned revenue at the time of sale.

Data that would enable us to present the amounts of revenue and earnings of STS as though the combination took place at the beginning of the year ended December 31, 2014 are unavailable to us. Actual earnings for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014 (Unaudited)
Sales, STS courses	\$ 141,605	\$ 5,010
Expenses:		
Outside services	48,337	4,167
Amortization	28,825	2,402
Manuals, CDs, supplies	23,579	1,446
Internet expense	2,014	-
Telephone and other	1,982	-
Commissions and other selling expenses	26,193	712
Total expenses	<u>130,930</u>	<u>8,727</u>
Net profit (loss)	<u>\$ 10,675</u>	<u>\$ (3,717)</u>

The purpose of this acquisition was to expand our offering of online substance abuse training courses and of online reasonable suspicion training courses.

Estimated annual amortization relating to the training courses is \$28,825 for 180 months commencing December 1, 2014.

#### 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. No employee stock options were granted during fiscal years 2015 or 2014.

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, 2015 and 2014 is as follows:

	<b>STOCK OPTIONS OUTSTANDING</b>	
	Number Outstanding	Weighted Average Exercise Price Per Share
<b>BALANCE AT DECEMBER 31, 2013</b>	92,000	\$ 2.66
Granted	-	-
Exercised	-	-
Forfeited/expired	-	-
<b>BALANCE AT DECEMBER 31, 2014</b>	92,000	\$ 2.66
Granted	-	-
Exercised	(6,700)	-
Forfeited/expired	(6,300)	-
<b>BALANCE AT DECEMBER 31, 2015</b>	<u>79,000</u>	<u>\$ 2.67</u>

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2015:

Range of Exercise Prices	<b>STOCK OPTIONS OUTSTANDING</b>			<b>STOCK OPTIONS EXERCISABLE</b>	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Number Exercisable	Weighted-Average Exercise Price per Share
\$3.69	20,000	.9	\$3.69	20,000	\$3.69
\$2.32	59,000	2.75	\$2.32	59,000	\$2.32
	79,000			79,000	

Of the 79,000 options exercisable as of December 31, 2015, all are incentive stock options. The exercise price of all options granted through December 31, 2015 has been equal to or greater than the fair market value, as determined by the Board. As of December 31, 2015, 81,000 options exercisable for our common stock remain available for grant under the 2013 Plan.

#### 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. The note bears interest at 4.45% per annum, and is payable in 120 equal monthly installments of \$8,801 including interest. Our minimum future principal payments on this first mortgage, by year, are as follows:

Year	Amount
2016	36,689
2017	35,576
2018	40,353
2019	42,211
2020	43,979
2020 - 2024	1,341,347
Total	1,540,155
Less current portion	(36,689)
Long term portion	<u>\$ 1,503,466</u>

Rent Expense. Rent expense for our facilities for the 10 months ended October 31, 2014 was \$88,131. As a result of purchasing our building, we did not incur rent expense after October 31, 2014.

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, 2015 we had no obligation with respect to contingent severance benefit obligations.

Purchase Orders. Outstanding purchase orders issued to vendors in the ordinary course of business totaled \$993,053 at December 31, 2015.

Other Material Contractual Commitments. We have two contractual commitments under development agreements that carried an aggregate obligation of \$116,930.

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, 2015, 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 October 31, 2016, and which bears interest at a rate equal to the LIBOR daily floating rate of .3661 and .1146 on December 31, 2015 and 2014 respectively, plus 2.5%. 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, 2015 and 2014.

#### 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 2016 of \$36,154.

Our income tax provision is summarized below:

Years Ended	December 31, 2015	December 31, 2014
Current:		
Federal	\$ 88,671	\$ 208,081
State	20,477	40,849
Total current	109,148	248,930
Deferred:		
Federal	5,756	(30,905)
State	799	(4,288)
Total deferred	6,555	(35,193)
Total	<u>\$ 115,703</u>	<u>\$ 213,737</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:

Years Ended	December 31, 2015	December 31, 2014
Federal statutory rate	\$ 143,412	\$ 286,086
Effect of:		
State taxes, net of federal tax benefit	21,276	36,561
Research & development credit	(54,741)	(78,005)
Other	5,756	(30,905)
Total	<u>\$ 115,703</u>	<u>\$ 213,737</u>

The components of the deferred tax asset are as follows:

	Years Ended December 31,	
	2015	2014
Current Deferred Tax Assets:		
Deferred income	\$ 33,888	\$ 32,867
Bad debt reserve	15,010	21,470
Accrued vacation	19,332	18,327
Inventory reserve	33,250	35,150
Warranty reserve	12,578	12,578
Total current deferred tax assets	114,058	120,392
Long Term Deferred Tax Assets:		
Deferred income	7,282	7,504
Total Deferred Tax Assets	<u>\$ 121,340</u>	<u>\$ 127,896</u>

Our income tax returns are no longer subject to Federal tax examinations by tax authorities for years before 2012 or state examinations for years before 2011.

#### 8. LEGAL PROCEEDINGS

We were not involved or party to any legal proceedings at December 31, 2015 or December 31, 2014, and therefore made no accruals for legal proceedings in either 2015 or 2014.

## 9. MAJOR CUSTOMERS/SUPPLIERS

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

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%. One customer contributed 8% (\$736,458) to our total sales in 2014, a second customer contributed 6% (\$549,867), a third customer contributed 5% (\$471,432), and no other customer contributed more than 5%. In making this determination, we considered the federal government, state governments, local governments, and foreign governments each as a single customer.

In 2015, we depended upon three vendors for approximately 19% of our purchases (three vendors and 24% respectively in 2014).

## 10. 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 2015 and 2014 we contributed \$50,223 and \$46,766 respectively. The participants vest in Company contributions based on years of service, with a participant fully vested after six years of credited service.

## 11. LICENSE OF SOFTWARE

In 2012 we 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.

## 12. 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 excludes 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:

	<b>Year Ended December 31,</b>	
	2015	2014
<b>Revenue:</b>		
Product Sales	\$ 8,323,913	\$ 9,023,804
Royalties	394,895	300,533
Products Subtotal	8,718,808	9,324,337
Rentals	107,665	17,647
<b>Total</b>	<b>\$ 8,826,473</b>	<b>\$ 9,341,984</b>
<b>Gross profit:</b>		
Product Sales	\$ 3,986,830	\$ 4,157,451
Royalties	394,895	300,533
Products Subtotal	4,381,725	4,457,984
Rentals	19,642	9,873
<b>Total</b>	<b>\$ 4,401,367</b>	<b>\$ 4,467,857</b>
<b>Interest expense:</b>		
Product Sales	\$ 36,584	\$ 6,195
Royalties	-	-
Products Subtotal	36,584	-
Rentals	34,402	5,718
<b>Total</b>	<b>\$ 70,986</b>	<b>\$ 11,913</b>
<b>Net income (loss) before taxes:</b>		
Product Sales	\$ (11,065)	\$ 514,045
Royalties	394,895	300,533
Products Subtotal	383,830	814,578
Rentals	14,127	4,155
<b>Total</b>	<b>\$ 397,957</b>	<b>\$ 818,733</b>

There were no intersegment revenues.

As of December 31, 2015, \$905,379 of our assets were used in the Rentals segment, with the remainder, \$6,798,245, used in the Products and unallocated segments.

#### 14. SUBSEQUENT EVENTS

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

In the first quarter of 2016, we granted 50,000 stock options. These options become vested in 2018 and are exercisable at \$8.83 apiece for 2.5 years thereafter if specified financial objectives are met in 2018. The assumptions for valuing these stock options are summarized as follows:

Risk-free interest rate	1.46%
Expected life (in years)	5.0
Expected volatility	28.67%
Expected dividend	0%

Applying these assumptions resulted in a fair market value of \$123,269, which will result in stock option expense of \$2,054 per month commencing in February 2016 being charged against operations, with an accompanying credit to capital for the same amount.

## 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, 2015.

#### 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, 2015 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, 2015.

(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, 2015 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 2016 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2015.

## Item 11. Executive Compensation

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2016 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2015.

## 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 2016 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2015.

The following table summarizes certain information regarding our equity compensation plan as of December 31, 2015:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	79,000	\$ 2.67	81,000
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>79,000</b>	<b>\$ 2.67</b>	<b>81,000</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 2015 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2015.

### 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 2015 Annual Meeting of Shareholders to be filed within 120 days after December 31, 2015.

## 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:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	Articles of Incorporation, dated as of December 29, 1983 (1)
3.2	Articles of Amendment to the Articles of Incorporation, dated as of July 10, 1986 (1)
3.3	Articles of Amendment to the Articles of Incorporation, dated as of August 18, 1986 (1)
3.4	Articles of Amendment to the Articles of Incorporation, dated as of April 18, 1988 (1)
3.5	Articles of Amendment to the Articles of Incorporation, dated as of April 1, 1991 (1)
3.6	Articles of Amendment to the Articles of Incorporation, dated as of May 10, 1993 (1)
3.7	Articles of Amendment to the Articles of Incorporation, dated as of May 11, 1992 (1)
3.8	Articles of Amendment to the Articles of Incorporation, dated as of November 17, 1997 (1)
3.9	Articles of Amendment to the Articles of Incorporation, dated as of July 15, 1998 (1)
3.10	Articles of Amendment to the Articles of Incorporation, dated as of April 1, 1994 (1)
3.11	Bylaws (3)
4.1	Form of Certificate representing Common Stock (1)
10.1†	2002 Stock Option Plan (1)
10.2	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 (5)
10.5	Purchase Agreement by and between Lifeloc Technologies, Inc. and Ward West Properties LLC, dated August 13, 2014 (5)
10.6	Loan Agreement with Bank of America (Term Loan), dated October 29, 2014 (5)
10.7	Deed of Trust with Bank of America, dated October 29, 2014 (5)

10.8	Security Agreement with Bank of America, dated October 29, 2014 (5)
10.9	Loan Agreement with Bank of America (Line of Credit), dated October 29, 2014 (5)
10.10†	2013 Stock Option Plan (4)
10.11*	Employment Agreement with Dr. Wayne Willkomm, Ph.D., dated January 18, 2016.
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)
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 Registration Statement on Form 10-12G (Amendment 1), filed on May 11, 2011.

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

(4) Incorporated by reference to our Definitive Proxy Statement filed on March 22, 2013.

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

\* Filed herewith.

† Indicates a management contract or compensatory plan or arrangement.

**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 22, 2016

**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.

/s/ Wayne R. Willkomm March 22, 2016  
Wayne R. Willkomm  
Chief Executive Officer and President  
(Principal Executive Officer)  
Director

/s/ Vern D. Kornelsen March 22, 2016  
Vern D. Kornelsen  
Chief Financial Officer  
(Principal Financial Officer)  
Director

/s/ Kristie L. LaRose March 22, 2016  
Kristie L. LaRose  
Controller  
(Principal Accounting Officer)

/s/ Robert Greenlee March 22, 2016  
Robert Greenlee  
Director

/s/ Barry R. Knott March 22, 2016  
Barry R. Knott  
Director

/s/ Donald E. Siecke March 22, 2016  
Donald E. Siecke  
Director

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
3.1	Articles of Incorporation, dated as of December 29, 1983 (1)
3.2	Articles of Amendment to the Articles of Incorporation, dated as of July 10, 1986 (1)
3.3	Articles of Amendment to the Articles of Incorporation, dated as of August 18, 1986 (1)
3.4	Articles of Amendment to the Articles of Incorporation, dated as of April 18, 1988 (1)
3.5	Articles of Amendment to the Articles of Incorporation, dated as of April 1, 1991 (1)
3.6	Articles of Amendment to the Articles of Incorporation, dated as of May 10, 1993 (1)
3.7	Articles of Amendment to the Articles of Incorporation, dated as of May 11, 1992 (1)
3.8	Articles of Amendment to the Articles of Incorporation, dated as of November 17, 1997 (1)
3.9	Articles of Amendment to the Articles of Incorporation, dated as of July 15, 1998 (1)
3.10	Articles of Amendment to the Articles of Incorporation, dated as of April 1, 1994 (1)
3.11	Bylaws (3)
4.1	Form of Certificate representing Common Stock (1)
10.1†	2002 Stock Option Plan (1)
10.2	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 (5)
10.5	Purchase Agreement by and between Lifeloc Technologies, Inc. and Ward West Properties LLC, dated August 13, 2014 (5)
10.6	Loan Agreement with Bank of America (Term Loan), dated October 29, 2014 (5)
10.7	Deed of Trust with Bank of America, dated October 29, 2014 (5)
10.8	Security Agreement with Bank of America, dated October 29, 2014 (5)
10.9	Loan Agreement with Bank of America (Line of Credit), dated October 29, 2014 (5)
10.10†	2013 Stock Option Plan (4)
10.11*	Employment Agreement with Dr. Wayne Willkomm, Ph.D., dated January 18, 2016.
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)
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 Registration Statement on Form 10-12G (Amendment 1), filed on May 11, 2011.

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

(4) Incorporated by reference to our Definitive Proxy Statement filed on March 22, 2013.

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

\* Filed herewith.

† Indicates a management contract or compensatory plan or arrangement.



**EXECUTIVE EMPLOYMENT AGREEMENT**

THIS EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") is entered into this 5th day of January, 2016, by and between Lifeloc Technologies, Inc. (the "Company"), and Wayne Willkomm ("Executive"). Executive and the Company are referred to individually as a "Party" and collectively as the "Parties."

WHEREAS, the Parties desire to enter into this Agreement setting forth the terms and conditions for the employment relationship between Executive and the Company.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties agree as follows:

1. Employment. The Parties agree that Executive's employment with the Company is subject to the terms and conditions set forth herein. The initial term of this Agreement shall begin on January 18, 2016 (the "Effective Date") and end one (1) year thereafter (the "Initial Term"), subject to renewal for additional one-year periods (each a "Renewal Term"), provided that any such renewal must be approved by at least two (2) members of the Board of Directors of the Company (the "Board") and agreed to in writing by the Parties no later than the last day of the Initial Term or expiring Renewal Term, as applicable.

2. Employment At-Will. The Parties understand and agree that Executive is an employee at-will, and that Executive may resign, or the Company may terminate Executive's employment, at any time, for any or for no reason, with or without cause or warning.

3. Position. Beginning as of the Effective Date, Executive shall be employed as and hold the title of Chief Executive Officer and President of the Company, with such duties and responsibilities that are customary in that position and/or that may from time to time be assigned to Executive by the Board.

4. Scope of Services. Executive agrees to comply with Company policies and to devote Executive's full business time, attention, skills and best efforts to the performance of Executive's duties hereunder and to the business and affairs of the Company. Executive shall not, during Executive's employment by the Company, without the prior written approval of the Board, be employed by or otherwise engage in any other business activity requiring any material amount of Executive's time, *provided* that Executive may, to the extent not otherwise prohibited by this Agreement, devote such amount of time as does not interfere or compete with the performance of Executive's duties under this Agreement to any one or more of the following activities: (i) investing Executive's personal assets in such manner as will not require services to be rendered by Executive in the operation of the affairs of the companies in which investments are made, (ii) engaging in civic and charitable activities, including serving on the boards of directors of charitable organizations, (iii) personal education and development, or (iv) serving on the board of directors of any other company with the prior written approval of the Board.

5. Salary, Compensation, and Benefits.

5.1 Base Salary. The Company agrees to pay, and Executive agrees to accept, as Executive's salary for all services to be rendered by Executive hereunder, a salary at an annual rate of Two Hundred Thousand Dollars (\$200,000) (the "Base Salary"), payable in installments pursuant to the Company's standard payroll practices and policies. If the term of this Agreement is extended beyond the Initial Term, the Base Salary will be increased annually to adjust for inflation, as determined by the Board.

5.2 Bonuses. In addition to the Base Salary, Executive is eligible to receive the following bonus payments upon the achievement of the performance criteria set forth below, the satisfaction of which will be determined by the Board in its sole discretion:

(a) If Executive is employed by the Company as of December 31, 2016, Executive shall be eligible to receive a cash bonus with respect to the fiscal year ended December 31, 2016 equal to five percent (5%) of the Base Salary, if the Company's net revenues for such fiscal year equal or exceed \$10,800,000 and the Company's net income before taxes, adjusted to exclude the effect of (i) bonuses paid to officers, (ii) contract disbursements to Sandia National Labs, the U.S. Naval Research Laboratory, and such other R&D contractors as may be agreed, and (iii) stock option expense attributable to the Stock Options (as defined below) ("Adjusted Net Income"), exceeds \$1,350,000.

(b) If Executive is employed by the Company as of December 31, 2017, Executive shall be eligible to receive a cash bonus with respect to the fiscal year ended December 31, 2017 equal to 10 percent (10%) of the then-applicable Base Salary payable within 90 days of the end of the fiscal year ended December 31, 2017, if the Company's net revenues for such fiscal year equal or exceed \$12,960,000 and the Company's Adjusted Net Income exceeds \$1,620,000.

(c) If Executive is employed by the Company as of December 31, 2018, Executive shall be eligible to receive a cash bonus with respect to the fiscal year ended December 31, 2018 equal to 10 percent (10%) of the then-applicable Base Salary payable within 90 days of the end of the fiscal year ended December 31, 2017, if the Company's net revenues for such fiscal year equal or exceed 120% of the previous fiscal year's gross annual revenues ("Target Gross Revenue") and the Company's Adjusted Net Income exceeds \$1,944,000.

(d) Executive shall be eligible to receive an annual cash bonus with respect to each fiscal year of employment after the fiscal year ending December 31, 2018 equal to ten percent (10%) of the then-applicable Base Salary payable within 90 days of the end of such fiscal year, if the Company's net revenues for such fiscal year equal or exceed 120% of the previous fiscal year's gross annual revenues ("Target Gross Revenue") and the Company's Adjusted Net Income exceeds 12.5% of Target Gross Revenue for such fiscal year.

(e) Executive shall receive an additional cash bonus equal to Thirty Thousand Dollars (\$30,000) (the "Renewal Bonus") each time the Parties agree to renew this Agreement for a Renewal Term, which cash bonus shall be payable within 90 days of the end of the fiscal year preceding such Renewal Term.

5.3 Equity Compensation. On the Effective Date, subject to the terms of this Section 5.3, Executive shall receive options to purchase up to 50,000 shares of the Company's common stock, at an exercise price equal to the closing quote for the Company's common stock on January 18, 2016 (the "Stock Options"). The Stock Options shall be incentive stock options issued pursuant to the Company's 2013 Stock Option Plan (the "Plan") and an award agreement to be issued thereunder. The Stock Options shall be subject to the following vesting conditions:

(a) In the event that this Agreement is still in effect as of December 31, 2018, and the Company's net revenues for the fiscal year ending on December 31, 2018 equal or exceed \$20,000,000, and net income before taxes for the fiscal year ending on December 31, 2018, adjusted to exclude the effect of the expense attributable to the Stock Options, equal or exceed \$3,000,000 (together, the "Vesting Conditions"), the Stock Options will vest in full.

(b) In the event the Vesting Conditions are not met in the fiscal year ending December 31, 2018, but are met in the fiscal year ending December 31, 2019, and this Agreement is still in effect as of December 31, 2019, then 50% of the Stock Options will vest in full as of that date and the remaining 50% of the Stock Options will be deemed cancelled.

(c) In the event the Vesting Conditions are not met in either the fiscal year ending December 31, 2018 or the fiscal year ending December 31, 2019, but are met in the fiscal year ending December 31, 2020, and this Agreement is still in effect as of December 31, 2020, then 25% of the Stock Options will vest in full as of that date and the remaining 75% of the Stock Options will be deemed cancelled.

(d) In the event the Vesting Conditions are not met in any of the fiscal years ending December 31, 2018, December 31, 2019 or December 31, 2020, then the Stock Options will be deemed cancelled as of December 31, 2020.

5.4 Welfare and Benefit Plans. During Executive's employment, (A) Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs of the Company; and (B) Executive and/or Executive's family, as the case may be, shall be eligible to participate in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Company (including, to the extent provided, without limitation, medical, prescription, dental, vision, disability, salary continuance, employee life insurance, group life insurance, accidental death and travel accident insurance plans and programs) (all such plans collectively, the "Plans"). Except as provided herein, the Company shall not be required to establish or continue the Plans or take any action to cause Executive to be eligible for any Plans on a basis more favorable than that applicable to all its executive-level employees generally. The Company reserves the right to modify or discontinue the Plans in the Company's sole discretion.

5.5 Reimbursement. The Company shall reimburse Executive (or, in the Company's sole discretion, shall pay directly), upon presentation of vouchers and other supporting documentation as the Company may reasonably require, for reasonable out-of-pocket expenses incurred by Executive relating to the business or affairs of the Company or the performance of Executive's duties hereunder, including, without limitation, reasonable expenses with respect to mileage, entertainment, travel and similar items, dues for membership in professional organizations, and similar professional development expenses, *provided* that the incurring of such expenses shall have been approved in accordance with the Company's regular reimbursement procedures and practices in effect from time to time.

5.6 Vacation. In addition to statutory holidays, Executive shall be entitled to paid vacation each calendar year during Executive's employment according to the Company's vacation policy applicable to all employees of the Company. Vacation shall accrue pursuant to the Company's vacation accrual policy applicable to all employees of the Company.

5.7 Withholding. The Company may withhold from Executive's compensation all applicable amounts required by law.

5.8 Reservation of Rights. The Company reserves the right to modify, suspend or discontinue any and all of the employee benefit plans, practices, policies and programs referenced in Sections 5.4 through 5.6 above at any time without recourse by Executive so long as such action is taken with respect to senior executives generally and does not single out Executive.

#### 6. Payments Upon Termination of Employment.

6.1 Accrued But Unpaid Salary and Bonus. In the event Executive's employment with the Company terminates for any reason, the Company shall pay to Executive (or, in the event of Executive's death, to Executive's estate or named beneficiary) (a) any Base Salary, vacation pay, expense reimbursements, and benefits that are accrued but unpaid as of the date of termination and (b) any earned but unpaid bonus for any prior or current year, it being understood that no Renewal Bonus shall be deemed earned upon the Parties' decision not to renew this Agreement for an additional year.

#### 6.2 Severance.

(a) Upon termination of Executive's employment with the Company (including election not to extend the term of this Agreement pursuant to Section 1 above) by the Company without Cause (as defined below) or upon Executive's resignation from employment (including election not to extend the term of this Agreement pursuant to Section 1 above) for Good Reason (as defined below), in each case contingent upon Executive's execution, non-revocation, and delivery of a Confidential Severance and Release Agreement in a form substantially similar to Exhibit A of this Agreement (the "Release Agreement"), Executive shall be entitled to the following: (i) a lump sum severance payment in an amount equal to two (2) months of the Base Salary in effect immediately prior to Executive's last date of employment, less applicable withholdings and deductions; and (ii) if Executive elects to receive continued healthcare coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), the Company shall directly pay, or reimburse Executive for, the COBRA premiums for Employee and Employee's covered dependents during the period commencing on Executive's termination and ending upon the earliest of (A) twelve (12) months following the date of termination, (B) the date that Executive and/or Executive's covered dependents become no longer eligible for COBRA or (D) the date Executive and Executive's covered dependents become eligible to receive healthcare coverage from Executive's subsequent employer.

(b) The Company's obligations under this Section 6.2 are subject to the requirements and time periods set forth in this Section 6.2 and in the Release Agreement. Prior to receiving the payments described in this Section 6.2, Executive shall execute the Release Agreement on or before the date that is seventy-five (75) days after the last day of Executive's employment. If Executive fails to timely execute and remit the Release Agreement, Executive waives any right to the payments provided under this Section 6.2. The Company will have no further obligations to Executive under this Agreement or otherwise after making payments pursuant to this Section 6.2. Payments under this Section 6.2 shall be made within fifteen (15) days of Executive's execution and delivery of the Release Agreement, provided that Executive does not revoke the Release Agreement.

(c) Executive agrees that payments made pursuant to this Section 6.2 shall constitute the exclusive and sole remedy for any termination of Executive's employment, and Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. The foregoing shall not limit any of Executive's rights with regard to any rights to indemnification, advancement or payment of legal fees and costs, and coverage under directors and officers liability insurance.

(d) Anything in this Agreement to the contrary notwithstanding, the Company shall have the right to terminate all payments and benefits owing to Executive pursuant to this Section 6.2 upon the Company's discovery of any material breach by Executive of Executive's obligations under the Release Agreement or Sections 8, 9, or 12 of this Agreement.

7. Definitions. Capitalized terms used in this Agreement but not otherwise defined herein shall have the meaning hereby assigned to them as follows:

7.1 "Cause" shall mean the Executive's: (i) dishonesty (including, but not limited to, theft or embezzlement of Company funds or assets); (ii) conviction of, or guilty plea or no contest plea, to a felony charge or any misdemeanor involving moral turpitude; (iii) noncompliance in any material respect with any laws or regulations, foreign or domestic, affecting the operation of the Company's business; (iv) violation of any lawful express direction or any rule, regulation or policy established by the Company that is consistent with the terms of this Agreement; (v) material breach of this Agreement or any other agreement with the Company or breach of the Executive's fiduciary duties to the Company; (vi) incompetence, negligence, or misconduct in the performance of the Executive's duties; (vii) repeated and consistent failure to be present at work during normal business hours except during vacation periods or absences due to temporary illness; (viii) abuse of alcohol or drugs which interferes with the Executive's performance of his duties; or (ix) any conduct by Executive that may have a material adverse effect to the Company's business or reputation.

7.2 "Good Reason" shall mean, in the context of a resignation by Executive, a resignation that occurs within thirty (30) days following (i) a material diminution of Executive's duties, excluding inadvertent or isolated actions not taken in bad faith and promptly remedied after written notice thereof, (ii) any material reduction in Executive's Base Salary or nonpayment of Executive's Base Salary, or (iii) any material breach of this Agreement by the Company, *provided* that in the case of a material breach, Good Reason shall only exist where Executive has provided the Company with written notice of the breach and, if the breach is reasonably capable of being cured within a period of fifteen (15) business days, the Company has failed to cure within fifteen (15) business days.

8. Non-Competition; Non-Solicitation; Anti-Raiding.

8.1 For the purposes of this Agreement, "Competitive Conduct" shall be determined in good faith by the Company and shall include any of the following conduct whether direct or indirect, on Executive's own behalf or on behalf of, or in conjunction with, any person, partnership, corporation, or entity:

(a) owning, managing, operating, controlling, being employed by, participating in, engaging in, rendering any services for, assisting, having any financial interest in, permitting Executive's name to be used in connection with, or being connected in any manner with the ownership, management, operation, or control of any Competitor of the Company. For the purposes of this Agreement, a "Competitor" is any person or entity that engages in, or is planning to engage in, in whole or in part, the business of manufacturing professional testing equipment for testing intoxication;

(b) consulting with, acting as an agent for, or otherwise assisting any Competitor to compete or prepare to compete with the Company in any of the Company's existing or prospective businesses;

(c) interfering with the relationship between the Company and any current or former employee, independent contractor, vendor, or supplier of the Company, including, without limitation, soliciting, enticing, inducing or attempting to induce or influence such current or former employee, independent contractor, vendor or supplier of the Company to terminate or alter his, her, or its relationship with the Company;

(d) interfering or attempting to interfere with any transaction in which the Company was involved or which was pending during the term of Executive's employment or at the date on which Executive's employment with the Company ends;

(e) soliciting any of the Company's customers or prospective customer; and/or

(f) soliciting, inducing, or attempting to induce any customer or other business relation of the Company to cease doing business with Company or in any way interfering with the relationship between any such customer or business relation of the Company.

8.2 Executive shall not engage in Competitive Conduct for a period of one (1) year after termination (whether voluntary or involuntary) of Executive's employment with the Company.

8.3 Executive shall not engage in Competitive Conduct within the following geographic areas: within a one hundred (100) mile radius of any location in which the Company conducts business.

8.4 Executive may not avoid the purpose and intent of Section 8.2 by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications or other similar methods.

8.5 Notwithstanding the foregoing, Executive may (i) purchase or otherwise acquire up to (but not more than) 1% of any class of securities of any Competitor (but without otherwise participating in the activities of such Competitor) if such securities are listed on any national stock exchange or quoted on an automated quotation system and (ii) own mutual fund investments.]

9. Confidential Information.

9.1 For the purposes of this Agreement, "Confidential Information" means all information, data, knowledge, and know-how relating, directly or indirectly, to the Company and its business, including, without limitation: (i) business plans and strategies, prospect information, financial information, investment plans, marketing plans and strategies, financial plans and strategies; (ii) confidential personnel or human resources data; (iii) customer lists, customer information, pricing information, supplier/vendor lists, customer and supplier/vendor strategies and plans, contracts, agreements, and leases; (iv) any other information having present or potential commercial value; (v) the whole or any portion or phase of any proprietary information or trade secrets; (vi) ideas, methods, know-how, techniques, systems, processes, software programs, works of authorship, projects, or plans; and (vii) confidential information of any kind in possession of the Company, whether developed for or by the Company (including information developed by Executive), received from a third party in confidence, or belonging to others and licensed or disclosed to the Company in confidence for use in any aspect of its business. Any Intellectual Property (defined below) that is not publicly available shall also constitute part of the Confidential Information. The list set forth above is not intended by the Company to be a comprehensive list of Confidential Information. All Confidential Information shall be treated as Confidential Information regardless of whether it pertains to the Company or its customers and regardless of whether it is stamped as "confidential."

9.2 Executive acknowledges that the success of the Company depends in large part on the protection of the Confidential Information. Executive further acknowledges that in the course of Executive's employment with the Company, Executive will become familiar with the Company's Confidential Information. Executive recognizes and acknowledges that the Confidential Information is a valuable, special and unique asset of the Company's business, access to and knowledge of which are essential to the performance of Executive's duties hereunder. Executive acknowledges that use or disclosure of the Confidential Information outside the performance of Executive's job duties for the Company would cause harm and/or damage to the Company.

9.3 Both during or after the term of Executive's employment by the Company, Executive agrees that Executive will not, except in the ordinary course of Executive's employment with the Company, disclose any Confidential Information to any person, firm, business, company, corporation, association, or any other entity for any reason or purpose whatsoever. Executive also agrees that Executive will not make use of any Confidential Information for Executive's own purposes or for the benefit of any person, firm, business, company, corporation, or any other entity (except the Company) under any circumstances during or after the term of Executive's employment. Executive shall consider and treat as confidential all Confidential Information in any way relating to the Company's business and affairs, whether created by Executive or otherwise coming into Executive's possession before, during, or after the termination of Executive's employment. Executive shall secure and protect the Confidential Information in a manner designed to prevent all access and uses thereof contrary to the terms of this Agreement. Executive further agrees that Executive shall use Executive's best efforts to assist the Company in identifying and preventing any use or disclosure of the Confidential Information contrary to this Agreement.

9.4 Executive represents and warrants that, upon separation of employment, and without any request by the Company, Executive will return to Company any and all property, documents, and files (including all recorded media, such as papers, computer disks or other data storage devices, copies, photographs, maps, transparencies, and microfiche) that contain Confidential Information or relate in any way to Company or its business. Executive agrees, to the extent Executive possesses any files, data, or information relating in any way to Company or its business on any personal computer, Executive will delete those files, data, or information (and will retain no copies in any form). Executive also will return any Company tools, equipment, calling cards, credit cards, access cards or keys, any keys to any filing cabinets, vehicles, vehicle keys, and all other Company property in any form prior to the last date of employment.

#### 10. Intellectual Property.

10.1 "Intellectual Property" means any and all original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, trademarks, service marks, or trade secrets, or inventions, whether or not patentable or registrable under copyright or similar laws, which Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time Executive is employed by the Company.

10.2 Executive hereby assigns to the Company, or its designee, all of Executive's right, title, and interest in and to all Intellectual Property, except where prohibited by law, so that the Company is the exclusive owner of the Intellectual Property. Executive further acknowledges that all original works of authorship which are made by Executive (solely or jointly with others) within the scope of and during the period of Executive's employment with the Company and which are protectable by copyright are "works made for hire" as that term is defined in the United States Copyright Act, and that such works made for hire shall constitute part of the Intellectual Property. Executive shall not use any Intellectual Property except for the exclusive benefit of the Company. Executive agrees to assist the Company, or its designee, at the Company's expense, in every proper way to secure or enforce the Company's rights in any Intellectual Property.

10.3 Executive warrants and represents that there are no original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, trademarks, service marks, or trade secrets, or inventions which were made or acquired by Executive prior to Executive's employment by the Company, which are owned in whole or in part by Executive, which relate to the business, or the Company's proposed business, and which are not assigned to the Company under this Agreement.

11. Equitable Remedies. The services to be rendered by Executive and the Confidential Information entrusted to Executive as a result of Executive's employment by the Company are of a unique and special character, and, notwithstanding any other provision in this Agreement, any breach by Executive of this Agreement, including a breach of Sections 8 and 9 (including any subsection), will cause the Company immediate and irreparable injury and damage, for which monetary relief would be inadequate or difficult to quantify. The Company will be entitled to, in addition to all other remedies available to it, injunctive relief, specific performance, or any other equitable relief to prevent a breach and to secure the enforcement of the provisions of this Agreement. It is hereby further agreed that the provisions of Sections 8 and 9 are separate from and independent of the remainder of this Agreement and that these provisions are specifically enforceable by the Company notwithstanding any claim made by Executive against the Company. Injunctive relief may be granted immediately upon the commencement of any such action, and the Company need not post a bond to obtain temporary or permanent injunctive relief.

12. Business Opportunities. Executive shall promptly disclose to the Company all business ideas, prospects, proposals, and other opportunities pertaining to any aspect of the Company's business that are originated by any third parties and brought to the attention of Executive during the term of Executive's employment by the Company.

13. Representations and Warranties. Executive hereby represents and warrants to the Company as follows:

13.1 Executive acknowledges the success of the Company's business depends in large part on the protection of the Confidential Information and trade secrets. Executive acknowledges Executive's access to the Confidential Information, coupled with the personal relationships and goodwill between the Company and its customers would enable Executive to compete unfairly against the Company;

13.2 Executive has full power, authority, and capacity to enter into this Agreement and to perform his obligations hereunder. This Agreement has been voluntarily executed by Executive and constitutes a valid and binding agreement of Executive;

13.3 Executive has read this Agreement and has had the opportunity to have this Agreement reviewed by Executive's legal counsel;

13.4 Given the nature of the business in which the Company is engaged, the restrictions in Sections 8 and 9 above, including their geographic scope and duration, are reasonable and necessary to protect the legitimate interests of the Company;

13.5 Executive acknowledges and agrees that Executive's continued employment with the Company is sufficient consideration for this Agreement;

13.6 Executive acknowledge that Executive is among the Company's executive personnel and that this Agreement is intended to protect the Company's trade secrets;

13.7 To the best of Executive's knowledge, Executive's employment with the Company will not (1) conflict with or result in a breach of any of the provisions of, (2) constitute a default under, (3) result in the violation of, (4) give any third party the right to terminate or to accelerate any obligation under, or (5) require any authorization, consent, approval, execution, or other action by or notice to any court or other governmental body under the provisions of any other agreement or instrument to which Executive is a party;

13.8 Executive has not previously and will not in the future disclose to the Company any proprietary information, trade secrets, or other confidential information belonging to any previous employer; and

13.9 Executive will notify business partners and future employers of Executive's obligations under this Agreement.

14. Waivers and Amendments. The respective rights and obligations of the Company and Executive under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely) or amended only with the written consent of a duly authorized representative of the Company and Executive. The waiver by either Party of a breach of any provision of this Agreement by the other Party shall not operate or be construed as a waiver of any subsequent breach by such other Party. The failure of any Party to insist upon strict performance of any of the terms or conditions of this Agreement shall not constitute a waiver of any of such Party's rights hereunder.

15. Successors and Assigns. The provisions hereof shall inure to the benefit of, and be binding upon and assignable to, successors of the Company by way of merger, consolidation or sale. Executive may not assign or delegate to any third person Executive's obligations under this Agreement. The rights and benefits of Executive under this Agreement are personal to him (or, in the event of Executive's death or disability, Executive's personal representative, heirs, or beneficiaries), and no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer.

16. Entire Agreement. This Agreement, including Exhibit A, constitutes the full and entire understanding and agreement of the parties with regard to the subjects hereof and supersedes in its entirety all other or prior or contemporaneous agreements, whether oral or written, with respect thereto.

17. Notices. Any notices, consents, or other communication required to be sent or given hereunder by any of the parties shall in every case be in writing and shall be deemed properly served if (a) delivered personally, (b) sent by registered or certified mail, in all such cases with first class postage prepaid, return receipt requested, or (c) delivered by a nationally recognized overnight courier service to the parties at the addresses set forth below:

If to the Company:       Lifeloc Technologies, Inc.  
                                  12441 W 49th Ave  
                                  Wheat Ridge, CO 80033

If to Executive, to the address set forth on the signature page of this Agreement or to the current address listed in the Company's records.

18. Venue and Applicable Law. This Agreement shall be interpreted and construed in accordance with the laws of the State of Colorado, without regard to its conflicts of law provisions. Venue and jurisdiction will be in the Colorado state or federal courts.

19. Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY VOLUNTARILY AND IRREVOCABLY WAIVES TRIAL BY JURY IN ANY ACTION OR OTHER PROCEEDING BROUGHT IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

20. Section 409A.

20.1 This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and shall be construed accordingly. It is the intention of the parties that payments or benefits payable under this Agreement not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, the Parties shall cooperate to amend this Agreement with the goal of giving Executive the economic benefits described herein in a manner that does not result in such tax or interest being imposed. However, in no event shall the Company be liable to Executive for any taxes, interest, or penalties due as a result of the application of Section 409A to any payments or benefits provided hereunder.

20.2 Each payment provided for in this Agreement shall, to the extent permissible under Section 409A, be deemed a separate payment for purposes of Section 409A.

20.3 Payments or benefits pursuant to this Agreement shall be treated as exempt from Section 409A to the maximum extent possible under Treasury Regulation Section 1.409A-1(b)(9)(v), and/or under any other exemption that may be applicable, and this Agreement shall be construed accordingly.

20.4 All taxable expenses or other reimbursements or in-kind benefits under this Agreement shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Employee. Any such taxable reimbursement or any taxable in-kind benefits provided in one calendar year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year.

20.5 Executive shall have no right to designate the date of any payment hereunder.

20.6 The definition of Good Reason is intended to constitute "good reason" as such term is used in Treas. Reg. §1.409A-1(n)(2) and shall be interpreted and construed accordingly, and to the maximum extent permitted by Section 409A and guidance thereunder, a termination for Good Reason shall be an "involuntary separation from service" as such term is used in Treas. Reg. §1.409A-1(n). For purposes of Section 6 of this Agreement, "termination" (or any similar term) when used in reference to Executive's employment shall mean "separation from service" with the Company within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder, and Executive shall be considered to have terminated employment with the Company when, and only when, Executive incurs a "separation from service" with the Company within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder.

20.7 Notwithstanding any other provision of this Agreement to the contrary, if (1) on the date of Executive's separation from service (as such term is used or defined in Code Section 409A(a)(2)(A)(i), Treasury Regulation Section 1.409A-1(h), or any successor law or regulation), any of the Company's equity is publicly traded on an established securities market or otherwise (within the meaning of Section 409A(a)(2)(B)(i) of the Code) and (2) as a result of such separation from service, the Executive would receive any payment that, absent the application of this sentence, would be subject to interest and additional tax imposed pursuant to Code Section 409A as a result of the application of Code Section 409A(2)(B)(i), then, to the extent necessary to avoid the imposition of such interest and additional tax, such payment shall be deferred until the earlier of (i) 6 months after the Executive's separation from service, (ii) the Executive's death, (iii) of such earlier time as may be permitted under Code Section 409A.

21. Severability; Titles and Subtitles: Gender: Singular and Plural: Counterparts: Facsimile.

21.1 In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby. In the event any provision is held illegal, invalid, or unenforceable, such provision shall be limited or revised by a court of competent jurisdiction so as to give effect to the provision to the fullest extent permitted by applicable law. If any of the covenants in Section 8 are held to be unreasonable, arbitrary, or against public policy, such covenants will be considered divisible with respect to scope, time, and geographic area, and in such lesser scope, time, and geographic area, will be effective, binding and enforceable against Employee to the greatest extent possible.

21.2 The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

21.3 The use of any gender in this Agreement shall be deemed to include the other genders, and the use of the singular in this Agreement shall be deemed to include the plural (and vice versa), wherever appropriate.

21.4 This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together constitute one instrument.

21.5 Counterparts of this Agreement (or applicable signature pages hereof) that are manually signed and delivered by facsimile or electronic transmission shall be deemed to constitute signed original counterparts hereof and shall bind the parties signing and delivering in such manner.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first above specified.

COMPANY:

EXECUTIVE:

Lifeloc Technologies, Inc.

By: /s/ Vern D. Kornelsen  
Name: Vern D. Kornelsen  
Title: Chief Financial Officer

/s/ Wayne R. Willkomm  
Wayne R. Willkomm

Address: 2801 Odell Drive  
Erie, CO 80516

Form of Confidential Severance and Release Agreement**CONFIDENTIAL SEVERANCE AND RELEASE AGREEMENT**

This Confidential Severance and Release Agreement ("Agreement") is made between (i) Wayne Willkomm ("Executive") and (ii) Lifeloc Technologies, Inc. (the "Company"). Executive and the Company are referred to individually as a "Party" and collectively as the "Parties."

**RECITALS**

WHEREAS, Executive's employment with the Company ended effective [ **DATE**];

WHEREAS, the Parties wish to resolve fully and finally potential disputes regarding Executive's employment with the Company; and

WHEREAS, in order to accomplish this end, the Parties are willing to enter into this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and undertakings contained herein, the Parties to this Agreement agree as follows:

**TERMS**

1. Separation and Effective Date. Executive's last day of employment with the Company was [ **DATE**] (the "Separation Date"). This Agreement shall become effective on the eighth day after Executive signs this Agreement (the "Effective Date"), so long as Executive does not revoke this Agreement pursuant to Paragraph 6(g) below. Executive must elect to execute this Agreement within seventy-five (75) days of the Separation Date. In the event Executive does not sign the Agreement within the seventy-five day period, the terms of this Agreement are null and void and without effect.

2. Consideration.

a. After the Effective Date, and on the express condition that Executive has not revoked this Agreement, (i) the Company will pay Executive a lump sum severance payment in an amount equal to two (2) months of Executive's Base Salary in effect immediately prior to Executive's last date of employment, less applicable withholdings and deductions; and (ii) if Executive elects to receive continued healthcare coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), the Company shall directly pay, or reimburse (within 10 days of the end of each month for which reimbursement is claimed) Executive for, the COBRA premiums for Employee and Employee's covered dependents during the period commencing on Executive's termination and ending upon the earliest of (A) twelve (12) months following the date of termination, (B) the date that Executive and/or Executive's covered dependents become no longer eligible for COBRA or (C) the date Executive and Executive's covered dependents become eligible to receive healthcare coverage from Executive's subsequent employer.

b. Reporting of and withholding on any payment under this Paragraph for tax purposes shall be at the discretion of the Company in conformance with applicable tax laws. If a claim is made against the Company for any additional tax or withholding in connection with or arising out of any payment pursuant to subparagraph (a) above, Executive shall pay any such claim within thirty (30) days of being notified by the Company and agrees to indemnify the Company and hold it harmless against such claims, including, but not limited to, any taxes, attorneys' fees, penalties, and/or interest, which are or become due from the Company.

3. General Release.

a. Executive, for Executive and for Executive's affiliates, successors, heirs, subrogees, assigns, principals, agents, partners, employees, associates, attorneys, and representatives, voluntarily, knowingly, and intentionally releases and discharges the Company and each of its predecessors, successors, parents, subsidiaries, affiliates, and assigns and each of their respective officers, directors, principals, shareholders, board members, committee members, employees, agents, and attorneys from any and all claims, actions, liabilities, demands, rights, damages, costs, expenses, and attorneys' fees (including, but not limited to, any claim of entitlement for attorneys' fees under any contract, statute, or rule of law allowing a prevailing party or plaintiff to recover attorneys' fees) of every kind and description from the beginning of time through the Effective Date (the "Released Claims").

b. The Released Claims include, but are not limited to, those which arise out of, relate to, or are based upon: (i) Executive's employment with the Company or the termination thereof; (ii) statements, acts, or omissions by the Parties whether in their individual or representative capacities; (iii) express or implied agreements between the Parties, (except as provided herein) and claims under any severance plan; (iv) any stock or stock option grant, agreement, or plan; (v) all federal, state, and municipal statutes, ordinances, and regulations, including, but not limited to, claims of discrimination based on race, color, national origin, age, sex, sexual orientation, religion, disability, veteran status, whistleblower status, public policy, or any other characteristic of Executive under the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Equal Pay Act, Title VII of the Civil Rights Act of 1964 (as amended), the Employee Retirement Income Security Act of 1974, the Rehabilitation Act of 1973, Family and Medical Leave Act, the Worker Adjustment and Retraining Notification Act or any other federal, state, or municipal law prohibiting discrimination or termination for any reason; (vi) state and federal common law; (vii) the failure of this Agreement, or of any other employment, severance, profit sharing, bonus, equity incentive or other compensatory plan to which Executive and the Company are or were parties, to comply with, or to be operated in compliance with, Internal Revenue Code Section 409A, or any similar provision of state or local income tax; and (viii) any claim which was or could have been raised by Executive.

4. Unknown Facts. This Agreement includes claims of every nature and kind, known or unknown, suspected or unsuspected. Executive hereby acknowledges that Executive may hereafter discover facts different from, or in addition to, those which Executive now knows or believes to be true with respect to this Agreement, and Executive agrees that this Agreement and the releases contained herein shall be and remain effective in all respects, notwithstanding such different or additional facts or the discovery thereof.

5. No Admission of Liability. The Parties agree that nothing contained herein, and no action taken by any Party hereto with regard to this Agreement, shall be construed as an admission by any Party of liability or of any fact that might give rise to liability for any purpose whatsoever.

6. Warranties. Executive warrants and represents as follows:

a. Executive has read this Agreement, and Executive agrees to the conditions and obligations set forth in it.

b. Executive voluntarily executes this Agreement (i) after having been advised to consult with legal counsel, (ii) after having had opportunity to consult with legal counsel, and (iii) without being pressured or influenced by any statement or representation or omission of any person acting on behalf of the Company including, without limitation, the officers, directors, board members, committee members, employees, agents, and attorneys for the Company.

c. Executive has no knowledge of the existence of any lawsuit, charge, or proceeding against the Company or any of its officers, directors, board members, committee members, employees, successors, affiliates, or agents arising out of or otherwise connected with any of the matters herein released. Subject to the provisions of Paragraph 12 below, in the event that any such lawsuit, charge, or proceeding has been filed, Executive immediately will take all actions necessary to withdraw or terminate that lawsuit, charge, or proceeding.

d. Executive has not previously disclosed any information which would be a violation of the confidentiality provisions set forth below if such disclosure were to be made after the execution of this Agreement.

e. Executive has full and complete legal capacity to enter into this Agreement.

f. Executive has had at least twenty-one (21) days in which to consider the terms of this Agreement. In the event that Executive executes this Agreement in less time, it is with the full understanding that Executive had the full twenty-one (21) days if Executive so desired and that Executive was not pressured by the Company or any of its representatives or agents to take less time to consider the Agreement. In such event, Executive expressly intends such execution to be a waiver of any right Executive had to review the Agreement for a full twenty-one (21) days.

g. Executive has been informed and understands that (i) to the extent that this Agreement waives or releases any claims Executive might have under the Age Discrimination in Employment Act, Executive may rescind Executive's waiver and release within seven (7) calendar days of Executive's execution of this Agreement and (ii) any such rescission must be in writing and e-mailed and hand delivered to [NAME AND CONTACT INFO], within the seven-day period.

h. Executive admits, acknowledges, and agrees that (i) Executive is not otherwise entitled to the amount set forth in Paragraph 2 and (ii) that amount is good and sufficient consideration for this Agreement.

i. Executive admits, acknowledges, and agrees that Executive has been fully and finally paid or provided all wages, compensation, vacation, bonuses, stocks, stock options, or other benefits from the Company which are or could be due to Executive under the terms of Executive's employment with the Company, or otherwise.

#### 7. Confidential Information.

a. Except as herein provided, all discussions regarding this Agreement, including, but not limited to, the amount of consideration, offers, counteroffers, or other terms or conditions of the negotiations or the agreement reached shall be kept confidential by Executive from all persons and entities other than the Parties to this Agreement. Executive may disclose the amount received in consideration of the Agreement only if necessary (i) for the limited purpose of making disclosures required by law to agents of the local, state, or federal governments; (ii) for the purpose of enforcing any term of this Agreement; or (iii) in response to compulsory process, and only then after giving the Company ten (10) days advance notice of the compulsory process and affording the Company the opportunity to obtain any necessary or appropriate protective orders. Otherwise, in response to inquiries about Executive's employment and this matter, Executive shall state, "My employment with the Company has ended" and nothing more.

b. Executive shall not use, nor disclose to any third party, any of the Company's business, personnel, or financial information that Executive learned during Executive's employment with the Company. Executive hereby expressly acknowledges that any breach of this Paragraph 7 shall result in a claim for injunctive relief and/or damages against Executive by the Company, and possibly by others.

8. Section 409A. This Agreement is intended to comply with Section 409A of the Code and Treasury Regulations promulgated thereunder ("Section 409A") and shall be construed accordingly. It is the intention of the Parties that payments or benefits payable under this Agreement not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, the Parties shall cooperate to amend this Agreement with the goal of giving Executive the economic benefits described herein in a manner that does not result in such tax or interest being imposed. Executive shall, at the request of the Company, take any reasonable action (or refrain from taking any action), required to comply with any correction procedure promulgated pursuant to Section 409A. Each payment to be made under this Agreement shall be a separate payment, and a separately identifiable and determinable payment, to the fullest extent permitted under Section 409A.

9. Non-Disparagement. Executive agrees not to make to any person any statement that disparages the Company or reflects negatively on the Company, including, but not limited to, statements regarding the Company's financial condition, employment practices, or officers, directors, board members, committee members, employees, successors, affiliates, or agents.

10. Cooperation. Executive agrees to cooperate with and assist the Company with any investigation, lawsuit, arbitration, or other proceeding to which the Company is subjected. Executive will make Executive available for preparation for, and attendance of, hearings, proceedings or trial, including pretrial discovery and trial preparation. Executive further agrees to perform all acts and execute any documents that may be necessary to carry out the provisions of this Paragraph 10.

11. Return of Property and Information. Executive represents and warrants that, prior to Executive's execution of this Agreement, Executive will return to the Company any and all property, documents, and files, including any documents (in any recorded media, such as papers, computer disks or other data storage devices, copies, photographs, maps, transparencies, and microfiche) that relate in any way to the Company or the Company's business. Executive agrees that, to the extent that Executive possesses any files, data, or information relating in any way to the Company or the Company's business on any personal computer, Executive will delete those files, data, or information (and will retain no copies in any form). Executive also will return any tools, equipment, calling cards, credit cards, access cards or keys, any keys to any filing cabinets, vehicles, vehicle keys, and all other property in any form prior to the date Executive executes this Agreement.

12. Administrative Proceedings. Executive acknowledges and understands that this Agreement does not prohibit or prevent Executive from filing a charge with a federal agency, including the Equal Employment Opportunity Commission (the "EEOC") or equivalent state agency or from participating in a federal or state agency investigation. Notwithstanding the foregoing, Executive waives any right to any monetary recovery should any party, including, without limitation, any federal, state or local governmental entity or administrative agency, pursue any claims on Executive's behalf arising out of, relating to, or in any way connected with the Released Claims.

13. Severability. If any provision of this Agreement is held illegal, invalid, or unenforceable, such holding shall not affect any other provisions hereof. In the event any provision is held illegal, invalid, or unenforceable, such provision shall be limited so as to effect the intent of the Parties to the fullest extent permitted by applicable law. Any claim by Executive against the Company shall not constitute a defense to enforcement by the Company.

14. Assignments. The Company may assign its rights under this Agreement. No other assignment is permitted except by written permission of the Parties.

15. Enforcement. The releases contained herein do not release any claims for enforcement of the terms, conditions, or warranties contained in this Agreement. The Parties shall be free to pursue any remedies available to them to enforce this Agreement.

16. Survival of Restrictive Covenants and Other Provisions. Executive and the Company are parties to an Executive Employment Agreement dated as of December 21, 2015 (the "Employment Agreement"). The Parties expressly acknowledge and agree that notwithstanding Paragraph 18 of this Agreement, Sections 8 (Non-Competition; Non-Solicitation; Anti-Raiding), 9 (Confidential Information), 11 (Equitable Remedies), and Sections 13-21 (to the extent required to interpret, enforce, and give effect to Sections 8, 9, and 11) of the Employment Agreement will continue in full force and effect; provided, however, that any provisions of the Employment Agreement that expire by their terms shall no longer have any force or effect.

17. Entire Agreement. Except as provided in Paragraph 16, this Agreement is the entire agreement between the Parties. Except as provided herein, this Agreement supersedes any and all prior oral or written promises or agreements between the Parties. Executive acknowledges that Executive has not relied on any promise, representation, or statement other than those set forth in this Agreement. This Agreement cannot be modified except in writing signed by all Parties.

18. Interpretation. The determination of the terms of, and the drafting of, this Agreement has been by mutual agreement after negotiation, with consideration by and participation of all Parties. Accordingly, the Parties agree that rules relating to the interpretation of contracts against the drafter of any particular clause shall not apply in the case of this Agreement. The term "Paragraph" shall refer to the enumerated paragraphs of this Agreement. The headings contained in this Agreement are for convenience of reference only and are not intended to limit the scope or affect the interpretation of any provision of this Agreement.

19. Choice of Law and Venue. This Agreement shall be construed and interpreted in accordance with the laws of the State of Colorado, without regard to its conflict of laws rules. Venue shall be in the Colorado state or federal courts.

20. Waiver. The failure of any Party to insist upon strict performance of any of the terms or conditions of this Agreement shall not constitute a waiver of any of such Party's rights hereunder.

21. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Confidential Severance and Release Agreement on the dates written below.

EXECUTIVE

\_\_\_\_\_  
Wayne R. Willkomm

\_\_\_\_\_  
Date

THE COMPANY

\_\_\_\_\_  
Lifeloc Technologies, Inc.  
By:  
Title:

\_\_\_\_\_  
Date

**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 22, 2016

/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 22, 2016

/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, 2015 (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 22, 2016

/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, 2015 (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 22, 2016

/s/ Vern D. Kornelsen

Vern D. Kornelsen

Chief Financial Officer

(Principal Financial Officer)