

Sielox, Inc.

Letter from the President and Chief Executive Officer



OTC: SLXN.PK

www.sieloxinc.com



Letter from the President and Chief Executive Officer

September 16, 2011

Dear Stockholders:

Beginning in 2009, Sielox commenced a restructuring of its operations in response to the economic downturn. While we still have work to do, we have made significant progress during an economic period that has been extremely challenging not just for our Company, but for our customers, suppliers and competitors as well.

We implemented a number of difficult measures to improve the Company's cost structure. These included staff reductions, a decrease in marketing expenditures, a 5% pay cut for all employees, the suspension of the Company's match of 401(k) contributions and the closing of a facility in Anaheim, California. We also deregistered the Company in order to minimize the costs and administrative burdens associated with being an SEC reporting company.

As a result of these actions, the Company reported its first ever quarterly profit in the third quarter of 2010 and generated more than \$290,000 of EBITDA. This is a year-over-year improvement of 196%, excluding our 2009 impairment charge. Most importantly, we positioned ourselves to grow as the global economy recovers.

In December, we narrowed our focus by selling our Access Control division for \$2,525,000 in cash and a \$500,000 promissory note. With the sale, we strengthened our capital structure and significantly reduced our bank debt while maintaining our intercompany video sales.

In 2010, sales decreased 6.2% to \$12.656 million from \$13.485 million, but operating losses improved from \$1.107 million to \$0.683 million excluding the 2009 impairment charge. The improvement was primarily due to a \$0.661 million reduction in SG&A expenses.

In the first six months of 2011, production problems resulting from the Japanese tsunami have significantly impacted the availability of electronic components. Many overseas factories have experienced financial difficulties from lost revenue and some have had to close their operations. Sielox has not been materially affected by Asian product supply issues and has actually benefitted from the situation by obtaining discounts for the prepayment of product which have helped support our supply partners.

Prices in the industry continue to decline and in order to gain market share we have significantly upgraded the performance of our existing products as well as introduced several new product families. The security industry has a seasonality of sales, with the first and fourth quarters of the year typically being relatively soft, and this seasonality has increased the financial stress on several of our competitors during a period of “tightening” in the financial markets. Early in the third quarter of 2011, two of our primary competitors had gone out of business.

Sielox has not been shielded from this financial “tightening.” Banks have been increasing their lending standards and it has become more difficult to obtain financing. We have spent most of 2011 seeking a new banking relationship and have just completed a three year agreement with a new lender. While our new banking arrangement has slightly increased our cost of capital, it is less restrictive than other financing options which will let us take advantage of strategic opportunities as and when they may become available.

As we look to the future, we are highly encouraged by how we are positioned and the team we have in place at Sielox. We believe that successful businesses are the result of having great employees. In my experience, great employees are like “eagles” – they are difficult to find, they do not flock together and you have to find them one-by-one. Within our video surveillance peer group, our primary competitors have reported revenues down 16% and 25% year-over-year for the second quarter of 2011 compared to Sielox’s **+23%** year-over-year increase for the same period. We have taken advantage of the downsizing actions and the closing of some of our competitors by hiring what we believe are “eagles” to focus on new business opportunities. Our business strategy has been, and continues to be, focused on targeted accounts that have a low business acquisition cost utilizing these new employees.

In conclusion, Sielox is a different company today than it was in 2009, with an improved balance sheet and a strong foundation that we believe is well poised to capitalize on opportunities as the economy improves.

Sincerely,

James D. Pritchett
President and Chief Executive Officer

DIRECTORS

Rory J. Cowan, Chairman of the Board
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COMPANY FINANCIAL INFORMATION

A Copy of the Annual Report is available upon request and will be mailed to you at no charge. Please send requests to:

Investor Relations
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It can also be downloaded from our website at www.sieloxinc.com.