

Argyle Security Acquisition CORP
Form S-4/A
February 12, 2007

As filed with the Securities and Exchange Commission on February 12, 2007

Registration No. 333-139594

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

**AMENDMENT No. 1
TO
FORM S-4
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933**

ARGYLE SECURITY ACQUISITION CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	6770	20-3101079
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. Employer Identification Number)

**200 Concord Plaza, Suite 700
San Antonio, TX 78216
(210) 828-1700**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Bob Marbut
Chairman and Co-Chief Executive Officer
Argyle Security Acquisition Corporation
200 Concord Plaza, Suite 700
San Antonio, TX 78216
(210) 828-1700**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Mitchell S. Nussbaum, Esq.

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New York, NY 10154
(212) 407-4000

D. Hull Youngblood, Jr.,
Esq.
Hughes & Luce LLP
111 Congress
Suite 900
Austin, TX 78701
(512) 482-6870

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and all other conditions to the acquisition described in the proxy statement/prospectus included in this registration statement have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share⁽¹⁾	Proposed maximum aggregate offering price⁽¹⁾	Amount of registration fee
Common Stock, par value \$0.0001 per share	1,180,000	\$ 7.42	\$ 8,755,600	\$ 936.85 ⁽²⁾

(1) For the purpose of calculating the registration fee pursuant to Rule 457(f)(1), calculated based on the market value of the registrant's common stock to be issued in the merger, as established by the average of the bid and ask price for the registrant's common stock on December 18, 2006 on the Over-the-Counter Bulletin Board, which was \$7.42.

(2) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

ARGYLE SECURITY ACQUISITION CORPORATION
200 CONCORD PLAZA, SUITE 700
SAN ANTONIO, TX 78216

TO THE STOCKHOLDERS OF
ARGYLE SECURITY ACQUISITION CORPORATION:

You are cordially invited to attend a special meeting of stockholders of Argyle Security Acquisition Corporation to be held on _____, 2007. At the meeting, you will be asked to consider proposals to approve the merger of a wholly-owned subsidiary of Argyle into ISI Detention Contracting Group, Inc., referred to in this proxy statement as ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. ISI is a provider of security solutions to commercial, governmental, and correctional customers. As a security solutions provider, ISI has the ability to interview a customer that needs security for a project and determine that customer's needs in light of the products and technology available within the customer's budget. ISI, using its expertise in the security industry, then develops security systems that answer the customer's needs using hardware and software that is available in the marketplace from third party vendors, as well as its own proprietary software.

The security systems that ISI provides to its customers are "fully integrated security systems." This means that ISI uses special hardware and its proprietary software to develop a customized solution to a customer's security needs that is a combination of hardware and software from many different vendors and manufacturers, but these disparate systems can effectively communicate, react and work together. This provides customers with "one-stop" shopping for customized solutions to their security needs. The customer can look to ISI as the sole source for the solution to all of its security needs, even if those needs require hardware and software from many different manufacturers.

The special meeting will be held at 10:00 a.m., San Antonio, Texas, time, on _____, 2007, at 200 Concord Plaza, San Antonio, TX 78216. At this important meeting, you will be asked to consider and vote upon the following:

- The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 among Argyle, the wholly-owned subsidiary of Argyle, and ISI, pursuant to which Argyle will pay ISI's security holders an aggregate of \$16,300,000 (or, in the event that ISI's adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), \$18,200,000) and 1,180,000 shares of Argyle's common stock (valued at \$8,673,000, based on the closing price of the common stock on January 30, 2007) and assume approximately \$6,000,000 of long term debt (not including capitalized leases) and up to \$9,000,000 pursuant to a line of credit;
- The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;
- Amending Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;
- Amending Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and
- The approval of any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

The proxy statement/prospectus following this letter is dated _____, 2007 and is first being mailed to Argyle stockholders on or about, _____, 2007.

Pursuant to Argyle's Second Amended and Restated Certificate of Incorporation and the merger agreement, Argyle is required to obtain stockholder approval of the acquisition of ISI. Pursuant to the merger agreement entered into by Argyle, Argyle's wholly-owned subsidiary, and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle's stockholders. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI, even if the proposal to approve the merger has been approved by Argyle's stockholders. ISI will have no options outstanding upon the closing of the merger and, therefore, Argyle is not assuming any options. ISI requested that the approval of the 2007 Omnibus Securities and Incentive Plan be a condition to the merger because, although Argyle is under no obligation to issue any options under the 2007 Omnibus Securities and Incentive Plan, Argyle should have the ability to reward its employees with equity compensation post merger, as might be decided by Argyle's Board of Directors or its Compensation Committee. Argyle's initial stockholders have agreed to vote 956,261 of their shares in accordance with the holders of a majority of the public shares voting in person or by proxy at the meeting and have agreed to vote the 125,000 of their shares purchased in the private placement immediately prior to Argyle's initial public offering and all shares acquired after such initial public offering in favor of all the proposals. The 125,000 shares that Argyle's initial stockholders will vote in favor of the proposals presented in this prospectus represent 2.6% of Argyle's outstanding shares of common stock. By voting these shares for the merger, Argyle's initial stockholders increase the number of shares held by Argyle's public stockholders that must be voted against the merger proposal to reject the proposal. The initial stockholders have agreed not to demand redemption of any shares owned by them.

In addition, each stockholder (other than Argyle's initial stockholders) who votes against the acquisition has the right to concurrently demand that Argyle redeem his or her shares for cash equal to a pro rata portion of the trust account in which the net proceeds of Argyle's initial public offering and private placement are deposited. Argyle will not be permitted to consummate the acquisition if holders of 765,009 or more of the shares purchased in Argyle's initial public offering (which number represents 20% or more of the shares sold in Argyle's initial public offering and private placement) vote against the acquisition and demand redemption of their shares. In the event that the acquisition is not consummated, Argyle may continue to seek an alternative target business.

To avoid being required to liquidate, as provided in its charter, Argyle needs, by July 30, 2007, to consummate a business combination or enter a letter of intent, agreement in principle or definitive agreement relating to a business combination, in which case Argyle would be allowed an additional six months to complete it. Under its charter as currently in effect, if Argyle does not acquire at least majority control of a target business by January 30, 2008, Argyle will dissolve and distribute to its public stockholders the amount in the trust account plus any remaining net assets. Following dissolution, Argyle would no longer exist as a corporation.

Under the merger agreement, ISI Security Group, Inc., a wholly-owned subsidiary of Argyle, will merge into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. The current security holders of ISI will receive an aggregate of \$16,300,000 and 1,180,000 shares of Argyle's common stock. In the event that ISI's earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), Argyle will pay the stockholders of ISI an additional \$1,900,000. The calculation of ISI's EBITDA is subject to an adjustment of \$900,000 relating to certain events that Argyle and ISI agreed should not reduce the EBITDA calculation.

In connection with the merger, immediately prior to the merger, William Blair Mezzanine Capital Fund III, L.P. will convert \$10,000,000 of long term debt into shares of ISI preferred stock. Additionally, ISI will remain obligated to the William Blair Mezzanine Capital Fund III, L.P. for approximately \$6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the \$6,000,000 long-term debt described above, up to \$9,000,000 that may be outstanding pursuant to a revolving credit line, and any capitalized leases. As of December 31, 2006 there was approximately _____ outstanding under the credit line.

After completion of the acquisition, if no stockholder exercises his or her redemption rights, Argyle's current stockholders will own approximately 80.2% of Argyle's outstanding common stock (assuming no Argyle warrants are exercised). Argyle's public stockholders alone will own approximately 62.1% of the post-acquisition Argyle, its initial stockholders, including its officers and directors, will own approximately 18.1% of post-acquisition Argyle and former ISI stockholders will own approximately 19.8% of post-acquisition Argyle. Currently, it is not anticipated that any of the current stockholders of ISI will be an officer or director of post-acquisition Argyle. However, post merger, the officers and directors of Argyle and ISI combined will beneficially own approximately 29.8% of Argyle's common stock. The merger will result in a change in control of ISI, since the majority of the shares of the merged entity will be owned by the former stockholders of Argyle.

Argyle's common stock, warrants and units are quoted on the Over-the-Counter (OTC) Bulletin Board under the symbols ARGL, ARGLW and ARGLU. ISI is a private company incorporated in Delaware. Argyle expects its securities to continue to be quoted on the OTC Bulletin Board.

After careful consideration of all relevant factors, Argyle's Board of Director has determined that these proposals are fair to and in the best interests of Argyle and its stockholders, and has recommended that you vote or give instruction to vote **"FOR"** adoption of each of them.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the acquisition, the other proposals and the meeting. This document also serves as the prospectus for ISI stockholders being offered Argyle common stock. Whether or not you plan to attend the special meeting, we urge you to read this material carefully and vote your shares.

I look forward to seeing you at the meeting.

Sincerely,

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Bob Marbut
Chairman and Co-Chief Executive Officer

Your vote is important. Whether you plan to attend the special meeting or not, please sign, date and return the enclosed proxy card in the envelope provided as soon as possible. You may also vote by telephone or the Internet, as described on the proxy card.

**ARGYLE SECURITY ACQUISITION CORPORATION
200 CONCORD PLAZA, SUITE 700
SAN ANTONIO, TX 78216**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD _____, 2007**

TO THE STOCKHOLDERS OF
ARGYLE SECURITY ACQUISITION CORPORATION:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Argyle Security Acquisition Corporation, a Delaware corporation, will be held at 10:00 a.m. San Antonio, Texas, time, on _____, 2007, at 200 Concord Plaza, San Antonio, TX 78216 to consider and vote upon proposals to approve:

1. The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 among Argyle, the wholly-owned subsidiary of Argyle, and ISI; pursuant to which Argyle will pay ISI's security holders an aggregate of \$16,300,000 (or, in the event that ISI's adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), \$18,200,000) and 1,180,000 shares of Argyle's common stock (valued at \$8,673,000, based on the closing price of the common stock on January 30, 2007) and assume approximately \$6,000,000 of long term debt (not including capitalized leases), and up to \$9,000,000 pursuant to a line of credit.
2. The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;
3. An amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;
4. An amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and
5. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

Pursuant to Argyle's Second Amended and Restated Certificate of Incorporation, Argyle is required to obtain stockholder approval of the acquisition of ISI. Pursuant to the merger agreement entered into by Argyle, Argyle's wholly-owned subsidiary, and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle's stockholders. ISI will have no options outstanding upon the closing of the merger and, therefore, Argyle is not assuming any options. ISI requested that the approval of the 2007 Omnibus Securities and Incentive Plan be a condition to the merger because, although Argyle is under no obligation to issue any options under the 2007 Omnibus Securities and Incentive Plan, Argyle should have the ability to reward its employees with equity compensation post merger, as might be decided by Argyle's Board of Directors or its Compensation Committee. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI, even if the proposal to approve the merger has been approved.

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The Board of Directors has fixed the record date as the close of business on _____, 2007, the date for determining Argyle stockholders entitled to receive notice of and vote at the special meeting and any adjournment or postponement thereof. Only holders of record of Argyle common stock on that date are entitled to have their votes counted at the special meeting or any adjournment or postponement.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. You may also vote by telephone or the Internet, as described on the proxy card. If you are a stockholder of record, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank how to vote your shares, or you may cast your vote in person at the special meeting by obtaining a proxy from your brokerage firm or bank. Your failure to vote or instruct your broker or bank how to vote will have the same effect as voting against the proposals.

After careful consideration of all relevant factors, Argyle's Board of Directors has determined that these proposals are fair to and in the best interests of Argyle and its stockholders, and has recommended that you vote or give instruction to vote **"FOR"** adoption of each of them.

Dated: _____, 2007

By Order of the Board of Directors,

Bob Marbut
Chairman and Co-Chief Executive Officer

The information contained in this proxy statement/prospectus is not complete and may be changed. Argyle may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to completion, dated February __, 2007

**ARGYLE SECURITY ACQUISITION CORPORATION
PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS
AND
PROSPECTUS FOR 1,180,000 SHARES OF COMMON STOCK**

The Board of Directors of Argyle Security Acquisition Corporation approved the merger of a wholly-owned subsidiary of Argyle into ISI Detention Contracting Group, Inc., referred to in this document as ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. Pursuant to the terms of the merger agreement, the current security holders of ISI will receive an aggregate of \$16,300,000 and 1,180,000 shares of Argyle's common stock (valued at \$8,673,000, based on the closing price of the common stock on January 30, 2007). In the event that ISI's adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), Argyle will pay the stockholders of ISI an additional \$1,900,000. The calculation of ISI's EBITDA is subject to an adjustment of \$900,000 relating to certain events that Argyle and ISI agreed should not reduce the EBITDA calculation.

This proxy statement/prospectus constitutes the prospectus for ISI stockholders being offered Argyle common stock in connection with the acquisition of ISI by Argyle, and the proxy statement for Argyle stockholders in connection with the special meeting to consider and vote on the proposed ISI acquisition and related matters.

Argyle was organized to acquire, through merger, capital stock exchange, asset acquisition or other similar business combination, a business in the security industry including businesses operating in:

- a) The development, sale or distribution of software solutions for security systems;
- b) The development, manufacture, sale or distribution of components to be used in security systems;
- c) Consultation on the design of security systems;
- d) The development, manufacture, construction, assembly, sale or distribution of security or surveillance systems;
and
- e) The development, manufacture, sale, distribution or assembly of electronic devices that restrict, deny or grant access to areas using technology such as biometrics and other coded means.

ISI is in the business of designing, engineering, supplying and installing detention systems, security, access control and electronic security control system solutions at correctional and government facilities and for large commercial customers, employing both its own proprietary and third-party products to create fully integrated systems. The nature of ISI's business can be classified in any of the target security industry segments identified by Argyle as potential acquisition targets. Upon consummation of the acquisition, ISI will become a subsidiary of Argyle. The former stockholders of ISI would become holders of 19.8% of Argyle's common stock.

Argyle's common stock, warrants and units are quoted on the Over-the-Counter (OTC) Bulletin Board under the symbols ARGL, ARGLW and ARGLU. ISI is a private company organized under the laws of the state of Delaware. Argyle expects its securities to continue to be quoted on the OTC Bulletin Board.

This proxy statement/prospectus provides you with detailed information about the acquisition of ISI and the special meeting of Argyle's stockholders. We encourage you to carefully read this entire document.

You should also carefully consider the "Risk Factors" beginning on page 14.

As provided in Argyle's Second Amended and Restated Certificate of Incorporation, the acquisition of ISI by Argyle is subject to approval by holders of a majority of the shares of Argyle's common stock voted, provided that a quorum exists at the meeting, at the special meeting on _____, 2007 and any adjournment thereof. If the stockholders approve the acquisition, the acquisition will only proceed if holders of less than 765,009 shares purchased in Argyle's initial public offering, which represents no more than 20% of the total shares sold in the initial public offering and the private placement, exercise their redemption rights. If holders of 765,009 or more shares purchased in Argyle's initial public offering vote against the acquisition and demand redemption of their shares for their pro rata portion of the trust account, Argyle will not consummate the acquisition.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This proxy statement/prospectus is dated _____, 2007 and is first being mailed to Argyle stockholders on or about, _____, 2007.

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If you would like additional copies of this proxy statement/prospectus, or if you have questions about the acquisition, you should contact:

Bob Marbut
Chairman and Co-Chief Executive Officer
Argyle Security Acquisition Corporation
200 Concord Plaza, Suite 700
San Antonio, TX 78216
(210) 828-1700

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To obtain timely delivery of requested materials, security holders must request the information no later than five business days before the date they submit their proxies or attend the special meeting. The latest date to request the information to be received timely is _____, 2007.

SUMMARY OF THE MATERIAL TERMS OF THE MERGER

This Proxy Statement/Prospectus relates to the terms of a merger of a wholly-owned subsidiary of Argyle into ISI-Detention Contracting Group, Inc., referred to in this proxy statement as ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. The most material terms of the merger are as follows:

- Argyle is a blank check company formed for the purpose of acquiring a business in the security industry. ISI is a security solutions provider for the detention and commercial markets, employing both its own proprietary and third party products to create fully integrated systems. See the sections entitled “Information about Argyle” and “Information about ISI.”
- Argyle, through the merger of its wholly owned subsidiary into ISI, will acquire ISI and all its assets and liabilities. See the section entitled “The Proposal to Acquire ISI.”
- The consummation of the merger is subject to certain conditions including the approval of this agreement by Argyle’s stockholders, holders of fewer than 765,009 of Argyle’s public shares exercising certain redemption rights they possess and the approval of an equity incentive plan by Argyle’s stockholders. See the sections entitled “The Special Meeting” and “Proposal to Acquire ISI.”
- The current security holders of ISI will receive an aggregate of \$16,300,000 and 1,180,000 shares of Argyle’s common stock. In the event that ISI’s adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), Argyle will pay the stockholders of ISI an additional \$1,900,000. See the section entitled “Proposal to Acquire ISI.”
- Upon consummation of the merger, the surviving corporation will be obligated for all of ISI’s outstanding liabilities, including up to \$15,000,000 of debt, and any capitalized leases. See the section entitled “Proposal to Acquire ISI.”
- It is a requirement that any business acquired by Argyle have a fair market value equal to at least 80% of Argyle’s net assets at the time of acquisition, which assets shall include the amount in the trust account. Based on the financial analysis of ISI generally used to approve the transaction, Argyle’s Board of Directors determined that this requirement was met and exceeded. See the section entitled “Proposal to Acquire ISI - Board Consideration and Approval - Satisfaction of 80% Test.”
- The officers and directors of Argyle and ISI combined will beneficially own approximately 29.8% of Argyle’s common stock after the merger. The merger will result in a change in control of ISI, since the majority of the shares of the merged entity will be owned by the former stockholders of Argyle.

Argyle’s Board of Directors received a fairness opinion dated December 8, 2006, from Giuliani Capital Advisors indicating that the transaction was fair to Argyle from a financial point of view. See the section entitled “Proposal to Acquire ISI - Fairness Opinion.”

Non-GAAP Financial Measures

This proxy statement/prospectus contains disclosure of EBITDA and backlog for certain periods, which may be deemed to be non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. As used in this presentation, adjusted EBITDA reflects the removal from the calculation of EBITDA of certain expenses that Argyle Security and ISI agreed should not reduce EBITDA. The companies do not expect these expenses to continue after the closing of the merger. Management believes that adjusted EBITDA, or earnings before interest, taxes, depreciation and amortization, is an appropriate measure of evaluating operating performance and liquidity, because it reflects the resources available for strategic opportunities including, among

others, investments in the business and strategic acquisitions. Management believes that the backlog, or unearned revenues on projects that have been booked, is an appropriate measure of evaluating operating performance, because it reflects future potential revenues. Adjusted EBITDA or backlog may not be comparable to similarly titled measures reported by other companies. Neither EBITDA nor backlog is a recognized term under U.S. GAAP, and EBITDA and backlog should be considered in addition to, and not as substitutes for, or superior to, operating income, cash flows, revenue, or other measures of financial performance prepared in accordance with generally accepted accounting principles. Neither adjusted EBITDA nor backlog is a completely representative measure of either the historical performance or, necessarily, the future potential of ISI.

QUESTIONS AND ANSWERS ABOUT THE ACQUISITION
AND THE ARGYLE SPECIAL MEETING

These Questions and Answers are only summaries of the matters they discuss. Please read this entire proxy statement/prospectus.

- Q. Why is Argyle proposing the acquisition?**
- A. Argyle was formed to acquire, through merger, capital stock exchange, asset acquisition or other similar business combination, a business in the security industry.
- Argyle's proposed acquisition of ISI is intended to be a "business combination" under Argyle's Second Amended and Restated Certificate of Incorporation. Argyle must submit the transaction to its stockholders for approval prior to completing a business combination. Argyle has negotiated the terms of a business combination with ISI and is now submitting the transaction to its stockholders for their approval.
- Q. What is being voted on?**
- A. You are being asked to vote on five proposals:
- The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 among Argyle, the wholly-owned subsidiary of Argyle, and ISI;
 - The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;
 - Amending Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;
 - Amending Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and
 - The approval of any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

Q. How do the Argyle insiders intend to vote their shares?

A. Argyle's initial stockholders have agreed to vote 956,261 of their shares in accordance with the holders of a majority of the public shares voting in person or by proxy at the meeting and have agreed to vote the 125,000 of their shares purchased in the private placement immediately prior to Argyle's initial public offering and all shares acquired after such initial public offering in favor of all the proposals. If holders of a majority of the public shares cast at the meeting vote for or against, or abstain with respect to, a proposal, the initial stockholders will cast the 956,261 shares in the same manner as such majority votes on such proposal. The initial stockholders have agreed not to demand redemption of any shares owned by them.

The 125,000 shares that Argyle's initial stockholders will vote in favor of the proposals presented in this proxy statement/prospectus represent 2.6% of Argyle's outstanding shares of common stock. By voting these shares for the merger, Argyle's initial stockholders increase the number of shares held by Argyle's public stockholders that must be voted against the merger proposal to reject the proposal.

Q. What vote is required to approve the acquisition?

A. Under Argyle's Second Amended and Restated Certificate of Incorporation, approval of the acquisition requires the affirmative vote of the holders of a majority of the shares of common stock voted at the special meeting, provided that there is a quorum. As noted above, Argyle's initial stockholders, have agreed to vote 956,261 of their shares in accordance with the holders of a majority of the public shares voting in person or by proxy at the meeting and have agreed to vote the 125,000 of their shares purchased in the private placement immediately prior to Argyle's initial public offering and all shares acquired after such initial public offering in favor of all the proposals. If the stockholders approve the acquisition, the acquisition will only proceed if holders of shares purchased in Argyle's initial public offering, representing no more than 20% of the shares sold in the initial public offering and the private placement, exercise their redemption rights. If the holders of 765,009 or more shares purchased in Argyle's initial public offering (which number represents 20% or more of the shares of common stock sold in Argyle's initial public offering and private placement) vote against the acquisition and demand that Argyle redeem their shares for their pro rata portion of the trust account established at the time of the initial public offering (as described below), Argyle will not be permitted to consummate the acquisition pursuant to its Second Amended and Restated Certificate of Incorporation.

Q. What vote is required to adopt the amendments to the certificate of

A. Approval of the amendments to Argyle's Second Amended and Restated Certificate of Incorporation will require the affirmative vote of holders of a majority of the shares of Argyle common stock outstanding on the record date.

**incorporation
to change
Argyle's name
and to remove
those
provisions
regarding
certain
procedural and
approval
requirements
applicable to
Argyle prior to
the
consummation
of a business
combination
that will no
longer be
operative upon
consummation
of the merger?**

**Q. Why is Argyle
proposing to
amend its
certificate of
incorporation?**

A. Argyle is proposing to amend its Second Amended and Restated Certificate of Incorporation at the time of the acquisition to change Argyle's corporate name to Argyle Security, Inc. and to remove those provisions regarding certain procedural and approval requirements applicable to Argyle that were only applicable prior to the consummation of a business combination. Both changes will reflect that Argyle is now an operating company.

- Q. What vote is required to adopt the 2007 Omnibus Securities and Incentive Plan?**
- A. Approval of the 2007 Omnibus Securities and Incentive Plan will require the affirmative vote of holders of a majority of the shares of Argyle's common stock represented in person or by proxy and entitled to vote at the special meeting, provided that there is a quorum.
- Q. Why is Argyle proposing the 2007 Omnibus Securities and Incentive Plan?**
- A. Argyle is proposing the 2007 Omnibus Securities and Incentive Plan to enable it to attract, retain and reward its directors, officers, employees and consultants following the acquisition. Pursuant to the merger agreement entered into by Argyle, Argyle's wholly-owned subsidiary, and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle's stockholders. ISI will have no options outstanding upon the closing of the merger and, therefore, Argyle is not assuming any options. ISI requested that the approval of the 2007 Omnibus Securities and Incentive Plan be a condition to the merger because, although Argyle is under no obligation to issue any options under the 2007 Omnibus Securities and Incentive Plan, Argyle should have the ability to reward its employees with equity compensation post merger, as might be determined by Argyle's Board of Directors or its Compensation Committee. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI.
- Q. What vote is required to adopt the proposal to adjourn or postpone the special meeting for the purpose of soliciting additional proxies?**
- A. Approval of the adjournment and postponement proposal will require the affirmative vote of holders of a majority of the shares of Argyle's common stock represented in person or by proxy and entitled to vote at the special meeting, provided there is a quorum.
- Q. Why is Argyle proposing the adjournment and postponement proposal?**
- A. This proposal allows Argyle's Board of Directors to submit a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the proposed merger. If this proposal is not approved by Argyle's stockholders, Argyle's Board of Directors may not be able to adjourn the special meeting to a later date in the event there are not sufficient votes at the time of the special meeting to approve the proposed merger.

Q. Do Argyle stockholders have redemption rights?

A. If you hold common stock purchased in Argyle's initial public offering (and you are not an initial stockholder of Argyle) and you vote against the acquisition, you will have the right to demand that Argyle redeem your shares into a pro rata portion of the trust account.

Q. If I have redemption rights, how do I exercise them?

A. If you wish to exercise your redemption rights, you must vote against the acquisition and at the same time demand that Argyle redeem your shares for cash. If, notwithstanding your vote, the acquisition is completed, you will be entitled to receive a pro rata portion of the trust account, including any interest earned thereon until two business days prior to the consummation of the transaction (net of taxes payable, deferred underwriting fees and \$600,000 of interest earned on the trust account that was removed from the trust account to fund Argyle's working capital). At September 30, 2006, there was approximately \$29,073,971 in the trust account. After taking into account taxes payable of \$71,926 and deferred underwriting fees of \$1,442,740, you would receive approximately \$7.20 if you exercised your redemption rights. The redemption amount (approximately \$7.20) is less than the liquidation amount (approximately \$7.84) you would receive if we failed to timely consummate a business combination since the liquidation amount will include certain amounts held in trust that will not be paid to stockholders upon a redemption, such as the deferred portion of the underwriters' discount from Argyle's initial public offering and the deferred private placement fee proceeds attributable to the units sold in Argyle's private placement that took place immediately prior to its initial public offering. You will be entitled to receive this cash only if you continue to hold your shares through the closing of the acquisition and then tender your stock certificate(s). Upon redemption of your shares, you will no longer own them. **Do not send your stock certificate(s) with your proxy card.**

Q. Do Argyle stockholders have dissenter or appraisal rights under Delaware law?

A. No.

- Q. What happens post-acquisition to the funds deposited in the trust account?**
- A. Argyle stockholders exercising redemption rights will receive their pro rata portion of the trust account. The balance of the funds in the account will be utilized to fund the cash portion of the consideration to the ISI stockholders and any remaining funds will be retained by Argyle for operating capital subsequent to the closing of the acquisition.
- Q. What happens if the acquisition is not consummated?**
- A. If Argyle does not acquire ISI pursuant to the merger of ISI into a subsidiary of Argyle, Argyle will seek an alternative business combination. As provided in its charter, Argyle is required, by July 30, 2007, to consummate a business combination or enter a letter of intent, agreement in principle or definitive agreement, in which case Argyle would be allowed an additional six months to complete the transactions contemplated by such agreement. Under its Second Amended and Restated Certificate of Incorporation as currently in effect, if Argyle does not acquire at least majority control of a target business by at January 30, 2008, Argyle will dissolve and distribute to its public stockholders the amount in the trust account plus any remaining net assets.
- In any liquidation, the funds held in the trust account, plus any interest earned thereon (net of taxes payable), together with any remaining out-of-trust net assets, will be distributed pro rata to Argyle's common stockholders who hold shares issued in Argyle's initial public offering (other than the initial stockholders, each of whom has waived any right to any liquidation distribution with respect to them). See the risk factor on page 14 of this proxy statement/prospectus relating to risks associated with the dissolution of Argyle.
- Q. When do you expect the acquisition to be completed?**
- A. If the acquisition is approved at the special meeting, Argyle expects to consummate the acquisition promptly thereafter.
- Q. If I am not going to attend the special meeting in person, should I return my proxy card instead?**
- A. Yes. After carefully reading and considering the information in this document, please fill out and sign your proxy card. Then return it in the return envelope as soon as possible, so that your shares may be represented at the special meeting. You may also vote by telephone or internet, as explained on the proxy card. A properly executed proxy will be counted for the purpose of determining the existence of a quorum.
- Q. What will happen if I abstain from voting or fail to instruct my broker to vote?**
- A. Under Delaware law, an abstention, or the failure to instruct your broker how to vote (also known as a broker non-vote), is not considered a vote cast at the meeting with respect to the merger proposal and therefore, will have no effect on the vote relating to the merger. An abstention or broker non-vote will not enable you to elect to have your shares redeemed for your pro rata portion of the trust account.

An abstention will have the same effect as a vote against the amendments to Argyle's Second Amended and Restated Certificate of Incorporation, the 2007 Omnibus Securities and Incentive Plan and the adjournment and postponement proposal. A broker non-vote will have the same effect as a vote against the amendments to Argyle's Second Amended and Restated Certificate of Incorporation, but will have no effect on the 2007 Omnibus Securities and Incentive Plan and the adjournment and postponement proposal because brokers are not entitled to vote on these matters without receiving instructions from you.

**Q. How do I
change my vote?**

A. Send a later-dated, signed proxy card to Argyle's secretary prior to the date of the special meeting or attend the special meeting in person and vote. You also may revoke your proxy by sending a notice of revocation to Bob Marbut, Argyle Security Acquisition Corporation, 200 Concord Plaza, Suite 700, San Antonio, TX 78216.

- Q. If my shares are held in “street name,” will my broker automatically vote them for me?**
- A. No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares. Your broker can tell you how to provide these instructions.
- Q. Who can help answer my questions?**
- A. If you have questions, you may write or call Argyle Security Acquisition Corporation, 200 Concord Plaza, Suite 700, San Antonio, TX 78216, (210) 828-1700, Attention: Bob Marbut.
- Q. When and where will the special meeting be held?**
- A. The meeting will be held at 10:00 a.m. San Antonio, Texas time on _____, 2007 at 200 Concord Plaza, San Antonio, TX 78216.

SUMMARY OF THE PROXY STATEMENT/PROSPECTUS

This section summarizes information related to the proposals to be voted on at the special meeting and to the consideration to be offered to the ISI stockholders. These items are described in greater detail elsewhere in this proxy statement/prospectus. **You should carefully read this entire proxy statement/prospectus and the other documents to which it refers you.**

The Companies

Argyle Security Acquisition Corporation is a Delaware corporation incorporated on June 22, 2005 in order to serve as a vehicle for the acquisition of an operating business in the security industry through a merger, capital stock exchange, asset acquisition or other similar business combination. On January 24, 2006, Argyle completed a private placement and received net proceeds of approximately \$900,000. On January 30, 2006, Argyle consummated its initial public offering and received net proceeds of approximately \$27.3 million. Argyle's management has broad discretion with respect to the specific application of the net proceeds of the private placement and the public offering, although substantially all of the net proceeds of the offerings are intended to be generally applied toward consummating a business combination. Of the proceeds from Argyle's initial public offering and private placement, approximately \$28.7 million was deposited into a trust account. The amount in the trust account includes approximately \$1.4 million of contingent underwriting compensation and \$45,000 of contingent private placement fees which will be paid to Rodman & Renshaw LLC if a business combination is consummated, but which will be forfeited if a business combination is not consummated.

If the acquisition of ISI is completed, the funds remaining in the trust account after payments to public stockholders who exercise redemption rights will be used to pay a portion of the acquisition consideration to the ISI stockholders. Any remaining balance will be released to the combined company. Net proceeds from Argyle's initial public offering that were not deposited into the trust account (approximately \$800,000) and interest earned on the trust account that was released to Argyle (\$600,000) have been used to pay expenses incurred in Argyle's pursuit of a business combination as well as general and administrative expenses.

Up to and including September 30, 2006, Argyle has incurred expenses of \$372,008 for consulting and professional fees, \$130,632 for stock compensation, \$108,991 for franchise taxes, \$60,411 for insurance expense, \$44,363 for rental expense pursuant to Argyle's lease of office space and other operating and formation costs of \$100,616. Up to and including September 30, 2006, Argyle's trust account has earned interest of \$952,609 and its funds outside the trust account earned interest of \$11,409. Until Argyle enters into a business combination, it will not generate operating revenues.

As of September 30, 2006, Argyle had \$920,429 of cash outside of the trust account and accrued expenses of \$166,141. Therefore, as of September 30, 2006, Argyle had \$754,288, net of these liabilities, outside the trust account available for general and administrative expenses and fees and expenses required to complete the proposed ISI acquisition, including legal and accounting fees. Argyle anticipates that the costs required to consummate the acquisition will greatly exceed its cash available outside the trust account, and that Argyle will not be able to consummate the merger without receiving additional funds and/or reaching agreements with its professional service providers to defer their fees and expenses until Argyle can access the funds in trust. As of September 30, 2006, Argyle had not asked its professional service providers to defer any of their fees. Argyle expects that these expenses would ultimately be borne by the combined company if the proposed ISI acquisition is completed. If they are not, it is possible that vendors or service providers could seek to recover these expenses from the trust account, which could ultimately deplete the trust account and reduce a stockholder's pro rata portion of the trust account upon liquidation.

The segments of the security industry on which Argyle indicated it would focus in its prospectus relating to its initial public offering included perimeter security (to detect unauthorized entrance or exit to/from the grounds or campus),

video surveillance (to monitor all areas of interest with video cameras and to capture images of activity in these areas) and access control (to control physical access to/from facilities or areas within facilities using electronically operated locks controlled by the use of PIN codes, proximity cards, or biometric identification). The security industry was further described as encompassing the development, sale, or distribution of software solutions and equipment components, as well as consulting in the design of said security systems. ISI participates in the perimeter security, access control and video and design consultation segments in the correctional sector through its ISI-Detention and MCS-Detention subsidiaries and in the commercial/industrial/educational sectors through its MCS-Commercial subsidiary. In addition, the MCS-Commercial operation is also engaged in providing its sectors with fire detection security system solutions.

The mailing address of Argyle's principal executive office is 200 Concord Plaza, Suite 700, San Antonio, TX 78216, and its telephone number is (210) 828-1700.

ISI was founded in 1976 and is headquartered in San Antonio, Texas. ISI is the parent company of several subsidiaries, including three service and solution providers in the physical security industry: ISI Detention Contracting, a Texas corporation referred to as ISI-Detention, Metroplex Control Systems, a Texas limited partnership referred to as MCS-Detention and MCFSA, Ltd, a Texas limited partnership referred to as MCS-Commercial. These operating entities, among other things, utilize proprietary and third-party hardware/software to create efficient customized physical security solutions, as well as turnkey systems to an institutional customer base comprised of public and private owners and developers of correctional facilities; construction companies; security integrators; and commercial, industrial, and governmental facilities contractors and owner/operator entities.

ISI-Detention designs, develops plans and specifications, supplies, installs, and offers architectural and engineering assistance for a full array of detention equipment for installation in a broad range of private- and public-sector correctional and related facilities, including prisons, jails, police facilities, and courthouses, throughout the United States.

ISI-Detention's installed equipment includes security locking systems and hardware, security doors and frames, jail furniture, security glazing, and, as described below, through its MCS-Detention business unit, a complete array of proprietary electronic security systems that utilize proprietary and third-party software packages to create complete security solutions.

MCS-Detention and MCS-Commercial specialize in turnkey, security electronic systems for facilities that require unique engineering competencies and software/hardware products. They have security system integration capabilities as applied to the correctional facilities market as well as to commercial markets for development throughout the United States. The specific electronic security integration applications encompassed in these security solutions include: access control, video camera management, video image mass storage, touchscreen control and command systems, fire alarm, intercom, nurse call, sound and paging systems, video visitation, perimeter protection, guard duress, watchtour systems and remote linkage to wireless PDAs for security guard situational awareness.

ISI-Detention and MCS-Detention share office space in San Antonio. MCS-Commercial has separate sales and customer support facilities addressing the commercial security market located in Austin, Dallas, Houston and San Antonio, Texas and in Denver, Colorado.

ISI is listed as being one of the nation's largest providers of detention equipment products and service solutions in the *Correctional News* 2006 Annual SEC (Security Equipment Contractors) Report for the correctional sector. ISI was identified in that report as having the 2nd largest single contract award, the 2nd largest current job backlog, and the 4th largest overall revenue.

The growing demands for detention facilities and security systems for the correctional and commercial markets have made ISI a sought-after source as a security solutions provider. ISI's reputation, long established customer base, proprietary products, and skilled management team favorably position it among the competitors within its markets.

The mailing address of ISI's principal executive offices is 12903 Delivery Drive, San Antonio, TX 78247, and its telephone number is (210) 495-5245.

The Merger

On December 8, 2006, Argyle, Argyle's wholly-owned subsidiary ISI Security Group, Inc. (referred to in this document as the Merger Subsidiary) and ISI entered into a merger agreement pursuant to which the Merger Subsidiary will merge into ISI and ISI will become a wholly-owned subsidiary of Argyle. Pursuant to the merger agreement, Argyle will pay ISI's security holders an aggregate of \$16,300,000 and 1,180,000 shares of Argyle's common stock (valued at \$8,673,000, based on the closing price of the common stock on January 30, 2007). In the event that ISI's adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), Argyle will pay the stockholders of ISI an additional \$1,900,000. The calculations of EBITDA and 2/28 backlog will be initially calculated by ISI and such calculations will be presented to Argyle. Argyle will verify the calculations, and if they are not accurate, object to the calculations. Pursuant to the merger agreement, if there is a dispute over the calculation of (i) EBITDA that cannot be resolved between the parties, the parties will engage a third party accountant to resolve the dispute, and (ii) 2/28 backlog, then ISI and Argyle must negotiate a resolution to the dispute among themselves. The calculation of ISI's EBITDA is subject to an adjustment of \$900,000

relating to certain events that Argyle and ISI agreed should not reduce the EBITDA calculation. The merger agreement contains representations and warranties by Argyle and ISI and representations and warranties to be made by ISI's stockholders upon closing of the merger. ISI also makes certain covenants relating to the conduct of its business between the time the merger agreement was signed and the consummation of the merger, including that it will not take certain actions without the permission of Argyle and that Argyle will have access to ISI's records. The parties to the merger agreement also make covenants relating to confidentiality, non-solicitation and non-competition. In addition, after the consummation of the merger, Argyle has agreed to file a registration statement for the resale of the shares issued by Argyle in connection with the merger. The closing of the merger is subject to certain conditions, including the approval of the merger and the equity incentive plan described below by Argyle's stockholders.

In connection with the merger, immediately prior to the merger, William Blair Mezzanine Capital Fund III, L.P. will convert \$10,000,000 of long term debt into shares of ISI preferred stock. Additionally, ISI will remain obligated to the William Blair Mezzanine Capital Fund III, L.P. for approximately \$6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the \$6,000,000 long-term debt described above, up to \$9,000,000 that may be outstanding pursuant to a revolving credit line, and any capitalized leases. As of December 31, 2006 there was approximately _____ outstanding under the credit line.

There are 4,781,307 shares of Argyle common stock currently outstanding, 3,700,046 (77.4%) of which are trading publicly. 1,180,000 shares will be issued for the acquisition of ISI.

Assuming none of Argyle's stockholders exercise redemption rights with respect to the acquisition upon consummation of the merger, the former security holders of ISI securities will own 19.8% of Argyle's issued and outstanding common stock and Argyle's pre-acquisition holders of common stock will own in the aggregate approximately 80.2% of Argyle's post-acquisition common stock a reduction of 19.8%. Of this amount, holders of stock purchased in Argyle's initial public offering will own 62.1% a reduction of 15.3%. The merger will result in dilution in percentage ownership of Argyle's pre-acquisition holders.

At the closing of the merger, each of the security holders of ISI will enter into a lock-up agreement with Argyle with respect to the shares that they acquire pursuant to the merger so that they will not be able to sell the shares (except to family members or affiliates) until the specified times expire. William Blair Mezzanine Capital Fund III, L.P. will acquire 440,288 shares in connection with the merger and will not be able to sell such shares until the earlier of six months after the closing of the acquisition or November 1, 2007, whichever is earlier. The four holders of the remainder of the shares will not be able to sell their shares until January 24, 2009.

Upon consummation of the merger, the current management teams of both Argyle and ISI will continue in their roles at each company, including Bob Marbut as Chairman and Co-Chief Executive Officer of Argyle, Ron Chaimovski as Vice Chairman and Co-Chief Executive Officer of Argyle and Sam Youngblood as Chief Executive Officer of ISI.

Procedure

Under Argyle's Second Amended and Restated Certificate of Incorporation, a majority of the votes cast at a meeting of stockholders must approve the proposed acquisition. Promptly after obtaining approval from its stockholders to proceed with the acquisition of ISI, Argyle, Merger Subsidiary and ISI will consummate the merger. Each public stockholder has the right to vote against the proposed acquisition and elect to redeem their shares for their pro rata portion of the trust account.

However, notwithstanding adoption of the acquisition proposal, the acquisition will only proceed if holders of no more than 20% of the total shares sold in Argyle's initial public offering and the private placement exercise their redemption rights and vote against the proposed acquisition. If holders of shares purchased in Argyle's initial public offering owning 20% or more of the shares of common stock sold in Argyle's initial public offering and private placement vote against the proposed acquisition and elect to exercise their redemption rights, Argyle's Board of Directors will abandon the acquisition, notwithstanding approval of a majority of its stockholders. If the maximum permissible number of shares elect redemption without Argyle being required to abandon the acquisition, as of _____, 2007, a total of approximately \$___ million of the trust account would be disbursed, leaving approximately \$23.5 million available for the acquisition of ISI and the payment of liabilities. Even if the maximum number of shares permitted to be redeemed were redeemed, Argyle would still have enough cash available in the trust account to consummate the merger.

In connection with the initial public offering, Argyle's current officers and directors agreed to indemnify Argyle for debts and obligations to vendors that are owed money by Argyle for services rendered or products sold to Argyle, but only to the extent necessary to ensure that certain liabilities do not reduce funds in the trust account. The obligations remain in effect and extend to transaction expenses to be incurred in connection with Argyle's seeking to complete the ISI acquisition. Since these obligations were not collateralized or guaranteed, however, Argyle cannot assure you that its officers and directors would be able to satisfy their obligations if material liabilities are sought to be satisfied from the trust account.

Fairness Opinion

In determining to recommend that holders of Argyle's securities vote for the merger proposal, the Board of Directors of Argyle considered the fairness opinion of its financial advisor, Giuliani Capital Advisors, dated December 8, 2006, and based upon and subject to the assumptions, qualifications and limitations set forth in the written opinion, the merger consideration as stipulated in the merger agreement was fair from a financial point of view to Argyle. The full text of Giuliani Capital Advisors' written opinion, dated December 8, 2006, is attached as Annex A to this proxy statement/prospectus. We urge you to read the opinion and the section "Fairness Opinion" beginning on page 41 of this proxy statement/prospectus carefully for a description of the procedures followed, assumptions made, matters considered and limitations on the reviews undertaken. Giuliani Capital Advisors' opinion does not constitute a

recommendation to the Board of Directors or to the holders of Argyle's securities as to how such person should vote or act on any of the proposals set forth in this proxy statement/prospectus. If the merger is consummated Giuliani Capital Advisors will receive a fee equal to \$200,000.

If the Acquisition Is Not Approved

If Argyle does not consummate the business combination with ISI, it will continue to seek another target business until it is required to liquidate and dissolve pursuant to its certificate of incorporation. As provided in its certificate of incorporation, Argyle is required, by July 30, 2007, to consummate a business combination or enter a letter of intent, agreement in principle or definitive agreement relating to a business combination, in which case Argyle would be allowed an additional six months to complete the transactions contemplated by such agreement. Under its certificate of incorporation as currently in effect, if Argyle does not acquire at least majority control of a target business by at latest January 30, 2008, Argyle will dissolve and distribute to its public stockholders the amount in the trust account plus any remaining net assets. See the risk factor on page 21 of this proxy statement/prospectus relating to risks associated with the dissolution of Argyle.

Conditions; Termination. Approval of the acquisition of ISI by holders of a majority of the votes cast at a meeting of stockholders is a condition to Argyle's consummating the acquisition. The holders of Argyle common stock issued prior to its initial public offering have agreed to vote 956,261 of their shares in accordance with the holders of a majority of the public shares voting in person or by proxy at the meeting and have agreed to vote the 125,000 of their shares purchased in the private placement that took place immediately prior to Argyle's initial public offering and all shares acquired after such initial public offering in favor of all the proposals. The 125,000 shares that Argyle's initial stockholders will vote in favor of the proposals presented in this prospectus represent 2.6% of Argyle's outstanding shares of common stock. By voting these shares for the merger, Argyle's initial stockholders increase the number of shares held by Argyle's public stockholders that must be voted against the merger proposal to reject the proposal. Additionally, if holders of 765,009 or more of the shares purchased in Argyle's initial public offering (which number represents 20% or more of the shares of Argyle common stock issued in Argyle's initial public offering and private placement) vote against the acquisition and exercise their right to redeem their shares for cash, the acquisition may not be consummated.

Amendments to the Certificate of Incorporation. The Argyle Board of Directors has also determined that it is in Argyle's best interests to amend its Second Amended and Restated Certificate of Incorporation to (i) change its name to Argyle Security, Inc., and (ii) remove those provisions regarding certain procedural and approval requirements that are no longer applicable once Argyle acquires ISI, both of which will be implemented upon consummation of the merger.

The 2007 Omnibus Securities and Incentive Plan. The 2007 Omnibus Securities and Incentive Plan reserves 1,000,000 shares of Argyle common stock for issuance in accordance with its terms. Argyle currently anticipates that it will grant up to _____ shares pursuant to awards under the 2007 Incentive Plan to members of the ISI management team, current officers, directors and consultants of Argyle and new employees of Argyle to be hired after the merger. However, at this time, Argyle's Board of Directors has not approved the issuance of any such awards and is not under any contractual obligation to do so. Assuming the anticipated grants are made, there will be at least _____ shares remaining for issuance in accordance with the plan's terms. The purpose of the plan is to enable Argyle to offer its employees, officers, directors and consultants, and the employees, officers, directors and consultants of its subsidiaries, whose past, present and/or potential future contributions to Argyle have been, are or will be important to the success of Argyle, an opportunity to acquire an equity interest in Argyle. It is also designed to create incentives to motivate employees to significantly contribute toward growth and profitability, to provide Argyle executives, directors and other employees and persons who, by their position, ability and diligence are able to make important contributions to Argyle's growth and profitability, with an incentive to assist Argyle in achieving Argyle's long-term corporate objectives and to attract and retain executives and other employees of outstanding competence. The various types of incentive awards that may be provided under the plan will enable Argyle to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business.

All officers, directors, employees and consultants of ISI and Argyle will be eligible to be granted awards under the plan. No allocations of shares that may be subject to awards have been made. All awards will be subject to the approval of Argyle's Board of Directors or its Compensation Committee.

We encourage you to read the plan in its entirety. A copy of the 2007 Omnibus Securities and Incentive Plan is attached as Annex B to this proxy statement/prospectus.

The Merger Agreement and Related Documents. The merger agreement, the form of the proposed amendments to Argyle's Second Amended and Restated Certificate of Incorporation, the 2007 Omnibus Securities and Incentive Plan and the fairness opinion of Giuliani Capital Advisors are annexed to this proxy statement/prospectus. We encourage you to read them in their entirety, as they are the key legal documents underlying the acquisition. They are also described in detail elsewhere in this document. The merger agreement, which is attached as Annex D in this

prospectus/proxy statement, is incorporated by reference into this prospectus/proxy statement.

Management. The current management of ISI and its subsidiaries is led by Mr. Sam Youngblood. Upon consummation of the acquisition, Argyle intends that ISI's management will remain substantially the same, while Argyle's management team and Board of Directors will also remain substantially the same.

Argyle Special Meeting

Date, Time and Place. The special meeting of Argyle's stockholders will be held at 10:00 a.m., San Antonio, Texas, time, on _____, 2007, at 200 Concord Plaza, San Antonio, TX 78216 .

Voting Power; Record Date. You will be entitled to vote or direct votes to be cast at the special meeting, if you owned Argyle common stock at the close of business on _____, 2007, the record date for the special meeting. You will have one vote for each share of Argyle common stock you owned at that time. Warrants to purchase Argyle common stock do not have voting rights.

Votes Required. Approval of the proposals relating to the merger, the incentive plan and the adjournment or postponement of the meeting will require the approval of a majority of the votes cast at a meeting of stockholders, and the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc. and the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger will require the affirmative vote of holders of a majority of Argyle's outstanding common stock. Pursuant to Argyle's Second Amended and Restated Certificate of Incorporation, Argyle is required to obtain stockholder approval of the acquisition of ISI. Pursuant to the merger agreement entered into by Argyle, Argyle's wholly-owned subsidiary, and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle's stockholders. ISI will have no options outstanding upon the closing of the merger and, therefore, Argyle is not assuming any options. ISI requested that the approval of the 2007 Omnibus Securities and Incentive Plan be a condition to the merger because, although Argyle is under no obligation to issue any options under the 2007 Omnibus Securities and Incentive Plan, Argyle should have the ability to reward its employees with equity compensation post merger, as might be determined by Argyle's Board of Directors or its Compensation Committee. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI, even if the proposal to approve the merger has been approved by Argyle's stockholders.

Notwithstanding approval of the acquisition, the acquisition will only proceed if holders of shares purchased in Argyle's initial public offering, representing no more than 20% of the total shares sold in the initial public offering and the private placement (a total of 765,009 shares vote against the merger and exercise their redemption rights.

Under Delaware law and Argyle's bylaws, no other business may be transacted at the special meeting.

At the close of business on _____, 2007, there were 4,781,307 shares of Argyle common stock outstanding (including the 1,081,261 shares held by Argyle's officers and directors and their respective affiliates, which not purchased in Argyle's initial public offering). Each Argyle common share entitles its holder to cast one vote per proposal.

Redemption Rights. Under its certificate of incorporation, a holder of Argyle common stock (other than an initial stockholder) who votes against the acquisition may demand that Argyle redeem his or her shares for cash, but such stockholder will only receive the redemption amount if the acquisition is subsequently consummated. Argyle's stockholders who purchased shares in its initial public offering would still be entitled to receive a portion of the trust account in the event of a liquidation of Argyle. This demand must be made in writing at the same time the stockholder votes against the acquisition, on the form of proxy card voted against the acquisition. If you so demand, and the acquisition is approved and consummated, Argyle will redeem your shares into a pro rata portion of the trust account, net of taxes payable, less amounts payable to the underwriters in Argyle's initial public offering and the amounts representing the net proceeds of Argyle's private placement that occurred immediately prior to Argyle's initial public

offering, as of two business days prior to the consummation of the acquisition. You will be entitled to receive cash for your shares only if you continue to hold your shares through completion of the acquisition and then tender your stock certificate(s) to Argyle. If you exercise your redemption rights, you will no longer own these Argyle shares. **Do not send your stock certificate(s) with your proxy card.**

The acquisition will not be consummated if holders of 765,009 or more shares of Argyle common stock sold in its initial public offering (which number represents 20% or more of the shares sold in the initial public offering and private placement) exercise their redemption rights.

If the acquisition is not consummated and Argyle is not required to dissolve pursuant to the terms of its Second Amended and Restated Certificate of Incorporation, it may seek another target business to acquire.

Appraisal Rights. Under the Delaware General Corporation Law, appraisal rights are not available to Argyle's stockholders in connection with the acquisition.

Proxies; Board Solicitation. Your proxy is being solicited by the Argyle Board of Directors on each proposal being presented to stockholders at the special meeting. Proxies may be solicited in person or by mail, telephone or other electronic means. If you grant a proxy, you may still vote your shares in person, if you revoke your proxy before the special meeting.

Significant Stockholdings. The holdings of Argyle's directors and significant stockholders are detailed in "Beneficial Ownership of Securities."

Argyle's Recommendation; Interests of Argyle's Management

After careful consideration, Argyle's Board of Directors has determined that the acquisition and the other proposals presented at this meeting are fair to, and in the best interests of, Argyle and its stockholders. The Board of Directors has approved and declared advisable the proposals, and recommends that you vote or direct that your vote to be cast "FOR" the adoption of each.

When you consider the recommendation of the Board of Directors, you should keep in mind that the members of the Board of Directors have interests in the acquisition that are different from, or in addition to, yours. These interests include the following:

- If the proposed acquisition is not completed, and Argyle is subsequently required to liquidate, the shares owned by Argyle's directors will be worthless because the shares will no longer have any value and the directors are not entitled to liquidation distributions from Argyle. In addition, the possibility that Argyle's officers and directors will be required to perform their obligations under the indemnity agreements referred to above will be substantially increased.
- In connection with Argyle's initial public offering, Argyle's current officers and directors agreed to indemnify Argyle for debts and obligations to vendors that are owed money by Argyle for services rendered or products sold to Argyle, but only to the extent necessary to ensure that certain liabilities do not reduce funds in the trust account. If the merger is consummated, Argyle's officers and directors will not have to perform such obligations. If the merger is not consummated, however, Argyle's officers and directors could potentially be liable for any claims against the trust account by vendors who did not sign waivers.
- All rights of Argyle's officers and directors to be indemnified by Argyle, and of Argyle's directors to be exculpated from monetary liability with respect to prior acts or omissions, will continue after the acquisition pursuant to provisions in Argyle's Second Amended and Restated Certificate of Incorporation. However, if the acquisition is not approved and Argyle subsequently liquidates, its ability to perform its obligations under those provisions will be substantially impaired since it will cease to exist. If the ISI acquisition is ultimately completed, the combined company's ability to perform such obligations will be substantially enhanced.
- Argyle's and ISI's financial, legal and other advisors have rendered services for which they may not be paid if the acquisition is not approved. For example, (i) Loeb & Loeb LLP is issuing an opinion as to the validity of the shares of Argyle's common stock that will be issued pursuant to this proxy statement/prospectus and, as of January ____, 2007, is owed \$_____ for services rendered, (ii) Giuliani Capital Advisors has provided Argyle with certain advisory services in connection with the merger and will not be paid for its services (a total of approximately \$.4 million) unless the merger is consummated.
- It is anticipated that Argyle's current Co-Chief Executive Officers, Bob Marbut and Ron Chaimovski, will enter into employment agreements with Argyle post merger, though the terms of such agreements have not yet been determined and will be approved by the Compensation Committee of Argyle's Board of Directors that will be

formed after the closing of the merger.

- Following the merger, Argyle has agreed that it will negotiate employment agreements with Sam Youngblood, Don Carr, Mark McDonald and Tim Moxon. Other than the agreement that the term of the employment agreements will be five years for Mark McDonald and two years for the others, and that Sam Youngblood and Don Carr must be directors of ISI post merger, the agreements have not yet been negotiated, meaning that the employment agreements currently in place with those parties will remain in full force and effect until the new agreements take effect. The employment agreements will be approved by the Compensation Committee of Argyle's Board of Directors that will be formed after the closing of the merger.
- The following table lists the securities owned by the members of Argyle's current management team and Board of Directors and the amount of gain that each of them would realize if the merger is consummated, based on the market price of Argyle's securities on January 31, 2007. If a merger is not consummated, the securities held by these individuals would be valueless, since they would not be entitled to participate in distributions from the trust account.

Name	Securities in which named individual has a pecuniary interest		Value of such securities as of January 30, 2007 (\$)		Aggregate Initial Purchase Price of Securities (\$)		Gain on Securities as of January 30, 2007 (\$)
	Shares	Units	Shares	Units	Shares	Units	
Bob Marbut	371,228	93,750	2,724,526	768,750	10,023	750,000	2,737,523
Ron Chaimovski	290,512	31,250	2,135,263	256,250	7,844	250,000	2,133,669
Wesley Clark	71,720	0	527,142	n/a	1,936	n/a	525,206
John J. Smith	47,813	0	351,426	n/a	1,291	n/a	305,135

Certain U.S. Federal Income Tax Consequences

U.S. federal income tax consequences of this acquisition are described in summary form on page 40 of this proxy statement/prospectus.

Quotation/Listing

Argyle's common stock (ARGL), warrants (ARGLW) and units (ARGLU) are quoted on the Over-the-Counter (OTC) Bulletin Board.

Accounting Treatment

Argyle will account for the acquisition of ISI as a purchase. The purchase price will be allocated to the various tangible and intangible assets and assumed liabilities based upon an appraisal.

Regulatory Matters

The acquisition and related transactions are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act).

RISK FACTORS

You should carefully consider the following risk factors, together with all of the other information included in this proxy statement/prospectus, before you decide whether to vote or direct your vote to be cast to approve the acquisition.

Risks related to ISI's Business

Budget constraints of federal, state and local governments could reduce ISI's revenues.

Contracts for which federal, state or local governments are the ultimate customer account for 60% of ISI's business. The detention systems segment, the largest business segment, outfits correctional facilities and courthouses. Many state and local governments operate under very tight budget constraints. These budget constraints could cause them to delay, reduce the scope of, or cancel pending projects, which could reduce ISI's revenues.

ISI's failure to obtain and/or maintain required local/state licenses could reduce ISI's revenue.

A portion of ISI's business depends upon obtaining and maintaining required licenses. Its failure to obtain or maintain required licenses could result in the termination of certain of its contracts or cause it to be unable to bid or re-bid on certain contracts. In addition, ISI and/or its employees may be required to maintain certain facility security clearances. If ISI or its employees were found not to be in compliance, ISI could be excluded from bidding on certain contracts, removed from projects and/or fined, all of which would adversely impact ISI's financial condition and good standing.

ISI operates under fixed price contracts, and its failure to accurately estimate its costs may reduce its profitability.

Approximately 90% of ISI's revenues result from fixed price contracts. If ISI does not accurately estimate its costs on projects, it could suffer losses on fixed price contracts. Unanticipated increases in the cost of raw materials could also result in ISI losing money on contracts. If ISI suffers losses on its contracts, its profitability will be reduced. In addition, the reserves that ISI takes under these contracts are recognized under the "percentage of completion method of accounting." This method requires considerable judgment and, as a result, the estimates derived at any point in time could differ significantly and result in material discrepancies between the reserves and the financial reality of the applicable contract.

ISI's ability to obtain payment and/or performance bonds is critical to its ability to conduct business.

Bonding requirements vary based on customer mix and project types. At September 30, 2006 approximately 37% of contract revenues were bonded. As of this same period, approximately 33% of overall company revenues were bonded. If ISI is unable to obtain such bonds for any reason, it would significantly diminish ISI's ability to secure new contracts, and consequently its financial performance would worsen and its revenues would decline. Some of the factors that might cause ISI to be unable to obtain such bonds include, but are not limited to, unacceptably high premium rates, the unavailability of bonding capacity at an acceptable premium from a bonding company with an acceptable financial rating, or the collateral requirements for the issuance of the bonds that provide security to the bonding company for any claim that is paid are unacceptable. The collateral requirements which are intended to provide liquidity to the bonding company for reimbursement of any costs associated with a claim asserted on a bond may include, but are not limited to, reserves of cash, letters of credit, or other irrevocable commitments of working capital at levels that are unacceptable.

If ISI is unable to design, manufacture, and market its product offerings in a timely and efficient manner, it may not remain competitive.

Some of ISI's markets are characterized by continuing technological advancement, changes in customer requirements, and evolving product standards. In particular, the detention segment specializes in the development, implementation, and support of complex, integrated software systems, and accordingly, ISI devotes a substantial amount of resources to product development. To compete successfully, ISI must develop and market new products that provide increasingly higher levels of performance and reliability. Product development is highly uncertain and ISI cannot guarantee that it will successfully develop new products. ISI's inability to develop and market these products or to achieve customer acceptance of these products could limit its ability to compete in the market.

In addition, ISI offers a wide variety of products. If the design, manufacturing or marketing of a product, or products, is not successful and ISI must allocate more resources to ensure the products' success, it could lower the profitability of the product, or products, or affect customer perceptions as to the quality of the products and services being offered.

ISI is subject to substantial government regulation that could cause delays in the delivery of its products and services and may subject the company to audits or other similar review processes.

As a contractor and subcontractor to agencies of various federal, state and local governments, ISI is obligated to comply with a variety of regulations governing its operations and the workplace. Unforeseen problems in the performance of contracts could cause the loss of licensing to do business within a particular city, county, state, or other governmental entity resulting in ISI losing contracts with that entity. In addition, changes in federal, state and local laws and regulations may impact ISI's ability to secure new contracts or require it to make costly changes to its operations which could reduce its profitability in order to obtain contracts.

ISI's inability to effectively integrate acquisitions could reduce its profitability.

Part of the business strategy of ISI is to grow through strategic acquisitions. For the acquisition of a new business to be successful, ISI must integrate the operations, systems and personnel from those acquired businesses into the company. This integration process requires, among other things, that ISI continually evaluate its operations, financial systems and controls and, when necessary, enhance and adjust those systems and controls. If the newly acquired businesses are not successfully integrated into the company, the key employees and their relationships with new customers, as well as their expertise and reputation in the industry, could be lost and/or destroyed, resulting in lower than expected sales and reduced repeat business, if any, from those acquired customers. Additionally, the new customers acquired could be lost, which would reduce expected revenues from the acquisition and reduce expected profitability.

ISI may need additional financing for bonding requirements, working capital, and capital expenditures and additional financing may not be available on favorable terms.

In order to operate the business, ISI may need to obtain additional surety bonds, maintain working capital, or make significant capital expenditures. In order to do any of those things, ISI may need to obtain additional capital. Therefore, ISI's ability to operate and grow is dependent upon, and may be limited by, among other things, the availability of financing arrangements. If ISI is not able to obtain the additional capital necessary to pursue new projects or maintain its operations it may not be able to grow as quickly as it plans. In addition, even if ISI is able to obtain additional financing, the additional financing may not be on terms which are favorable to ISI and could hamper ISI's profitability.

ISI could potentially incur liability to clients and others.

ISI's involvement in the public security and justice business exposes it to potential liability claims from its clients. Its products are used in applications where their failure could result in serious personal injuries or death. In the area of corrections, prisoners are generally viewed as litigious. ISI has sought ways to minimize losses from these sources by obtaining product liability and professional liability insurance policies; however, a successful claim could result in liability in excess of coverage limits or the cancellation of insurance coverage and result in ISI having to pay a large amount of its working capital to cover those claims.

ISI is reliant upon key personnel.

ISI depends on the expertise, experience and continued services of its senior management and key employees such as:

- Sam Youngblood - Chief Executive Officer of ISI. Mr. Youngblood is the chief executive of ISI and his knowledge of ISI's business and reputation in the industry make him important to ISI's success.
- Don Carr - President of ISI. Mr. Carr is the key manager of sales for ISI. His experience and management capabilities have made him a major part of the historical success of ISI.
- Mark McDonald - President of MCS-Detention. Mr. McDonald is the principal creator of the proprietary software utilized by ISI in estimating the cost and pricing of a project. Mr. McDonald's expertise in the use and refinement of this software and his knowledge of the technological perspective of the security industry are significant.
- Robert "Butch" Roller - President of MCS-Commercial. Mr. Roller is responsible for operations and cost-efficient employee performance, and he provides substantial operational back-up for Mr. Youngblood.
- Neal Horman - Senior Software developer of ISI. Mr. Horman now devotes substantial time to the creation of new products and tools to service client needs. Without Mr. Horman, the development of new products and tools would be delayed.

ISI's operations and most decisions concerning the business of ISI will be made or significantly influenced by such individuals. The loss of members of senior management or key employees could result in the deterioration or loss of relationships with certain customers or suppliers, which could result in a material loss of business for ISI.

ISI is in a competitive industry with well financed competitors.

As a result of increasing consolidation in the corrections and security industries and increasing attention from venture funds and private equity groups, many of ISI's competitors, some of which were already larger and more well financed than ISI, have grown and obtained significant financing. Accordingly, ISI expects competition to increase in the near future. ISI also expects that some of its competitors will feel increasing pressure to underbid government and commercial projects, in order to deploy their workforces and maintain or step up their activity levels. This may make it more difficult for ISI to prevail on competitive bids for projects to the degree ISI has historically experienced, to increase revenue, or to maintain profitability.

Many of ISI's new contracts are subject to competitive bidding.

Most governmental agencies and many commercial customers require that their significant contracts be competitively bid. Typically they utilize the "Request for Proposal" (RFP) method where several competitors submit their sealed proposals for a particular project, or the "Request for Qualifications" (RFQ) process where competitors submit their qualifications for consideration by the customer. Some contracts are open for bidding, using the standard "Straight Bid" process where the detailed specifications for a project are published and contractors submit a "Bid" or fixed price, for the contract to build the project. Other competitive bidding processes are also utilized. ISI's success in responding to an RFP, RFQ, Straight Bid, or other competitive bidding process is dependent upon the quality of its estimating process, knowledge of the industry, knowledge of its customers and other factors requiring significant judgment and expertise. Because of the nature of the bidding process, ISI cannot know if it will be successful on any given bid, which makes it difficult to accurately forecast the timing of projects and budget the allocation of resources. To the extent ISI has made significant capital expenditures in the development and estimating of a contract or project, ISI may not recover its entire capital investment in that project.

When seeking competitive bids, one of the factors that most governmental entities and commercial customers evaluate is the financial strength of the bidders. To the extent they believe ISI does not have sufficient financial resources, ISI will be unable to effectively compete for contracts.

ISI's ability to win new contracts depends on many factors outside of ISI's control.

ISI's growth in the corrections industry is generally dependent upon its ability to win new contracts. This depends on a number of factors ISI cannot control, including crime rates and sentencing patterns in various jurisdictions. Accordingly, the demand for security related goods and services for new correctional facilities could be adversely affected by the relaxation of enforcement efforts, leniency in conviction and sentencing practices or through the legal decriminalization of certain activities that are currently proscribed by criminal laws. For instance, changes in laws relating to drugs and controlled substances or illegal immigration could reduce the number of persons arrested, convicted and sentenced, thereby potentially reducing demand for new correctional facilities to house them. Similarly, reductions in crime rates could lead to reductions in arrests, convictions, and sentences requiring new correctional facilities.

Furthermore, desirable locations for proposed correctional facilities may be in or near populated areas and, therefore, may generate legal action or other forms of opposition from residents in areas surrounding a proposed site. Such actions could substantially delay a correctional project or cause the project to be reduced in scope or be eliminated completely.

ISI offers some bids for new contracts directly to government agencies and commercial customers as a direct contractor to provide the security solutions for a project. In other instances, ISI provides its bid for security solutions to a general contractor, who adds ISI's pricing to all the other pricing for an entire project. In those instances ISI is a

subcontractor to the general contractor. The owner of the project (the governmental entity or commercial owner) will choose whether they wish to receive bids only from general contractors, or whether they wish to receive bids separately from the entities providing security solutions, such as ISI and its competitors. When ISI is acting as a subcontractor to a general contractor, ISI has far less control and input over the final price for the project submitted to the owner by the general contractor than when ISI submits a bid directly and such circumstances therefore reduce the ability of ISI to win contracts.

Governmental agencies may investigate and audit ISI contracts and, if any improprieties are found, ISI may be required to refund revenues, pay unexpected taxes, forego anticipated revenues and/or may be subject to penalties and sanctions, including prohibitions on ISI's bidding in response to competitive bidding processes.

Governmental agencies and most commercial customers will have the authority to audit and investigate ISI's contracts with them. As part of that process, some governmental agencies review ISI's performance on the contract, its pricing practices, change orders, other compliance with the terms of the contracts, and applicable laws, regulations and standards. If the agency determines that ISI has improperly classified a specific contract as non-taxable, ISI could be required to pay sales, use or other taxes for which no reserve was created at the time the bid was submitted by ISI. If the agency determines that ISI has improperly billed the governmental entity in violation of the terms of the contract, ISI could be required to refund revenues, or forego anticipated revenues. If a government audit uncovers improper or illegal activities by ISI or ISI otherwise determines that these activities have occurred, ISI may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government.

The following is a list of ISI's audits since 2003:

- 2005 Arkansas Licensing Board. Hearing was conducted in 2005 regarding the renewal of ISI's Contractor's License for the State of Arkansas. The issue considered was the negative equity on ISI's 2004 Balance Sheet. ISI was successful in that hearing, which resulted in the issuance of a Contractor's License to the company.
- Sales tax audit conducted in 2005 by the State of New Mexico for the period of 1/1/2002 to 12/31/2004. This resulted in a payment totaling \$13,613.00 for sales tax and interest.
- Sales tax audit conducted in 2005 by the State of Texas for the period of 3/2/2003 to 12/31/2004. This resulted in a payment totaling \$78,524.00 for sales tax, penalties, and interest.
- A Sales tax audit is currently being conducted by the State of Texas for the period of June 2003 through October 2006.
- A Form 1120 examination is currently being conducted by the US Internal Revenue Service for the period of 1/1/2004 to 12/31/2004.

If ISI fails to satisfy its contractual obligations, ISI's ability to compete for future contracts will be limited.

ISI's failure to comply with contract requirements or to meet its clients' performance expectations when performing a contract could injure ISI's reputation, which, in turn, would impact ISI's ability to compete for new contracts. ISI's failure to meet contractual obligations could also result in substantial actual and consequential damages. In addition, ISI's contracts often require ISI to indemnify clients for ISI's conduct that causes losses to the client. Some contracts may contain liquidated damages provisions and financial penalties related to performance failures. Although ISI has liability insurance, the policy limits may not be adequate to provide protection against all potential liabilities.

Negative media coverage, including inaccurate or misleading information, could injure ISI's reputation and its ability to bid for government contracts.

The media frequently focuses its attention on contracts with governmental agencies. If the media coverage regarding the contracts for the design, development, construction, financing or operation of a new correctional facility project is negative, it could influence government officials to slow the pace of building a correctional project or cause the cancellation of a planned correctional facility.

Jails, prisons and other public correctional projects may prompt higher than normal media scrutiny. In that atmosphere, inaccurate, misleading, or negative media coverage about ISI could harm its reputation and, accordingly, ISI's ability to bid for and win new contracts.

Risks Relating to the Acquisition

The combined company's working capital could be reduced if stockholders exercise their redemption rights.

Pursuant to Argyle's Second Amended and Restated Certificate of Incorporation, holders of shares purchased in Argyle's initial public offering (other than Argyle's initial stockholders) may vote against the acquisition and demand that Argyle redeem their shares into pro rata portions of the trust account, net of taxes payable, as of the record date. Argyle and ISI will not consummate the acquisition if holders of 765,009 or more shares exercise these redemption rights. To the extent the acquisition is consummated and holders have demanded to so redeem their shares, there will be a corresponding reduction in the amount of funds available to the combined company following the acquisition. As of _____ 2007, the record date, assuming the acquisition is approved, the maximum amount of funds that could be disbursed to Argyle's stockholders upon the exercise of their redemption rights is approximately \$___ million.

If outstanding warrants are exercised, the underlying common shares will be eligible for future resale in the public market. "Market overhang" from the warrants results in dilution and has an adverse effect on the common stock's market price.

Outstanding warrants and unit purchase options to purchase an aggregate of 4,200,046 shares of common stock issued in connection with Argyle's initial public offering will become exercisable after consummation of the ISI acquisition. If they are exercised, a substantial number of additional shares of Argyle common stock will be eligible for resale in the public market, which could adversely affect the market price.

Registration rights held by Argyle's initial stockholders who purchased shares prior to Argyle's initial public offering may have an adverse effect on the market price of Argyle's common stock.

Argyle's initial stockholders who purchased common stock prior to its initial public offering are entitled to demand that Argyle register the resale of their shares at any time after they are released from escrow. If such stockholders exercise their registration rights with respect to all of their shares, there will be an additional 1,081,261 shares of common stock eligible for trading in the public market. The presence of these additional shares may have an adverse effect on the market price of Argyle's common stock.

Argyle's directors and officers have interests in the acquisition that are different from yours, because if the acquisition is not approved, their shares may become worthless.

In considering the recommendation of Argyle's Board of Directors to vote to approve the acquisition, you should be aware that Argyle's directors, officers and original stockholders have agreements or arrangements that provide them with interests in the acquisition that differ from, or are in addition to, those of Argyle stockholders generally. Argyle's original stockholders, including its directors and officers, are not entitled to receive any of the funds that would be distributed upon liquidation of the trust account. Therefore, if the acquisition is not approved, these original shares may become worthless. The personal and financial interests of directors and officers may have influenced their motivation in identifying and selecting a target business and in timely completion of a business combination. Consequently, their discretion in identifying and selecting a suitable target business may result in a conflict of interest when determining whether the terms, conditions and timing of a particular business combination are appropriate and in the best interests of Argyle's stockholders.

Because Argyle does not intend to pay dividends on its common stock, stockholders will benefit from an investment in Argyle's common stock only if it appreciates in value.

Argyle has never declared or paid any cash dividends on its shares of common stock. Post acquisition, Argyle currently intends to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, Argyle does not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of Argyle's Board of Directors and will depend on factors Argyle's Board of Directors deems relevant, including among others, Argyle's results of operations, financial condition and cash requirements, business prospects, and the terms of Argyle's credit facilities and other financing arrangements. It is likely that the debt financing arrangements Argyle puts into place in connection with the acquisition will prohibit Argyle from declaring or paying dividends without the consent of its lenders. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of Argyle's common stock. There is no guarantee that Argyle's common stock will appreciate in value.

Argyle's securities are quoted on the Over-the-Counter Bulletin Board, which may limit the liquidity and price of its securities more than if the securities were quoted or listed on the Nasdaq market.

Argyle's securities are quoted on the Over-the-Counter Bulletin Board, a NASD-sponsored and operated inter-dealer automated quotation system. Quotation of Argyle's securities on the Over-the-Counter Bulletin Board will limit the liquidity and price of its securities more than if the securities were quoted or listed on Nasdaq.

Argyle has agreed in the merger agreement that it will negotiate employment agreements with ISI's management post business combination.

Although the merger agreement contains certain terms relating to the employment agreements to be negotiated between Argyle and ISI's management (the specified terms relate to the term of the employment agreements and that certain members of management will remain on the Board of Directors of post merger ISI), Argyle has agreed in the merger agreement that it will negotiate employment agreements with ISI's management post business combination. Therefore, Argyle's stockholders will not have the benefit of knowing what compensation arrangements will be post business combination when voting for the merger. In addition, by not negotiating agreements prior to the merger, it is possible that some or all of ISI's management may decide to seek employment at a company that will provide them with definitive terms of employment now.

Risks to Argyle's Stockholders

Argyle may choose to redeem its outstanding warrants at a time that is disadvantageous to the warrant holders.

Subject to there being a current prospectus under the Securities Act of 1933, Argyle may redeem all of its outstanding warrants at any time after they become exercisable at a price of \$.01 per warrant, upon a minimum of 30 days prior written notice of redemption, if and only if, the last sale price of Argyle's common stock equals or exceeds \$11.50 per share for any 20 trading days within a 30 trading day period ending three business days before Argyle sends the notice of redemption. Calling all of Argyle's outstanding warrants for redemption could force the warrant holders:

- To exercise the warrants and pay the exercise price for such warrants at a time when it may be disadvantageous for the holders to do so;
- To sell the warrants at the then current market price when they might otherwise wish to hold the warrants; or

- To accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants.

Argyle’s warrant holders may not be able to exercise their warrants, which may create liability for Argyle.

Holders of the warrants Argyle issued in its initial public offering and private placement will be able to receive shares upon exercise of the warrants only if (i) a current registration statement under the Securities Act of 1933 relating to the shares of its common stock underlying the warrants is then effective and (ii) such shares are qualified for sale or exempt from qualification under the applicable securities laws of the states in which the various holders of warrants reside. Although Argyle has agreed to use its best efforts to maintain a current registration statement covering the shares underlying the warrants to the extent required by federal securities laws, and Argyle intends to comply with such agreement, Argyle cannot assure that it will be able to do so. In addition, some states may not permit Argyle to register the shares issuable upon exercise of its warrants for sale. The value of the warrants will be greatly reduced if a registration statement covering the shares issuable upon the exercise of the warrants is not kept current or if the securities are not qualified, or exempt from qualification, in the states in which the holders of warrants reside. Holders of warrants who reside in jurisdictions in which the shares underlying the warrants are not qualified and in which there is no exemption will be unable to exercise their warrants and would either have to sell their warrants in the open market or allow them to expire unexercised. If and when the warrants become redeemable by Argyle, Argyle may exercise its redemption right even if Argyle is unable to qualify the underlying securities for sale under all applicable state securities laws. Since Argyle’s obligations in this regard are subject to a “best efforts” standard, it is possible that, even if Argyle is able to successfully assert a defense to a claim by warrant holders due to the impossibility of registration, a court may impose monetary damages on Argyle to compensate warrant holders due to the change in circumstances that led to Argyle being unable to fulfill its obligations.

Failure to complete the acquisition could reduce the market price of Argyle's common stock and may make it more difficult for Argyle to attract another acquisition candidate, resulting, ultimately, in the disbursement of the trust proceeds, causing some investors to experience a loss on their investment.

If the acquisition is not completed for any reason, Argyle may be subject to a number of material risks, including:

- i. The market price of its common stock may decline to the extent that the current market price of its common stock reflects a market assumption that the acquisition will be consummated;
- ii. Costs related to the acquisition, such as legal and accounting fees and the costs of the fairness opinion, must be paid even if the acquisition is not completed; and
- iii. Charges will be made against earnings for transaction-related expenses, which could be higher than expected.

If the market price of our securities declines after we fail to consummate the acquisition of ISI, persons who purchased our securities after the merger was announced will have lost money investing in our securities, making future investment in our securities by such persons less likely. Since most of the fees that we incur from our service providers in connection with the merger with ISI must be paid even if we do not consummate the transaction, it is unlikely that we will have sufficient funds outside of the trust to locate and research a second target business. In addition, since Argyle will have to take charges to earnings for transaction-related expenses even if a transaction is not consummated, Argyle will be a less attractive candidate to a potential target business than another entity that would not have to take such charges. All of these items make it less likely that Argyle will be able to consummate a business combination with a target business if the merger with ISI is not consummated. If an alternative target could not be found, Argyle would be required to dissolve and liquidate after the applicable time periods had lapsed.

If holders of 765,009 or more of the shares of Argyle's common stock purchased in Argyle's initial public offering (which number represents 20% or more of the common stock sold in Argyle's initial public offering and private placement) decide to vote against the acquisition and opt to convert their shares to cash, Argyle may be forced to dissolve and liquidate, stockholders may receive less than \$8.00 per share, and Argyle's warrants may expire worthless.

Under the terms of Argyle's Amended and Restated Certificate of Incorporation, if holders of 765,009 or more of the shares of Argyle's common stock purchased in Argyle's initial public offering (which number represents 20% or more of the common stock issued in its initial public offering and private placement) decide to vote against the acquisition and opt to convert their shares to cash, Argyle may ultimately be forced to dissolve and liquidate. Although Argyle will continue to search to acquire an operating company in the security sector, Argyle's certificate of incorporation requires Argyle to liquidate if it does not complete a business combination by July 30, 2007, or January 30, 2008 if Argyle enters into a letter of intent, an agreement in principle or a definitive agreement to complete a business combination prior to July 30, 2007, but is unable to complete such business combination by such date. Argyle signed a definitive agreement with ISI on December 8, 2006, and therefore has until January 30, 2008 to complete the acquisition. If Argyle does not consummate the acquisition of ISI by that time, it will be forced to dissolve and liquidate in accordance with the provisions of Delaware law.

In any liquidation, the net proceeds of Argyle's initial public offering and private placement and the deferred underwriting compensation held in the trust account, plus any interest earned thereon (net of taxes payable and \$600,000 of interest earned on the trust account that was released to fund Argyle's working capital), will be distributed on a pro rata basis to the holders of Argyle's common stock issued in Argyle's initial public offering. As of September 30, 2006, and assuming Argyle expended all of the funds not in the trust account, the per share liquidation price would be approximately \$7.84, or \$0.16 less than the price (\$8.00 per unit) that Argyle sold each unit for in its initial public

offering (The liquidation amount of \$7.84 is greater than the original amount of \$7.76 indicated in the prospectus relating to our initial public offering due to interest accrued on the amounts in the trust account). The proceeds deposited in the trust account could, however, become subject to the claims of Argyle's creditors which could be prior to the claims of Argyle's public stockholders. Argyle cannot assure you that the actual per share liquidation price will not be less than \$7.84, plus interest (net of taxes payable), due to claims of creditors. Furthermore, there will be no distribution with respect to Argyle's outstanding warrants and, accordingly, the warrants will expire worthless.

Under Delaware law, Argyle's dissolution requires the approval of the holders of a majority of its outstanding stock, without which Argyle will not be able to dissolve and liquidate and distribute Argyle's assets to its public stockholders.

Pursuant to Delaware law, Argyle's dissolution requires the affirmative vote of stockholders owning a majority of Argyle's then outstanding common stock. Soliciting the vote of Argyle's stockholders will require the preparation of preliminary and definitive proxy statements, which will need to be filed with the Securities and Exchange Commission and could be subject to its review. This process could take a substantial amount of time, ranging from 40 days to several months.

As a result, the distribution of Argyle's assets to the public stockholders could be subject to a considerable delay. Furthermore, Argyle may need to postpone the stockholders' meeting, resolicit its stockholders or amend its plan of dissolution and liquidation to obtain the required stockholder approval, all of which would further delay the distribution of its assets and result in increased costs. If Argyle is not able to obtain approval from a majority of Argyle's stockholders, Argyle will not be able to dissolve and liquidate, and Argyle will not be able to distribute funds from its trust account to holders of its common stock sold in its initial public offering, and these funds will not be available for any other corporate purpose. In the event Argyle seeks stockholder approval for a plan of dissolution and liquidation and does not obtain such approval, Argyle will nonetheless continue to pursue stockholder approval for its dissolution. However, Argyle cannot predict whether its stockholders will approve its dissolution in a timely manner or will ever approve its dissolution. As a result, Argyle cannot provide its initial stockholders with assurances of a specific timeframe for the dissolution and distribution.

Argyle's stockholders may be held liable for claims by third parties against Argyle to the extent of distributions received by them.

Under the Delaware General Corporation Law, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. If Argyle complied with certain procedures set forth in Section 280 of the Delaware General Corporation Law intended to ensure that Argyle makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against Argyle, a 90-day period during which Argyle may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of a stockholder with respect to a liquidating distribution would be limited to the lesser of such stockholder's pro rata share of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. However, it is Argyle's intention to make liquidating distributions to its stockholders as soon as reasonably possible after dissolution, should it occur, and, therefore, Argyle does not intend to comply with those procedures. As such, Argyle's stockholders could potentially be liable for any claims to the extent of distributions received by them in a dissolution and any such liability of Argyle's stockholders will likely extend beyond the third anniversary of such dissolution. Accordingly, Argyle cannot assure you that third parties will not seek to recover from its public stockholders amounts owed to them by Argyle.

If third parties bring claims against Argyle, the proceeds held in the trust account could be reduced and the per share liquidation price received by stockholders could be less than \$7.84 per share.

Although Argyle intends to pay amounts owed to creditors from amounts not held in trust, Argyle cannot assure you that those funds will be sufficient to cover such claims and obligations. Although Argyle has sought to have vendors, potential target businesses, consultants or other entities with which Argyle does business execute valid and enforceable agreements waiving any right, title, interest or claim of any kind in or to any monies held in the trust account for the benefit of Argyle's public stockholders, not all have executed such agreements. Those parties who have not entered into such agreements may have claims they will attempt to assert, and those who have may claim that the

waiver is unenforceable or assert claims based on fraudulent inducement, breach of fiduciary responsibility or other similar claims.

As of December 31, 2006, Argyle has not received a waiver letter from the State of Delaware, its independent auditor and certain miscellaneous service providers, with aggregate claims in the amount of approximately _____. To the extent that creditors, even those who have executed a waiver of claims against the trust account, or ISI, bring a claim and attempt to have it satisfied out of the trust account, the proceeds available to Argyle's stockholders from the trust account could be reduced.

Argyle's current officers and directors have agreed, pursuant to an agreement between Argyle and Rodman & Renshaw LLC, the underwriters of Argyle's initial public offering, that, if Argyle liquidates prior to the consummation of a business combination, they may be personally liable to ensure that the proceeds of the trust account are not reduced by the claims of vendors or other entities that are owed money by Argyle for services rendered or products sold to Argyle. Argyle cannot assure you, however, that they will be able to satisfy those obligations.

Additionally, if Argyle is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against Argyle which is not dismissed, the proceeds held in the trust account could be subject to applicable bankruptcy law, and may be included in Argyle's bankruptcy estate and subject to the claims of third parties with priority over the claims of Argyle's stockholders. To the extent any bankruptcy claims deplete the trust account, Argyle cannot assure you that it will be able to return to Argyle's public stockholders at least \$7.84 per share.

Argyle's Board of Directors has had Limited Ability to Evaluate the Target Business' Management.

Although Argyle closely examined the management of ISI, Argyle cannot assure you that its assessment of ISI's management will prove to be correct, or that future management will have the necessary skills, qualifications or abilities to manage its business successfully. Essentially, all of the serving management of ISI will be involved with the management of the Merger Subsidiary, will remain with the combined company, and will for the most part run its day to day operations. Argyle's current Board of Directors will remain directors of Argyle subsequent to the acquisition.

Argyle does not have an Audit Committee composed solely of independent directors and therefore Argyle's financial statements have not been subject to independent review.

Argyle does not have an audit committee. Pursuant to SEC regulations, the entire Board of Directors of a company without an audit committee acts as the audit committee. Two of the members of Argyle's Board of Directors are also officers of Argyle and therefore not independent. Therefore, Argyle does not have solely independent directors reviewing its financial statements, making it more difficult for Argyle to discover if there was any fraud in connection with the preparation of its financial statements.

SELECTED HISTORICAL FINANCIAL INFORMATION

We are providing the following financial information to assist you in your analysis of the financial aspects of the acquisition. We derived the December 31st historical information concerning ISI from its audited consolidated financial statements and the nine-month information from its unaudited financial statements. We derived historical information concerning Argyle from its audited financial statements for the year ended December 31, 2005 and from its September 30, 2006 unaudited financial statements. The information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained elsewhere herein. The historical results included below and elsewhere in this proxy statement/prospectus are not indicative of the future performance of ISI, Argyle or the enterprise resulting from the acquisition.

ISI HISTORICAL FINANCIAL INFORMATION**Selected Consolidated Statements of Operations Data**

(\$ in thousands)	For the year ended December 31,					For the nine months ended September 30, 2006 (unaudited)	
	2001	2002	2003	2004	2005	2006	
Revenue	\$ 20,385	\$ 27,620	\$ 34,726	\$ 40,175	\$ 39,234	\$ 41,234	
Cost of revenue	13,675	19,670	25,082	30,571	30,865	32,573	
Gross profit	6,710	7,950	9,644	9,604	8,369	8,661	
General and administrative expenses	6,374	6,892	6,342	6,496	6,908	6,249	
Management special bonus				5,151			
Total operating (expenses) income, net	6,374	6,892	6,342	11,647	6,908	6,249	
Income/(loss) from operations	336	1,058	3,302	(2,043)	1,461	2,412	
Interest income	192						
Interest expense		59	0	813	3,178	2,780	
Other income/(loss)		105	(55)	(85)	8	0	
Income/(loss) before income taxes	528	1,104	3,247	(2,941)	(1,709)	(368)	
Income tax expense (benefit)	218	486	1,165	(894)	(526)	10	
Net income/(loss)	\$ 310	\$ 618	\$ 2,082	\$ (2,047)	\$ (1,183)	\$ (378)	

Consolidated Balance Sheet Data

<i>(in thousands)</i>	2001	2002	December 31, 2003	2004	2005	September 30, 2006 (unaudited)
Cash and cash equivalents	\$ 1,816	\$ 1,502	\$ 868	\$ 1,308	\$ 416	\$ 254
Total current assets	9,703	10,792	12,130	14,783	16,953	26,645
Non-current assets	2,865	3,008	3,743	5,554	5,633	6,157
Total assets	\$ 12,568	\$ 13,800	\$ 15,873	\$ 20,337	\$ 22,586	\$ 32,802
Total current liabilities	6,361	7,022	6,199	9,552	11,430	20,250
Total long-term liabilities	1,087	1,039	1,853	21,931	23,485	25,260
Total liabilities	\$ 7,448	\$ 8,061	\$ 8,052	\$ 31,483	\$ 34,915	\$ 45,510
Total stockholders' equity	\$ 5,120	\$ 5,739	\$ 7,821	\$ (11,146)	\$ (12,329)	\$ (12,708)

ARGYLE HISTORICAL FINANCIAL INFORMATION

	Nine Months Ended September 30, 2006 (unaudited)	Period from June 22, 2005 (inception) to September 30, 2005 (unaudited)	Period from June 22, 2005 (inception) to Year Ended December 31, 2005	Period from June 22, 2005 (inception) to September 30, 2006 (unaudited)
Revenues	\$ -	\$ -	\$ -	\$ -
Interest income on trust account	952,609	-	-	952,609
Net income/(loss)	71,066	(4,358)	(7,743)	63,323
Net loss allocable to holders of non-redeemable common stock	(81,875)	(4,358)	(7,743)	(89,618)
Net income/(loss) per share - basic and diluted	\$ 0.02	\$ (0.00)	\$ (0.01)	\$ 0.02
Weighted average number of shares outstanding - basic and diluted	4,375,600	937,500	937,500	2,951,666
Net income/(loss) per share exclusive of shares and related interest subject to possible redemption - basic and diluted	\$ (0.02)	\$ (0.00)	\$ (0.01)	\$ (0.04)
Weighted average number of shares outstanding exclusive of shares subject to possible redemption - basic and diluted	3,692,197	937,500	937,500	2,551,303

	At December 31, 2005	At September 30, 2006 (unaudited)
Total assets (including cash deposited in trust account in 2006)	\$ 304,353	\$ 30,063,620
Total liabilities	287,096	1,660,807
Common stock and deferred interest subject to possible redemption	-	5,612,376
Stockholders' equity	17,257	22,790,437

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following selected unaudited pro forma financial information combines Argyle's historical balance sheet and that of ISI as of September 30, 2006, giving effect to the transactions described in the purchase agreement as if they had occurred on September 30, 2006. Additionally, the financial information combines (i) Argyle's historical statement of operations from inception (June 22, 2005) to December 31, 2005 with those of ISI for the year ended December 31, 2005 and (ii) Argyle's historical statement of operations for the nine months ended September 30, 2006 with those of ISI, in each case giving effect to the acquisition as if it had occurred on January 1, 2005. The following selected unaudited pro forma condensed combined financial information is intended to provide you with a picture of what Argyle's business might have looked like had the acquisition been completed on or as of the dates specified above. The combined financial information may have been different had the acquisition actually been completed on or as of those dates. You should not rely on the selected unaudited pro forma condensed combined financial information as being indicative of the historical results that would have occurred had the acquisition occurred or the future results that may be achieved after the acquisition. The following selected unaudited pro forma condensed combined financial information has been derived from, and should be read in conjunction with, the Unaudited Pro Forma Condensed Consolidated Financial Statements and related notes thereto starting on page 67.

The following unaudited pro forma condensed financial information has been prepared using two different levels of approval of the acquisition by Argyle's stockholders, as follows:

- Assuming No Redemption of Shares: This presentation assumes that no stockholders exercised their redemption rights; and
- Assuming Redemption of 19.99% of Shares: This presentation assumes that holders of only 19.99% of Argyle's outstanding common stock exercise their redemption rights.

(in thousands, except per share data)

	At September 30, 2006	
	Assuming No Redemption of Shares	Assuming Redemption of 19.99% of Shares
Total assets	\$ 74,226	\$ 68,613
Line of credit	\$ 4,663	\$ 4,663
Long-term debt	\$ 6,088	\$ 6,088
Stockholders' equity	\$ 37,080	\$ 31,468

(in thousands, except per share data)

	For the Year Ended December 31, 2005		For the Nine Months Ended September 30, 2006	
	Assuming No Redemption of Shares	Assuming Redemption of 19.99% of Shares	Assuming No Redemption of Shares	Assuming Redemption of 19.99% of Shares
Revenue	\$ 39,234	\$ 39,234	\$ 41,234	\$ 41,234
Operating income/(loss)	\$ (1,063)	\$ (1,063)	\$ 454	\$ 454
Net loss	\$ (1,394)	\$ (1,394)	\$ (153)	\$ (267)
Net loss per share:				
Basic	\$ (0.23)	\$ (0.27)	\$ (0.03)	\$ (0.05)
Diluted	\$ (0.23)	\$ (0.27)	\$ (0.03)	\$ (0.05)

COMPARATIVE PER SHARE INFORMATION

The following table sets forth selected historical per share information and unaudited pro forma combined information as of September 30, 2006 and for the nine months then ended for Argyle and ISI giving effect to the acquisition as if it had occurred on September 30, 2006. Argyle is providing this information to aid you in your analysis of the financial aspects of the acquisition. The unaudited pro forma combined share information should be read in conjunction with the historical financial statements of Argyle and ISI and the related notes thereto included elsewhere in this proxy statement/prospectus.

The unaudited pro forma combined per share information does not purport to represent what the actual results of operations of Argyle and ISI would have been had the acquisition taken place on the dates noted, or to project Argyle's or ISI's results of operations that may be achieved after the acquisition.

	In thousands, except per share data		
	ISI	Argyle	Pro Forma Combined Company
Weighted average shares of common stock outstanding:			
Assuming no redemptions			
Basic	.10491	4,376	5,961
Diluted	.10491	4,376	6,917
Assuming maximum redemptions			
Basic	-	3,692	5,197
Diluted	-	3,692	6,152
Book value—assuming no redemptions	\$ (12,708)	\$ 28,403	\$ 37,080
Book value—assuming maximum redemptions	-	22,790	31,468
Book value per share—assuming no redemptions			
Basic	\$ (121,132)	\$ 6.49	\$ 6.22
Diluted	(121,132)	6.49	5.36
Book value per share—assuming maximum redemptions			
Basic	-	\$ 6.17	\$ 6.06
Diluted	-	6.17	5.12
Earnings/(loss) per share—assuming no redemptions			
Basic	\$ (3,606)	\$ 0.02	\$ (0.03)
Diluted	(3,606)	0.02	(0.03)
Earnings/(loss) per share—assuming maximum redemptions			
Basic	\$ -	\$ (0.02)	\$ (0.05)
Diluted	-	(0.02)	(0.05)

PRICE RANGE OF SECURITIES AND DIVIDENDS**Argyle**

Argyle's common stock, warrants and units are quoted on the OTC Bulletin Board under the symbols ARGL, ARGLW and ARGLU, respectively. The closing price for these securities on December 13, 2006, the last trading day before announcement of the acquisition, was \$7.41, \$1.36 and \$8.75, respectively. The closing price for the securities on _____, 2007, the most recent trading day practicable before the date of this proxy statement/prospectus, was

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\$____, \$____ and \$____, respectively

Argyle units commenced public trading on January 30, 2006, and common stock and warrants commenced public trading on March 2, 2006. The table below sets forth, for the calendar quarters indicated, the high and low bid prices for the securities as reported on the OTC Bulletin Board in U.S. dollars. These quotations reflect inter-dealer prices, without markup, markdown or commissions, and may not represent actual transactions.

	Common Stock		Warrants (US\$)		Units	
	High	Low	High	Low	High	Low
2006						
First Quarter	7.55	7.25	1.35	0.93	8.85	7.90
Second Quarter	7.45	7.22	1.56	1.02	8.86	8.00
Third Quarter	7.30	7.14	1.08	0.88	8.30	8.00
Fourth Quarter	7.45	7.15	1.55	0.75	8.80	7.94

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Holders of Argyle common stock, warrants and units should obtain current market quotations for their securities. The market price of these securities could vary at any time before the acquisition is completed.

Argyle anticipates that its securities will continue to be quoted on the OTC Bulletin Board post acquisition. There can be no assurance that a trading market will develop for these securities.

Holders of Argyle. As of November 30, 2006, there were of record six holders of common stock, four of warrants, and one of units. Argyle believes the number of beneficial holders of each of these securities is significantly greater than the number of record holders.

Dividends. Argyle has not paid any dividends on its common stock to date and does not intend to pay dividends prior to the completion of a business combination.

ISI

ISI securities are not publicly traded.

Holders. As of November 30, 2006, there were of record three holders of ISI common stock, and one holder of warrants. Immediately prior to the consummation of the merger between ISI and the Merger Subsidiary (assuming the merger is approved by Argyle's stockholders), \$10,000,000 of ISI's debt will be converted into ISI preferred stock, the holder of which will then receive a portion of the cash consideration to be paid to the ISI stockholders in the merger.

Dividends. As part of a recapitalization transaction in October 2004, ISI distributed \$16,935,340 to its stockholders. ISI does not intend to pay any other dividends in the foreseeable future.

Post Acquisition

The payment of dividends by the combined company in the future will be contingent upon revenues and earnings, if any, capital requirements and general financial condition subsequent to completion of the acquisition. The payment of any dividends subsequent to that time will be within the discretion of the Board of Directors serving at that time. It is the present intention of the Board to retain all earnings, if any, for use in business operations and, accordingly, it does not anticipate declaring any dividends in the foreseeable future. Loans or credit facilities may also limit the combined company's ability to pay dividends.

THE ARGYLE SPECIAL MEETING

Argyle is furnishing this proxy statement/prospectus to its stockholders as part of the solicitation of proxies by the Board of Directors for use at the special meeting in connection with the proposed acquisition of ISI. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the special meeting.

Date, Time and Place. Argyle will hold the special meeting at 10:00 a.m., San Antonio, Texas, time, on _____, 2007, at Concord Plaza, San Antonio, TX 78216 to vote on the proposals.

Purpose. At the special meeting, holders of Argyle common stock will be asked to approve:

- The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle;
 - The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;
- Amending Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.; and
- Amending Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the combination of a business combination that will no longer be operative upon consummation of the merger.
- The approval of any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

Pursuant to Argyle's Second Amended and Restated Certificate of Incorporation, Argyle is required to obtain stockholder approval of the acquisition of ISI. Pursuant to the merger agreement entered into by Argyle, Argyle's wholly-owned subsidiary, and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle's stockholders. ISI will have no options outstanding upon the closing of the merger and, therefore, Argyle is not assuming any options. ISI requested that the approval of the 2007 Omnibus Securities and Incentive Plan be a condition to the merger because, although Argyle is under no obligation to issue any options under the 2007 Omnibus Securities and Incentive Plan, Argyle should have the ability to reward its employees with equity compensation post merger, as might be determined by Argyle's Board of Directors or its Compensation Committee. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI even if the proposal to approve the merger has been approved.

Argyle's Board of Directors determined that the acquisition of ISI, the adoption of the 2007 Omnibus Securities and Incentive Plan, the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change of Argyle's name to Argyle Security, Inc. and the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the combination of a business combination are fair to and in the best interests of Argyle and its stockholders, approved and declared each of them advisable, and recommends that Argyle stockholders vote **"FOR"** the acquisition, the adoption of the 2007 Omnibus Securities and Incentive Plan, the amendment to the Second Amended and Restated Certificate of Incorporation to change Argyle's name and the amendment to the Second Amended and Restated Certificate of Incorporation to remove certain provisions which will no longer be applicable after the acquisition is

complete. The Board of Directors has also determined that the fair market value of ISI is at least 80% of Argyle's net assets, which is necessary to satisfy the provisions of its certificate of incorporation enabling it to consummate the acquisition.

The special meeting has been called only to consider approval of the acquisition, the approval of the 2007 Omnibus Securities and Incentive Plan, the amendment to Argyle's certificate of incorporation to change Argyle's name and the amendment to Argyle's certificate of incorporation to remove certain provisions which will no longer be applicable upon consummation of the acquisition. Under Delaware law and Argyle's bylaws, no other business may be transacted at the special meeting.

Record Date; Who is Entitled to Vote. The "record date" for the special meeting is _____, 2007. Record holders of Argyle common stock at the close of business on the record date are entitled to vote or have their votes cast at the special meeting. On the record date, there were 4,781,307 outstanding shares of Argyle common stock, of which 3,700,046 shares were sold to the public in Argyle's initial public offering. Each common share is entitled to one vote per proposal at the special meeting. Argyle's warrants do not have voting rights.

Pursuant to letter agreements with Argyle, Argyle's initial stockholders have agreed to vote 956,261 of their shares in accordance with the holders of a majority of the public shares voting in person or by proxy at the meeting and have agreed to vote the 125,000 of their shares purchased in the private placement immediately prior to Argyle's initial public offering and all shares acquired after such initial public offering in favor of all the proposals. If holders of a majority of the public shares cast at the meeting vote for or against, or abstain with respect to, a proposal, the initial stockholders will cast the 956,261 shares in the same manner as such majority votes on such proposal. No initial stockholders will demand redemption of any shares owned by them. The 125,000 shares that Argyle's initial stockholders will vote in favor of the proposals presented in this prospectus represent 2.6% of Argyle's outstanding shares of common stock. By voting these shares for the merger, Argyle's initial stockholders increase the number of shares held by Argyle's public stockholders that must be voted against the merger proposal to reject the proposal.

Vote Required. Approval of the acquisition requires the affirmative vote of a majority of the votes cast special meeting. The proposal to adopt the 2007 Omnibus Securities and Incentive Plan and to adjourn or postpone the special meeting will require the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting, and the change in Argyle's name and the amendment to the certificate of incorporation will require the affirmative vote of holders of a majority of Argyle's outstanding common stock. If the stockholders approve the acquisition, the acquisition will only proceed if holders of shares purchased in Argyle's initial public offering, representing no more than 20% of the total shares sold in the initial public offering and the private placement, exercise their redemption rights. Argyle's Board of Directors will abandon the acquisition if holders of 765,009 or more of the shares of common stock issued in Argyle's initial public offering (which number represents 20% of the total shares sold in Argyle's initial public offering and private placement) vote against the acquisition and exercise their right to cause Argyle to redeem their shares into a pro-rata portion of the trust account established at the time of Argyle's initial public offering. In addition, pursuant to the merger agreement entered into by Argyle, Argyle's wholly-owned subsidiary and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle's stockholders. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI.

Abstaining from voting or not voting on a proposal (including broker non-votes), either in person or by proxy or voting instruction, will not have an effect on the vote relating to the merger since our Second Amendment and Restated Certificate of Incorporation provides that only votes cast at the meeting will count towards the vote on the merger. With respect to the proposal relating to the 2007 Omnibus Securities and Incentive Plan an abstention will have the same effect as a vote against the proposal; however, a broken non-vote will have no impact on the vote on the proposal. Abstention and broker non-votes will have the same effect as a vote against adoption of the proposals relating to the amendments to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's name and to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger and the adjournment proposal. An abstention will not count toward the 20% "against and redeeming" vote that would result in the acquisition's abandonment, and you would be unable to exercise any redemption rights upon approval of the acquisition. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI's Board of Directors chooses not to waive the condition to the merger relating to the approval of the plan by Argyle's stockholders, Argyle will not be able to go forward with the acquisition of ISI.

Voting Your Shares. Each share of common stock that you own in your name entitles you to one vote per proposal. Your proxy card shows the number of shares you own.

There are three ways to vote your shares at the special meeting:

- *By signing and returning the enclosed proxy card.* If you vote by proxy card, your "proxy," whose names are listed on the proxy card, will vote your shares as you instruct on the card. If you sign and return the proxy card, but do not

give instructions on how to vote your shares, your shares will be voted as recommended by the Argyle Board “**for**” approval of each proposal.

- *By telephone or on the Internet.* You can vote this way by following the telephone or Internet voting instructions included with your proxy card. If you do, you should not return the proxy card.
- *You can attend the special meeting and vote in person.* We will give you a ballot when you arrive. If your shares are held in the name of your broker, bank or another nominee, however, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your shares.

Redemption Rights. Any holder of shares that were purchased in Argyle's initial public offering who votes against the acquisition may, at the same time, demand that Argyle redeem his or her shares into a pro rata portion of the funds in the trust account. If so demanded and the acquisition is consummated, Argyle will redeem the shares. If the holders of 765,009 or more shares issued in Argyle's initial public offering vote against the acquisition and demand redemption of their shares, Argyle will not have authority to consummate the acquisition. You will only be entitled to receive cash for these shares if you continue to hold them through the closing of the acquisition and then tender your stock certificate(s) to Argyle. If you exercise your redemption rights, then you will be exchanging your shares for cash and will no longer own these shares. **Do not send your stock certificate(s) with your proxy.**

The closing price of Argyle's common stock on December 29, 2006 was \$7.43, and the amount of cash held in the IPO trust account on September 30, 2006 was approximately \$29.1 million. If a public stockholder would have elected to exercise redemption rights on such date, he or she would have been entitled to receive approximately \$7.20 per share.

Questions About Voting. If you have any questions about how to vote or direct a vote in respect of your Argyle common stock, you may call Bob Marbut or Ron Chaimovski of Argyle, at (210) 828-1700. You may also want to consult your financial and other advisors about the vote.

Revoking Your Proxy and Changing Your Vote. If you give a proxy, you may revoke it or change your voting instructions at any time before it is exercised by:

- If you sent in a proxy, by sending another proxy card with a later date;
 - If you voted by telephone, by calling the same number and following the instructions;
 - If you voted by internet, by going to the same internet website and following the instructions;
 - Notifying 200 Concord Plaza, Suite 700, San Antonio, TX 78216, Attention: Bob Marbut, in writing before the special meeting that you have revoked your proxy; or
 - Attending the special meeting, revoking your proxy and voting in person.
- If your shares are held in "street name," consult your broker for instructions on how to revoke your proxy or change your vote.

Broker Non-Votes. If your broker holds your shares in its name and you do not give the broker voting instructions, National Association of Securities Dealers, Inc. (NASD) rules prohibit your broker from voting your shares on any of the proposals to which this proxy statement/prospectus relates. This is known as a "broker non-vote."

Solicitation Costs. Argyle is soliciting proxies on behalf of the Argyle Board of Directors. This solicitation is being made by mail, but also may be made in person or by telephone or other electronic means. Argyle and its respective directors, officers, employees and consultants may also solicit proxies in person or by mail, telephone or other electronic means. In addition, ISI stockholders, officers and directors may solicit proxies in person or by mail, telephone or other electronic means on Argyle's behalf. These persons will not be paid for doing this.

Argyle has not hired a firm to assist in the proxy solicitation process but may do so if it deems this assistance necessary. Argyle will pay all fees and expenses related to the retention of any proxy solicitation firm.

Argyle will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy materials to their principals and to obtain their authority to execute proxies and voting instructions. Argyle will reimburse them for their reasonable expenses.

Stock Ownership. Information concerning the holdings of certain Argyle stockholders is set forth above in the Summary and below under “Beneficial Ownership of Securities.”

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PROPOSAL TO ACQUIRE ISI

General

Pursuant to the merger agreement entered into by and among Argyle, the Merger Subsidiary and ISI, the Merger Subsidiary will, if and as soon as practicable after stockholders approve the acquisition, merge with and into ISI, with ISI being the surviving corporation and ISI being a wholly-owned subsidiary of Argyle.

On December 8, 2006, Argyle, Argyle's wholly-owned subsidiary ISI Security Group, Inc. (referred to in this document as the Merger Subsidiary) and ISI entered into a merger agreement pursuant to which the Merger Subsidiary will merge into ISI, and ISI will become a wholly-owned subsidiary of Argyle. Pursuant to the merger agreement, Argyle will pay ISI's security holders an aggregate of \$16,300,000 and 1,180,000 shares of Argyle's common stock (valued at \$8,673,000, based on the closing price of the common stock on January 30, 2007). In the event that ISI's earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), Argyle will pay the stockholders of ISI an additional \$1,900,000. The calculations of EBITDA and 2/28 backlog will be initially calculated by ISI and such calculations will be presented to Argyle. Argyle will verify the calculations, and if they are not accurate, object to the calculations. Pursuant to the merger agreement, if there is a dispute over the calculation of (i) EBITDA that cannot be resolved between the parties, the parties will engage a third party accountant to resolve the dispute, and (ii) 2/28 backlog, the ISI and Argyle must negotiate a resolution to the dispute among themselves. The calculation of ISI's EBITDA is subject to an adjustment of \$900,000 relating to certain events that Argyle and ISI agreed should not reduce the EBITDA calculation. For the nine months ended September 30, 2006, ISI's adjusted EBITDA was approximately \$4.1 million and the backlog (including inter-company amounts) was approximately \$75.8 million. The final purchase price is dependent upon the actual EBITDA results for 2006 and the backlog (including inter-company amounts) as of February 28, 2007.

The merger agreement contains representations by Argyle and ISI and representations to be made by ISI's stockholders upon closing. Argyle's representations include representations relating to litigation, the issuance of Argyle's common stock in the merger, fees to be paid upon consummation of the merger, the accuracy of Argyle's financial statements and money laundering laws. With respect to the Merger Subsidiary, Argyle makes certain representations including representations relating to its formation and ownership. ISI's representations include representations relating to capitalization and ownership, the accuracy of financial statements, accounts receivable, the accuracy of books and records, the absence of certain changes in ISI's business since the last audit, property owned, intellectual property, relationships with customers and suppliers, litigation, material agreements, licenses with permits, compliance with labor laws, the filing of tax returns, fees to be paid in connection with the merger and money laundering laws. At the closing of the merger, ISI's stockholders will make certain representations, including representations relating to the ownership of their securities in ISI, litigation, investment intent in Argyle's securities, and the assumption of risk of acquiring Argyle's securities. ISI also makes certain covenants relating to the conduct of its business between the time the merger agreement was signed and the consummation of the merger, including that it will not take certain actions without the permission of Argyle and that Argyle will have access to ISI's records. The parties to the merger agreement also make covenants relating to confidentiality, non-solicitation and non-competition.

Argyle approved certain transactions that ISI engaged in or would engage in before or after the signing of the merger agreement, including:

- The payment of up to a \$310,000 brokerage fee to James Raines;
- The leases for all the properties owned by Green Wing Management, Ltd., an affiliate of Sam Youngblood and Don Carr, used by ISI as office space in San Antonio, Texas; and
- A new lease for a property owned by Green Wing Management, Ltd. on the same terms and conditions as prior leases.

In connection with the merger, immediately prior to the merger, William Blair Mezzanine Capital Fund III, L.P. will convert \$10,000,000 of long term debt into shares of ISI preferred stock. Additionally, ISI will remain obligated to William Blair Mezzanine Capital Fund III, L.P. for approximately \$6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the \$6,000,000 of long-term debt described above, up to \$9,000,000 that may be outstanding pursuant to a revolving credit line, and any capitalized leases. As of December 31, 2006 there was approximately _____ outstanding under the credit line.

The \$6,000,000 obligation to William Blair Mezzanine Capital Fund III, L.P. will be evidenced by a promissory note to be executed by ISI at the closing of the merger. The promissory note will bear interest after closing at the rate of 11.58% per annum. In the event of a default, interest will accrue at the additional rate of 2% per annum after the occurrence and during the continuance of an event of default. The obligations evidenced in the promissory note are to be subordinate to the obligations owed by ISI to the holders of all notes issued pursuant to the revolving credit line. Interest accruing on the principal balance will be paid quarterly, and the outstanding principal balance shall become due at the conclusion of the 18-month term of the promissory note. No payment of principal is required during the 18-month term of the promissory note. Quarterly payments will be of current interest only; providing for a balloon payment of the full outstanding principal amount along with any additional accrued interest on the maturity date. There will be no prepayment penalty or fee.

Immediately prior to the merger, certain rights to acquire shares of ISI's common stock held by certain employees of ISI will vest and such employees will receive a portion of the consideration paid to ISI's security holders. No additional consideration will be paid by Argyle in connection with these rights and Argyle will not issue any securities in exchange for these rights.

Upon consummation of the merger, the former holders of ISI securities will own 19.8% of Argyle's issued and outstanding common stock (assuming none of Argyle's public stockholders exercise redemption rights with respect to the acquisition).

At the closing of the merger, each of the security holders of ISI will enter into a lock-up agreement with Argyle with respect to the shares that they acquire pursuant to the merger so that they will not be able to sell the shares (except to family members or affiliates) until the specified times expire. William Blair Mezzanine Capital Fund III, L.P. will acquire 440,288 shares in connection with the merger and will not be able to sell such shares until the earlier of six months after the closing of the acquisition or November 1, 2007, whichever is earlier. The remaining 739,712 shares that will be issued to Sam Youngblood and Don Carr, each an officer and director of ISI, Mark McDonald, the officer of a subsidiary of ISI and the Youngblood Trust, a trust for the benefit of Mr. Youngblood's family will not be able to be sold until January 24, 2009.

The merger agreement provides that Argyle will, within 30 days after the closing of the merger, file a registration statement relating to the resale of the shares of Argyle's common stock acquired by the stockholders of ISI, and that Argyle will use its commercially reasonable best efforts to have the registration statement declared effective by the SEC within 150 days after the closing of the merger.

The closing of the merger is subject to certain conditions, including the approval of the transaction by Argyle's stockholders and holders of fewer than 765,009 of the shares of Argyle's common stock sold in Argyle's initial public offering exercising their right to redeem their shares of common stock for cash. The stockholders of ISI will also be entitled to indemnification from Argyle if certain events occur, as described in the merger agreement. In the event that the merger is not consummated by July 1, 2007, either party may terminate the merger agreement without reason.

Following the merger, Argyle has agreed that it will negotiate employment agreements with Sam Youngblood, Don Carr, Mark McDonald and Tim Moxon. Other than the agreement that the term of the employment agreements will be five years for Mark McDonald and two years for the others, and that Sam Youngblood and Don Carr must be directors of ISI post merger, the agreements have not yet been negotiated, meaning that the employment agreements currently in place with those parties will remain in full force and effect until the new agreements take effect.

We sometimes refer to the Merger Subsidiary and ISI together, after giving effect to completion of the acquisition, as the "combined company."

Argyle anticipates that it will incur total transaction costs of approximately \$1.3 million. Such costs do not include transaction costs of approximately \$1.0 million anticipated to be incurred by ISI. Of the \$1.3 million of Argyle anticipated transaction costs, approximately \$.4 million relate to certain Giuliani Capital Advisors advisory fees which are contingent upon the closing of the transaction. Approximately \$.5 million of the \$.9 million in non-contingent anticipated costs has been incurred and recorded as of December 31, 2006. The \$.9 million primarily relates to Loeb & Loeb legal expenses, Giuliani Capital Advisors, fairness opinion, accountants and valuation consultants' fees, road show expenses, printer fees and other miscellaneous expenses. Argyle's cash outside the trust and accrued expenses as of December 31, 2006 was approximately \$.7 million and \$.6 million, respectively. Argyle expects to incur the remaining anticipated non-contingent transaction costs of \$.4 million over the first two quarters of 2007. Additionally, recurring monthly operating expenses of approximately \$75,000 per month have continued to accrue after December 31, 2006 and, in January 2007, Argyle renewed its directors and officers insurance policy which had a premium of \$88,000.

As a result of the foregoing, Argyle anticipates that the costs to consummate the acquisition will greatly exceed its available cash outside of the trust, and that Argyle will not be able to consummate the merger without receiving additional funds and/or reaching agreements with Argyle's service providers to defer their fees and expenses. Argyle expects that these expenses would ultimately be borne by the combined company from the funds held in trust if the proposed ISI acquisition is completed. If it is not, they would be subject to the potential indemnification obligations of Argyle's officers and directors to the trust account related to expenses incurred for vendors or service providers. If these obligations are not performed or are inadequate, it is possible that vendors or service providers could seek to recover these expenses from the trust account, which could ultimately reduce the amounts in the trust account and

reduce a stockholder's current pro rata portion of the trust account upon liquidation. As of January 31, 2007, Argyle has not entered into any formal arrangements with its professional service providers to defer their fees. However, they anticipate that certain providers may be agreeable to such deferral. Additionally, the officers of Argyle are considering various potential funding mechanisms; however, as of January 31, 2007, no additional financing has been provided or agreements reached.

Background

Argyle Security Acquisition Corporation is a Delaware corporation incorporated on June 22, 2005 in order to serve as a vehicle for the acquisition of an operating business through a merger, capital stock exchange, asset acquisition or other similar business combination. On January 24, 2006, Argyle completed a private placement and received net proceeds of approximately \$900,000. On January 30, 2006, Argyle consummated its initial public offering and received net proceeds of approximately \$27.3 million. Argyle's management has broad discretion with respect to the specific application of the net proceeds of the private placement and the public offering, although substantially all of the net proceeds of the offerings are intended to be generally applied toward consummating a business combination. Of the proceeds from the offerings, approximately \$28.7 million was deposited into a trust account. The amount in the trust account includes approximately \$1.4 million of contingent underwriting compensation and \$45,000 of contingent private placement fees which will be paid to Rodman & Renshaw LLC if a business combination is consummated, but which will be forfeited if a business combination is not consummated.

If Argyle does not consummate the business combination with ISI, it will continue to seek another target business until it is required to liquidate and dissolve pursuant to its certificate of incorporation. As provided in its certificate of incorporation, Argyle is required, by July 30, 2007, to consummate a business combination or enter a letter of intent, agreement in principle or definitive agreement relating to a business combination, in which case Argyle would be allowed an additional six months to complete the transactions contemplated by such agreement. Under its certificate of incorporation as currently in effect, if Argyle does not acquire at least majority control of a target business by at latest January 30, 2008, Argyle will dissolve and distribute to its public stockholders the amount in the trust account plus any remaining net assets.

Shortly after Argyle's initial public offering in January 2006, it actively started to seek a target business for a business combination. In the months