Argyle Security Acquisition CORP
Form PRER14A
June 27, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the registrant o

Check the appropriate box:

x Preliminary Proxy Statement

o **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))]**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Argyle Security Acquisition Corporation
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: None

(2) Aggregate number of securities to which transaction applies: None

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): Calculated based on the purchase price of $44,505,000 in cash, securities and assumed debt

(4) Proposed maximum aggregate value of transaction: $44,505,000

(5) Total fee paid: $1,379

x Fee paid previously with preliminary materials: $1,188.09

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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 physical security solutions to commercial, governmental, and correctional customers. Approximately 70% of the total revenue of ISI is derived from work performed for general contractors, whereas approximately 30% comes from work performed directly for the end user. 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. ISI does not manufacture any products.

The security systems that ISI provides to its customers are "fully integrated security systems." This means that ISI develops a customized solution for its 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 communication is made possible because of the proprietary development software that ISI has created. ISI does not sell or license this software. ISI customers get "one-stop" shopping for customized solutions to their physical security needs. The customer can look to ISI as the sole source for the solution to all of its physical 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, as amended on June ___, 2007, pursuant to which Argyle will pay ISI's security holders an aggregate merger consideration of approximately $44,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President;

· 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 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 merger 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 merger 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 merger and demand redemption of their shares. In the event that the merger 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 $18,600,000, 1,180,000 shares of Argyle's common stock and promissory notes in the aggregate principal amount of $1,925,000.

The consideration will be paid to the security holders of ISI as follows:

Name	Cash Consideration ($)(1)	Promissory Note Consideration ($)(1)	Stock Consideration (1)
William Blair Mezzanine Capital Fund III, L.P.	11,170,323	561,031	497,326
Sam Youngblood	4,208,816	767,908	386,221
Don Carr	2,073,626	378,223	190,233
Mark McDonald	715,126(2)	136,463	66,108
Tim Moxon	121,001	22,923	11,214
Robert Roller	186,528	34,957	17,337
Neal Horman	124,581	23,496	11,561

(1) These amounts do not reflect the payment of certain expenses payable upon consummation of the merger by the stockholders.

(2) Mr. McDonald will remit a portion of the proceeds in this column, after any deductions required by law in respect of taxes and the payment of certain other expenses, to ISI as payment in full of the principal and accrued interest due and payable under the terms and conditions of a secured promissory note and security agreement executed by Mr. McDonald in favor of ISI. The principal amount of the promissory note is $214,500. The remaining amount of proceeds shall belong to Mr. McDonald. No loans to Mr. McDonald or any other officer or director of ISI will remain outstanding after the closing of the merger.

After the merger, 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 April 16, 2007 there was approximately $5.7 million outstanding under the credit line.

After completion of the merger, 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 post-merger Argyle, its initial stockholders, including its officers and directors, will own approximately 18.1% of post-merger Argyle, and former ISI stockholders will own approximately 19.8% of post-merger Argyle. Currently, it is not anticipated that any of the current stockholders of ISI will be an officer or director of post-merger Argyle. However, post merger, the officers and directors of Argyle and ISI combined will beneficially own approximately 29.1% 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 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.

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,

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, as amended on June ___, 2007, pursuant to which Argyle will pay ISI's security holders an aggregate merger consideration of approximately $44,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President;

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 proposed merger of ISI into a wholly-owned subsidiary of Argyle. 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.

The Board of Directors has fixed the record date as the close of business on June 15, 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 amending Second Amended and Restated Argyle's Certificate of Incorporation.

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

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If you would like additional copies of this proxy, 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

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.

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SUMMARY OF THE MATERIAL TERMS OF THE MERGER

This Proxy 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 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 the merger 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 $18,600,000, 1,180,000 shares of Argyle’s common stock and unsecured promissory notes in the aggregate principal amount of $1,925,000. The cash portion of the purchase price includes $1,900,000 that ISI's stockholders are entitled to receive because ISI’s adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 were greater than $4,500,000 and its backlog of orders at February 28, 2007 was greater than $80,000,000 (including inter-company amounts) and $400,000 that Argyle agreed to pay the security holders of ISI pursuant to an amendment to the merger agreement dated June ___, 2007. Argyle agreed to issue the promissory notes to the security holders of ISI in the June __, 2007 amendment. The promissory notes are convertible into shares of Argyle’s common stock at a conversion price of $10 per share. See the section entitled “Proposal to Acquire ISI.”

The security holders of ISI will receive the following consideration:

Name	Cash Consideration ($)	Promissory Note Consideration ($)(1)	Stock Consideration	Cash Consideration after the payment of certain expenses ($) (1)	Stock Consideration after the payment of certain expenses (1)
William Blair Mezzanine Capital Fund III, L.P.	11,170,323	561,031	497,326	11,170,323	486,237
Sam Youngblood	4,208,816	767,908	386,221	4,026,069	392,496
Don Carr	2,073,626	378,223	190,233	1,983,616	193,323
Mark McDonald	715,126	136,463	66,108	683,853(2)	67,181
Tim Moxon	121,001	22,923	11,214	115,698	11,396
Robert Roller	186,528	34,957	17,337	178,328	17,619
Neal Horman	124,581	23,496	11,561	119,114	11,748

(1) These columns give effect to the payment, post transaction, of an aggregate of $323,000 by the listed stockholders other than William Blair Mezzanine Capital Fund III L.P. to WFG Investments, Inc. William Blair Mezzanine Capital Fund III L.P. will then transfer to each of the other stockholders an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc.

(2) Mr. McDonald will remit a portion of the proceeds in this column, after any deductions required by law in respect of taxes and the payment of certain other expenses, to ISI as payment in full of the principal and accrued interest due and payable under the terms and conditions of a secured promissory note and security agreement executed by Mr. McDonald in favor of ISI. The principal amount of the promissory note is $214,500. The remaining amount of proceeds shall belong to Mr. McDonald. No loans to Mr. McDonald or any other officer or director of ISI will remain outstanding after the closing of the merger.

- After the merger, 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 April 16, 2007 there was approximately $5.7 million debt outstanding under the credit line.

- 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 merger agreement contains representations by Argyle and ISI and representations to be made by ISI's stockholders upon closing. 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. See the section entitled "Proposal to Acquire ISI."

- 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.

- 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 receive 497,326 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. However, William Blair Mezzanine Capital Fund III L.P. will then transfer to each of the other stockholders of ISI an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc.The remaining 682,674 (not including the 11,089 shares to be transferred to them by William Blair Mezzanine Capital Fund III L.P. post transaction) shares that will be issued to the remaining stockholders of ISI, will not be able to be sold until January 24, 2009. See the section entitled "Proposal to Acquire ISI."

Argyle's Board of Directors received a fairness opinion, dated December 8, 2006, from Giuliani Capital Advisors indicating that the merger consideration as stipulated in the merger agreement 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 contains disclosure of backlog (including "Total Backlog" and "Net 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, or the SEC. 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. Total Backlog is the aggregate backlog of ISI's three operating divisions, before intercompany eliminations. Net Backlog is the amount remaining after intercompany eliminations are applied to Total Backlog. Backlog may not be comparable to similarly titled measures reported by other companies. Backlog is not a recognized term under U.S. GAAP, and backlog should be considered in addition to, and not as substitutes for, or superior to, operating income, cash flows, revenues, or other measures of financial performance prepared in accordance with generally accepted accounting principles. Backlog is not 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.

Q. **Why is Argyle proposing the merger?**

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 merger with 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 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 merger?**	A. Under Argyle's Second Amended and Restated Certificate of Incorporation, approval of the merger 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 merger, the merger 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 merger 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 merger pursuant to its Second Amended and Restated Certificate of Incorporation.
Q. **What vote is required to adopt the amendments to the certificate of incorporation**	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.

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.

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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 merger. 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. Immediately prior to the Closing, ISI employees Mark McDonald, Tim Moxon, Butch Roller, and Neal Horman will automatically receive an aggregate of 14.10 shares of common stock in ISI (7.00 shares, 2.00 shares, 3.05 shares and 2.05 shares, respectively). Upon the delivery of these shares, 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**	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

proposal?	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 merger, 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 merger and at the same time demand that Argyle redeem your shares for cash. If, notwithstanding your vote, the merger 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 and $600,000 of interest earned on the trust account that was removed from the trust account to fund Argyle's working capital). As of March 31, 2007, there was approximately $29.7 million in the trust account. After taking into account taxes payable of $5,064 and amounts owed to the underwriter for the private placement ($45,000 plus interest) you would receive approximately $7.75 if you exercised your redemption rights. The redemption amount as of March 31, 2007 (approximately $7.75) is less than the liquidation amount (approximately $8.03) 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 private placement fee proceeds attributable to the units sold in Argyle's private placement that took place immediately prior to its initial public offering and the proceeds to Argyle of that offering. You will be entitled to receive this cash only if you continue to hold your shares through the closing of the merger 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. If the business combination is consummated, redeeming stockholders will be sent instructions on how to tender their shares of common stock and when they should expect to receive the redemption amount. Stockholders will not be requested to tender their shares of common stock before the business combination is consummated.**
Q. **Do Argyle stockholders have dissenter or appraisal rights under Delaware law?**	A. No.

Q. **What happens post-merger to the funds deposited in the trust account?**

A. Argyle stockholders exercising redemption rights will receive their pro rata portion of the trust account as calculated pursuant to the question preceding this question. 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 merger.

Q. **What happens if the merger 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 latest 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 relating to risks associated with the dissolution of Argyle.

Q. **When do you expect the merger to be completed?**

A. If the merger is approved at the special meeting, Argyle expects to consummate the merger 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**

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

to instruct my broker to vote?	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 adjourment 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

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. **You should carefully read this entire Proxy Statement 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. As of March 31, 2007, approximately $29.7 million was held in the trust account.

If the merger between ISI and Argyle's subsidiary 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 merger 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 March 31, 2007, Argyle has incurred expenses of $634,427 for consulting and professional fees, $130,632 for stock compensation, $183,519 for franchise taxes, $104,411 for insurance expense, $78,019 for rental expense pursuant to Argyle's lease of office space, $24,020 of investor relations expense and other operating and formation costs of $167,908. Up to and including March 31, 2007, Argyle's trust account has earned interest of $1,712,898 and its funds outside the trust account earned interest of $24,020. Until Argyle enters into a business combination, it will not generate operating revenues.

Regarding the stock compensation cost discussed in the preceding paragraph, on July 13, 2005, Argyle granted to its officers, directors and their respective affiliates certain options, which were exercisable only in the event the underwriters in Argyle's initial public offering exercised the over-allotment option, to purchase that number of shares enabling them to maintain their 20% ownership interest in Argyle (without taking into account the units they purchased in the private placement). The measurement date was deemed to be January 30, 2006, the date the over-allotment was exercised because the number of options to be issued was not known until that date. The underwriters exercised the over-allotment option in the amount of 75,046 units. On February 1, 2006, the officers and directors exercised their options and purchased 18,761 units for an aggregate cost of $507. The compensation cost, recorded as operating expenses in the first quarter of 2006, resulting from these share-based payments was $130,632 and was calculated using the Black-Scholes pricing model.

Argyle expects to use up to approximately $20.9 million (including Argyle and ISI transaction costs) of the net proceeds of the initial public offering to acquire ISI. After paying off any expenses relating to the identification and evaluation of prospective acquisition candidates, the structuring, negotiation and consummation of the business combination and paying for the redemption of the stock of any of Argyle's stockholders who choose to exercise their redemption rights, any residual proceeds from Argyle's initial public offering will be used by Argyle as working capital.

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 to be incurred by ISI (related primarily to anticipated attorney, brokerage and accounting fees). Of the $1.3 million of Argyle-anticipated transaction costs, approximately $0.4 million relate to certain Giuliani Capital Advisors' advisory fees which are contingent upon the closing of the transaction. Approximately $0.7 million of the $0.9 million in non-contingent anticipated costs had been incurred and recorded as of March 31, 2007. The $0.9 million primarily relates to Loeb and Loeb legal expenses, fees for Giuliani Capital Advisors' fairness opinion, accountants and valuation consultants' fees, roadshow expenses, printer fees and other miscellaneous expenses. Argyle's cash outside the trust and accrued expenses as of March 31, 2007 was approximately $0.1 million and $0.6 million, respectively. Argyle expects to incur the remaining anticipated non-contingent transaction costs of approximately $0.2 million during the second quarter of 2007. Additionally, recurring monthly operating expenses of approximately $80,000 per month will continue to accrue after March 31, 2007.

On April 16, 2007, Argyle's officers and directors, an affiliate of Bob Marbut, Argyle's Chairman and Co-Chief Executive Officer, and certain of Argyle's consultants, pursuant to a note and warrant acquisition agreement, loaned Argyle an aggregate of $300,000 and in exchange received promissory notes in the aggregate principal amount of $300,000 and warrants to purchase an aggregate of 37,500 shares of Argyle's common stock. Pursuant to the agreement, the holders of the warrants may not exercise or transfer the warrants until Argyle consummates a business combination and were granted demand and piggy-back registration rights with respect to the shares of common stock underlying the warrants. The warrants are exercisable at $5.50 per share of common stock and expire on January 24, 2011. The warrants also may be exercised on a net-share basis by the holders of the warrants. The promissory notes bear interest at a rate of 4% per year and are repayable 30 days after Argyle consummates a business combination.

Argyle anticipates that the costs to consummate the acquisition will greatly exceed its available cash outside of the trust, even after the proposed financing discussed above. Argyle has not sought and does not anticipate seeking any fee deferrals. Argyle expects these costs would ultimately be borne by the combined company from the funds held in trust if the proposed ISI acquisition is completed. If the acquisition is not completed, the costs 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 deplete the trust account and reduce a stockholder's current 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, combine third-party hardware and 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. Approximately 70% of the total revenue of ISI is derived from work performed for general contractors, whereas approximately 30% comes from work performed directly for the end user. ISI does not manufacture any hardware. The only software that is sold to customers is either licensed from third parties in the name of the customer, or the license is purchased by ISI and transferred to the customer. ISI utilizes a proprietary software suite called TotalWerks to resolve communication problems between the hardware and software of different manufacturers. This software is essentially a combination of adaptations that ISI has developed on a project-by-project basis over several years. The TotalWerks software is not sold to customers.

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.

Most transactions in which an operating division of ISI becomes involved result in a contract with a customer who is an owner of or a construction manager for a correctional construction project or a commercial/industrial/educational/healthcare facility building or campus (where ISI is a prime contractor), or an agreement with a general contractor or electrical contractor on a correctional construction project (where ISI is a subcontractor). ISI may seek these projects on its own as a stand-alone vendor or as part of a team that has been assembled to pursue the project. Since ISI's inception, approximately 70% of ISI's consolidated revenues have been generated in the capacity of a sub-contractor.

A team is typically assembled by a general contractor, architect, engineer, developer, or a private correctional facility operator to submit a proposal to negotiate with a customer or submit a competitive bid on a project. In these teams, ISI is the "Security Solutions Principal". The members of the team negotiate the amount and terms of the contract for their respective parts of the project. This means that ISI (and the other construction related members of the team) enter into a contract with a general contractor without having to directly participate in a bid competition. This can occur because the members of the "team" have previously worked together, and the team members have experience in dealing with most, if not all, of the other team members, and know their capabilities. Once the security and other components of the proposal are completed, the team submits the proposal in a competition or commences negotiations with the ultimate customer. For purposes of actually submitting the proposal, a "lead contractor" structure is utilized. This means that the principals on the team enter into agreements with the general contractor, and the construction portion of the team's proposal is submitted in the name of the general or lead contractor. While all operating divisions participate in this team approach, it is most commonly used by ISI-Detention.

Contracts with owners, construction managers, general contractors and electrical subcontractors are pursued in both competitively bid situations and negotiated transactions. These constitute approximately 90% of ISI's annual project volume. Additionally, much of the work contracted by MCS-Detention is performed as a subcontractor to ISI-Detention. In the past, as much as 50% of ISI's revenues were generated by bonded contracts (those contracts that required performance and payment bonds). However, after ISI added its commercial division (MCS-Commercial), this sector, which has far less bonded work than the detention market, has grown at a rate faster than ISI's companywide revenues. Consequently, ISI's companywide revenues generated by bonded work have decreased to 34% of its total revenues in 2006.

ISI-Detention 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 total job backlog, and the 4th largest overall revenues.

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. On June ___, 2007, Argyle, the Merger Subsidiary and ISI entered into an amendment to the merger agreement pursuant to which the security holders of ISI would receive an additional $400,000 in cash and unsecured promissory notes in the aggregate amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share (unless the context indicates otherwise, as used in this proxy statement, the term merger agreement means the merger agreement as amended by the June ___ amendment). The parties entered into the amendment because it was clear that the merger agreement would not be completed by July 1, 2007, the date specified in the merger agreement as the date on which either party could terminate the merger agreement without cause. Pursuant to the merger agreement, as amended, Argyle will pay ISI's security holders an aggregate merger consideration of approximately $44,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President.

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 by Argyle's stockholders of the merger and the equity incentive plan described below after the merger.

The security holders of ISI will receive the following consideration:

Name	Cash Consideration ($)	Promissory Note Consideration ($)(1)	Stock Consideration	Cash Consideration after the payment of certain expenses ($) (1)	Stock Consideration after the payment of certain expenses (1)
William Blair Mezzanine Capital Fund III, L.P.	11,170,323	561,031	497,326	11,170,323	486,237
Sam Youngblood	4,208,816	767,908	386,221	4,026,069	392,496
Don Carr	2,073,626	378,223	190,233	1,983,616	193,323
Mark McDonald	715,126	136,463	66,108	683,853(2)	67,181
Tim Moxon	121,001	22,923	11,214	115,698	11,396
Robert Roller	186,528	34,957	17,337	178,328	17,619
Neal Horman	124,581	23,496	11,561	119,114	11,748

(1) These columns give effect to the payment, post transaction, of an aggregate of $323,000 by the listed stockholders other than William Blair Mezzanine Capital Fund III L.P. to WFG Investments, Inc. William Blair Mezzanine Capital Fund III L.P. will then transfer to each of the other stockholders an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc.

(2) Mr. McDonald will remit a portion of the proceeds in this column, after any deductions required by law in respect of taxes and the payment of certain other expenses, to ISI as payment in full of the principal and accrued interest due and payable under the terms and conditions of a secured promissory note and security agreement executed by Mr. McDonald in favor of ISI. The principal amount of the promissory note is $214,500. The remaining amount of proceeds shall belong to Mr. McDonald. No loans to Mr. McDonald or any other officer or director of ISI will remain outstanding after the closing of the merger.

After the merger, ISI will remain obligated to the William Blair Mezzanine Capital Fund III, L.P. for approximately $6,000,000 of long-term debt described above, and up to $9,000,000 that may be outstanding pursuant to a revolving credit line, of which approximately $5.7 million was outstanding as of April 16, 2007.

Pursuant to the merger agreement, upon completion of the merger, Argyle will become obligated to pay up to $2,000,000 (as of March 31, 2007, the amount due was $1,854,952) in satisfaction of ISI's obligation to ISI*MCS, Ltd., an entity created and owned by Sam Youngblood (ISI's Chief Executive Officer) and Don Carr (ISI's President) solely to make performance and payment bonds available to ISI.

After the closing of the merger: (i) ISI*MCS will not be paid any fees by ISI or Argyle; (ii) ISI*MCS will not enter into any new bonded contracts for ISI, Argyle or any third party; (iii) ISI*MCS will not subcontract any new contracts to ISI, any of its subsidiaries, or Argyle; (iv) ISI*MCS will not retain any of the receivables paid after the closing of the merger on the work performed by ISI on the bonded contracts; (v) if ISI*MCS receives any payments after the closing of the merger for work performed on bonded contracts, those payments are required to be immediately forwarded to ISI; (vi) ISI*MCS will remain in existence only so long as there is work remaining to be done on the unfinished contracts that remain as of the date of the closing of the merger.

ISI*MCS will remain responsible to its customers for the performance of all bonded contracts that it entered into as of the closing of the merger. However, each of those bonded contracts was subcontracted to ISI. As of March 31, 2007, there remained $27,501,711 of unfinished work on the bonded contracts entered into by ISI*MCS prior to the merger, all of which was subcontracted to ISI for full performance. ISI is obligated to fully perform all of the unfinished work, and if ISI completes the work, ISI*MCS will have no further liability or responsibility for the bonded contracts.

The promissory notes to be issued to the security holders of ISI will be unsecured and subordinated to the outstanding debt of ISI post-merger. In addition, the promissory notes will (i) be in a form mutually acceptable to Argyle and ISI, (ii) bear interest at the rate of 5% per year, payable semi-annually, (iii) mature five years from the date of issuance, (iv) be convertible (in whole or in part) into shares of Argyle's common stock at the election of the holder of each promissory note at any time after January 1, 2008 at a price per share of $10.00, and (v) be redeemable at Argyle's election after January 1, 2009, at a price per share of $10.00.

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 additional 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. Holders of stock purchased in Argyle's initial public offering will own 62.1% of Argyle's post-acquisition outstanding common stock, a reduction of 15.3% from the 77.4% they currently own. 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 497,326 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. However, William Blair Mezzanine Capital Fund III L.P. will then transfer to each of the other stockholders of ISI an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc. The 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.

Stockholders of ISI

The following persons are the current stockholders of ISI and their respective beneficial ownership percentages are shown:

Owner	Number of Shares of Common Stock	Beneficial Ownership Percentage	Beneficial Ownership Assuming Exercise of all Outstanding Derivative Securities
Sam Youngblood	67(1)	63.9%	39.9%
Don Carr	33	31.4%	19.6%
Mark McDonald	11.9064(2)	10.6%	7.1%
Tim Moxon	2.000(3)	1.9%	1.2%
Robert Roller	3.050(3)	2.8%	1.8%
Neal Horman	2.050(3)	1.9%	1.2%
William Blair Mezzanine Capital Fund III, L.P.	48.950(4)	31.8%	29.14%

100.00%

(1) Includes 4 shares of common stock owned by the Youngblood Trust of which Sam Youngblood is trustee.

(2) Includes 7 shares of common stock to be awarded pursuant to the right described in Footnote 3.

(3) Consists of rights granted to certain key employees to be granted up to 14.100 shares of ISI's common stock immediately prior to the consummation of a merger. These rights will not be assumed by Argyle. For purposes of this presentation, it has been assumed that such shares are currently beneficially owned. Therefore, the shares underlying the rights are deemed to be outstanding for the purpose of computing the percentage ownership of the key employees, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. If the shares underlying the rights were deemed to be outstanding for the purposes of calculating the percentage ownership of each other person (as they are in the next column), the percentage ownership of each other person would be reduced such that the total percentage ownership for all persons would equal 100%.

(4) Consists of shares of common stock issuable upon exercise of a warrant, which is not exercisable until immediately prior to the consummation of an acquisition of ISI. For purposes of this presentation, it has been assumed that such shares are currently beneficially owned. Therefore, the shares underlying the warrant are deemed to be outstanding for the purpose of computing the percentage ownership of William Blair Mezzanine Capital Fund III, L.P., but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. If the shares underlying the warrant were deemed to be outstanding for the purposes of calculating the percentage ownership of each other person (as they are in the next column), the percentage ownership of each other person would be reduced such that the total percentage ownership for all persons would equal 100%.

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 merger. Promptly after obtaining approval from its stockholders to proceed with the merger with ISI, Argyle, Merger Subsidiary and ISI will consummate the merger. Each public stockholder has the right to vote against the proposed merger and elect to redeem his, her or its shares for their pro rata portion of the trust account.

However, notwithstanding adoption of the merger proposal, the merger will only proceed if holders of no more than 20% of the total shares sold in Argyle's initial public offfering and the private placement exercise their redemption rights and vote against the proposed merger. 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 merger and elect to exercise their redemption rights, Argyle's Board of Directors will abandon the merger, notwithstanding approval of a majority of its stockholders. If the maximum permissible number of shares elect redemption without Argyle being required to abandon the merger, as of March 31, 2007, a total of approximately $5.9 million of the trust account would have been disbursed, leaving approximately $23.8 million available for the merger with 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 of Argyle's officers and directors to indemnify Argyle remain in effect and extend to transaction expenses to be incurred in connection with Argyle's seeking to complete the ISI merger. 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. As of March 31, 2007, we believe that the indemnity obligation of Argyle's officers and directors could total approximately $319,000, which is equal to the amount of accrued expenses, less amounts relating to vendors for which Argyle has received a waiver of each such vendor's right to sue the trust account. Vendor letters requesting a waiver were sent out to Argyle's significant vendors in the first half of 2006, and a total of six consultants and vendors agreed to the waiver. If all of the consultants and vendors who previously agreed to the waivers subsequently challenge the validity of such waivers, the indemnity obligation of our officers and directors as of March 31, 2007 would increase by approximately $272,000. If the merger is not consummated, Argyle anticipates the obligations would total approximately $600,000. Argyle does not have sufficient funds outside of trust to pay this obligation. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not, however, signed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

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 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 original merger agreement was fair from a financial point of view to Argyle. The fairness opinion provided by Giuliani Capital Advisors LLC is based on the merger consideration described in the original merger agreement and not as the merger agreement was amended on June ___, 2007, pursuant to which Argyle agreed to pay the stockholders of ISI additional consideration of $400,000 in cash and unsecured promissory notes in the aggregate principal amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share. Argyle did not seek an updated fairness opinion because it would have taken an extended period of time to get a new fairness opinion and because the increase in consideration was relatively small. The full text of Giuliani Capital Advisors' written opinion, dated December 8, 2006, is attached as Annex A to this Proxy Statement. We urge you to read the opinion and the section "Fairness Opinion" beginning on page 41 of this Proxy Statement 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. For its services related to the Fairness Opinion, Giuliani Capital Advisors is owed a fee equal to $200,000. The fee for the fairness opinion was negotiated by Argyle and Giuliani Capital Advisors. We believe the amount of this fee is consistent with industry custom and practice for the preparation of a fairness opinion. The fairness opinion fee is not contingent upon consummation of the proposed merger and can not be credited against the success fee payable to Giuliani Capital Advisors upon consummation of the proposed merger. In addition to the fairness opinion fee, Giuliani Capital Advisors will be paid a separate fee for its advisory services (a total of approximately $0.4 million, such amount is to be definitively determined upon the final amount of transaction consideration) if the merger is consummated. Fees to be paid to Giuliani Capital Advisors will total approximately $0.6 million, including all contingent fees (advisory fee of $0.4 million in the event the proposed merger is consummated) and non-contingent fees (fairness opinion fee of $0.2 million regardless of whether the merger is consummated).

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 relating to risks associated with the dissolution of Argyle.

Conditions; Termination. Approval of the merger with ISI by holders of a majority of the votes cast at a meeting of stockholders is a condition to Argyle's consummating the merger. 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 merger 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 300,000 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 700,000 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.

The Merger Agreement and Related Documents. The merger agreement, including the amendment to the merger agreement entered into on June __, 2007, 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. 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, including the amendment to the merger agreement entered into on June __, 2007, which is attached as Annex D in this prospectus/proxy statement, is incorporated by reference into this 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.

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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 merger with 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 merger with ISI, even if the proposal to approve the merger has been approved by Argyle's stockholders.

Notwithstanding approval of the merger, the merger 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 were 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 merger may demand that Argyle redeem his or her shares for cash, but such stockholder will only receive the redemption amount if the merger 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 merger, on the form of proxy card voted against the merger. If you so demand, and the merger 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 in connection with the private placement that occurred immediately prior to Argyle's initial public offering and the amounts representing the net proceeds of Argyle's private placement as of two business days prior to the consummation of the merger. You will be entitled to receive cash for your shares only if you continue to hold your shares through completion of the merger 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. If the business combination is consummated, redeeming stockholders will be sent instructions on how to tender their shares of common stock and when they should expect to receive the redemption amount. Stockholders will not be requested to tender their shares of common stock before the business combination is consummated.**

The merger 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 merger is not consumated 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 with which to effect a business combination.

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

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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'sRecommendation; Interests of Argyle's Management

After careful consideration, Argyle's Board of Directors has determined that the merger 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 merger that are different from, or in addition to, yours. These interests include the following:

· If the proposed merger 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. As of March 31, 2007, we believe that the maximum amount the indemnity obligation of Argyle's officers and directors could be is approximately $319,000, which is equal to the amount of accrued expenses, less approximately $272,000 relating to vendors for which Argyle has received a waiver of each such vendor's right to sue the trust account. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not, however, signed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

· 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 merger pursuant to provisions in Argyle's Second Amended and Restated Certificate of Incorporation. However, if the merger 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 merger is ultimately completed, the combined company's ability to perform such obligations will be substantially enhanced.

- Argyle's financial, legal and other advisors have rendered services for which they may not be paid if the acquisition is not approved, and certain of them may have the opportunity to provide additional services to Argyle in the future. In connection with the ISI negotiations, the drafting of the merger agreement and this Proxy Statement, Argyle's counsel, Loeb & Loeb LLP has provided approximately $263,000 of services for which it had not been paid as of March 31, 2007. As of March 31, 2007 Giuliani Capital Advisors is owed a fee of $200,000 for its fairness opinion that has not been paid and, if a business combination is completed, will be entitled to receive from Argyle an advisory fee of approximately $0.4 million. Rodman & Renshaw LLC, the representative of the underwriters in Argyle's initial public offering, will receive deferred underwriting fees of approximately $1.4 million from the trust account (assuming that no stockholders exercise their redemption rights). As of March 31, 2007, Ernst & Young LLP, Argyle's auditors, was owed $68,037 for audit and transaction related services. Subsequent to March 31, 2007, Argyle paid Loeb & Loeb LLP $50,000 and paid Ernst & Young $68,037.

- 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 will be negotiated following the merger 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 March 30, 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.

	Securities in which named individual has a pecuniary interest		Value of such securities as of March 30, 2007 ($)		Aggregate Initial Purchase Price of Securities ($)		Gain on Securities as of March 30, 2007
Name	Shares	Units	Shares	Units	Shares	Units	($)
Bob Marbut	371,228	93,750	2,765,649	768,750	10,023	750,000	2,774,376
Ron Chaimovski	290,512	31,250	2,164,314	256,250	7,844	250,000	2,162,720
Wesley Clark	71,720	0	534,314	n/a	1,936	n/a	532,378
John J. Smith	47,813	0	356,207	n/a	1,291	n/a	354,916

Certain U.S. Federal Income Tax Consequences

U.S. federal income tax consequences of this acquisition are described in summary form on page 45 of this Proxy Statement.

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 merger with 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, 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 has hitorically accounted for 100% 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. All such licenses are subject to audit by the relevant goverment agency. ISI's 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 has been subject to one audit of its licensing. In 2005, the Arkansas Licensing Board conducted a hearing regarding the renewal of ISI's Contractor License for the State of Arkansas. The outcome of the hearing was successful, and ISI was issued a Contractor's License.

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.

Performance and payment bonds are an important component of ISI's business, because many customers require that performance and payment bonds be delivered to the customer before the customer will enter into a contract. Approximately 39% of contract revenues and 34% of overall company revenues for 2006 were generated by "bonded" contracts (contracts that require performance and payment bonds), and approximately 37% of ISI revenues in the past three years have been derived from bonded contracts. Without bonding capacity, ISI would not be able to secure many of its contracts.

Since 2004, bonding capacity has been made available to ISI through ISI*MCS, an entity created and owned by Sam Youngblood and Don Carr. Mr. Youngblood owns 67% of ISI*MCS, and Mr. Carr owns 33% of ISI*MCS. As a result of ISI's negative equity reflected on its 2004 balance sheet, Messrs. Carr and Youngblood founded

ISI*MCS with $1 million in cash and $1.498 million of accounts receivable paid to them as a management bonus from ISI. The accounts receivable contributed to ISI*MCS by Messrs. Youngblood and Carr represented current balances that were due and owing to ISI as of September 30, 2004. The accounts receivable have been almost fully collected by ISI ($87,341 remains outstanding as of March 31, 2007), but the payments have not been forwarded to ISI*MCS. No demand has been made upon ISI for payment of these receivables as an accommodation by ISI*MCS, but they are reflected as payables in the financial statements of ISI. With a positive balance sheet, and the personal guarantees of Messrs. Carr and Youngblood (and their spouses, collectively, the “Guarantors”) ISI*MCS was able to secure bonding capacity from a third-party bonding company and provide those bonds to ISI for a fee of 2% of the principal contract amount. ISI is not entitled to assert any claim directly against the personal guarantees provided to the bonding company by the Guarantors since the guarantees were only for the benefit of the bonding company and ISI was not a party to the guarantees. These guarantees were provided to the bonding company as a condition for providing a line of bonding capacity to ISI*MCS. After the closing of the merger: (i) ISI*MCS will not be paid any fees by ISI or Argyle; (ii) ISI*MCS will not enter into any new bonded contracts for ISI, Argyle or any third party; (iii) ISI*MCS will not subcontract any new contracts to ISI, any of its subsidiaries, or Argyle; (iv) ISI*MCS will not retain any of the receivables paid after the closing of the merger on the work performed by ISI on the bonded contracts; (v) if ISI*MCS receives any payments after the closing of the merger for work performed on bonded contracts, those payments are required to be immediately forwarded to ISI; (vi) ISI*MCS will remain in existence only so long as there is work remaining to be done on the unfinished contracts that remain as of the date of the closing of the merger. ISI*MCS will remain responsible to its customers for the performance of all bonded contracts that it entered into as of the closing of the merger. However, each of those bonded contracts was subcontracted to ISI. As of March 31, 2007, there remained $27,501,711 of unfinished work on the bonded contracts entered into by ISI*MCS prior to the merger, all of which was subcontracted to ISI for full performance. ISI is obligated to fully perform all of the unfinished work, and if ISI completes the work, ISI*MCS will have no further liability or responsibility for the bonded contracts. The Guarantors will continue to guarantee the unfinished work on bonded contracts as of the closing date, but Argyle will indemnify the Guarantors for any claims made against them due to the guarantees.

Subject to the completion of the proposed merger, and the final determination by a bonding company, ISI’s insurance agent estimates that the bonding capacity that will be available to ISI after the closing of the merger could be $100,000,000 or more. This estimate is subject to the condition of the combined company after the closing of the merger, and the final determination of capacity by a bonding company. Currently, the amount of bonding capacity that is made available to ISI is $30 - $40 million.

By issuing a performance bond, a bonding company guarantees that the bonding company will pay the funds required to complete the project and perform the contract in the event that the contractor fails to complete the project. Similarly, a payment bond is a guarantee by the bonding company to the customer, that it will pay the bill of any supplier or subcontractor who has provided goods or services to the project, that is not paid by the contractor. In short, performance bond and payment bonds are guarantees, by an insurance company, that the project will be completed and all bills pertaining to the completion of the project will be paid.

A private customer gains a significant sense of security, upon executing a contract when performance and payment bonds are provided by the vendor, because those bonds mean that an insurance company is providing its guarantee to the customer that the project will be completed. Many public customers, such as local, state and federal entities, are required to secure performance and payment bonds on significant construction and renovation projects in order to fulfill their statutory or regulatory purchasing requirements. Therefore, when customers demand, or are required to demand, performance and payment bonds from vendors, those customers are only permitted to enter into contracts with those vendors that can provide such bonds. Without bonding capacity, a vendor is precluded from securing contracts from those customers.

Additionally, there are many customers that require that a “bid bond” accompany any proposal or bid for a contract. A bid bond is a commitment to the customer by the bonding company, that if the vendor’s proposal is accepted by the customer, the bonding company will issue performance and payment bonds on the project so contracted. Bid bonds are only issued by a bonding company for entities that have performance and payment bonding capacity already in place. In this way, when a customer receives the bid bond accompanying a proposal or bid, the customer knows that if the proposal is accepted and a contract awarded, a performance and payment bond, guaranteeing completed performance, has already been arranged and will be provided to protect the customer. Without bonding capacity, and the ability to provide bid bonds, ISI will not be able to submit many proposals and bids, and secure contracts for a substantial amount of new work.

Other requirements and limitations can be imposed by a bonding company as a condition for issuing bonds. These may include, but are not limited to, an increase in the cost or premium paid for the issuance of the bonds, increased working capital or equity requirements, and increased scrutiny of liquidity. The additional terms regarding liquidity can require a company to retain a minimum cash reserve or provide the bonding company with a letter of credit. If these or other terms are unacceptable to ISI, then bonding capacity will not be available to ISI and ISI will not be in a position to enter into contracts that require performance and payment bonds. If ISI is unable to provide performance and payment bonds, the sales volume, profitability and financial performance of ISI would significantly decline.

If ISI is unable to secure a line of bonding capacity after the merger is completed, then ISI will not be able to enter into contracts that require such bonds. This would reduce ISI's expected sales and reduce the level of ISI's future financial performance.

Some of the factors that might cause ISI to be unable to obtain such bonds after the merger include, but are not limited to, unacceptably high premium rates for such bonds, the unavailability of bonding capacity at an acceptable cost from a bonding company with an acceptable financial rating, or the collateral / financial requirements of the bonding company. Such requirements are generally intended to provide liquidity to a bonding company should it become obligated to pay a claim. These requirements can include minimum cash reserves, letters of credit for the benefit of the bonding company and other irrevocable commitments of working capital that are unacceptably high. In addition, because ISI*MCS will no longer have a relationship with ISI, post-merger ISI may no longer have the benefit of a long-standing relationship with a bonding company.

ISI pays approximately 3% of the original principal amount of a bonded contract for the bonds. This amount is comprised of two parts. The first component is the premium paid directly for the bonds, which is 1% of the principal amount of the contract. This premium is paid to the insurance agency that arranges the bonding (Eichlitz, Dennis, Wray & Westheimer of San Antonio, Texas). The total amount of these premiums paid for all bonds was $112,021 in 2004, $126,707 in 2005 and $166,556 in 2006. The second component is a fee of 2% of the principal amount of a bonded contract paid to ISI*MCS. The total amount of these fees paid to ISI*MCS was $55,000 in 2004, $295,000 in 2005 and $400,000 in 2006. No fee will be paid to ISI*MCS after the closing of the merger. The aggregate cost to ISI of both components of the costs for the provision of performance and payment bonds for all bonded contracts was approximately $167,021 in 2004, $421,707 in 2005 and $566,556 in 2006.

The bonding company that issued the performance and payment bonds is an interested party in all matters regarding the bonded contracts. A bonding company is obligated to complete a project for which it has issued bonds and will typically seek recovery of its costs to complete the contract from all available parties. The result is that a dispute with an owner or general contractor arising from a bonded contract must also include consideration of the interests of the bonding company, typically a well-financed and highly sophisticated party. The addition of this sophisticated party to disputes regarding bonded contracts increases the risk that a default or breach of a bonded contract by ISI will result in a loss to ISI. Even if ISI is able to resolve or avoid a dispute with an owner or general contractor, resolving a dispute with a bonding company that has paid a claim to complete a project will increase the potential risk of loss to ISI.

Argyle agreed in the merger agreement to indemnify certain individuals from losses arising from certain ISI*MCS bonding contracts or guarantees relating to bonds provided by ISI*MCS.

Argyle has agreed in the merger agreement that, after the merger is consummated, it will indemnify and hold harmless Sam Youngblood and Don Carr, their spouses, attorneys, agents and permitted assignees (the "Individual Indemnitees") against any losses incurred arising from a contract or agreement that is the subject of a performance or payment bond provided by ISI*MCS or guarantees by the Individual Indemnitees relating to any of the performance or payment bonds provided by ISI*MCS, to the extent such contract has not been fully paid as of the closing date of the merger. The merger agreement provides that these indemnification obligations will survive for a period of four years after the closing date of the merger and the obligations are not subject to cap, or maximum amount. Although it is not anticipated that Argyle will be required to make any payments under this provision, if Argyle were required to do so, it could result in Argyle having to pay Mr. Youngblood and/or Mr. Carr a significant amount of money.

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 depends on third-party hardware for its customized security solutions.

ISI purchases the hardware for its customized security solutions from third-party vendors. Currently ISI's ISI-Detention and MCS-Detention divisions do not have long-term agreements with the third-party vendors with whom they do business. Any reduction or interruption in the supply or manufacturing of hardware from these third-party vendors could limit ISI's ability to offer and deliver complete security solutions to its customers and could result in reduced revenues.

ISI's MCS-Commercial division has distribution agreements in place with some of its third-party vendors. If any of these vendors were to terminate or cancel its agreement with MCS-Commercial, this division would lose its ability to market that vendor's specific product line to ISI's customers. To the extent that ISI is unable to find a competing brand with the same level of acceptance among ISI's customers, ISI could suffer the loss of some customers.

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 MCS-Detention. 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 experienceed, 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. For example, if an 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 forgo 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.

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 Merger

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 merger 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 merger if holders of 765,009 or more shares exercise these redemption rights. To the extent the merger 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 merger. As of __________ 2007, the record date, assuming the merger is approved, the maximum amount of funds that could be disbursed to Argyle's stockholders upon the exercise of their redemption rights is approximately $6.0 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 merger. 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 merger that are different from yours, because if the merger is not approved, their shares may become worthless.

In considering the recommendation of Argyle's Board of Directors to vote to approve the merger, you should be aware that Argyle's directors, officers and original stockholders have agreements or arrangements that provide them with interests in the merger 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 merger 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 merger, 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 merger 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.

Following the merger, Argyle has agreed that it will negotiate employment agreements with Sam Youngblood (the Chief Executive Officer of ISI), Don Carr (the President of ISI), Mark McDonald (the President of MCS-Detention) and Tim Moxon (the Chief Financial Officer of ISI). 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 new 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. Section 8.7 of the Merger Agreement states:

8.7. **Employment Agreements**. Promptly after the Effective Time and the formation of a compensation committee by [Argyle], Surviving Corporation and [Argyle] will negotiate an Employment Agreement in good faith with each person listed on Schedule 8.7. [ISI] acknowledges and agrees that such Employment Agreements will be subject to the final approval of the compensation committee of [Argyle].

A copy of Schedule 8.7 is attached to the Merger Agreement attached hereto as part of Annex D.

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 merger 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 merger 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 merger will be consummated;

ii. Costs related to the merger, such as legal and accounting fees and the costs of the fairness opinion, must be paid even if the merger 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 Argyle's securities declines after Argyle fails to consummate the acquisition of ISI, persons who purchased Argyle's securities after the merger was announced will have lost money investing in Argyle's securities, making future investment in Argyle's securities by such persons less likely. Since most of the fees that Argyle incurs from Argyle's service providers in connection with the acquisition of ISI must be paid even if Arygle does not consummate the transaction, it is unlikely that Argyle 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 acquisition of 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 merger 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 Second 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 merger. 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 March 31, 2007, and assuming Argyle expended all of the funds not in the trust account, the per-share liquidation price would have been approximately $8.03, or $0.03 more than the price ($8.00 per unit) that Argyle sold each unit for in its initial public offering (The liquidation amount of $8.03 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 $8.03, 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 SEC 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 $8.03 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 March 31, 2007, Argyle has not received a waiver letter from the State of Delaware, its independent auditor, its financial advisor in so far as it relates to amounts due for its fairness opinion ($200,000) and certain miscellaneous service providers, with aggregate claims in the amount of approximately $319,000. Vendor letters requesting a waiver were sent out to Argyle's significant vendors in the first half of 2006, and a total of six consultants and vendors agreed to the waiver, representing approximately $272,000 at March 31, 2007. If the merger is not consummated, Argyle anticipates the obligations would total approximately $600,000. Argyle does not have sufficient funds outside of trust to pay these obligations. 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. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not yet, however, executed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

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 $8.03 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 and Argyle from their respective audited consolidated financial statements and the three-month information from their respective 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 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

	For the year ended December 31,					For the three months ended March 31,
($ in thousands)	2002	2003	2004	2005	2006	2007
Revenues (1)	$ 25,881	$ 34,726	$ 37,303	$ 24,758	37,897	13,051
Revenues - related parties	0	0	2,872	14,476	19,855	5,801
Total revenues	25,881	34,726	40,175	39,234	57,752	18,852
Cost of revenues	17,931	25,082	30,571	30,865	45,969	15,097
Gross profit	7,950	9,644	9,604	8,369	11,783	3,755
General and administrative expenses	6,892	6,342	6,496	6,908	8,860	2,676
Management special bonus			5,151			
Total operating (expenses) income, net	6,892	6,342	11,647	6,908	8,860	2,676
Income/(loss) from operations	1,058	3,302	(2,043)	1,461	2,923	1,079
Interest expense	59	0	813	3,178	3,830	897
Other income/(loss)	105	(55)	(85)	8	211	4
Income/(loss) before income taxes	1,104	3,247	(2,941)	(1,709)	(696)	186
Income tax expense (benefit)	486	1,165	(894)	(526)	(8)	63

Net income/(loss)	$	618	$	2,082	$	(2,047)	$	(1,183)	(688)	123

(1) "Revenues - related party" are those revenues generated by work sub-contracted from ISI*MCS (an entity owned 67% by Sam Youngblood, CEO of ISI, and 33% by Don Carr, President of ISI). Messrs. Youngblood and Carr created ISI*MCS in 2004 to provide bonding on contracts that require bonding. The performance of those contracts is subcontracted to ISI as a subcontractor to ISI*MCS. The sub-contracted work is for third party customers of ISI*MCS that require bonded contracts. After the merger, ISI*MCS will no longer provide bonding and subcontract work to ISI and ISI will secure its own bonding capacity and use that bonding capacity to directly enter into bonded contracts with third party customers, thereby eliminating the need to contract for the work as a subcontractor to ISI*MCS. After the merger, the amount of "Revenues - related party" will decrease annually as the contracts with ISI*MCS, outstanding at the time of the merger, are completed. See note 3. "Related Party Transactions" on page F-26, Notes to Consolidated Financial Statements of ISI.

Consolidated Balance Sheet Data

	December 31,					March 31,
(in thousands)	2002	2003	2004	2005	2006	2007
Cash and cash equivalents	$ 1,502	$ 868	$ 1,308	$ 416	359	62
Total current assets	10,792	12,130	14,783	16,953	25,832	26,773
Non-current assets	3,008	3,743	5,554	5,633	6,503	6,791
Total assets	$ 13,800	$ 15,873	$ 20,337	$ 22,586	32,335	33,564
Total current liabilities	7,022	6,199	9,552	11,430	19,775	19,237
Total long-term liabilities	1,039	1,853	21,931	23,485	25,807	27,451
Total liabilities	$ 8,061	$ 8,052	$ 31,483	$ 34,915	45,582	46,688
Total stockholders' equity	$ 5,739	$ 7,821	$ (11,146)	$ (12,329)	(13,247)	(13,124)

ARGYLE HISTORICAL FINANCIAL INFORMATION

	Three Months Ended March 31, 2007	Year Ended December 31, 2006	Period from June 22, 2005 (inception) to December 31, 2005	Period from June 22, 2005 (inception) to March 31, 2007
Revenues	$ -	$ -	$ -	$ -
Interest income on trust account	380,811	1,332,087	-	1,712,898
Net income/(loss)	51,830	172,512	(7,743)	216,599
Net income/(loss) allocable to holders of non-redeemable common stock	1,666	(3,235)	(7,743)	(9,312)
Net income/(loss) per share - basic and diluted	0.01	0.04	$ (0.01)	0.06
Weighted average number of shares outstanding - basic and diluted	4,781,307	4,477,861	937,500	3,465,547
Net income/(loss) per share exclusive of shares and related interest subject to possible redemption - basic and diluted	0.00	(0.00)	$ (0.01)	(0.00)
Weighted average number of shares outstanding exclusive of shares subject to possible redemption - basic and diluted	4,016,680	3,773,985	937,500	2,962,875

	At March 31, 2007	**At December 31, 2006**	**At December 31, 2005**
Total assets (including cash deposited in trust account in 2006)	$ 30,600,859	$ 30,681,313	$ 304,353
Total liabilities	1,772,883	1,905,167	287,096
Common stock and deferred interest subject to possible redemption	5,964,117	5,913,953	-
Stockholders’ equity	22,863,859	22,862,193	17,257

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 March 31, 2007, giving effect to the transactions described in the merger agreement as if they had occurred on March 31, 2007. Additionally, the financial information combines (i) Argyle's historical statement of operations for the year ended December 31, 2006 with that of ISI, and (ii) Argyle's historical statement of operations for the three months ended March 31, 2007 with that of ISI, in each case giving effect to the acquisition as if it had occurred on January 1, 2006. 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 81.

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 March 31, 2007**	
	Assuming No Redemption of Shares	**Assuming Redemption of 19.99% of Shares**
Total assets	$ 77,065	$ 71,101
Line of credit	$ 6,537	$ 6,537
Long-term debt	$ 5,885	$ 5,885
Stockholders' equity	$ 37,505	$ 31,541

(in thousands, except per share data)	**For the Three Months Ended March 31, 2007**		**For the Year Ended December 31, 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**
Revenues	$ 13,051	$ 13,051	$ 37,897	$ 37,897
Revenues - related parties (1)	$ 5,801	$ 5,801	$ 19,855	$ 19,855
Operating income/(loss)	$ 180	$ 180	$ (617)	$ (617)
Net loss	$ (29)	$ (77)	$ (931)	$ (1,099)
Net loss per share:				
Basic	$ (0.00)	$ (0.01)	$ (0.16)	$ (0.21)
Diluted	$ (0.00)	$ (0.01)	$ (0.16)	$ (0.21)

(1) “Revenues - related party” are those revenues generated by work sub-contracted from ISI*MCS (an entity owned 67% by Sam Youngblood, CEO of ISI, and 33% by Don Carr, President of ISI). Messrs. Youngblood and Carr created ISI*MCS in 2004 to provide bonding on contracts that require bonding. The performance of those contracts is subcontracted to ISI as a subcontractor to ISI*MCS. The sub-contracted work is for third party customers of ISI*MCS that require bonded contracts. After the merger, ISI*MCS will no longer provide bonding and subcontract work to ISI and ISI will secure its own bonding capacity and use that bonding capacity to directly enter into bonded contracts with third party customers, thereby eliminating the need to contract for the work as a subcontractor to ISI*MCS. After the merger, the amount of “Revenues - related party” will decrease annually as the contracts with ISI*MCS, outstanding at the time of the merger, are completed. See note 3. “Related Party Transactions” on page F-26, Notes to Consolidated Financial Statements of ISI.

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COMPARATIVE PER SHARE INFORMATION

The following table sets forth selected historical per share information and unaudited pro forma combined information as of March 31, 2007 and for the three months then ended for Argyle and ISI, giving effect to the acquisition as if it had occurred on March 31, 2007 for balance sheet purposes and on January 1, 2006 for income statement purposes. Argyle is providing this information to aid you in your analysis of the financial aspects of the merger. The unaudited pro forma combined per 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.

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 merger taken place on the dates noted, or to project Argyle's or ISI's results of operations that may be achieved after the merger.

	In thousands, except per share data		
	ISI	Argyle	Pro Forma Combined Company
Weighted average shares of common stock outstanding:			
Assuming no redemptions			
Basic	.10491	4,781	5,961
Diluted	.18025	4,781	6,964
Assuming maximum redemptions			
Basic	-	4,017	5,197
Diluted	-	4,017	6,200
Book value—assuming no redemptions	$ (13,124)	$ 28,828	$ 37,505
Book value—assuming maximum redemptions	-	22,864	31,541
Book value per share—assuming no redemptions			
Basic	$ (125,098)	$ 6.03	$ 6.29
Diluted	(72,810)	6.03	5.39
Book value per share—assuming maximum redemptions			
Basic	-	$ 5.69	$ 6.07
Diluted	-	5.69	5.09
Earnings/(loss) per share—assuming no redemptions			
Basic	$ 1,171	$ 0.01	$ (0.00)
Diluted	694	0.01	(0.00)
Earnings/(loss) per share—assuming maximum redemptions			
Basic	$ -	$ 0.00	$ (0.01)
Diluted	-	0.00	(0.01)

PRICE RANGE OF SECURITIES AND DIVIDENDS

Argyle

Argyle's common stock, warrants and units are quotedon 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 merger, was $7.41, $1.36 and $8.75, respectively. The closing price for the securities on May 29, 2007, the most recent trading day practicable before the date of this Proxy Statement, was $7.78, $1.70 and $9.50, 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
2007						
First Quarter	7.50	7.35	1.10	0.80	8.50	8.14

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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 merger is completed.

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

Holders of Argyle. As of March 31, 2007, there were of record five 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 March 22, 2007, there were of record four 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 the general financial condition subsequent to completion of the merger. 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 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 merger with 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 merger with 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 merger with ISI even if the proposal to approve the merger has been approved.

Argyle's Board of Directors determined that the merger with 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"** (i) the merger, (ii) the adoption of the 2007 Omnibus Securities and Incentive Plan, (iii) the amendment to the Second Amended and Restated Certificate of Incorporation to change Argyle's name, (iv) the amendment to the Second Amended and Restated Certificate of Incorporation to remove certain provisions which will no longer be applicable after the merger is complete and (v) the approval of any adjournment or postponement of the special meeting. 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 merger, the approval of the 2007 Omnibus Securities and Incentive Plan, the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's name, the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions which will no longer be applicable upon consummation of the acquisition and the approval of any adjournment or postponement of the special meeting. 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 merger requires the affirmative vote of a majority of the votes cast at the 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 Second Amended and Restated Certificate of Incorporation will require the affirmative vote of holders of a majority of Argyle's outstanding common stock. If the stockholders approve the merger , the merger 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 merger 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 merger 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 merger with 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 toward 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 broker 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 merger's abandonment, and you would be unable to exercise any redemption rights upon approval of the merger. 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 merger with 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.

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Redemption Rights. Any holder of shares that were purchased in Argyle's initial public offering who votes against the merger may, at the same time, demand that Argyle redeem his or her shares into a pro rata portion of the funds available for redemption in the trust account. If so demanded and the merger 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 merger and demand redemption of their shares, Argyle will not have authority to consummate the merger. You will only be entitled to receive cash for these shares if you continue to hold them through the closing of the merger 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.** If the business combination is consummated, redeeming stockholders will be sent instructions on how to tender their share of common stock and when they should expect to receive the redemption amount. Stockholders will not be requested to tender their share of common stock before the business combination is consummated.

The closing price of Argyle's common stock on March 30, 2007 was $7.45, and the amount of cash held in the IPO trust account on March 31, 2007 was approximately $29.7 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 $7.75 per share. The underwriters from Argyle's initial public offering recently agreed to reduce their underwriting compensation on a pro-rata basis for dissenting stockholders. As of March 31, 2007, the redemption amount was approximately $.36 higher than it would otherwise have been due to that agreement; the $.36 increase is reflected in the $7.75 redemption price previously discussed.

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 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.”

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 of ISI by Argyle, 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. On June ___, 2007, Argyle, the Merger Subsidiary and ISI entered into an amendment to the merger agreement pursuant to which the security holders of ISI would receive an additional $400,000 in cash and unsecured promissory notes in the aggregate principal amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share (unless the context indicates otherwise, as used in this proxy statement, the term merger agreement means the merger agreement as amended by the June ___ amendment). The parties entered into the amendment because it was clear that the merger agreement would not be completed by July 1, 2007, the date specified in the merger agreement as the date on which either party could terminate the merger agreement without cause. Pursuant to the merger agreement, as amended, Argyle will pay ISI's security holders an aggregate merger consideration of approximately $44,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President.

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 fee to WFG Investments, Inc. (The stockholders of ISI are individually responsible for the payment of the other $323,000 payable to WFG Investments, Inc.);
- A new lease for a property owned by Green Wing Management, Ltd. on the same terms and conditions as prior leases; and
-

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.

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 $2.1 million of capitalized leases as of March 31, 2007 and $1.0 million of transaction costs. As of April 16, 2007 there was approximately $5.7 million debt 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.

The promissory notes to be issued to the security holders of ISI will be unsecured and subordinated to the outstanding debt of ISI post-merger. In addition, the promissory notes will (i) be in a form mutually acceptable to Argyle and ISI, (ii) bear interest at the rate of 5% per year, payable semi-annually, (iii) mature five years from the date of issuance, (iv) be convertible (in whole or in part) into shares of Argyle's common stock at the election of the holder of each promissory note at any time after January 1, 2008 at a price per share of $10.00, and (v) be redeemable at Argyle's election after January 1, 2009, at a price per share of $10.00.

Pursuant to the merger agreement, upon completion of the merger, Argyle will become obligated to pay up to $2,000,000 (as of March 31, 2007, the amount due was $1,854,952) in satisfaction of ISI's obligation to ISI*MCS, Ltd., an entity created and owned by Sam Youngblood (ISI's Chief Executive Officer) and Don Carr 33% (ISI's President) solely to make performance and payment bonds available to ISI.

After the closing of the merger: (i) ISI*MCS will not be paid any fees by ISI or Argyle; (ii) ISI*MCS will not enter into any new bonded contracts for ISI, Argyle or any third party; (iii) ISI*MCS will not subcontract any new contracts to ISI, any of its subsidiaries, or Argyle; (iv) ISI*MCS will not retain any of the receivables paid after the closing of the merger on the work performed by ISI on the bonded contracts; (v) if ISI*MCS receives any payments after the closing of the merger for work performed on bonded contracts, those payments are required to be immediately forwarded to ISI; (vi) ISI*MCS will remain in existence only so long as there is work remaining to be done on the unfinished contracts that remain as of the date of the closing of the merger. ISI*MCS will remain responsible to its customers for the performance of all bonded contracts that it entered into as of the closing of the merger. However, each of those bonded contracts was subcontracted to ISI. As of March 31, 2007, there remained $27,501,711 of unfinished work on the bonded contracts entered into by ISI*MCS prior to the merger, all of which was subcontracted to ISI for full performance. ISI is obligated to fully perform all of the unfinished work, and if ISI completes the work, ISI*MCS will have no further liability or responsibility for the bonded contracts. The Guarantors will continue to guarantee the unfinished work on bonded contracts as of the closing date, but Argyle will indemnify the Guarantors for any claims made against them due to the guarantees.

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).

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Of the merger consideration to be paid by Argyle to the stockholders of ISI:

- William Blair Mezzanine Capital Fund III, L.P. will receive $10,000,000 for the preferred stock of ISI

- William Blair Mezzanine Capital Fund III, L.P. will receive $1,170,323 and 497,326 shares of Argyle common stock for the warrant to purchase ISI common stock, and

- The executives of ISI will receive the remaining $7,429,677 and 682,674 shares of Argyle's common stock for the common stock of ISI (including the common stock to be issued to certain members of ISI's management team immediately prior to the merger pursuant to certain rights granted to such persons).

The table below summarizes the merger consideration to be received by each significant stockholder of ISI:

Name	Cash Consideration ($)	Promissory Note Consideration ($)(1)	Stock Consideration	Cash Consideration after the payment of certain expenses ($) (1)	Stock Consideration after the payment of certain expenses (1)
William Blair Mezzanine Capital Fund III, L.P.	11,170,323	561,031	497,326	11,170,323	486,237
Sam Youngblood	4,208,816	767,908	386,221	4,026,069	392,496
Don Carr	2,073,626	378,223	190,233	1,983,616	193,323
Mark McDonald	715,126	136,463	66,108	683,853(2)	67,181
Tim Moxon	121,001	22,923	11,214	115,698	11,396
Robert Roller	186,528	34,957	17,337	178,328	17,619
Neal Horman	124,581	23,496	11,561	119,114	11,748

(1) These columns give effect to the payment, post transaction, of an aggregate of $323,000 by the listed stockholders other than William Blair Mezzanine Capital Fund III, L.P. to WFG Investments, Inc. William Blair Mezzanine Capital Fund III, L.P. will then transfer to each of the other stockholders an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc.

(2) Mr. McDonald will remit a portion of the proceeds in this column, after any deductions required by law in respect of taxes and the payment of certain other expenses, to ISI as payment in full of the principal and accrued interest due and payable under the terms and conditions of a secured promissory note and security agreement executed by Mr. McDonald in favor of ISI. The principal amount of the promissory note is $214,500. The remaining amount of proceeds shall belong to Mr. McDonald. No loans to Mr. McDonald or any other officer or director of ISI will remain outstanding after the closing of the merger.

In late 2002, the principal owners of ISI, Sam Youngblood (63.0% owner) and Don Carr (33.0% owner), pursuant to the advice of a personal advisor, sought to diversify their personal asset portfolios. Beginning in 2003, they engaged a business broker to assist them, and began discussions with potential lenders/investors. In the following 18 months, ISI entered into negotiations with two lenders/investors. Those negotiations did not result in completed transactions, but one of those lenders/investors introduced ISI to William Blair Mezzanine Capital Fund III, L.P. After substantial due diligence and negotiations, the mezzanine financing transaction with William Blair Mezzanine Capital Fund III, L.P. was completed in October 2004. This restructuring transaction was the final result of a two-year plan to diversify the personal portfolios of the principal owners.

In the transaction, the principal ISI stockholders retained a significant portion of their equity ownership in ISI. Pursuant to the restructuring transaction, William Blair Mezzanine Capital Fund III, L.P. received a warrant to purchase 30% of the common stock in ISI and ISI took out an unsecured loan of $15.3 million from William Blair Mezzanine Capital Fund III, L.P. The loan funded a portion of shareholder dividends of $16.94 million, the remainder of which was funded by a portion of the newly available $6.0 million line of credit (secured by all the assets of ISI) with LaSalle Bank N.A. The transaction allowed the principal stockholders of ISI to make personal investments in other industries and ventures, so as not to tie all of their personal assets to just their ownership in ISI while, at the same time, permitting them to stay involved in ISI and capitalize on its potential. At the same time that this restructuring transaction closed, Sam Youngblood and Don Carr were paid a bonus of $5.15 million, consisting of $1.498 million in company receivables and cash.

ISI management knew that that the consequences of the 2004 recapitalization transaction with Blair would include: (i) the creation of a negative equity balance in ISI; (ii) that ISI's bonding company would decline to provide future bonding to ISI as a result of its negative equity balance; and (iii) that ISI would incur substantial debt to fund the recapitalization of ISI, the principal purpose of which was to allow Sam Youngblood and Don Carr to diversify their personal portfolios, with the debt to be repaid by ISI's earnings.

To obtain bonding capacity after the 2004 restructuring, Sam Youngblood and Don Carr created ISI*MCS. The purpose of ISI*MCS was and is to facilitate the ability of ISI to perform contracts that required performance and payment bonds after the 2004 restructuring transaction. Sam Youngblood owns 67% of ISI*MCS and Don Carr owns 33% of ISI*MCS. ISI's bonding company agreed to provide bonding capacity to ISI*MCS after the Blair Transaction, so long as ISI*MCS had a positive equity balance and Messrs. Youngblood and Carr and their respective spouses personally guaranteed any losses arising from the bonded contracts. ISI*MCS agreed to provide ISI with bonding capacity for a fee of 2% of the total contact price of each bonded contract. All work required under those bonded contracts was to be performed entirely by ISI, in consideration for the remaining 98% of the total contract price.

The $1.498 million in company receivables distributed to Messrs. Youngblood and Carr as part of a bonus were contributed to ISI*MCS as capital. Messrs. Youngblood and Carr subsequently contributed an additional $1 million in cash to the capital of ISI*MCS. The accounts receivable represented current balances that were due and owing to ISI as of September 30, 2004. The accounts have been almost fully collected by ISI (an $87,341 balance remains unpaid as of March 31, 2007), but the payments have not been forwarded to ISI*MCS. No demand has been made upon ISI for payment of these receivables, but they are reflected as payables in the financial statements of ISI.

As previously described, ISI engaged a business broker to assist it in the 2004 recapitalization transaction. Substantial negotiations for a sale/equity transaction were entered into with two potential investors/lenders (excluding Blair, with which a mezzanine lending transaction was finally completed). The business broker and the two entities with which ISI engaged in varying degrees of significant negotiations, due diligence and document drafting, all valued ISI by using a multiple of "6 times EBITDA". The owners of ISI were advised by the business broker that a multiple of 6 times EBITDA was a common valuation tool utilized in the security industry in transactions such as the one contemplated by the owners of ISI. The multiple of "6 times EBITDA" used by the broker in 2004 is less than the multiple used by Giuliani Capital Advisors in rendering its fairness opinion in connection with the merger. It is possible that the variation resulted from differences in the industry, in ISI's performance or the relevent experience of the business broker.

Sam Youngblood and Don Carr (CEO and President of ISI, respectively) have relied upon the recommendation of their business broker, and the use of a multiple of 6 times EBITDA when establishing a value for ISI by the potential investor/lenders who pursued ISI. By using this valuation model, the principal owners of ISI, the business broker for ISI, and the two potential investor/lenders of ISI each valued the entity (after the projected completion of their various proposed transactions) at approximately $30 million.

Additionally, ISI has received from Merit Capital Partners (the manager of William Blair Capital Mezzanine Fund III L.P.) a summary of its valuation of ISI after the closing of the October 2004 recapitalization transaction. That letter, dated June 7, 2007, confirms that Blair, after the 2004 recapitalization, valued ISI at $24,552,000. This valuation by Blair's manager is based upon, among other things, ISI's EBITDA, comparable purchase price multiples, and Blair's understanding of other offers received by ISI during its search for recapitalization. This analysis did not take into account, however, ISI's balance sheet after the closing of the 2004 transaction (which reflected total assets of approximately $17 million and total liabilities of approximately $28.5 million) or the amounts paid out to ISI's owners in the form of a dividend and bonus. Depending on the valuation methodology used, ISI's valuation after the 2004 transaction might have been significantly less than the valuation accepted by Merit.

No consideration was received by ISI in connection with its dividend payment to Messrs. Youngblood and Carr. There are no other business relationships between William Blair Mezzanine Capital Fund III, L.P. and ISI or its management, and it is not anticipated that William Blair Mezzanine Capital Fund III, L.P. will participate in the management of Argyle after it acquires ISI.

Prior to the October 2004 financing transaction, ISI was 63% owned by Sam Youngblood, 4% owned by the Youngblood Trust and 33% owned by Don Carr. Following the financing, ISI was 63.9% owned by Sam Youngblood, 3.81% owned by the Youngblood Trust, 31.4% owned by Don Carr, 2.2% owned by Mark McDonald and 2.6% owned by Mike Sweet. Mike Sweet subsequently left the employ of ISI and sold his shares of common stock in ISI to Mark McDonald. In addition, William Blair Mezzanine Capital Fund III, L.P. acquired a warrant to purchase 52.5432 shares of ISI's common stock at a purchase price of $1.00 per share that was only exercisable immediately prior to the acquisition of ISI by another entity. In June 2007, the warrant was amended to reduce the number of shares it is exercisable for from 52.5432 to 49.950 because the number in the original warrant was incorrectly calculated based on the intent of the parties at the time the warrant was originally entered into. No other changes to the terms of the warrant were made.

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 497,326 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. However, William Blair Mezzanine Capital Fund III, L.P. will then transfer to each of the other stockholders of ISI an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc. The remaining 682,674 shares (not including the 11,089 shares to be transferred to them by William Blair Mezzanine Capital Fund III, L.P. post transaction) 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, the Youngblood Trust, a trust for the benefit of Mr. Youngblood's family, and certain other executives of ISI, will not be able to be sold until January 24, 2009. Argyle agreed to a shorter lock-up period for William Blair Mezzanine Capital Fund III, L.P., since it will not have an active role in the management of Argyle.

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 16, 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 merger, as the "combined company" or the "merged entities."

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 $0.4 million relate to certain Giuliani Capital Advisors advisory fees which are contingent and therefore due only upon the closing of the transaction. Approximately $0.7 million of the $0.9 million in non-contingent anticipated costs has been incurred and recorded as of March 31, 2007. The $0.9 million primarily relates to Loeb & Loeb legal expenses, the Giuliani Capital Advisors' fairness opinion fee of $200,000 which is presently due, accountants and valuation consultants' fees, road show expenses, printer fees and other miscellaneous expenses. Assuming the transaction is completed, the total amount paid to Giuliani Capital Advisors would be approximately $0.6 million, which is comprised of the non-contingent fairness opinion fee of $0.2 million and the contingent advisory fee of approximately $0.4 million.

Argyle's cash outside the trust and accrued expenses as of March 31, 2007 was approximately $0.1 million and $0.6 million, respectively. The $0.6 million of accrued expenses do not include any contingent fees which may be payable to Giuliani Capital Advisors, however it does include accruals of approximately $456,000 for transaction costs primarily related to attorneys' fees and fees related to the fairness opinion provided by Giuliani Capital Advisors. Through March 31, 2007, approximately $218,000 of transaction costs had been paid in cash. Argyle expects to incur the remaining anticipated non-contingent transaction costs of approximately $0.2 million in the second quarter of 2007. Additionally, recurring monthly operating expenses of approximately $80,000 per month will continue to accrue after March 31, 2007.

Argyle anticipates that the costs to consummate the acquisition will exceed its available cash outside of trust by approximately $1,000,000. Argyle has not sought and does not anticipate seeking any fee deferrals. Argyle expects these costs would ultimately be borne by the combined company from the funds held in trust if the proposed ISI acquisition is completed. If the acquisition is not completed, the non-contingent excess costs of approximately $0.6 million 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. Argyle's officers and directors anticipate performing their obligations to the trust account regarding expenses incurred for vendors or service providers in the event the transaction is not consummated. Argyle's officers and directors are all accredited investors and as such, Argyle believes that they have the financial ability to meet such obligations but has not done an independent investigation to confirm such belief. If these obligations are not performed or are inadequate, it is possible that vendors and/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 current pro rata portion of the trust account upon liquidation.

On April 16, 2007, Argyle's officers and directors, an affiliate of Bob Marbut, Argyle's Chairman and Co-Chief Executive Officer, and certain of Argyle's consultants, pursuant to a note and warrant acquisition agreement, loaned Argyle an aggregate of $300,000 and in exchange received promissory notes in the aggregate principal amount of $300,000 and warrants to purchase an aggregate of 37,500 shares of Argyle's common stock. Pursuant to the agreement, the holders of the warrants may not exercise or transfer the warrants until Argyle consummates a business combination and they were granted demand and piggy-back registration rights with respect to the shares of common stock underlying the warrants. The warrants are exercisable at $5.50 per share of common stock and expire on January 24, 2011. The warrants also may be exercised on a net-share basis by the holders of the warrants. The promissory notes bear interest at a rate of 4% per year and are repayable 30 days after Argyle consummates a business combination.

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 up to 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 after Argyle's initial public offering, Argyle's management reviewed information on over 150 companies in its search for a target business. On June 29, 2006, Argyle engaged Giuliani Capital Advisors as its financial advisor to assist Argyle. In the months following Argyle's initial public offering, Argyle's management engaged in an intensive process to seek a target business for a business combination. Messrs. Marbut (Chairman and Co-CEO, Argyle) and Chaimovski (Vice Chairman and Co-CEO, Argyle) were assisted by Alan Wachtel (Consultant, Argyle), who was engaged in Februrary 2006 as a consultant to coordinate the research effort, and Mark Mellin (Consultant, Argyle), who was engaged in March 2006 to coordinate the financial aspects of the process. The focus of this effort was to find a suitable acquisition candidate that was engaged in one or more of the following segments of the physical security industry that had been targeted by Argyle: video surveillance, perimeter/outdoor protection, access control and intrusion protection, and that met most of the criteria established by Argyle.

The scope of Giuliani Capital Advisors' engagement as financial advisor to Argyle included:

- Gathering market intelligence on the security industry;
- Analyzing relative valuations and appropriate bid amounts;
- Structuring the offer and letter of intent, and assisting in negotiating the definitive agreement;
- Analyzing the terms of the agreement; and
- Participating in drafting of the Company's filings with the SEC relating to the merger.

In addition, in its capacity as financial advisor, Giuliani Capital Advisors sought to identify potential acquisition targets for Argyle's consideration. Giuliani Capital Advisors identified and presented numerous potential acquisition targets to Argyle's officers and directors, and selected for follow up those businesses that they believe had the most potential as an acquisition. Giuliani Capital Advisors approached various acquisition targets on behalf of Argyle. Argyle submitted an expression of interest to two companies identified and introduced to Argyle by Giuliani Capital Advisors. One of these was U.S. based**.** Giuliani Capital Advisors assisted Argyle in protracted negotiations before a letter of intent was finalized with the other company, but Argyle ultimately decided to abort continued negotiations.

Giuliani Capital Advisors did not identify or introduce ISI to Argyle.

The Board of Directors of Argyle believes that Giuliani Capital Advisors' role as financial advisor to Argyle was distinct and independent from its role in opining on the fairness, from a financial point of view of the proposed merger consideration. In reaching its judgment that Giuliani Capital Advisors could provide an independent fairness opinion, the Board considered the following factors: Giuliani Capital Advisors has not performed any work for Argyle or ISI in the past and does not and will not own any equity in Argyle or ISI before or after the proposed merger transaction, nor does Giuliani Capital Advisors have any executive or board representation or board nomination rights in either company. The two roles of Giuliani Capital Advisors, as financial advisor and as fairness opinion provider, are the subjects of separate engagements. The formal engagements were stipulated in two separate letter agreements, entered into in June 2006 and December 2006, respectively, between Argyle and Giuliani Capital Advisors. The compensation arrangements for these roles are not interdependent. The financial advisory fee payable to Giuliani Capital Advisors (approximately $0.4 million) is to be paid on the closing of the merger and is contingent upon the closing of the merger, and the fairness opinion fee ($0.2 million) is neither conditioned upon closing of the merger nor creditable against the fee payable to Giuliani Capital Advisors for financial advisory services. Representatives of Giuliani Capital Advisors worked on the financial advisory and fairness opinion engagements, and the advice provided was subject to oversight from senior experienced investment banking, compliance and legal officers of Giuliani Capital Advisors who are not directly involved in the merger transaction.

Based on the above factors, the Board of Directors of Argyle determined that Giuliani Capital Advisors was well situated to provide the fairness opinion and its role as financial advisor would not compromise its ability to remain independent in rendering the fairness opinion.

Giuliani Capital Advisors is owed a fee of $200,000 for its services in connection with providing its fairness opinion. The fee for the fairness opinion was negotiated by Argyle and Giuliani Capital Advisors. The amount of this fee is consistent with industry custom and practice for the preparation of a fairness opinion, is not contingent upon consummation of the proposed merger and can not be credited against the success fee payable to Giuliani Capital Advisors upon consummation of the proposed merger. In addition, Giuliani Capital Advisors will not be paid for its advisory services (a total of approximately $0.4 million) unless the merger is consummated.

During February 2006, after the Argyle initial public offering was completed, Argyle management developed a list of 15 criteria to be used in screening and evaluating target companies for Argyle to acquire. These criteria were approved by the Argyle Board at its March 6, 2006 meeting and were utilized during the ensuing months by the Argyle team in the search and evaluation process. While management felt it would not have been possible to find a target company that fully met all of the criteria, the team sought to identify those companies with characteristics that were in close alignment with the criteria.

Following is a summary of the criteria used by the Argyle team in the process:

1. Business Sectors Served: Highest priority given to video surveillance, access control and perimeter/outdoor.
2. Markets Served: Highest priority given to U.S. and European companies.
3. Channels Served: Highest priority given to security IT/IP integrators and security value added resellers.
4. Products Offered to Include One or More of the Following: Part of a solutions strategy, competitively positioned, scalable, favorable obsolescence factor, strong brand equity.
5. Annual Sales: At least $20 million.
6. Gross Margin: If video or access control - 50%, if perimeter/outdoor, or, if intrusion protection - 40%.
7. Operating Margin: 10% or more, or the potential to reach 10% in the next 12-18 months.
8. Annual Cash Flow: At least $1.5 million.
9. Relative Competitive Advantage: Clear competitive advantage in at least one key area.
10. R&D Capability: Ability to continuously integrate into company's other offerings, ability to add value to Argyle's other targeted sectors and companies, in-house R&D leadership or management capability.

11. Management Capabilities: Strong in at least one key functional area.
12. Location: Located so as to be cost effective in interacting/communicating with Argyle management.
13. Relative Attractiveness: To investors and to other targeted companies.
14. Opportunities/Potential: For revenue growth, for improving margin percentages, for synergies with other target sectors/companies, to improve/expand offerings, for channel expansion.
15. Target Company's Culture: Senior management supportive of Argyle vision and strategy, customer focused, senior management familiar with and supportive of a solutions strategy.

Also during February 2006, Argyle management prepared a roadmap for the startup of Argyle and presented it to the Board for approval at its March 6, 2006 meeting.

The roadmap included key goals for the first quarter and an action plan with activities to be performed. The goals, as stated in the roadmap, were in the following areas:

1. Organizational, including the roles of management and consultants.
2. Logistical, including facilities, equipment and supplies.
3. Communication, including corporate identity and external communications.
4. Acquiring necessary outside legal, accounting and financial support.
5. Strategic analysis of markets and evaluation of possible target companies within those markets.
6. Initial implementation of the target company search and evaluation process.
7. Compliance with all accounting, regulatory and legal requirements for a public SPAC company.

The target company search and evaluation process, which identified, investigated and analyzed companies in North America, Europe, Israel, Australia and India, included: reviews of industry research, published trade and corporate information, attendance at trade shows in North America and Europe; contacting bankers, investors, lawyers, accountants, brokers and executives who were familiar with companies in Argyle's targeted segments; engaging (in March 2006) Graham Wallis in a consulting capacity to broaden the search.

Mr. Wallis had been introduced to Messrs. Marbut and Chaimovski in 2004 by Mr. Wachtel, who had known him for over 15 years. Beginning in March 2006, Mr. Wallis worked closely with Mr. Wachtel and Argyle management in sourcing and analyzing possible target companies for Argyle. Periodically, they produced updated reports that summarized the findings of their research, with specific information on the most promising targeted companies. Mr Wallis was compensated $18,000 for his services during 2006.

Walter Bailey and Paul Talley, who together head the Security & Defense Investment Banking Practice for Giuliani Capital Advisors, had been known to Messrs. Marbut and Chaimovski since 2004. Argyle management had several informal discussions with Messrs. Bailey and Talley during the spring of 2006 concerning Argyle's strategy and acquisition criteria. On June 29, 2006, Argyle management formally engaged Giuliani Capital Advisors as a financial advisor to work with the Argyle team in locating potential target businesses. In addition, Giuliani Capital Advisors was asked to perform research, analysis, economic modeling, introductions and due diligence for selected target companies. From the end of June through September of 2006, Giuliani Capital Advisors provided Argyle with both written and oral updates of their work, as well as introductions to several possible targets. They also accompanied Argyle management to several meetings with target companies and drafted letters of intent for two. Some of Giuliani Capital Advisors' work was independent of the efforts of other Argyle consultants; some of it was in conjunction with the work of Messrs. Wachtel and Wallis.

Argyle management was also in frequent contact with representatives from Rodman & Renshaw, the representative of the underwriters in Argyle's initial public offering, including Edward Kovalik, Terrence M. Murphy and Edward Ching, to discuss possible acquisitions. This resulted in Argyle's pursing one opportunity that later was abandoned for lack of mutual interest before any due diligence had occurred or a letter of intent has been drafted.

The Argyle Board was apprised of the team's progress throughout this period of investigation, and reviewed and approved management's proposed roadmap and acquisition criteria at its meeting on March 6, 2006. At subsequent meetings on May 31 and July 13, the Board (with the assistance of Argyle's consultants) reviewed progress and discussed in detail the highest priority target companies. Beginning in April and continuing through September, Mr. Marbut and Mr. Chaimovski had several meetings with Gen. Wesley Clark (Director, Argyle) and John J. Smith (Director, Argyle), individually, to provide updates and enlist their help in contacting a particular target company or getting more information about a company. In addition, Gen. Clark and Mr. Smith each attended meetings with representatives of several of the highest priority target companies during this time.

The research effort cumulatively identified over 150 possible target companies and accumulated meaningful information on over 100 of them. During the period beginning in March 2006 and until October (excluding ISI), the process had narrowed down the number of priority targets to about 15 companies, representing all of Argyle's target market segments - one in Europe, two in Israel, one in Australia, one in India and the rest in North America. Some of these companies were found by Argyle consultants Wachtel and Wallis, some by Argyle management, one by Rodman & Renshaw and others by Giuliani Capital Advisors.

Discussions were held with principals and/or representatives from all of the top priority companies. Giuliani Capital Advisors and/or Messrs. Wachtel, Wallis and Mellin were intimately involved, along with Argyle management, in the analysis of these companies and preparation of materials for review by the Argyle Board of Directors. Confidentiality agreements were signed, and preliminary due diligence was begun with 11 of these companies. Board-approved proposals were made to acquire three of these companies, but none reached the stage of a formal letter of intent or merger agreement. All of this occurred before Argyle management had made any contact with ISI, or had any knowledge of the possibility of a transaction with ISI.

On October 3, 2006, James M. Raines of WFG Investments, Inc., an investment banking firm, left a message for Mr. Marbut at the Argyle corporate office in San Antonio. Mr. Marbut, who was traveling and unable to return the call until October 4, was an acquaintance of Mr. Raines. They had met socially in San Antonio in the early 1990's. They had never been engaged together in any business relationship and, until the telephone conversation on October 4, had not seen one another for at least five years.

On October 4, 2006, during their initial conversation, Mr. Raines told Mr. Marbut that, during the previous week, he had been at a San Antonio restaurant where he saw and talked with Mr. Youngblood (Chief Executive Officer of ISI). Although they had not seen one another for a number of months, Mr. Raines had known Mr. Youngblood for over 20 years and, from time to time, Mr. Raines had introduced Mr. Youngblood to various investment opportunities and also had acted as advisor to ISI.

In the October 4 conversation with Mr. Marbut, Mr. Raines explained that Mr. Youngblood had informed Mr. Raines that ISI was in the process of exploring alternatives that would provide financial and other support to facilitate ISI's growth strategy. Mr. Raines had previously been told by a mutual friend of Mr. Raines and Mr. Marbut (Randy Cain), while playing golf with him during September 2006, that Mr. Marbut was engaged in trying to buy a company in the security industry. This prompted Mr. Raines to tell Mr. Youngblood of Argyle's search for an appropriate company to acquire and to ask Mr. Youngblood's permission to contact Mr. Marbut and inquire if there were any interest on Argyle's part to explore the possibility of a transaction with ISI.

During this conversation, Mr. Marbut indicated an interest in discussing the possibility that Argyle's strategy and ISI's strategy might be sufficiently compatible to allow an acquisition of ISI by Argyle.

Mr. Marbut had known Mr. Youngblood for over 17 years, although they had neither seen nor spoken to one another since seeing each other at a basketball game in San Antonio over four years prior to the time Mr. Raines contacted Mr. Marbut. Neither had, prior to the telephone conversation between senior executives of ISI and Argyle on October 5, any contact with members of management, affiliates or board members of the other's company.

A follow-up conference call was held the following day, October 5, 2006. The call included Mr. Raines, Mr. Marbut, Ron Chaimovski. As a result of this telephonic meeting, Mr. Marbut expressed an interest to Mr. Raines in meeting with Mr. Youngblood.

On October 6, 2006, Messrs. Youngblood, Marbut, Raines, and Mellin met at the ISI corporate office in San Antonio. Other members of ISI's senior management later joined the meeting, which lasted four hours. As a result, Messrs. Marbut and Youngblood agreed to pursue the possibility of Argyle's acquiring ISI in order to determine expeditiously whether or not this was mutually feasible for both companies. At the October 6 meeting, Messrs. Youngblood and Marbut acknowledged to Mr. Raines that, should an agreement be reached between ISI and Argyle, Mr. Raines' firm WFG Investments, Inc., would receive a fee of up to $620,000 contingent on the transaction being closed, of which Argyle would pay $310,000 and the stockholders of ISI would pay the other $310,000. As of April 2007, the fee to be paid to WFG has been increased to $633,000 by agreement of Raines, WFG, Argyle, ISI and the stockholders of ISI. The increase in said fee reflects the increase in the merger consideration resulting from ISI having exceeded certain benchmarks for Adjusted EBITDA and 2/28 Backlog (as those terms are defined in the merger agreement) and the entire $13,000 increase in the fee is payable by the stockholders of ISI.

On October 10, 2006, a non-disclosure agreement was then signed by Argyle and ISI. In the subsequent weeks, preliminary information on ISI and its business was shared with Argyle. Both Argyle and ISI then engaged legal counsel (Loeb & Loeb LLP for Argyle and Hughes Luce for ISI), and information was provided to the respective independent auditors of Argyle and ISI (Ernst & Young for Argyle and Padgett, Stratemann & Co. for ISI).

During the week of October 9, 2006, Messrs. Marbut and Youngblood communicated frequently via telephone and e-mail. They, along with Mr. Chaimovski, had face-to-face meetings on October 16 and 17, 2006 in San Antonio.

Argyle continued to perform preliminary due diligence between October 9, 2006 and October 31, 2006. During this time, a letter of intent was also being negotiated by the parties.

On October 12, 2006, Mr. Youngblood met with David Jones of William Blair Mezzanine Capital Fund III, L.P., a significant debt holder in ISI. At that meeting, Mr. Youngblood explained the basic outline of possible merger with Argyle to Mr. Jones.

On October 15, 2006, Mr. Raines met with Mr. Jones and the general terms of the merger were discussed.

Between October 12 and October 30 there were many phone calls between Mr. Jones and Mr. Youngblood regarding a potential merger between ISI and Argyle. During these discussions, Mr. Jones, on behalf of William Blair Mezzanine Capital Fund III, L.P., provided input from the perspective of a stockholder in ISI, a potential post merger lender to ISI, and as a member of the board of directors of ISI. These discussions involved various terms and conditions of a possible merger as well as review and comments on the various drafts of the letter of intent being negotiated between ISI and Argyle. There were no discussions, either in person or by telephone between William Blair Mezzanine Capital Fund III, L.P. and Argyle until Mr. Jones arrived in New York City for the October 30, 2006 meeting, attended by Argyle representatives, at which the letter of intent regarding the merger was signed by all parties. After October 12, 2006, Mr. Jones had numerous conversations with William Blair Mezzanine Capital Fund III, L.P.'s counsel regarding the potential merger, and there were many discussions between William Blair Mezzanine Capital Fund III, L.P.'s counsel and ISI's counsel regarding the merger after that date.

Messrs. Chaimovski, Marbut, Wachtel and Youngblood met in New York on October 24 and 25, 2006. Argyle's director Gen. (ret.) Wesley K. Clark joined them for the October 24, 2006 meeting.

On October 25, 2006, Mr. Wallis joined the continuing discussions via telephone. They focused on the details of ISI's businesses. These meetings were also attended by Robert "Butch" Roller and Walter Wallace, president and vice president, respectively, of MCS-Commercial, the subsidiary of ISI that deals with the commercial marketplace.

The Argyle Board of Directors met in New York on October 30, 2006, at which time Giuliani Capital Advisors gave a presentation on valuation, followed by Mr. Youngblood giving an independent presentation on ISI. Also in attendance for some of the meetings on October 30, 2006, including a portion of the Argyle Board meeting, was Mr. Jones. Mr. Jones expressed his firm's support for the contemplated transaction.

In the executive session that followed the Argyle Board meeting on October 30, 2006, the Argyle Board of Directors unanimously agreed to pursue a possible transaction. A letter of intent was also approved. It was signed by the parties on the same day.

On the following day, the Argyle team again met with Messrs. Youngblood, Roller and Wallace to continue to increase their understanding of ISI's businesses and growth opportunities, particularly in the commercial area. During these meetings Argyle and ISI developed a schedule for executing formal due diligence, the negotiation of a merger agreement and the creation of proxy/registration documents to file with the SEC.

Formal and intensive due diligence began on November 6, 2006 at the ISI corporate offices and continued until the definitive merger agreement was finalized. The Argyle due diligence team included Messrs. Marbut, Chaimovski, Mellin, Wachtel, and Wallis; representatives of Loeb & Loeb; representatives of Giuliani Capital Advisors; and representatives of Ernst & Young.

From November 6, 2006 through December 8, 2006, various representatives of Argyle and ISI were in constant communication in connection with due diligence and the negotiation of a definitive agreement. William Blair Mezzanine Capital Fund III, L.P., substantively participated in drafting the merger agreement, and engaged counsel to review the merger agreement. William Blair Mezzanine Capital Fund III, L.P., and its counsel participated in the tax structuring of the transaction, negotiating the terms relating to the merger consideration, and pre-closing restrictions on the operations of ISI. $10.0 million of the merger consideration will be used to purchase $10 million in preferred stock from William Blair Mezzanine Capital Fund III, L.P. The preferred stock will be issued immediately prior to the closing to William Blair Mezzanine Capital Fund III, L.P. in consideration for cancellation of $10.0 million of the $15.9 million debt owed to William Blair Mezzanine Capital Fund III, L.P. Mr. Jones was the representative of William Blair Mezzanine Capital Fund III, L.P. William Blair Mezzanine Capital Fund III, L.P.'s counsel also participated in the negotiation of the terms of the remaining $6 million promissory note, and the fees to be paid and/or waived by William Blair Mezzanine Capital Fund III, L.P.

Due diligence was physically conducted at ISI's corporate office, MCS-Detention's facility, and MCS-Commercial facilities in Dallas, Denver, and San Antonio. Customer contacts were made with both ISI-Detention/MCS-Detention and MCS-Commercial customers. The ISI Detention/MCS Detention customers contacted included: Hensel Phelps, Dinosaur Valley and White Construction Companies, and all gave opinions about ISI that ranged from very favorable to extraordinary. Those MCS-Commercial customers that were contacted included Travelport Data Center and Littleton (Colorado) Public Schools; their opinions were also very favorable. An interview questionnaire was used with each of the companies contacted to collect a consistent set of responses. Questions were asked relating to: longevity as a customer, view as to their relationship with ISI, pricing competitiveness, customer expectations achievement, misunderstandings/disputes experienced, on-time performance, professionalism of ISI personnel, system performance, post-installation service experience, improvements desired, willingness to be a reference, and repeat business potential. Customer responses were uniformly excellent, with one minor complaint about back-office billing mistakes in recent months after an ISI personnel change. On-site visits were conducted at current correctional projects in two widely separated parts of Texas to determine if Argyle concurred with ISI's assessment of project completion percentages and to determine how well the projects were organized and managed. The results of those two site visits were very favorable.

Very soon after the letter of intent was signed by the parties on October 30, 2006, efforts were begun to create a definitive merger agreement, using the LOI content as a framework for discussion and negotiations. Messrs. Chaimovski and Mellin and Argyle's outside counsel, Loeb & Loeb LLP represented Argyle in the negotiations. ISI was represented by Mr. Youngblood and ISI's legal counsel, Hughes Luce, LLP. Representing William Blair Mezzanine Capital Fund III, L.P. was David Jones and counsel for William Blair Mezzanine Capital Fund III, L.P., Vedder, Price, Kaufman & Kammholz PC.

These parties, which did not directly include Giuliani Capital Advisors (which advised Argyle on the negotiations, but did not actually participate in such negotiations), negotiated the merger agreement throughout the month of November. In addition, during this period, Messrs. Youngblood and Marbut were in communication, both in person and electronically, to finalize certain open issues in the merger negotiation. Also throughout this period, when Argyle management and its consultants were involved in a formal due diligence process, the due diligence results were taken into account in finalizing the merger agreement.

The final open issues of the merger agreement were agreed to on December 8 just prior to the meeting of the Argyle Board of Directors in New York.

Beginning on October 7, 2006 and continuing on average on a weekly basis through December 7, 2006, Mr. Marbut communicated (primarily by email) with members of the Argyle Board on the progress of the due diligence effort, merger agreement negotiations, and the preparations of this Proxy Statement.

The results of the due diligence process were reported at a meeting of the Argyle Board of Directors in New York on December 8, 2006. This was followed by Messrs. Chaimovski and Marbut making a presentation of the definitive merger agreement for the proposed ISI transaction. The Board then met with Walter Bailey and Anthony Sehnaoui of Giuliani Capital Advisors to receive an analysis of the proposed transaction and a presentation regarding the proposed merger consideration's fairness from a financial point of view. The Argyle Board of Directors and the ISI Board of Directors then approved the merger agreement.

On June 16, 2007, Mr. Marbut and Mr. Youngblood began to negotiate an amendment to the merger agreement, which was necessitated because the merger could not be consummated by July 1, 2007, the date after which either party could terminate the merger agreement for any reason. Loeb & Loeb LLP assisted Mr. Marbut in negotiations and Hughes & Luce assisted Mr. Youngblood in negotiations. On June 20, 2007, Mr. Marbut and Mr. Youngblood agreed on the terms of an extension, which was approved by the Board of Directors of Argyle on June ___, 2007 and by the Board of Directors and Stockholders of ISI on June ___, 2007. Each of the Board of Directors of Argyle and the

Board of Directors and Stockholders of ISI approved the amendment on the days that it was presented to them.

The definitive merger agreement was signed on December 8, 2006 and publicly announced on December 14, 2006.

Board Consideration and Approval

While no one factor determined the final agreed upon consideration in the merger, Argyle's Board of Directors reviewed various industry and financial data, including certain valuation analyses and metrics compiled by Argyle and Giuliani Capital Advisors in order to make its determination that the consideration to be paid to the ISI stockholders was reasonable and that the acquisition was in the best interests of Argyle's stockholders. Argyle's Board of Directors also reviewed and considered certain analyses provided by Giuliani Capital Advisors in order to determine that the merger consideration was fair from a financial point of view to Argyle.

Argyle's officers and consultants conducted a due diligence review of ISI that included an industry analysis, a description of ISI's existing business model, inspections of company premises, review of corporate records and files, on-site visits to selected jobs-in progress, in-depth meetings with three levels of ISI management, interviews with major ISI customers, a valuation analysis and financial projections in order to enable the Board of Directors to ascertain the reasonableness of the consideration. On December 8, 2006, Giuliani Capital Advisors and Argyle's executive officers made a presentation to Argyle's Board of Directors relating to the merger.

In approving the amendment to the merger agreement, Argyle's Board of Directors determined that the performance of ISI since the date the merger agreement was executed justified the additional consideration which would be paid by Argyle to the security holders of ISI pursuant to the amendment since it was possible that ISI could obtain such additional consideration from a third party (and would contractually be able to seek alternative buyers after July 1, 2007). Therefore, Argyle's Board of Directors determined that it was in the best interests of Argyle's stockholders to enter into the amendment.

Interest of Argyle's Management in the Merger. When you consider the recommendation of Argyle's Board of Directors that you vote in favor of the merger, you should keep in mind that Argyle's officers and directors have interests in the merger that are different from, or in addition to, yours. These interests include the following:

· If the merger is not approved and Argyle is therefore required to liquidate, the shares owned by Argyle's officers and directors will be worthless because they will not be entitled to receive any of the assets held in the trust account. In addition, the possibility that the members of the Board of Directors will be required to perform their obligations under the indemnity agreements referred to above will be substantially increased.

· 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. If the offering is consummated, Argyle's officers and directors will not have to perform such obligations. As of March 31, 2007, we believe that the indemnity obligation of Argyle's officers and directors could total approximately $319,000, which is equal to the amount of accrued expenses, less amounts relating to vendors for which Argyle has received a waiver of each such vendor's right to sue the trust account. Vendor letters requesting a waiver were sent to Argyle's significant vendors in the first half of 2006, and a total of six consultants and vendors agreed to the waiver. If all of the consultants and vendors who previously agreed to the waivers subsequently challenge the validity of such waivers, the indemnity obligation of our officers and directors as of March 31, 2007 would increase by approximately $272,000. If the merger is not consummated, Argyle anticipates the obligations would total approximately $600,000. Argyle does not have sufficient funds outside of trust to pay these obligations. The consultants who agreed to the waiver are Cindy Kittrell, Alan Wachtel and Mark Mellin, and the vendors are Irwine Pruitt Associates, PLLC, Loeb & Loeb and Rackspace Managed Hosting. Significant vendors who did not sign a waiver include Giuliani Capital Advisors, Ernst & Young LLP and the State of Delaware (for franchise taxes). The vendors and consultants who agreed to the waiver are owed approximately $272,000 of Argyle's approximate

$591,000 balance of accrued expenses as of March 31, 2007. The State of Delaware, Ernst & Young and Giuliani Capital Advisors comprised approximately $303,000 of the March 31, 2007 accrued expenses. The remaining $16,000 of accrued expenses is comprised of numerous smaller vendors. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not, however, signed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

- Warrants to purchase Argyle common stock held by Argyle's directors and officers are potentially exercisable upon consummation of the merger.

- All rights specified in Argyle's Second Amended and Restated Certificate of Incorporation relating to the right of directors and officers to be indemnified by Argyle, and of Argyle's directors and officers to be exculpated from monetary liability with respect to prior acts or omissions, will continue after the merger. If the merger is not approved and Argyle liquidates, it will not be able to perform its obligations under those provisions. If the ISI merger is ultimately completed, the combined company's ability to perform such obligations will probably be substantially enhanced.

- Argyle's financial, legal and other advisors have rendered services for which they may not be paid if the acquisition is not approved, and certain of them may have the opportunity to provide additional services to Argyle in the future. In connection with the ISI negotiations, the drafting of the merger agreement and this Proxy Statement, Argyle's counsel, Loeb & Loeb LLP, has provided approximately $263,000 of services for which it had not been paid as of March 31, 2007. As of March 31, 2007, Giuliani Capital Advisors is owed a fee of $200,000 for its fairness opinion that has not been paid and, if a business combination is completed, will be entitled to receive from Argyle an advisory fee of approximately $0.4 million. Rodman & Renshaw LLC, the representative of the underwriters in Argyle's initial public offering will receive deferred underwriting fees of approximately $1.4 million from the trust account (assuming that no stockholders exercise their redemption rights). As of March 31, 2007, Ernst & Young LLP, Argyle's auditor, was owed $68,037 for audit and transaction related services. Subsequent to March 31, 2007, Argyle paid Loeb & Loeb LLP $50,000 and paid Ernst & Young $68,037.

- 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 March 30, 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 March 30, 2007 ($)		Aggregate Initial Purchase Price of Securities ($)		Gain on Securities as of March 30, 2007 ($)
	Shares	Units	Shares	Units	Shares	Units	
Bob Marbut	371,228	93,750	2,765,649	768,750	10,023	750,000	2,774,376
Ron Chaimovski	290,512	31,250	2,164,314	256,250	7,844	250,000	2,162,720
Wesley Clark	71,720	0	534,314	n/a	1,936	n/a	532,378
John J. Smith	47,813	0	356,207	n/a	1,291	n/a	354,916

Argyle's Reasons for the Merger and Its Recommendation. Argyle's Board of Directors concluded that the merger is in the best interests of Argyle's stockholders.

The Board considered a wide variety of factors in connection with its evaluation of the merger, including: 1) the conclusions of the analyses made by Messrs. Wachtel and Wallis of the market segments that ISI serves, its customers, its competitors and ISI's relative competitive advantage; 2) the results of the due diligence evaluation that Messrs. Marbut, Chaimovski, Wachtel, Mellin and Wallis had made; 3) the qualitative evaluation of ISI's management depth, its systems and processes, its pricing methods, its acquisition assimilation track record, its record of innovation, its growth strategy and its culture; 4) the quantitative analysis of ISI's revenue and backlog growth, 5) a qualitative comparison of the proposed ISI transaction aspects to the acquisition/merger criteria guidelines that had been established by Argyle management and the Board in March of 2006 and 6) various analyses provided by Giuliani Capital Advisors, including the fairness opinion. In connection with the amendment to the merger agreement, the Board of Directors reviewed the performance of ISI since the merger agreement was signed and compared it to ISI's performance prior to the signing of the merger agreement. Argyle's Board of Directors determined that ISI's performance improved sufficiently to warrant paying the security holders of ISI the additional consideration they will receive pursuant to the amendment.

In its evaluation of the proposed ISI transaction, the Argyle Board of Directors also considered what were felt to be the primary negative financial factors involved, including ISI's relatively high debt and the repayment profile of the mezzanine component of that debt, interest obligations, negative cash flow and accumulated deficit. In addition, the Board of Directors took into account the increase in revenues and backlog from 2003 through the third quarter of 2006 and the likely impact that these trends would have on the income statement, the balance sheet and the statement of cash flows and the fact that ISI had indicated that it would not provide a waiver of claims against Argyle's trust account. The Board of Directors concluded that, after the transaction is complete, the consolidated financial strength of the merger of ISI and Argyle overcomes the negative financial factors that the Board of Directors had identified in its analysis and that the likelihood of a favorable shareholder vote at Argyle outweighed the risks of proceeding without a waiver of claims against Argyle's trust account.

In light of the complexity of those factors, the Board of Directors did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its decision.

In considering the acquisition, Argyle's Board of Directors also gave considerable weight to the factors discussed below.

2004 Restructuring. In late 2002, the principal owners of ISI, Sam Youngblood (63.0% owner) and Don Carr (33.0% owner), pursuant to the advice of a personal advisor, sought to diversify their personal asset portfolios. Beginning in 2003, they engaged a business broker to assist them, and began discussions with potential lenders/investors. In the following 18 months, ISI entered into negotiations with two lenders/investors. Those negotiations did not result in completed transactions, but one of those lenders/investors introduced ISI to William Blair Mezzanine Capital Fund III, L.P. After substantial due diligence and negotiations, the mezzanine financing transaction with William Blair Mezzanine Capital Fund III, L.P. was completed in October 2004. This restructuring transaction was the final result of a two-year plan to diversify the personal portfolios of the principal owners.

In the transaction, the principal ISI stockholders retained a significant portion of their equity ownership in ISI. Pursuant to the restructuring transaction, William Blair Mezzanine Capital Fund III, L.P. received a warrant to purchase 30% of the common stock in ISI and ISI took out an unsecured loan of $15.3 million from William Blair Mezzanine Capital Fund III, L.P. The loan funded a portion of shareholder dividends of $16.94 million, the remainder of which was funded by a portion of the newly available $6.0 million line of credit (secured by all the assets of ISI) with LaSalle Bank N.A. The transaction allowed the principal stockholders of ISI to make personal investments in other industries and ventures, so as not to tie all of their personal assets to just their ownership in ISI while, at the same time, permitting them to stay involved in ISI and capitalize on its potential. At the same time that this restructuring transaction closed, Sam Youngblood and Don Carr were paid a bonus of $5.15 million, consisting of $1.498 million in company receivables and cash.

ISI management knew that that the consequences of the 2004 recapitalization transaction with Blair would include: (i) the creation of a negative equity balance in ISI; (ii) that ISI's bonding company would decline to provide future bonding to ISI as a result of its negative equity balance; and (iii) that ISI would incur substantial debt to fund the recapitalization of ISI, the principal purpose of which was to allow Sam Youngblood and Don Carr to diversify their personal portfolios, with the debt to be repaid by ISI's earnings.

To obtain bonding capacity after the 2004 restructuring, Sam Youngblood and Don Carr created ISI*MCS. The purpose of ISI*MCS was and is to facilitate the ability of ISI to perform contracts that required performance and payment bonds after the 2004 restructuring transaction. Sam Youngblood owns 67% of ISI*MCS and Don Carr owns 33% of ISI*MCS. ISI's bonding company agreed to provide bonding capacity to ISI*MCS after the Blair Transaction, so long as ISI*MCS had a positive equity balance and Messrs. Youngblood and Carr and their respective spouses personally guaranteed any losses arising from the bonded contracts. ISI*MCS agreed to provide ISI with bonding capacity for a fee of 2% of the total contact price of each bonded contract. All work required under those bonded contracts was to be performed entirely by ISI, in consideration for the remaining 98% of the total contract price.

The $1.498 million in company receivables distributed to Messrs. Youngblood and Carr as part of a bonus were contributed to ISI*MCS as capital. Messrs. Youngblood and Carr subsequently contributed an additional $1 million in cash to the capital of ISI*MCS. The accounts receivable represented current balances that were due and owing to ISI as of September 30, 2004. The accounts have been almost fully collected by ISI (an $87,341 balance remains unpaid as of March 31, 2007), but the payments have not been forwarded to ISI*MCS. No demand has been made upon ISI for payment of these receivables, but they are reflected as payables in the financial statements of ISI.

As previously described, ISI engaged a business broker to assist it in the 2004 recapitalization transaction. Substantial negotiations for a sale/equity transaction were entered into with two potential investors/lenders (excluding Blair, with which a mezzanine lending transaction was finally completed). The business broker and the two entities with which ISI engaged in varying degrees of significant negotiations, due diligence and document drafting, all valued ISI by using a multiple of “6 times EBITDA”. The owners of ISI were advised by the business broker that a multiple of 6 times EBITDA was a common valuation tool utilized in the security industry in transactions such as the one contemplated by the owners of ISI. The multiple of “6 times EBITDA” used by the broker in 2004 is less than the multiple used by Giuliani Capital Advisors in rendering its fairness opinion in connection with the merger. It is possible that the variation resulted from differences in the industry, in ISI's performance or the relevent experience of the business broker.

Sam Youngblood and Don Carr (CEO and President of ISI, respectively) have relied upon the recommendation of their business broker, and the use of a multiple of 6 times EBITDA when establishing a value for ISI by the potential investor/lenders who pursued ISI. By using this valuation model, the principal owners of ISI, the business broker for ISI, and the two potential investor/lenders of ISI each valued the entity (after the projected completion of their various proposed transactions) at approximately $30 million.

Additionally, ISI has received from Merit Capital Partners (the manager of William Blair Capital Mezzanine Fund III L.P.) a summary of its valuation of ISI after the closing of the October 2004 recapitalization transaction. That letter, dated June 7, 2007, confirms that Blair, after the 2004 recapitalization, valued ISI at $24,552,000. This valuation by Blair's manager is based upon, among other things, ISI's EBITDA, comparable purchase price multiples, and Blair's understanding of other offers received by ISI during its search for recapitalization. This analysis did not take into account, however, ISI's balance sheet after the closing of the 2004 transaction (which reflected total assets of approximately $17 million and total liabilities of approximately $28.5 million) or the amounts paid out to ISI's owners in the form of a dividend and bonus. Depending on the valuation methodology used, ISI's valuation after the 2004 transaction might have been significantly less than the valuation accepted by Merit.

Satisfaction of 80% Test. 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.

To determine the value of ISI, the Board of Directors first determined that as of September 30, 2006, Argyle had $28,402,813 in net assets (total assets minus total liabilities). The consideration being paid to ISI's security holders, which Giuliani Capital Advisors determined was fair from a financial point of view to Argyle, is, at minimum, $16,300,000 and 1,180,000 shares of Argyle's common stock based on the closing price of Argyle's common stock on October 27, 2006, the trading day before the term sheet was signed. The fair market value of the common stock to be issued to ISI's stockholders was $8,496,000 ($7.20 per share), for a total consideration of $24,796,000, which was over 87% of Argyle's net assets at the time that the letter of intent was executed. Therefore, the 80% test was satisfied. As of March 31, 2007, Argyle had $28,827,976 in net assets and, as of June ___, 2007 the merger consideration of ISI was valued at $44,505,000 ($18,600,000 in cash, 1,180,000 shares of common stock valued at $9,180,000 based on the closing price of the common stock on June 25, 2007, and promissory notes in the aggregate principal amount of $1,925,000 and assumed debt, capital leases and ISI closing costs).

Engagement of Giuliani Capital Advisors

On June 29, 2006, Argyle engaged Giuliani Capital Advisors as its financial advisor. Argyle agreed to pay Giuliani Capital Advisors, upon the successful completion of a business combination, an advisory fee for acting in such capacity predicated on the final transaction value of the merger with ISI. The transaction value will be equal to the value of consideration delivered for the purchase of assets or stock plus net debt. Net debt, as defined, is total debt, including capital leases, plus preferred stock less cash and cash equivalents. The estimated advisory fee is based upon the following assumptions: (1) the cash consideration paid is $18,200,000 (2) the value of the shares being issued is approximately $8,708,400 in the aggregate, based on Argyle's closing stock price on December 6, 2006 is $7.38 and (3) the net debt assumed is $12,177,927 as of September 30, 2006, based on ISI's September 30, 2006 balance sheet. Since such consideration includes a share component and a potential enhanced cash portion, the precise amount of the fee cannot be determined until immediately proximate to the closing of the transaction, but is estimated to be approximately $0.4 million. The scope of Giuliani Capital Advisors' engagement as financial advisor to Argyle, included:

- Gathering market intelligence on the security industry;
- Analyzing relative valuations and appropriate bid amounts;
- Assisting in structuring the offer and letter of intent;
- Analyzing the terms of the agreement; and
- Participating in drafting of the Company's filings with the SEC relating to the merger.

In its capacity as financial advisor, Giuliani Capital Advisors also sought to identify potential acquisition targets for Argyle's consideration. Giuliani Capital Advisors identified and presented numerous potential acquisition targets to Argyle's officers and directors for which no fees were paid, as no agreement was reached with any such acquisition. Giuliani Capital Advisors did not identify or introduce ISI to Argyle.

Because the proposed transaction involves a public company and would therefore require shareholder approval and be subject to SEC review, Giuliani Capital Advisors deemed it very likely at an early stage of the proposed transaction with ISI that Argyle would seek a fairness opinion and initiated preparing for that possibility in October 2006. During discussions in October and November, Argyle indicated to Giuliani Capital Advisors that it was leaning toward the same conclusion and would most likely seek a fairness opinion. Although no fee agreement had been agreed, and despite learning in mid-November 2006 that Argyle was considering other firms to provide a fairness opinion relating to the transaction, Giuliani Capital Advisors proceeded under the assumption that it stood a good chance of being selected to provide the fairness opinion, for reasons outlined below.

In early December 2006, the Board of Directors orally advised Giuliani Capital Advisors that it was selected to provide to the Board of Directors an opinion with respect to the fairness, from a financial point of view, of the proposed Argyle merger. Argyle's Board of Directors selected Giuliani Capital Advisors to provide the fairness opinion, after considering multiple potential advisors. The ultimate decision to select Giuliani Capital Advisors was based upon Giuliani Capital Advisors' familiarity with the process that Argyle pursued in identifying ISI and negotiating the proposed merger with ISI, its knowledge of the security industry, its experience in preparing fairness opinions and the Board of Directors' familiarity with Giuliani Capital Advisors' work, including the assistance Giuliani Capital Advisors provided in connection with the merger. Giuliani Capital Advisors' additional role as financial advisor to Argyle was independent from its role providing a fairness opinion of the proposed merger consideration and was formalized as part of a separate engagement letter and unconditional separate fee arrangement. The Board of Directors of Argyle determined that Giuliani Capital Advisors' role in connection with the merger with ISI would not compromise its ability to remain independent in rendering the fairness opinion.

Although the parties did not finalize a written engagement letter with respect to the preparation of the fairness opinion at such time, it was the arrangement between Argyle's Board of Directors and Giuliani Capital Advisors that Giuliani Capital Advisors would complete the necessary work to prepare the opinion and that the parties would continue to negotiate the detailed terms of the engagement letter prior to delivery of the fairness opinion. As noted earlier, Giuliani Capital Advisors had been preparing for the possibility of being engaged to provide the opinion in anticipation of concluding the terms of the fairness opinion engagement letter prior to delivery of its fairness opinion and initiated work on the fairness opinion in October 2006. On December 8, 2006, the parties executed the fairness opinion engagement letter and, on the same day, Giuliani Capital Advisors delivered the fairness opinion. A fee of $200,000 for its services in connection with providing its fairness opinion is payable to Giuliani Capital Advisors. The fee for the fairness opinion was negotiated by Argyle and Giuliani Capital Advisors. The amount of this fee is consistent with industry custom and practice for the preparation of a fairness opinion, is not contingent upon consummation of the proposed merger and can not be credited against the success fee payable to Giuliani Capital Advisors upon consummation of the proposed merger. Argyle also agreed to reimburse Giuliani Capital Advisors for its reasonable out-of-pocket expenses in connection with its activities under the engagement letter, including reasonable fees of and disbursements to its legal counsel. Argyle has also agreed to provide customary indemnification to Giuliani Capital Advisors against certain liabilities arising out of the engagement.

As of the date of the opinion, neither Giuliani Capital Advisors, nor its affiliates, held any securities of Argyle or ISI, nor did any members or officers of Giuliani Capital Advisors serve as a director of Argyle or ISI. Giuliani Capital Advisors may provide investment banking and related services to Argyle in the future.

Fairness Opinion

The Board of Directors received a written fairness opinion, dated December 8, 2006, from Giuliani Capital Advisors LLC to the effect that, as of the close of the market on December 6, 2006, the merger consideration as stipulated in the original merger agreement was fair from a financial point of view to Argyle. The fairness opinion provided by Giuliani Capital Advisors LLC is based on the merger consideration described in the original merger agreement and not as the merger agreement was amended on June ___, 2007, pursuant to which Argyle agreed to pay the stockholders of ISI additional consideration of $400,000 in cash and unsecured promissory notes in the aggregate principal amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share. Argyle did not seek an updated fairness opinion because it would have taken an extended period of time to get a new fairness opinion and because the increase in consideration was relatively small.

THE FULL TEXT OF GIULIANI CAPITAL ADVISORS' FAIRNESS OPINION, WHICH SETS FORTH THE ASSUMPTIONS MADE, GENERAL PROCEDURES FOLLOWED, MATTERS CONSIDERED AND METHODS EMPLOYED BY GIULIANI CAPITAL ADVISORS IN ARRIVING AT ITS OPINION, IS ATTACHED AS ANNEX A TO THIS PROXY.

Giuliani Capital Advisors' written opinion does not constitute a recommendation to the Board of Directors or to any holders of Argyle's common stock as to how to vote or act on any of the proposals set forth in this Proxy. Holders of Argyle's securities are urged to and should read the opinion in its entirety.

In arriving at its opinion, Giuliani Capital Advisors:

- Reviewed a draft of the merger agreement which, for the purposes of the opinion, Giuliani Capital Advisors assumed, with Argyle's permission, to be identical in all material respects to the executed agreement (which had been executed by the parties prior to the delivery of the written opinion);
- Reviewed certain publicly available information about ISI;
- Reviewed information furnished to Giuliani Capital Advisors by ISI's management, including certain audited financial statements and unaudited financial analyses, projections, budgets, reports and other information;
- Held discussions with various members of senior management of ISI concerning historical and current operations, financial condition and prospects, including recent financial performance;
- Reviewed the valuation of ISI based on the terms of the merger agreement;
- Reviewed the valuations of publicly traded companies that Giuliani Capital Advisors deemed comparable in certain respects to ISI;

- Reviewed the financial terms of selected acquisition transactions involving companies in lines of business that Giuliani Capital Advisors deemed comparable in certain material respects to the business of ISI;
- Prepared a discounted cash flow analysis of ISI on a stand-alone basis;
- Participated in discussions related to the proposed merger between ISI and Argyle; and
- Conducted such other quantitative reviews, analyses and inquiries relating to ISI as considered appropriate in rendering the opinion.

These analyses were prepared primarily based on information that was obtained from publicly available sources, as well as information that was provided by, or on behalf of, ISI. Giuliani Capital Advisors' opinion was necessarily based on market and economic conditions and other circumstances as they existed on, and could be evaluated as of the close of the market on December 6, 2006. Giuliani Capital Advisors' opinion does not provide or imply any conclusion as to the likely trading range of any security issued by any party following the approval of the merger. This may vary depending upon, among other things, factors that generally influence the price of securities. The analyses of Giuliani Capital Advisors are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by the analyses. No company or transaction used in any analysis for purposes of comparison is identical to ISI, or Argyle. Accordingly, an analysis of the results of the comparisons is not mathematical; rather, it involves complex considerations and judgments about differences in the companies, industries, general business and economic conditions and other matters, as to which ISI was compared.

The following is a summary of the material analyses Giuliani Capital Advisors performed while preparing its fairness opinion.

Comparable Company Analysis

Comparable company analysis is a method of valuing an asset relative to publicly traded companies with similar products or services, similar operating or financial characteristics, or that serve similar markets displaying certain key similarities. Giuliani Capital Advisors analyzed enterprise values as multiples of Sales and adjusted EBITDA of fourteen publicly traded companies in the U.S. and European markets. Enterprise value is market capitalization plus net debt, which includes total debt plus preferred stock, less cash and cash equivalents. EBITDA is a non-US GAAP financial measure and thus may have multiple definitions. To minimize the variance therewith, Giuliani Capital Advisors derived the attributed EBITDA for these companies from their financial statements filed with the SEC and consistently applied a formula for calculation of EBITDA for each company. The formula is: Gross Profit minus Operating Expenses (deemed ordinary and recurring in nature) plus Depreciation and Amortization. For all of the fourteen comparable companies used, Giuliani Capital Advisors relied upon this formula and input data obtained from SEC filings. In its analysis, Giuliani Capital Advisors segmented companies comparable to ISI into three populations. The first population consisted of access and video control solution providers. This group included companies which provide products, services, and/or solutions involved in monitoring, credentialing, authenticating, and identifying individuals with permission to access a particular area or areas of a facility. The second group included security integration companies which provide, among other things, products, design and engineering services, installation services, and/or solutions which allow multiple security-related components to communicate with each other in one common system. The third group consisted of non-security sector-specific integrators that were included due to similar characteristics of their businesses and ISI's integration operations and the limited population size of security-specific companies. After Giuliani Capital Advisors had segmented comparable company populations, it used those criteria to conduct an extensive search using several third-party industry-standard tools, including Capital IQ. In addition, Giuliani Capital Advisors' extensive experience and familiarity with the security industry allowed it to further augment and revise data sets created from the search results.

Giuliani Capital Advisors' review was limited to comparable companies for which information was publicly available. This limitation may have excluded from the comparable company analysis several private companies that had similar products or services, similar operating or financial characteristics to ISI, or that serve similar markets displaying certain key similarities to markets served by ISI, but for which public information was unavailable. In the comparable company analysis, there were six companies with enterprise values below $100 million range (including two companies that had enterprise values in the $25-$50 million range, which were the only comparable companies within such value range at that time), two companies with enterprise values between $100 and $250 million, and six companies with enterprise values greater than $500 million. All of the companies used in the analysis were identified as having similar products or services, similar operating characteristics to ISI, or serving markets displaying certain key similarities to markets served by ISI, which determined their inclusion as comparable.

Companies possessing larger market capitalizations and enterprise values may warrant higher multiples than ISI, and therefore constitute a limitation to their comparability. This limitation would be attributed to, among other things: (i) shareholder liquidity - companies possessing larger market capitalizations typically enjoy superior trading liquidity, market making and equity research support; (ii) resources and capital - companies larger that ISI may have greater product development and placement capabilities, enjoy superior economies of scale, benefit from international market presence and/or be able to better withstand economic downturns; and (iii) diversity - companies larger than ISI may have greater breadth of operations and sourcing in markets addressed and in regard to their sources of earnings and profits. While some of the companies in this analysis had larger enterprise value than ISI, all of the companies used in the analysis were identified as having products and/or services similar to ISI, or serving markets displaying certain key characteristics in common with those markets served by ISI, thus prompting their inclusion as comparable. Conversely, some investors may ascribe ISI a higher value because of its materially higher than peers projected growth rate (for example, ISI projects a 77% year-on-year growth rate, which is the highest amongst its comparables whose average year-on-year growth rate is 23%, according to long term growth data from Bloomberg, as of June 25, 2007) and its specialized focus on an attractive and defensible niche market with strong underlying fundamentals (for example, according to the Bureau of Justice Statistics (“BJS”), the prison population grew by over 300% from 1980 to 2003, while the U.S. population grew by just 28.4% over the same period (based on statistics from the U.S. Census Bureau) and, according to the BJS, as of June 30, 2005, incarceration rates were the highest in ISI’s key market of the South and 11% above the national rate) and few direct competitors addressing a fast growing product/services demand environment. Thus, company size, as represented by market capitalization, itself an element of enterprise value, on its own does not warrant the inclusion or exclusion from analysis; while size is an important variable, only when taken together with other metrics and characteristics does it constitute a material factor in the overall context of analysis. In addition, investors often focus on the following related elements: growth, sustainable profit margins, and cash generation, among others. Whereas the companies featured in Giuliani Capital Advisors’ analyses are believed to be comparable to ISI in certain material respects, and collectively constitute a relevant source of valuation metrics for comparative purposes, individually they generally do not display the same mix of projected strong growth rates, high profit margins, and narrow industry expertise as ISI possesses (particularly in the relatively unique prison industry, whose underlying fundamentals, according to certain sources including the U.S. Department of Justice and Bureau of Prisons, are believed to be attractive from such microeconomic perspectives as attractive end market growth, regulated “customer” base, market shortages of capital assets and mature life cycle position of most existing assets).Argyle’s Board of Directors did consider the large range of comparable company multiples and discussed this with Giuliani Capital Advisors. After the discussion of the Board of Directors with and without Giuliani Capital Advisors, the Board of Directors determined that, in light of the multiple transaction analyses performed by Giuliani Capital Advisors, the large range of comparable company multiples did not impact the validity of the opinion.

Sources of information used by Giuliani Capital Advisors included filings with the SEC relating to historical operating data; equity stock price data which was taken from Capital IQ as of the close of the market on December 6, 2006; and consensus earnings estimates from themarkets.com as of December 7, 2006 for projected years ending 2006 and 2007. The table below summarizes the results of this analysis:

	Enterprise Value as a Multiple of					
	Sales			Adjusted EBITDA		
	Latest Twelve	Projected Calendar	Projected Calendar	Latest Twelve	Projected Calendar	Projected Calendar

	Months	Year Ended 2006	Year Ended 2007	Months	Year Ended 2006	Year Ended 2007
Access and Video Control Solution Providers						
NICE Systems Ltd.	3.9x	3.6x	3.0x	nm	19.8x	15.2x
Kaba Holding AG	1.6x	1.4x	1.2x	11.5x	9.1x	7.7x
Verint Systems Inc.	2.8x	2.2x	NA	18.7x	14.0x	NA
Gunnebo AB	0.9x	0.8x	0.8x	nm	17.8x	9.7x
NEDAP NV	1.8x	1.6x	1.4x	10.4x	9.2x	8.0x
March Networks Corporation	3.1x	2.7x	2.1x	12.3x	12.9x	9.8x
Quadnetics Group plc	1.0x	0.5x	NA	11.4x	6.1x	NA
Mace Security International Inc.	0.7x	NA	NA	nm	NA	NA
MDI Inc.	1.0x	NA	NA	nm	NA	NA
Mean	1.9x	1.8x	1.7x	12.9x	12.7x	10.1x
Median	1.6x	1.6x	1.4x	11.5x	12.9x	9.7x
Commercial Security Integrators						
CompuDyne Corp.	0.5x	0.6x	0.5x	13.3x	12.8x	11.1x
Henry Bros Electronics, Inc.	0.6x	0.6x	0.5x	14.9x	NA	NA
Mean	0.6x	0.6x	0.5x	14.1x	12.8x	11.1x
Median	0.6x	0.6x	0.5x	14.1x	12.8x	11.1x
Non-Security Sector-Specific Integrators						
Quanta Services, Inc.	1.2x	1.2x	1.0x	13.7x	13.5x	10.7x
MasTec, Inc.	0.9x	0.9x	0.8x	13.5x	13.3x	10.5x
Versar Inc.	0.4x	NA	NA	15.6x	NA	NA
Mean	0.8x	1.0x	0.9x	14.3x	13.4x	10.6x
Median	0.9x	1.0x	0.9x	13.7x	13.4x	10.6x
Aggregate Mean	1.5x	1.5x	1.3x	13.5x	12.9x	10.3x
Aggregate Median	1.0x	1.2x	1.0x	13.4x	13.1x	10.2x

Within this comparable company analysis, EBITDA multiples below 0x and above 25x were discarded as outliers and presented as “nm” in the analysis summary.

Inclusion of outliers would broaden the range of comparable companies, but would not necessarily affect the conclusion of whether the proposed companies’ evaluation metrics settle within the range indicated by potentially comparable companies. In determining whether outliers should be included in a sample of comparables, opinion providers often must exercise professional judgment to reduce the possibility of potential sampling errors. In this case, it was Giuliani Capital Advisors’ judgment that including outliers in the comparable companies may create an impression of an overbroad range of comparable companies that is not well supported by the data.

The preceding comparable company analysis resulted in an implied enterprise valuation of ISI between approximately $50.3 million and $113.7 million. This implied range is large, primarily due to the large range of revenue multiples found within the comparable universe.

Comparable Transaction Analysis

Comparable transaction analysis is a method of valuing an asset relative to recent merger and acquisition transactions involving companies having similar products or services, similar operating or financial characteristics, similar security technology attributes, or servicing similar markets. In its comparable transaction analysis, Giuliani Capital Advisors identified transactions occurring within the preceding three years from October 2003 to September 2006 in which the company acquired had a business in one or more of the markets, or provided similar products/services or similar technology attributes, identified as, or related to, a security segment or business of the type being considered by Argyle. Giuliani Capital Advisors compared enterprise values implied by fourteen comparable merger transactions.

Enterprise value is market capitalization plus net debt, which includes total debt plus preferred stock, less cash and cash equivalents. EBITDA is a non-US GAAP financial measure and thus may have multiple definitions. To minimize the variance therewith, Giuliani Capital Advisors derived the attributed EBITDA for these companies from their financial statements filed with the SEC, where available, and consistently applied a formula for calculation of EBITDA for each company. The formula is: Gross Profit minus Operating Expenses (deemed ordinary and recurring in nature) plus Depreciation and Amortization. Giuliani Capital Advisors consistently computed EBITDA based upon data from SEC filings, in the six transactions where such data was publicly available. In the eight transactions where publicly filed data was not available, Giuliani Capital Advisors relied on its reasonable best estimates and data gleaned from information available to Giuliani Capital Advisors through FactSet Data Systems, Merger Stat, Merger Market and Lehman Brothers Inc. equity research. While these potential differences in EBITDA calculation may introduce a modest degree of variance in multiples, such variances were deemed unavoidable and were not deemed sufficient to undermine the efficacy of the measure or the related multiples and resultant analysis.

Giuliani Capital Advisors primarily focused on transactions in a valuation range of up to approximately $400 million. This limitation may have excluded comparable transactions for which no public information was available or which involved conglomerates where security segment information could not be verified. In the comparable transaction analysis, there were six transactions that had enterprise values below $100 million, five transactions that had enterprise values between $100 and $250 million, and three transactions that had enterprise values greater than $500 million.

	Enterprise Value as a Multiple of:	
	Latest Twelve Months Sales	Latest Twelve Months Adjusted EBITDA
United Technologies Corp. acquisition of Red Hawk Industries	1.0x	NA
NICE Systems Ltd. acquisition of FAST Video Security AG	2.1x	NA
Confidential Representative Private Company Acquisition	5.0x	28.5x
Axsys Technologies, Inc. acquisition of Diversified Optical Products, Inc.	2.5x	13.9x
United Technologies Corp. acquisition of Lenel Systems International Inc.	13.3x	20.0x
United Technologies Corp. acquisition of Kidde plc	2.0x	15.9x
Honeywell International, Inc. acquisition of Novar Plc	1.0x	8.7x
General Electric Co. acquisition of Edwards System Technology, Inc.	3.1x	14.7x
Siemens AG acquisition of Photo-Scan plc	1.7x	9.5x
Schneider Electric S.A. acquisition of Andover Controls Corp.	2.4x	14.4x
Securitas AB acquisition of Bell Group plc	1.5x	16.6x
The Stanley Works acquisition of Frisco Bay Industries, Ltd.	1.3x	11.3x
The Stanley Works acquisition of Blick Plc	1.6x	11.3x
Honeywell International, Inc. acquisition of Silent Witness Enterprises Ltd.	1.5x	11.2x

Mean	2.9x	14.7x
Median	1.9x	14.1x

The preceding comparable transaction analysis resulted in an implied valuation of ISI of between approximately $68.7 million and $76.2 million.

Based on this analysis, Giuliani Capital Advisors determined that the merger consideration was within or below the range of enterprise values implied by the multiples of the selected comparable transactions.

Discounted Cash Flow Analysis

Discounted cash flow analysis is a method of valuing an asset as the present value of the sum of (i) its unlevered free cash flows over a forecast period and (ii) its theoretical terminal value at the end of the forecast period. Giuliani Capital Advisors relied upon the ISI forecast future cash flows according to the financial projections for the fiscal years 2007 through 2009 as provided by ISI and Argyle managements' views. These assumptions included one strategic acquisition in 2008 and one in 2009. These acquisitions were each assumed to provide incremental revenue of $10 million per year, with an assumed EBITDA margin of 10% and an assumed acquisition price of 5x EBITDA. These assumptions appeared consistent with ISI's experience in effecting acquisitions in the past. EBITDA is a non-US GAAP financial measure and thus may have multiple definitions. To minimize the variance therewith, Giuliani Capital Advisors confirmed the calculation of ISI's Adjusted EBITDA. The formula used was: Gross Profit minus Operating Expenses (deemed ordinary and recurring in nature) plus Depreciation and Amortization. The terminal values of ISI were calculated based on projected adjusted EBITDA for 2009, using exit multiples ranging from 7.5x to 11.5x. The range of EBITDA exit multiples Giuliani Capital Advisors applied to its discounted cash flow analysis of ISI was set at a minimum multiple of 7.5x to encompass the lowest comparable companies' 2007 projected Enterprise Value/adjusted EBITDA multiple, as shown in the comparable company analysis table. The range was then increased by intervals of 1.0 in order to include the broader range of comparable companies' Enterprise Value/adjusted EBITDA multiples. Giuliani Capital Advisors applied discount rates ranging from 12.5% to 22.5%. Giuliani Capital Advisors used such discount rates based on its judgment of the estimated weighted average cost of capital of comparable publicly traded companies, as well as adjustments relating to factors deemed specific to ISI, a privately held company. Based on this analysis, the implied enterprise value of ISI indicated a range of valuations for ISI between $66.2 million and $123.4 million. The implied results were trimmed to discard the highest and lowest ranges in order to avoid the potential anomalous effects of outliers and arrive at a more precise implied valuation range. The discounted cash flow analysis resulted in a minimum implied enterprise value of $75.4 million. Removing the aforementioned projected acquisitions from the Discounted Cash Flow Analysis reduces the trimmed minimum implied enterprise value from $75.4 million to $70.8 million; such reduction was deemed to be below a reasonable materiality threshold.

In accordance with conventional industry valuation practices, specifically those routinely used by the investment community, Giuliani Capital Advisors focused broadly on EBITDA as a preferred metric to compare the performance of ISI with that of publicly traded comparables and select M&A transactions. While EBITDA constitutes a non-GAAP financial measure, it comprises the sum of the following GAAP measures: Operating Income (also known as EBIT) plus Depreciation and Amortization. As such, EBITDA is a useful measure that enables analysts to compare the relative operating performance and profitability of companies by normalizing certain potential differences as explained below: (i) companies operating in different jurisdictions, by assessing their results on a pre-tax basis; (ii) companies with different investment and depreciation and amortization policies and histories, by assessing their results on a pre-depreciation and amortization basis; and (iii) companies exhibiting different capital structures and balance sheet characteristics, by assessing their results on a pre-interest basis. In support of this practice, upon analysis of the data, less variance existed in the EV/EBITDA multiples (using the non-GAAP measure of EBITDA) of the comparables than did in their EV/EBIT multiples (using the GAAP measure of EBIT) and thus Giuliani Capital Advisors believes it is a preferred measure for determining the valuation range. Although Argyle's Board of Directors considered that ISI's EBITDA might not be comparable to other similarly titled measures, it determined that it was appropriate to consider this measure for this transaction.

The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description.

Based on this analysis, Giuliani Capital Advisors determined that the merger consideration was within or below the range of enterprise values implied by the multiples of the selected comparable companies, the multiples of the selected comparable transactions and the ISI discounted cash flow analysis. Giuliani Capital Advisors' valuation was based upon the operating metrics of revenues and adjusted EBITDA. The recordation of $20.0 million of goodwill would affect the balance sheet, but not operating performance. Accordingly, the recordation of goodwill would be expected to have no effect on a valuation of ISI based upon comparable companies, comparable transactions or discounted cash flow analyses.

Analysis of the Historical Trading Activity of Argyle's Common Stock

Giuliani Capital Advisors analyzed the historical prices and trading activity of Argyle's common stock on the OTC Bulletin Board. Since the date when Argyle's common stock commenced trading on the OTC Bulletin Board, such date being March 2, 2006, until December 6, 2006, the price of Argyle's common stock ranged from $7.15 to $7.55, with an average daily volume of approximately 12,159 shares. For the 90 trading days ended December 6, 2006, the price of Argyle's common stock ranged from $7.15 to $7.39, with an average daily trading volume of approximately 9,173 shares. For the ten trading days ended December 6, 2006, the price of Argyle's common stock ranged from $7.27 to $7.38, with an average daily trading volume of approximately 35,848 shares.

The closing price of $7.38 of Argyle's common stock on December 6, 2006 was, in Giuliani Capital Advisors' analysis, determined to be a representative price for Argyle's common stock, as it relates to Argyle's status as a special purpose acquisition company prior to the announcement of its merger with ISI. Giuliani Capital Advisors used this price for indicative purposes only, since share price may fluctuate, to calculate the value of the merger consideration, which will be partially paid in Argyle's shares of common stock.

General Matters Regarding Fairness Opinion

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to particular circumstances and, therefore, such an opinion is not susceptible to summary description. Furthermore, Giuliani Capital Advisors did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Giuliani Capital Advisors' analyses must be considered as a whole. Considering any portion of such analyses and of the factors considered without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the conclusions expressed in the opinion.

In its analysis, Giuliani Capital Advisors made a number of assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of ISI, Argyle and Giuliani Capital Advisors. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those set forth in the analysis. In addition, analyses relating to the value of ISI do not purport to be appraisals or to reflect the prices at which securities of Argyle may be sold after the merger is approved.

Giuliani Capital Advisors' opinion does not constitute a recommendation to the Board of Directors or to any holder of Argyle's securities as to how such a person should vote or act with respect to any of the proposals set forth in this Proxy. The opinion does not address the merits of the decision of the Board of Directors to enter into the merger transaction as compared to any alternative business transactions that might be available to Argyle nor does it address the underlying business decision to engage in the merger transaction.

Giuliani Capital Advisors is a nationally recognized investment banking firm that is continually engaged in providing fairness opinions and advising in connection with mergers and acquisitions, leveraged buyouts, recapitalizations and private placement transactions. The Board of Directors retained Giuliani Capital Advisors based on such qualifications, as well as recommendations from other companies that had engaged members of Giuliani Capital Advisors' engagement team for similar purposes and Giuliani Capital Advisors' ability to perform research and render a fairness opinion within the required timeframe.

The Analysis of the Board of Directors in Approving the Amendment

As noted above, due to the passage of time since the execution of the original merger agreement, on June __, 2007 Argyle and ISI entered into an amendment regarding the performance by ISI in the intervening periods and the approaching termination date under the merger agreement. As part of its consideration of the terms of the amendment, Argyle's management prepared a presentation and analysis of the elements of the economic and other aspects of the amendment for review by Argyle’s Board of Directors. This analysis compared the implied new enterprise value of ISI with that used in the Board’s initial consideration of the ISI transaction and the Giuliani Capital Advisors’ fairness opinion dated December 8, 2006 and noted that, while the overall transaction consideration and enterprise valuation had increased, the multiples of revenues and EBITDA had actually decreased slightly due to the improved operating performance of ISI since the time of the initial analysis. In addition, the presentation noted that backlog at ISI had increased and discussed the positive industry trends in the corrections industry more generally. The form of the increased consideration was also discussed, and the fact that the significant majority of the increase would be in the form of subordinated convertible notes as opposed to cash was highlighted. These factors, together with those that formed the basis of the Board’s decision to proceed with the ISI transaction prior to the amendment, led the Board of Directors to approve the amendment in the form appearing as part of Appendix D to this Proxy Statement.

Conclusion of Argyle’s Board of Directors. After careful consideration of all relevant factors, Argyle’s Board of Directors determined that the merger is fair to and in the best interests of Argyle and its stockholders. The Board of Directors has approved and declared the proposal advisable and recommends that you vote or give instructions to vote “FOR” the approval of the merger.

The foregoing discussion of the information and factors considered by the Argyle Board is not meant to be exhaustive, but includes the material information and factors considered by it.

Certain U.S. Federal Income Tax Consequences of the Merger

The following discussion is a general summary of the material U.S. federal income tax consequences of the merger to Argyle and to current holders of its common stock, as well as to the holders of the stock of ISI, who are "United States persons," as defined in the Internal Revenue Code of 1986, as amended (referred to in this Proxy Statement as the Code) and who hold such stock as a "capital asset," as defined in the Code. The discussion does not purport to be a complete analysis of all of the potential tax effects of the merger. The discussion does not address the tax considerations applicable to particular stockholders based on their individual circumstances, or to particular categories of stockholders subject to special treatment under certain U.S. federal income tax laws (such as dealers in securities, banks, insurance companies, tax-exempt entities, mutual funds, and foreign persons). In addition, the discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold stock through such entities. The discussion also does not describe tax consequences arising under the laws of any other federal tax or any state, local or foreign tax.

The discussion is based upon the Code, U.S. Treasury Department regulations, rulings of the Internal Revenue Service ("IRS"), and judicial decisions now in effect, all of which are subject to change or to varying interpretation at any time. Any such changes or varying interpretations may also be applied retroactively.

Argyle has not obtained a ruling from the IRS nor an opinion of counsel as to the U.S. federal income tax consequences of the merger. There can be no assurance that the IRS will not take a different position, or that position will not be sustained.

Because of the complexity of the tax laws and because the tax consequences to Argyle or any particular stockholder of Argyle or ISI may be affected by matters not discussed herein, stockholders are urged to consult their own tax advisors as to the specific tax consequences of the merger, including tax reporting requirements, the applicability and effect of federal, state, local, foreign and other applicable tax laws and the effect of any proposed changes in the tax laws.

Tax Consequences to Argyle and its Current Stockholders

Neither Argyle nor the current holders of its common stock will recognize gain or loss as a result of the merger for U.S. federal income tax purposes.

Tax Consequences to Stockholders of ISI

Gain or Loss on Merger. Amounts received by stockholders of ISI pursuant to the merger generally will be treated as full payment in exchange for their shares of stock in ISI. As a result, a stockholder of ISI generally will recognize gain or loss for U.S. federal income tax purposes equal to the difference between (1) the amount of cash and the fair market value of stock received by such stockholder pursuant to the merger and (2) such stockholder's tax basis in its stock in ISI.

A stockholder's gain or loss generally will be computed on a "per share" basis, so that gain or loss is calculated separately for blocks of stock acquired at different dates or for different prices. The amounts received by a stockholder of ISI pursuant to the merger will be allocated proportionately to each share of stock owned by such stockholder. The gain or loss recognized by such stockholder in connection with the merger generally will be a capital gain or loss, and will be a long-term capital gain or loss if the share has been held for more than one year, and a short-term capital gain or loss if the share has not been held for more than one year. Long-term capital gain of non-corporate taxpayers may be subject to more favorable tax rates than ordinary income or short-term capital gain. The deductibility of capital losses is subject to various limitations.

Back-Up Withholding. Unless a stockholder of ISI complies with certain reporting and/or Form W-9 certification procedures or is an exempt recipient under applicable provisions of the Code and Treasury Regulations, such stockholder may be subject to back-up withholding tax with respect to payments received pursuant to the merger. The back-up withholding tax is currently imposed at a rate of 28%. Back-up withholding generally will not apply to payments made to some exempt recipients (such as a corporation) or to a stockholder who furnishes a correct taxpayer identification number and certain other required information. If back-up withholding applies, the amount withheld is not an additional tax, but generally is allowed as a credit against the stockholder's U.S. federal income tax liability provided the requisite procedures are followed.

Anticipated Accounting Treatment

Argyle will account for the merger with 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 merger is not subject to the Hart-Scott-Rodino Act or any federal or state regulatory requirement or approval, except for filings necessary to effectuate related transactions with the state of Delaware.

PROPOSAL TO APPROVE THE
2007 OMNIBUS SECURITIES AND INCENTIVE PLAN

Background

Argyle's 2007 Omnibus Securities and Incentive Plan (referred to below as the 2007 Incentive Plan) has been approved by Argyle's Board of Directors and will take effect upon consummation of the merger, provided that the merger and the 2007 Incentive Plan are approved by the stockholders at the special meeting.

Under the terms of the 2007 Incentive Plan, 1,000,000 shares of Argyle common stock are reserved for issuance in accordance with its terms. Argyle currently anticipates that, shortly after the merger, it will grant awards to acquire up to approximately 300,000 shares pursuant to the 2007 Incentive Plan to members of the ISI management team, current officers, directors and consultants of Argyle and to 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 - the merger agreement only requires the availability of a plan, not what awards will be made pursuant to the plan. Assuming that the anticipated grants are made, there would be at least approximately 700,000 shares remaining for issuance in accordance with the 2007 Incentive Plan's terms. The purpose of the 2007 Incentive Plan is to assist Argyle in attracting, retaining and providing incentives to its employees, officers, directors and consultants, or the employees, officers, directors and consultants of its affiliates, whose past, present and/or potential future contributions to Argyle have been, are or will be important to the success of Argyle and to align the interests of such persons with Argyle's stockholders. It is also designed to motivate employees and to significantly contribute toward growth and profitability, to provide incentives to Argyle's officers, directors, employees and consultants who, by their position, ability and diligence are able to make important contributions to Argyle's growth and profitability. The various types of incentive awards that may be issued under the 2007 Incentive 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 2007 Incentive Plan. All awards will be subject to the approval of Argyle's Board of Directors or its Compensation Committee.

Description of the 2007 Incentive Plan

A summary of the principal features of the 2007 Incentive Plan is provided below, but is qualified in its entirety by reference to the full text of the 2007 Incentive Plan, a copy of which is attached to this proxy as Annex B.

<u>Awards</u>

The 2007 Incentive Plan provides for the grant of distribution equivalent rights, incentive stock options, non-qualified stock options, performance share awards, performance unit awards, restricted stock awards, stock appreciation rights, tandem stock appreciation rights and unrestricted stock awards for an aggregate of not more than 1,000,000 shares of Argyle's common stock, to directors, officers, employees and consultants of Argyle or its affiliates. If any award expires, is cancelled, or terminates unexercised or is forfeited, the number of shares subject thereto, if any, is again available for grant under the 2007 Incentive Plan. The number of shares of common stock, with respect to which stock options or stock appreciation rights may be granted to a participant under the 2007 Incentive Plan in any calendar year cannot exceed 150,000.

Assuming the merger is completed, there would be approximately 260 employees, directors and consultants who would be eligible to receive awards under the 2007 Incentive Plan. New officers, directors, employees and consultants would be eligible to participate in the 2007 Incentive Plan as well.

Argyle does not currently have any outstanding options or any intention, agreement or obligation to issue any options outside the 2007 Incentive Plan.

Administration of the 2007 Incentive Plan

The 2007 Incentive Plan will be administered by either Argyle's Board of Directors or its Compensation Committee (referred to as the committee), if the Board of Directors delegates the ability to administrate the plan. Among other things, the Board of Directors or, if the Board of Directors delegates its authority to the committee, the committee, has complete discretion, subject to the express limits of the 2007 Incentive Plan, to determine the employees, directors and consultants to be granted awards, the types of awards to be granted, the number of shares of Argyle common stock subject to each award, if any, the exercise price under each option, the base price of each stock appreciation right, the term of each award, the vesting schedule and/or performance goals for each award that utilizes such a schedule or provide for performance goals, whether to accelerate vesting, the value of the common stock, and any required withholdings. The Board of Directors or the Compensation Committee may amend, modify or terminate any outstanding award, provided that the participant's consent to such action is required if the action would materially and adversely affect the participant. The Board of Directors or the committee is also authorized to construe the award agreements and may prescribe rules relating to the 2007 Incentive Plan.

Options

The 2007 Incentive Plan provides for the grant of stock options, which may be either "incentive stock options" (ISOs), which are intended to meet the requirements for special U.S. federal income tax treatment under the Code, or "nonqualified stock options" (NQSOs). Options may be granted on such terms and conditions as the Board of Directors or the committee may determine; provided, however, that the exercise price of an option may not be less than the fair market value of the underlying stock on the date of grant, and the term of an ISO may not exceed ten years (110% of such value and five years in the case of an ISO granted to an employee who owns (or is deemed to own) more than 10% of the total combined voting power of all classes of capital stock of Argyle or a parent or subsidiary of Argyle). ISOs may only be granted to employees. In addition, the aggregate fair market value of common stock underlying one or more ISOs (determined at the time of grant) which are exercisable for the first time by any one employee during any calendar year may not exceed $100,000.

Restricted Stock

A restricted stock award under the 2007 Incentive Plan is a grant or sale of Argyle common stock to the participant, subject to such transfer, forfeiture and/or other restrictions specified by the Board of Directors or the Compensation Committee in the award. Dividends, if any are declared by Argyle, will be paid on the shares, even during the period of restriction. The purchase price for each share of restricted stock may not be less than the par value of a share of Argyle's common stock.

Unrestricted Stock Awards

An unrestricted stock award under the 2007 Incentive Plan is a grant or sale of Argyle common stock to the participant that is not subject to transfer, forfeiture or other restrictions, in consideration for past services rendered thereby to Argyle or an affiliate or for other valid consideration.

Performance Unit Awards

Performance unit awards under the 2007 Incentive Plan entitle the participant to receive a specified payment in cash and/or Argyle common stock upon the attainment of specified individual or company performance goals.

Performance Share Awards

Performance share awards under the 2007 Incentive Plan entitle the participant to receive a specified number of shares of Argyle's common stock and/or cash upon the attainment of specified individual or company performance goals.

Distribution Equivalent Right Awards

A distribution equivalent right award under the 2007 Incentive Plan entitles the participant to receive bookkeeping credits, cash payments and/or Argyle common stock distributions equal in amount to the distributions that would have been made to the participant had the participant held a specified number of shares of Argyle common stock during the period the participant held the distribution equivalent right. A distribution equivalent right may be awarded under the 2007 Incentive Plan as a component of another award, where, if so awarded, such distribution equivalent right will expire or be forfeited by the participant under the same conditions as under such other award.

Stock Appreciation Rights (SARs)

The award of an SAR under the 2007 Incentive Plan entitles the participant, upon exercise, to receive an amount in cash, Argyle common stock or a combination thereof, equal to the increase in the fair market value of the underlying Argyle common shares between the date of grant and the date of exercise. SARs may be granted in tandem with, or independently of, options granted under the 2007 Incentive Plan. An SAR granted in tandem with an option under the 2007 Incentive Plan is granted at the same time as the related option and is exercisable only at such times, and to the extent, that the related option is exercisable and expires upon termination or exercise of the related option. In addition, the related option may be exercised only when the value of the stock subject to the option exceeds the exercise price under the option. An SAR that is not granted in tandem with an option is exercisable at such times as the committee may specify.

Additional Terms

Except as provided in the 2007 Incentive Plan, awards granted under the 2007 Incentive Plan are not transferable and may be exercised only by the participant or by the participant’s guardian or legal representative. Each award agreement will specify, among other things, the effect on an award of the disability, death, retirement, authorized leave of absence or other termination of employment of the participant. Argyle may require a participant to pay Argyle the amount of any required withholding in connection with the grant, vesting, exercise or disposition of an award. A participant is not considered a stockholder with respect to the shares underlying an award until the shares are issued to the participant.

Amendments

Argyle’s Board of Directors may at any time amend, alter, suspend or terminate the 2007 Incentive Plan; provided, that no amendment requiring stockholder approval will be effective unless such approval has been obtained, and provided further that no amendment of the 2007 Incentive Plan or its termination may be effected if it would materially and adversely affect the rights of a participant without the participant’s consent.

Certain U.S. Federal Income Tax Consequences of the 2007 Incentive Plan

The following is a general summary of the U.S. federal income tax consequences under current tax law to Argyle and to individual participants in the 2007 Incentive Plan who are individual citizens or residents of the United States of ISOs, NQSOs, restricted stock awards, unrestricted stock awards, performance unit awards, performance share awards, distribution equivalent right awards and SARs granted pursuant to the 2007 Incentive Plan. It does not purport to cover all of the special rules that may apply, including special rules relating to limitations on the ability of Argyle to deduct certain compensation, special rules relating to deferred compensation, golden parachutes, participants subject to Section 16(b) of the Exchange Act and the exercise of an option with previously-acquired shares. In addition, this summary does not address the state or local income or other tax consequences inherent in the acquisition, ownership, vesting, exercise, termination or disposition of an award under the 2007 Incentive Plan or shares of Argyle common stock issued pursuant thereto.

A participant generally does not recognize taxable income upon the grant of an NQSO or an ISO. Upon the exercise of an NQSO, the participant generally recognizes ordinary income in an amount equal to the excess, if any, of the fair market value of the shares acquired on the date of exercise over the exercise price thereunder, and Argyle will generally be entitled to a deduction for such amount at that time. If the participant later sells shares acquired pursuant to the exercise of an NQSO, the participant generally recognizes a long-term or a short-term capital gain or loss, depending on the period for which the shares were held. A long-term capital gain is generally subject to more favorable tax treatment than ordinary income or a short-term capital gain. The deductibility of capital losses is subject to certain limitations.

Upon the exercise of an ISO, the participant generally does not recognize taxable income. If the participant disposes of the shares acquired pursuant to the exercise of an ISO more than two years after the date of grant and more than one year after the transfer of the shares to the participant, the participant generally recognizes a long-term capital gain or loss, and Argyle is not entitled to a deduction. However, if the participant disposes of such shares prior to the end of the required holding period, all or a portion of the gain is treated as ordinary income, and Argyle is generally entitled to deduct such amount.

In addition to the tax consequences described above, a participant may be subject to the alternative minimum tax, which is payable to the extent it exceeds the participant's regular tax. For this purpose, upon the exercise of an ISO, the excess of the fair market value of the shares over the exercise price thereunder is a preference item for purposes of the alternative minimum tax. In addition, the participant's basis in such shares is increased by such excess for purposes of computing the gain or loss on the disposition of the shares for alternative minimum tax purposes. If a participant is required to pay an alternative minimum tax, the amount of such tax which is attributable to deferral preferences (including any ISO adjustment) generally may be allowed as a credit against the participant's regular tax liability (and, in certain cases, may be refunded to the participant) in subsequent years. To the extent the credit is not used, it is carried forward.

A participant who receives an unrestricted stock award recognizes ordinary compensation income upon receipt of the award equal to the excess, if any, of the fair market value of the shares over any amount paid by the participant for the shares, and Argyle is generally entitled to deduct such payment at such time.

A participant who receives a restricted stock award that is subject to a substantial risk of forfeiture and certain transfer restrictions generally recognizes ordinary compensation income at the time the restriction lapses in an amount equal to the excess, if any, of the fair market value of the stock at such time over any amount paid by the participant for the shares. Alternatively, the participant may elect to be taxed upon receipt of the restricted stock based on the value of the shares at the time of grant. Argyle is generally entitled to a deduction at the same time as ordinary compensation income is required to be included by the participant and in the same amount. Dividends received with respect to such restricted stock are generally treated as compensation, unless the participant elects to be taxed on the receipt (rather than the vestings) of the restricted stock. Other restricted stock awards are taxed in the same manner as an unrestricted stock award.

A participant generally does not recognize income upon the grant of an SAR. The participant has ordinary compensation income upon exercise of the SAR equal to the increase in the value of the underlying shares, and Argyle will generally be entitled to a deduction for such amount.

A participant generally does not recognize income for a performance unit award, a performance share award or a distribution equivalent right award until payments are received. At such time, the participant recognizes ordinary compensation income equal the amount of any cash payments and the fair market value of any Argyle common stock received, and Argyle is generally entitled to deduct such amount at such time.

Conclusion of Argyle's Board of Directors. After careful consideration of all relevant factors, Argyle's Board of Directors has determined that the proposal to adopt the 2007 Omnibus Securities and Incentive Plan is in the best interests of Argyle and its stockholders. Argyle's Board of Directors has approved and declared advisable the proposal and recommends that you vote or give instructions to vote "FOR" the proposal.

PROPOSAL TO CHANGE NAME TO ARGYLE SECURITY, INC.

Pursuant to the merger agreement, Argyle proposes to amend its Second Amended and Restated Certificate of Incorporation to change its corporate name from Argyle Security Acquisition Corporation to Argyle Security, Inc. upon consummation of the merger. If the merger proposal is not approved, the name change amendment will not be presented at the meeting. In addition, if the merger is not subsequently consummated, Argyle's Board of Directors will not effect the name change.

In the judgment of Argyle's Board of Directors, if the acquisition is consummated, the change of Argyle's corporate name is desirable to reflect the fact that Argyle would then be an operating business. A copy of the Third Amended and Restated Certificate of Incorporation as it would be filed if the proposal to change Argyle's name and to amend Argyle's certificate of incorporation (pursuant to the immediately subsequent proposal) is attached to this Proxy Statement as Annex C.

Stockholders will not be required to exchange outstanding stock certificates for new stock certificates if the amendment is adopted.

Conclusion of Argyle's Board of Directors. After careful consideration of all relevant factors, Argyle's Board of Directors determined that the proposal to amend Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's name to Argyle Security, Inc. is in the best interests of Argyle and its stockholders. The Board of Directors has approved and declared the proposal advisable and recommends that you vote or give instructions to vote "FOR" the approval of the name change.

PROPOSAL TO AMEND ARGYLE'S SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO REMOVE CERTAIN PROVISIONS THAT WOULD NO LONGER BE APPLICABLE TO ARGYLE

Argyle proposes to amend its Second Amended and Restated Certificate of Incorporation to remove those provisions of Argyle's Second Amended and Restated Certificate of Incorporation that will no longer be operative upon consummation of the merger (which constitutes a business combination for purposes of Argyle's Second Amended and Restated Certificate of Incorporation), but which were applicable at the time of Argyle's formation as a blank-check company. In order to accomplish this, the text of Article Sixth except for the text of paragraph (E) will be deleted in its entirety. If the merger proposal is not approved, this proposal will not be presented at the meeting. In addition, if the merger is not subsequently consummated, Argyle's Board of Directors will not effect this amendment to Argyle's Second Amended and Restated Certificate of Incorporation.

Article Sixth of Argyle's certificate of incorporation currently reads as follows:

"The following provisions (A) through (E) shall apply during the period commencing upon the filing of this Certificate of Incorporation and terminating upon the consummation of any "Business Combination," and may not be amended during the "Target Business Acquisition Period." A "Business Combination" shall mean the acquisition by the Corporation, whether by merger, capital stock exchange, asset or stock acquisition or other similar type of transaction, of an operating business ("Target Business"). The "Target Business Acquisition Period" shall mean the period from the effectiveness of the registration statement filed in connection with the Corporation's initial public offering of securities ("IPO") up to and including the first to occur of (a) a Business Combination or (b) the Termination Date (defined below).

(A) Prior to the consummation of any Business Combination, the Corporation shall submit such Business Combination to its stockholders for approval regardless of whether the Business Combination is of a type which normally would require such stockholder approval under the GCL. In the event that a majority of the shares cast at the meeting to approve the Business Combination are voted for the approval of such Business Combination, the Corporation shall be authorized to consummate the Business Combination; provided that the Corporation shall not consummate any Business Combination if the holders of 20% or more of the Transaction Shares (as defined below) exercise their redemption rights described in paragraph B below.

(B) In the event that a Business Combination is approved in accordance with the above paragraph (A) and is consummated by the Corporation, any stockholder of the Corporation holding shares of Common Stock issued in the IPO (the “IPO Shares”) who voted against the Business Combination may, contemporaneous with such vote, demand that the Corporation redeem his IPO Shares into cash. If so demanded, the Corporation shall, promptly after consummation of the Business Combination, redeem such shares into cash at a per share redemption price equal to the quotient determined by dividing (i) the amount in the Trust Fund applicable to the net proceeds from the sale of the Transaction Shares (as defined below), inclusive of any interest thereon (exclusive of taxes payable and interest released to the Corporation used to fund the Corporation’s working capital), calculated as of two business days prior to the consummation of the Business Combination, by (ii) the total number of IPO Shares. “Transaction Shares” shall mean the IPO Shares, together with any shares of Common Stock issued by the Corporation in a private placement either concurrently with or within four business days prior to the IPO (the “Placement Shares”). “Trust Fund” shall mean the trust account established by the Corporation at the consummation of its IPO and into which, among other funds, a certain amount of the net proceeds of the IPO is deposited.

(C) In the event that the Corporation does not consummate a Business Combination by the later of (i) 18 months after the consummation of the IPO or (ii) 24 months after the consummation of the IPO in the event that either a letter of intent, an agreement in principle or a definitive agreement to complete a Business Combination was executed but was not consummated within such 18 month period (such later date being referred to as the “Termination Date”), the officers of the Corporation shall take all such action necessary to dissolve and liquidate the Corporation as soon as reasonably practicable. In the event that the Corporation is so dissolved and liquidated, only the holders of IPO Shares shall be entitled to receive liquidating distributions and the Corporation shall pay no liquidating distributions with respect to any other shares of capital stock of the Corporation.

(D) A holder of IPO Shares shall be entitled to receive distributions from the Trust Fund only in the event of a liquidation of the Corporation and/or the Trust Fund or in the event he demands redemption of his shares in accordance with paragraph (B), above. In no other circumstances shall a holder of IPO Shares have any right or interest of any kind in or to the Trust Fund. A holder of Placement Shares shall not have any right or interest of any kind in or to the Trust Fund.

(E) The Board of Directors shall be divided into three classes: Class A, Class B and Class C. The number of directors in each class shall be as nearly equal as possible. At the first election of directors by the incorporator, the incorporator shall elect a Class C director for a term expiring at the Corporation’s third Annual Meeting of Stockholders. The Class C director shall then elect additional Class A, Class B and Class C directors. The directors in Class A shall be elected for a term expiring at the first Annual Meeting of Stockholders, the directors in Class B shall be elected for a term expiring at the second Annual Meeting of Stockholders and the directors in Class C shall be elected for a term expiring at the third Annual Meeting of Stockholders. Commencing at the first Annual Meeting of Stockholders, and at each annual meeting thereafter, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. Except as the GCL may otherwise require, in the interim between annual meetings of stockholders or special meetings of stockholders called for the election of directors and/or the removal of one or more directors and the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors for cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum (as defined in the Corporation’s Bylaws), or by the sole remaining director. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified. A director elected to fill a vacancy resulting from the death, resignation or removal of a director shall serve for the remainder of the full term of the director whose death, resignation or removal shall have created such vacancy and until his successor shall have been elected and qualified.”

If this proposal is approved by stockholders, Article Sixth will read in its entirety as follows:

"The Board of Directors shall be divided into three classes: Class A, Class B and Class C. The number of directors in each class shall be as nearly equal as possible. At the first election of directors by the incorporator, the incorporator shall elect a Class C director for a term expiring at the Corporation's third Annual Meeting of Stockholders. The Class C director shall then elect additional Class A, Class B and Class C directors. The directors in Class A shall be elected for a term expiring at the first Annual Meeting of Stockholders, the directors in Class B shall be elected for a term expiring at the second Annual Meeting of Stockholders and the directors in Class C shall be elected for a term expiring at the third Annual Meeting of Stockholders. Commencing at the first Annual Meeting of Stockholders, and at each annual meeting thereafter, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. Except as the GCL may otherwise require, in the interim between annual meetings of stockholders or special meetings of stockholders called for the election of directors and/or the removal of one or more directors and the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors for cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum (as defined in the Corporation's Bylaws), or by the sole remaining director. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified. A director elected to fill a vacancy resulting from the death, resignation or removal of a director shall serve for the remainder of the full term of the director whose death, resignation or removal shall have created such vacancy and until his successor shall have been elected and qualified."

In the judgment of Argyle's Board of Directors, if the merger is consummated, the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove those provisions of Argyle's Second Amended and Restated Certificate of Incorporation that will no longer be operative upon consummation of the merger is desirable to reflect the fact that Argyle would then be an operating business. A copy of the Third Amended and Restated Certificate of Incorporation as it would be filed if the proposal to amend Argyle's certificate of incorporation and to change Argyle's name (pursuant to the immediately preceding proposal) is attached to this Proxy Statement as Annex C.

Conclusion of Argyle's Board of Directors. After careful consideration of all relevant factors, Argyle's Board of Directors determined that the proposal to amend Argyle's Second Amended and Restated Certificate of Incorporation is in the best interests of Argyle and its stockholders. The Board of Directors has approved and declared the proposal advisable and recommends that you vote or give instructions to vote "FOR" the approval of the amendments to Article Sixth which remove certain paragraphs that were applicable to Argyle only until such time as Argyle consummated a business combination.

PROPOSAL TO ADJOURN OR POSTPONE THE SPECIAL MEETING FOR THE PURPOSE OF SOLICITING ADDITIONAL PROXIES

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, its 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.

Conclusion of Argyle's Board of Directors. After careful consideration of all relevant factors, Argyle's Board of Directors determined that the proposal to allow adjournment or postponement of the special meeting for the purpose of soliciting additional proxies is in the best interests of Argyle and its stockholders. The Board of Directors has approved and declared the proposal advisable and recommends that you vote or give instructions to vote “FOR” the proposal.

INFORMATION ABOUT ISI

ISI's History and Current Business

ISI is the parent company of several subsidiaries, including three solution providers in the physical security industry: ISI Detention Contracting (referred to as ISI-Detention), Metroplex Control Systems (referred to as MCS-Detention), and Metroplex Fire and Security Alarms (referred to as MCS-Commercial).

1. **ISI-Detention** designs, engineers, supplies, installs, and maintains a full array of detention systems and equipment, targeting correctional facilities throughout the United States.

Contracting Structure: Most transactions in which ISI-Detention becomes involved result in a contract with a customer who is an owner or construction manager (where ISI-Detention is a prime contractor), an agreement with a general contractor or electrical contractor (where ISI-Detention is a subcontractor). Approximately 70% of the total revenues of ISI is derived from work performed for general contractors, whereas approximately 30% comes from work performed directly for the end user. ISI-Detention may seek these projects on its own as a stand-alone vendor or as part of a team that has been assembled to pursue the project.

Team Contracting: A team is typically assembled by a general contractor, architect, engineer, developer, or a private correctional facility operator to submit a proposal to negotiate with a customer or submit a competitive bid on a correctional project. Within these teams, ISI-Detention is the "Security Solutions Principal". The members of the team negotiate the amount and terms of the contract for their respective parts of the project. This means that ISI-Detention and the other construction related members of the team would enter into a contract with a general contractor without having to directly participate in a bid competition. This can occur because the members of the team have previously worked together, and the team members have experience in dealing with most, if not all, of the other team members, and know their capabilities. In many instances, ISI-Detention will have previously developed a relationship with more than one member of the team, which facilitates the contracting process. Once the security and other components of the proposal are completed, the team submits the proposal in a competition, or commences negotiations with the ultimate customer. For purposes of actually submitting the proposal, a "lead contractor" structure is utilized. This means that the principals of the team enter into agreements with the general contractor, and the construction portion of the team's proposal is submitted in the name of the general or lead contractor.

Contracts with owners, construction managers, general contractors and electrical contractors are pursued in both competitively bid situations and negotiated transactions. These constitute approximately 90% of ISI-Detention's annual project volume. The processes related to competitively bid contracts and negotiated transactions are set forth below:

a. Competitively bid contract: ISI-Detention, acting alone or as the Security Solutions Principal for a team, is asked to submit a proposal with a price to a customer (owner, general contractor, construction manager or electrical subcontractor) for a portion of the work on a corrections project. There are usually other organizations competing with ISI-Detention also submitting proposals with pricing. The customer collects all the bids from the vendors or teams, chooses the best one, and then submits a bid or proposal to their prospective customer in a bid competition. If ISI-Detention's customer is an owner or construction manager, and the owner selects ISI-Detention as the winning bidder, then ISI-Detention enters into an agreement with the owner or construction manager. If ISI-Detention's customer is a general contractor or an electrical engineer, and that customer is selected as the winning bidder, then the customer engages ISI-Detention for that portion of the project for which ISI-Detention submitted a proposal or bid. In many bid competitions, the successful bidder is determined by which party has submitted the "best" bid, not necessarily the "lowest" bid. ISI believes that the relationships it has developed with architects, engineers, general contractors and others, has facilitated ISI-Detention occasionally being selected as the "best" bidder" (and winning the contract) in situations where it was not the lowest bidder. However, there have been other situations where ISI has not been the successful bidder when it was, in fact, the lowest bidder.

b. Negotiated transaction: ISI-Detention, acting alone or as the Security Solutions Principal for a team, prepares a proposal for a portion of the work on a correctional project, that is being submitted to a prospective customer for a negotiated transaction. The parties negotiate the terms of the agreements without competitive bidding. Many of these negotiated transactions are with repeat customers of ISI-Detention. This arrangement allows ISI-Detention to enter into a contract with a customer without the price pressure and elimination of value-added services that is common in competitively bid transactions.

Product solutions for ISI-Detention primarily include detention hardware (prison bars, locks and locking systems), security glass, security furniture (metal furniture), detention grade hollow metal doors, frames and windows and labor to install these items. All of these items are purchased from third-party vendors and sold through ISI-Detention to its customer. ISI-Detention does not manufacture the hardware installed as part of its security solutions. Hardware is purchased from third parties and installed as required by the plans and specifications for each project. All of these products are sold to general contractors that are building, expanding or renovating a jail or prison, or they are sold to the owner (governmental or private entity) of a jail or prison that is being built, expanded or renovated. In either situation, these products are installed in city lockups, county jails, state prisons and federal prisons.

At the beginning of a project (the design phase), ISI-Detention will help design the project by writing specifications, developing schedules (detailed lists) of doors, windows, door hardware and glazing for the customer. The design process provides all the vendors and contractors with a clear outline of what is needed for the project, without drawing every detailed plan that will be needed for construction. This provides the customer with a detailed list of the precise items that ISI-Detention will supply to the customer, and the cost for those items.

To determine the pricing of a project, ISI-Detention will obtain the design drawings of the project in question (which are basically the building construction drawings) and determine the precise quantity of each item needed for the project. (For example, a list will be prepared showing exactly how many left-swinging 3 ft x 7 ft doors and frames, as well as how many right-handed doors and frames of the same size, are required on a project. A similar list is prepared for each type of door, window, lock, hinge, light fixture, toilet and every other detention product that will be required in the project.) ISI-Detention provides these lists of required items to the appropriate vendors. Some vendors perform their own quantity determinations (“take-offs”) rather than relying upon the take-offs prepared by ISI-Detention. The vendor then provides ISI-Detention with the price for the items required. Once all the costs are received from vendors, and ISI-Detention determines the cost of the services that it will provide, ISI-Detention then adds profit and overhead, depending on many factors, including but not limited to what other competitors are known to be bidding on the project, local labor and other conditions, size of the project, complexity of the project, schedule for completion, etc. ISI-Detention then determines a sales price. This price is given to ISI-Detention’s customer. That customer may be a general contractor or the owner of the project – a city, county, state or federal agency.

In many cases, ISI is part of a team that prepares a bid. This team works together to create a total construction bid. The head of the team is usually a general contractor or private prison operator. Typically, ISI is invited to be part of this team because of its repeat customer relationship. The team then competes for the contract as a group. This type of repeat customer relationship allows ISI-Detention the ability to negotiate most of the work sold to repeat customers.

Most governmental agencies 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 let upon the standard “Straight Bid” process where the detailed plans and 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 may also be utilized, such as the Construction Manager at Risk model, where a Construction Manager is hired for a fee to build the project for a fixed price, or “cost plus profit and overhead” basis. When ISI-Detention responds to an RFP, RFQ, Straight Bid, or other competitive bidding process, it typically provides the response to a general contractor (where ISI-Detention is one of several contractors in different disciplines that are part of the total design/bid team providing a proposal with prices) or directly to the owner (governmental agency or private entity) of a correctional project. The quality of ISI-Detention's estimating process, knowledge of the industry, knowledge of its customers and other issues requiring significant judgment and expertise are key factors in determining whether ISI-Detention will 'win' the competitive bid process and be offered the contract for the project.

When the customer sends ISI-Detention a contract, it contains typical construction contract terms and conditions, such as provision for retainage, certification of completion for progress payments, fixed markup on change orders, coordination responsibility, and similar provisions. Most contracts allow for progress payments on a monthly basis, and most contracts are fixed price.

Progress payments and retainage provisions control the amount and timing of payments to ISI-Detention. For example, upon execution of a contract, an agreed upon mobilization payment may be paid to ISI-Detention. Thereafter, each month ISI-Detention certifies to the customer the percentage of the total work that has been completed through the preceding month. A third party (typically an architect) also provides the owner of the project with a certification of the percentage of completion. If the third party agrees with ISI-Detention's certification of its percentage of completion, then ISI-Detention is entitled to receive that percentage of the entire contract amount, less the amount of retainage (typically 5% to 10%). (For example, if ISI-Detention claims that 60% of its work under its contract has been completed, then ISI-Detention is entitled to be paid 60% of the contract amount, less the retainage amount). At the conclusion of the project, assuming no other changes or charges, ISI-Detention should have been paid the full contract amount less the retainage. When the owner of the project, ISI-Detention's customer and the third party have all certified that the project is complete and that all sub-contractors of ISI-Detention have been paid or other appropriate documentation provided, the retainage amount is paid to ISI-Detention.

After a project is sold and ISI-Detention receives a contract, ISI prepares engineering drawings and schedules or lists creating more detail and information than in the design phase, which takes place early on in the development of a project. During the construction phase of the project, ISI orders materials from vendors and arranges for those materials to be shipped to the project site. Typically, ISI-Detention sends its employees to the job site to install this equipment. ISI-Detention's projects usually take 9 to 14 months; some larger projects may run longer.

From time to time, ISI-Detention's customers require that ISI-Detention provide not only the detention equipment but the security electronics as well. When this occurs, ISI-Detention uses MCS-Detention (a wholly-owned subsidiary of ISI) to provide the security electronics to ISI-Detention. The price for the detention equipment and the price for the security electronics (closed circuit television, infra-red alarms, access control systems, etc.) are combined together and submitted by ISI-Detention to its customer as a package price.

2. **MCS-Detention**'s expertise lies in designing, engineering, supplying, installing and maintaining complex, customized security, access control, video and electronic security control system solutions at correctional and government facilities. Typically, the ultimate structure of most transactions in which MCS Detention becomes involved is a situation where MCS-Detention is a subcontractor to another entity, which entity could be a general contractor, ISI-Detention or a competitor of ISI-Detention.

MCS-Detention provides electronic security systems for correctional facilities. MCS-Detention develops electronic security systems for its customers using door controls, intercoms, closed circuit television (CCTV) and other low voltage electronic security systems that can all be controlled from one location at one console. MCS-Detention does not manufacture any of the hardware that is sold and installed as part of its security solutions. Hardware is purchased from third parties and installed as required by the plans and specifications for each project. Many solutions are simultaneously provided for the customer, because MCS-Detention determines the needs of its customer and puts systems together (from many different manufacturers) to fit those needs. More importantly, MCS-Detention can integrate the operation of those varied systems so that they work together without conflict. Because of the complexity of the systems involved, MCS-Detention regularly designs the security electronic systems and prepares the drawings for architects and engineers. This complex design work involves coordination of wiring and conduit on a project, plus developing the requirements for local control and satellite control stations.

Contracting Structure: Most transactions in which MCS-Detention becomes involved result in a contract with a customer who is an owner or construction manager (where ISI is a prime or direct contractor), or an agreement with a general contractor or electrical contractor (where ISI is a subcontractor). MCS-Detention's customers also include ISI-Detention and competitors of ISI-Detention that lack the in-house capability to undertake a security electronics project. MCS-Detention may seek these projects on its own as a stand-alone vendor or as part of a team that has been assembled to pursue the project. The team approach is more commonly utilized by ISI-Detention, though it is an important part of MCS-Detention's business model.

Team Contracting: A team is typically assembled by a general contractor, architect, engineer, developer or a private correctional facility operator to submit a proposal to negotiate with a customer or submit a competitive bid on a correctional project. In these teams, MCS-Detention is the "Electronic Security Solutions Principal". The members of the team negotiate the amount and terms of the contract for their respective parts of the project. This means that MCS-Detention (and the other construction-related members of the team) would enter into a contract with a general contractor without having to directly participate in a bid competition. This can occur because the members of the team have previously worked together, and the team members have experience in dealing with most, if not all, of the other team members, and know their capabilities. Once the security and other components of the proposal are completed, the team submits the proposal in a competition or commences negotiations with the ultimate customer. For purposes of actually submitting the proposal, a "lead contractor" structure is utilized. This means that the principals on the team enter into agreements with the general contractor, and the construction portion of the team's proposal is submitted in the name of the general or lead contractor.

Contracts with owners, construction managers, general contractors and electrical are pursued in both competitively-bid situations and negotiated transactions. These constitute approximately 90% of MCS-Detention's annual project volume. The processes related to competitively bid contracts and negotiated transactions are set forth below:

a. Competitively bid contract: MCS-Detention, acting alone or as the Electronic Security Solutions Principal for a team, is asked to submit a proposal with a price to a customer (owner, general contractor, construction manager or electrical subcontractor) for a portion of the work on a corrections project. There are usually other organizations competing with MCS-Detention that are also submitting proposals with pricing. The customer collects all the bids from the many vendors or teams, chooses the best one, and then submits a bid or proposal to its prospective customer in a bid competition. If MCS-Detention's customer is an owner or construction manager, and the owner selects MCS-Detention as the winning bidder, then MCS-Detention enters into an agreement with the owner or construction manager. If MCS-Detention's customer is a general contractor or an electrical engineer and that customer is selected as the winning bidder, then the customer engages MCS-Detention for that portion of the project for which MCS-Detention submitted a proposal or bid. In many bid competitions, the successful bidder is determined by which party has submitted the "best" bid, not necessarily the "lowest" bid. ISI believes that the relationships it has developed with architects, engineers, general contractors and others, has occasionally facilitated ISI being selected as the "best" bidder" (and winning the contract) in situations where it was not the lowest bidder. However, there have been other situations where ISI has not been the successful bidder when it was, in fact, the lowest bidder.

b. Negotiated transaction: MCS-Detention, acting alone or as the Electronic Security Solutions Principal for a team, prepares a proposal for a portion of the work on a correctional project that is to be submitted to a prospective customer for a negotiated transaction. The parties negotiate the terms of the agreements without competitive bidding. Many of these negotiated transactions are with repeat customers. This arrangement allows MCS-Detention to enter into a contract with a customer without the price pressure and elimination of value-added services that are common in competitively bid transactions.

c. Intercompany Transaction: When MCS-Detention's customer is ISI-Detention, an intercompany arrangement for billing and receivables is created.

MCS-Detention maintains its sales force in San Antonio, Texas and in Indianapolis, Indiana. Sales are pursued nationwide from those locations.

MCS-Detention estimates the cost and pricing of a project in a process that is similar to that of ISI-Detention. MCS-Detention will review the design drawings and written specifications, to create the same "take-offs," or lists, of products and materials that are required on a project. MCS-Detention will then distribute the lists to vendors, receive the vendors' bids on their respective portions of the project, and then MCS-Detention will calculate the costs to furnish and install the products required. MCS-Detention then adds profit and overhead to its calculations and determines the final price for the customer. In determining the final price, MCS-Detention uses the same subjective criteria that ISI-Detention uses.

The contracts that MCS-Detention secures are subject to similar competitive bidding processes as are the contracts entered into by ISI-Detention. All products supplied by MCS-Detention are purchased from third-party vendors, assembled and prepared by MCS-Detention, and then sold by MCS-Detention to its customer. Typically, all MCS-Detention systems are installed and tested by MCS personnel. The terms of the contracts MCS-Detention enters into with its customers are similar to the types of contracts entered into by ISI-Detention. The types of customers that are served by MCS-Detention are the same types of customers that are served by ISI-Detention. The electronic security products of MCS-Detention are linked into an integrated system using applications software developed and provided by MCS-Detention.

3. **MCS-Commercial** designs, engineers, supplies, installs, and maintains professional security, access control, video and fire alarm system solutions for large commercial customers.

Contracting Structure: Approximately 30% of the work of MCS-Commercial is negotiated service work, that is not subject to competitive bidding, and is billed on an hourly basis for time and materials. The remaining 70% of MCS-Commercial's work is generally equally divided between negotiated contracts and competitively bid transactions on commercial (not correctional) projects. Most non-service work transactions result in a contract with a customer who is an owner or construction manager of a project (where MCS-Commercial is a prime or direct contractor) or an agreement with a general contractor or electrical contractor on a project (where MCS-Commercial is a subcontractor).

MCS-Commercial has focused upon relationship selling and negotiated contracts, because in the commercial (non-governmental) arena, competitive bidding is not mandated by law, and the parties have the option of negotiating a contract should they choose to do so. MCS-Commercial will continue to focus upon the negotiated transaction sector of its business, by aggressively seeking out and courting relationships with owner/customers.

MCS-Commercial pursues the majority of its work on its own as a stand-alone vendor, though a smaller portion is pursued as part of a team that has been assembled to pursue the project. The team approach is more commonly utilized by ISI Detention, though it is an important part of MCS-Commercial's business model.

Team Contracting: A team is typically assembled by a general contractor, architect, engineer, developer, or electric commercial project. In these teams, MCS-Commercial is the "Electronic Security Solutions Principal". The members of the team negotiate the amount and terms of the contract for their respective parts of the project. This means that MCS-Commercial enters into a contract with a general contractor or electrical contractor without having to directly participate in a bid competition. This can occur because the members of the team have previously worked together, and the team members have experience in dealing with most, if not all, of the other team members, and know their capabilities. Once the security and other components of the proposal are completed the team submits the proposal in a competition or commences negotiations with the ultimate customer. For purposes of actually submitting the proposal, a "lead-contractor" structure is utilized. This means that the principals on the team enter into agreements with the general contractor, and the team's proposal is submitted in the name of the general or lead contractor.

Contracts with owners, construction managers, general contractors and electrical contractors are pursued in both competitively bid situations and negotiated transactions. These constitute approximately 70% of MCS-Commercial's annual project volume. The processes related to competitively bid contracts and negotiated transactions are set forth below:

a. Competitively bid contract: MCS-Commercial, acting alone or as the Electronic Security Solutions Principal for a team, is asked to submit a proposal with a price to customer (owner, general contractor, construction manager or electrical subcontractor) for a portion of the work on a commercial (non-correctional) project. There are usually other organizations competing with MCS-Commercial, also submitting proposals with pricing. The customer collects all the bids from the many vendors or teams, chooses the best one, and then submits a bid or proposal to their prospective customer in a bid competition. If MCS-Commercial's customer is an owner or construction manager, and the owner selects MCS-Commercial as the winning bidder, then MCS-Commercial enters into an agreement with the owner or construction manager for their portion of the project. If MCS-Commercial's customer is a general contractor or an electrical engineer, and that customer is selected as the winning bidder, then the customer engages MCS-Commercial for that portion of the project for which MCS-Commercial submitted a proposal or bid. In many bid competitions the successful bidder is determined by which party has submitted the "best" bid, not necessarily the "lowest" bid. ISI believes that the relationships it has developed with architects, engineers, general contractors and others, have facilitated ISI occasionally being selected as the "best" bidder" (and winning the contract) in situations where it was not the lowest bidder. However, there have been other situations where ISI has not been the successful bidder when it was, in fact, the lowest bidder.

b. Negotiated transaction: MCS-Commercial, acting alone or as the Electric Security Solutions Principal for a team, prepares a proposal for a portion of the work on a commercial (non-correctional) project, that is to be submitted to a prospective customer for a negotiated transaction. The parties negotiate the terms of the agreements without competitive bidding. This arrangement allows MCS-Commercial to enter into a contract with a customer without the price pressure and elimination of value-added services that is common in competitively bid transactions.

MCS-Commercial also enters into contracts for service work. These are negotiated contracts and constitute approximately 30% of the total revenues of MCS-Commercial.

MCS-Commercial supplies security electronic products to end-users and contractors. These products include: access control systems, fire alarms, video, CCTV, sound paging systems and structured cabling. In contrast to ISI-Detention and MCS-Detention, which sell their products to the corrections industry for jails and prisons, MCS-Commercial typically sells its products to contractors that are building or renovating commercial projects, or to owners of commercial properties. MCS-Commercial does not manufacture any of the hardware that is sold and installed as part of its security solutions. Hardware is purchased from third parties and installed as required by the plans and specifications for each project. Although the products of MCS-Commercial and MCS-Detention are similar in many respects (i.e. access control systems, CCTV, etc.), MCS-Commercial sells products only to commercial customers for commercial projects.

MCS-Commercial maintains sales/service offices in Dallas, San Antonio, Austin and Houston, Texas as well as in Denver, Colorado. Each office is responsible for selling and servicing MCS-Commercial products in its respective geographical area.

The process of estimating and pricing projects for MCS-Commercial is substantially the same process used by ISI-Detention and MCS-Detention. Additionally, MCS-Commercial enters into contracts that are similar, if not identical, in terms and conditions to the contracts entered into by ISI-Detention and MCS-Detention. MCS-Commercial buys and resells all of its products to its customers. Installation is performed by MCS-Commercial employees and also by subcontractors.

As used above, the term 'hardware' is intended to mean hard goods generally related to all facets of modern security systems. Therefore this term includes not only operational computer terminals (with software loaded upon them), computer monitors and networking devices, but it also includes security grade doors, windows, locks, hinges, door closers, door handles, cameras, sensors, intercoms, fire alarms, smoke alarms, access controls, installation hardware (screws, nuts, bolts, cables, etc.) and similar goods involved in modern correctional, governmental and commercial security systems.

None of the three ISI divisions manufactures the hardware that it sells. Hardware is purchased from third parties and resold. ISI-Detention and MCS-Detention do not have long-term agreements with their third-party hardware vendors. Most of the hardware that these two divisions typically recommend be used in any particular customized security solution for a customer is available to ISI from more than one hardware vendor. Accordingly ISI does not believe that such long-term agreements are necessary. MCS-Commercial has distribution agreements in place with some of its third-party vendors to distribute certain product lines. Computers are included in the hardware that the ISI divisions sell to their customers. Those computers require software, and that software is purchased from third parties. No proprietary software of ISI is sold to its customers. The ISI divisions load the third-party software on the computers (or it is installed by the manufacturer of the computer) and insure that the computers are working properly before they are sold and shipped to the customer.

Hardware re-sales are not impacted by whether ISI acts as a contractor or subcontractor on a particular project. In either instance, whether as a subcontractor or a contractor, ISI purchases hardware, pre-assembles and tests it, and once approved, ships the goods to the jobsite, where the hardware is installed. Whether ISI is a subcontractor to a general contractor, or a party to a direct contract with an owner of a project, these internal processes at ISI do not change. The key relevant difference in ISI acting as a general/prime contractor or a subcontractor with regard to hardware re-sales is merely the identity of the party with whom ISI contracts and the party to whom ISI looks for initial payment.

Whether ISI is acting as a general/prime contractor or a subcontractor, the cost of the hardware is included in Cost of Revenue/Contract Costs in ISI's financial statements, and the revenue generated by the sale of that hardware is reflected in Contract Revenues in ISI's financial statements. The profit from the sale of hardware is first reflected in Gross Profit in the ISI financial statements, which is then reduced by general, sales and administrative costs, etc. In either situation, the results of the resale of the hardware are reflected in the internal financial results of each project, and ultimately in the financial results of ISI, as any other component of a project such as labor, utilities, or supplies.

The security solution created by ISI for each customer is a unique combination of different security devices, made by many different manufacturers. These devices include access controls (keypads, card swipe readers, and key fob proximity readers at doorways), electric locks, closed circuit television equipment, fire alarm systems and smoke detectors, etc. These many different devices were not originally manufactured to work together in an integrated system. Each manufacturer developed its product to work in a "typical" environment, and each manufacturer determines what "typical" would be.

Each project presents ISI with a unique combination of a one-of-a-kind array of security related devices in a unique geographical configuration and utilization, and security deployment environment. Examples of those disparate environments include a city jail in a humid coastal area with hundreds of prisoners being booked in and out each day, the searing heat of a desert prison with long-term inmates where classroom education is the key activity, or a downtown high-rise with residents and business tenants demanding comprehensive 24/7 personal safety that does not intrude upon their private or business lives. Making these systems work together is a key value-added service that the ISI divisions provide.

The unusual communication and operational problems between systems presented to ISI in each project requires project-specific programming to resolve. The cost of such project-dedicated programming is charged to each individual project. The programming solution is stored for use at a later time should a similar requirement arise. Over time, ISI has developed a library or warehouse of these unique software solutions, which helps ISI solve the communication conflicts between disparate systems quickly and accurately.

This library of unique software solutions, created on a project-by-project basis is the foundation of the proprietary TotalWerks suite of software programs that ISI uses to solve communication conflicts between security devices. This suite of software is a development tool used by ISI and it is not sold to any customer. The TotalWerks suite allows the fabrication and engineering personnel of MCS-Detention and MCS-Commercial to quickly create the software solutions that are needed for a specific project.

Before any system is shipped to a customer, it is first assembled in the MCS-Detention or MCS-Commercial offices, in a simulated real-world environment. The TotalWerks software is used during this intensive testing, and allows the engineering and fabrication staff to test every input/output device (door switch, card swipe reader, security keyboard, night watchman guard tour signal device, etc.) in the expected real-world environment for that project in order to insure that each device works properly with all the other required systems, before the system is shipped to the customer.

The TotalWerks suite of software is essentially a combination of the adaptations and tools that ISI has created for individual projects, and the cost of developing almost all of the component pieces of the Suite was charged to individual projects for which each separate adaptation or tool was created. The cost of the additional work completed on the TotalWerks suite to streamline its operation has been minimal, and not significant. Therefore, ISI does not maintain a separate research and development program.

In 2005, ISI purchased 90 computers for resale to its customers for a total cost of approximately $252,000. In 2006, ISI purchased 104 computers for resale to its customers for a total cost of approximately $291,200. Those computers required software, and that software was purchased from third parties.

There are two software packages that are loaded on these computers that require licensing, and the transfer of the license to ISI's customer is handled differently for each of the packages:

1. Microsoft Windows XP - This operating system software package is well known to the business community. ISI pays the manufacturer of the computer for the license for this software package for each computer that ISI purchases

for resale to its customers. The license for Windows XP is not purchased in the name of an entity. The license is not registered in the name of ISI's customer or ISI. The license is purchased from the computer manufacturer, and Windows XP is installed on the computer by the computer manufacturer. All of the licensing documentation that establishes that the software on each computer is properly licensed and is delivered by the computer manufacturer to ISI. Upon completion of the project for which the computer was purchased, ISI delivers to its customer all of the authenticating documentation for the software package. The validation certificates, registration numbers, discs containing the software, and all similar authenticating data are provided to ISI's customer. This provides the customer with the documentation required to substantiate its unfettered ownership of the software package. The cost of each license for Windows XP is included in the cost of the computer. In 2005, ISI paid approximately $8,100 for 90 licenses for Windows XP, at a per-copy price of approximately $90. In 2006 ISI paid approximately $9,360 for 104 licenses for Windows XP, at a per copy price of approximately $90.

2. Wonderware - This software is a graphics interface program that, among other things, makes "touch screens" actually touchable. ISI purchases this software package in the name of ISI's customer. The license for this software is actually registered in the name of ISI's customer. The license for the software is issued to ISI's customer and bears the name of the customer. The license is purchased from the software manufacturer and is installed on the computer by ISI. All of the licensing documentation which establishes that the software on each computer is properly licensed to ISI's customer and is delivered by the computer manufacturer to ISI. Upon completion of the project for which the computer was purchased, ISI delivers to its customer all of the authenticating documentation for the software package. The validation certificates, registration numbers, discs containing the software and all similar authenticating data are provided to ISI's customer. This provides the customer with the documentation required to substantiate its unfettered ownership of the software package. The cost of each license for Wonderware is $750.00. The amount paid annually for such licenses will vary with the number of computers sold. In 2005, ISI spent approximately $108,000 on 90 copies of Wonderware, at a per-copy price of approximately $1,200. In 2006, ISI spent approximately $124,800 or 104 copies of Wonderware, at a per-copy price of approximately $1,200.

ISI has made a concerted effort to become the total solutions provider of security and detention for the corrections design/build market. In the security industry, a "total solutions provider" means that a vendor has the ability to design customized solutions for a wide range of security needs, and provide all of the hardware and software for those solutions, rather than designing a wide array of solutions, but only actually fulfilling the design in one or two areas. If a customer selects a series of security vendors, each providing a separate and independent system that addresses only a limited security need, then the numerous systems required to provide overall security can cause many unanticipated problems in operations, maintenance, and upgrades. ISI, as a "total solutions provider," can provide its customers with one source for a wide range of security solutions that are tested and proven to work together.

ISI's operating units provide a range of products as well as value-added services such as design assistance to architects, engineers and owners through writing specifications, providing CAD documents, equipment selection and vendor recommendation. The breadth of its offerings has enabled ISI to establish a leadership position in the design/build corrections market; in turn, this recognized expertise in providing customized, high-level solutions to the most demanding of customers has allowed ISI to acquire projects in other security-sensitive sectors, such as the healthcare industry, water treatment plants, federal courthouses and upscale private commercial buildings.

Through ISI's design assistance and performance, ISI develops relationships that make repeat business with customers more likely. For example, more than 60% of the revenue for ISI-Detention and MCS-Detention during 2004, 2005, and 2006 has been the result of contracts with repeat customers. These repeat customers typically allow ISI to negotiate the work, especially on design-build projects. Design-build projects are contracts where ISI provides substantial design assistance to its customers.

Acquisitions

ISI has completed several acquisitions since 2000. Each of the businesses and the targeted personnel has been successfully assimilated into ISI' operations. A summary of these transactions follows:

· In 2000, ISI purchased the assets of Metroplex Control Systems, for a purchase price of $2.5 million. ISI assumed the obligation to perform an existing backlog of work for the pricing that had been estimated by others and convinced many of the key employees to move to San Antonio to integrate the corrections systems electronics business of the target with the corrections work of ISI already being done in San Antonio.

· In 2002, ISI purchased certain service centers in Dallas, Texas and Denver, Colorado from Edwards System Technology for a purchase price of $564,764.88. The business acquired in Denver was integrated into the existing Denver operations, and the business acquired in Dallas was merged into the existing Dallas office.

· In 2003, ISI purchased the assets of KMC/TL Services, LLC in Austin, Texas in consideration for the assumption of the obligation to complete the projects in the backlog of KMC. No additional cash consideration was paid to KMC. The business was converted into an office for MCS. The key risk in this transaction was the existing backlog of contracts, which was known to have difficulties and thin, if any, profit remaining in the completion of those contracts. ISI completed the troubled contracts, some at a loss, in order to acquire the repeat business from these customers, while establishing an office in Austin, Texas.

· In November 2004, ISI purchased the assets of Community Technical Solutions, Inc. for $350,000. The operations were successfully merged into the Denver office and the key employee of the business integrated into ISI's operations.

· In November 2005, ISI purchased the assets of Instant Photo, Inc. for $750,000. In this acquisition, ISI assumed certain troubled contracts held by unsatisfied, but potentially very good customers. ISI merged the acquired Dallas operations into its existing Dallas office, expanded its existing Austin operations with the acquired Austin business, and the acquired office in Houston, Texas gave ISI its first presence in that market. ISI focused its efforts on service to the disgruntled IPI customers and has completed this acquisition successfully.

2004 Restructuring

In late 2002, the principal owners of ISI, Sam Youngblood (63.0% owner) and Don Carr (33.0% owner), pursuant to the advice of a personal advisor, sought to diversify their personal asset portfolios. Beginning in 2003, they engaged a business broker to assist them, and began discussions with potential lenders/investors. In the following 18 months, ISI entered into negotiations with two lenders/investors. Those negotiations did not result in completed transactions, but one of those lenders/investors introduced ISI to William Blair Mezzanine Capital Fund III, L.P. After substantial due diligence and negotiations, the mezzanine financing transaction with William Blair Mezzanine Capital Fund III, L.P. was completed in October 2004. This restructuring transaction was the final result of a two-year plan to diversify the personal portfolios of the principal owners.

In the transaction, the principal ISI stockholders retained a significant portion of their equity ownership in ISI. Pursuant to the restructuring transaction, William Blair Mezzanine Capital Fund III, L.P. received a warrant to purchase 30% of the common stock in ISI and ISI took out an unsecured loan of $15.3 million from William Blair Mezzanine Capital Fund III, L.P. The loan funded a portion of shareholder dividends of $16.94 million, the remainder of which was funded by a portion of the newly available $6.0 million line of credit (secured by all the assets of ISI) with LaSalle Bank N.A. The transaction allowed the principal stockholders of ISI to make personal investments in other industries and ventures, so as not to tie all of their personal assets to just their ownership in ISI while, at the same time, permitting them to stay involved in ISI and capitalize on its potential. At the same time that this restructuring transaction closed, Sam Youngblood and Don Carr were paid a bonus of $5.15 million, consisting of $1.498 million in company receivables and cash.

ISI management knew that that the consequences of the 2004 recapitalization transaction with Blair would include: (i) the creation of a negative equity balance in ISI; (ii) that ISI's bonding company would decline to provide future bonding to ISI as a result of its negative equity balance; and (iii) that ISI would incur substantial debt to fund the recapitalization of ISI, the principal purpose of which was to allow Sam Youngblood and Don Carr to diversify their personal portfolios, with the debt to be repaid by ISI's earnings.

To obtain bonding capacity after the 2004 restructuring, Sam Youngblood and Don Carr created ISI*MCS. The purpose of ISI*MCS was and is to facilitate the ability of ISI to perform contracts that required performance and payment bonds after the 2004 restructuring transaction. Sam Youngblood owns 67% of ISI*MCS and Don Carr owns 33% of ISI*MCS. ISI's bonding company agreed to provide bonding capacity to ISI*MCS after the Blair Transaction, so long as ISI*MCS had a positive equity balance and Messrs. Youngblood and Carr and their respective spouses personally guaranteed any losses arising from the bonded contracts. ISI*MCS agreed to provide ISI with bonding capacity for a fee of 2% of the total contact price of each bonded contract. All work required under those bonded contracts was to be performed entirely by ISI, in consideration for the remaining 98% of the total contract price.

The $1.498 million in company receivables distributed to Messrs. Youngblood and Carr as part of a bonus were contributed to ISI*MCS as capital. Messrs. Youngblood and Carr subsequently contributed an additional $1 million in cash to the capital of ISI*MCS. The accounts receivable represented current balances that were due and owing to ISI as of September 30, 2004. The accounts have been almost fully collected by ISI (an $87,341 balance remains unpaid as of March 31, 2007), but the payments have not been forwarded to ISI*MCS. No demand has been made upon ISI for payment of these receivables, but they are reflected as payables in the financial statements of ISI.

As previously described, ISI engaged a business broker to assist it in the 2004 recapitalization transaction. Substantial negotiations for a sale/equity transaction were entered into with two potential investors/lenders (excluding Blair, with which a mezzanine lending transaction was finally completed). The business broker and the two entities with which ISI engaged in varying degrees of significant negotiations, due diligence and document drafting, all valued ISI by using a multiple of "6 times EBITDA". The owners of ISI were advised by the business broker that a multiple of 6 times EBITDA was a common valuation tool utilized in the security industry in transactions such as the one contemplated by the owners of ISI. The multiple of "6 times EBITDA"used by the broker in 2004 is less than the multiple used by Giuliani Capital Advisors in rendering its fairness opinion in connection with the merger. It is possible that the variation resulted from differences in the industry, in ISI's performance or the relevent experience of the business broker.

Sam Youngblood and Don Carr (CEO and President of ISI, respectively) have relied upon the recommendation of their business broker, and the use of a multiple of 6 times EBITDA when establishing a value for ISI by the potential investor/lenders who pursued ISI. By using this valuation model, the principal owners of ISI, the business broker for ISI, and the two potential investor/lenders of ISI each valued the entity (after the projected completion of their various proposed transactions) at approximately $30 million.

Additionally, ISI has received from Merit Capital Partners (the manager of William Blair Capital Mezzanine Fund III, L.P.) a summary of its valuation of ISI after the closing of the October 2004 recapitalization transaction. That letter, dated June 7, 2007, confirms that Blair, after the 2004 recapitalization, valued ISI at $24,552,000. This valuation by Blair's manager is based upon, among other things, ISI's EBITDA, comparable purchase price multiples, and Blair's understanding of other offers received by ISI during its search for recapitalization. This analysis did not take into account, however, ISI's balance sheet after the closing of the 2004 transaction (which reflected total assets of approximately $17 million and total liabilities of approximately $28.5 million) or the amounts paid out to ISI's owners in the form of a dividend and bonus. Depending on the valuation methodology used, ISI's valuation after the 2004 transaction might have been significantly less than the valuation accepted by Merit.

Customers

ISI's diverse customer base consists primarily of contractors, construction companies and architects catering to publicly and privately run detention facilities and commercial construction. For fiscal 2006, ISI generated 16% of its revenues from its top customer, 26% from the top two and 34% from the top three. ISI's largest customer represented $9.5 million of revenues. Other large customers represented 10%, 8%, and 5% of revenues in fiscal 2006, respectively.

Competition

The security services industry is a large and competitive market. ISI competes for contracts based on its strong client relationships, successful past performance record, significant technical expertise and specialized knowledge. It often competes against defense contractors, as well as specialized information technology consulting and outsourcing firms. ISI-Detention's competitors include Norment Security Group (part of Compudyne), Cornerstone Detention Products, Sierra Steel, CCC Group, G-S Company, and Pauly Jail Building Company.There are also several smaller regional companies that compete with ISI-Detention.

MCS-Detention's competitors for its hardware/software solutions include: Norment Security Group, Stanley Integrator (part of Stanley Works), Simplex Grinnell (part of Tyco), ESi Companies, Southwest Communications, and Accurate Controls. MCS-Commercial faces a much broader array of competitors such as: Koetter, Siemens, DSS, Fire Alarm Services, Fire Alarm Control Services, Tyco, Chubb and Lone Star. Management does not expect competition in any of the sectors to decline in the foreseeable future.

Some of the companies that ISI competes with are much larger than ISI, and such companies have significantly greater resources then ISI. However, the larger conglomerates that compete in the detention sector offer only the electronic portion of ISI's detention security solution. There are very few companies other than ISI that provide both electronic and physical security solutions, Norment (part of Compudyne) being the most prominent, allowing general contractors to deal with a single supplier for all of their correctional security needs. The commercial security sector has always had a few very large competitors and many moderate size competitors. The latter companies continue to thrive on the basis of their sales capability, project execution performance and their after-project service. The commercial security market has proven to be large enough in prior years to support growth for both large and moderate size security companies.

Stockholders of ISI

The following persons are the current stockholders of ISI and their respective beneficial ownership percentages are shown:

Owner	Number of Shares of Common Stock	Beneficial Ownership Percentage	Beneficial Ownership Assuming Exercise of all Outstanding Derivative Securities
Sam Youngblood	67(1)	63.9%	39.9%
Don Carr	33	31.4%	19.6%
Mark McDonald	11.9064(2)	10.6%	7.1%
Tim Moxon	2.000(3)	1.9%	1.2%
Robert Roller	3.050(3)	2.8%	1.8%
Neal Horman	2.050(3)	1.9%	1.2%
William Blair Mezzanine Capital Fund III, L.P.	48.950(4)	31.8%	29.14%
			100.00%

(1) Includes 4 shares of common stock owned by the Youngblood Trust of which Sam Youngblood is trustee.

(2) Includes 7 shares of common stock to be awarded pursuant to the right described in Footnote 3.

(3) Consists of rights granted to certain key employees to be granted shares of ISI's common stock immediately prior to the consummation of a merger. These rights will not be assumed by Argyle. For

purposes of this presentation, it has been assumed that such shares are currently beneficially owned. Therefore, the shares underlying the rights are deemed to be outstanding for the purpose of computing the percentage ownership of the key employees, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. If the shares underlying the rights were deemed to be outstanding for the purposes of calculating the percentage ownership of each other person (as they are in the next column), the percentage ownership of each other person would be reduced such that the total percentage ownership for all persons would equal 100%.

(4) Consists of shares of common stock issuable upon exercise of a warrant, which is not exercisable until immediately prior to the consummation of an acquisition of ISI. For purposes of this presentation, it has been assumed that such shares are currently beneficially owned. Therefore, the shares underlying the warrant are deemed to be outstanding for the purpose of computing the percentage ownership of William Blair Mezzanine Capital Fund III, L.P., but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. If the shares underlying the warrant were deemed to be outstanding for the purposes of calculating the percentage ownership of each other person (as they are in the next column), the percentage ownership of each other person would be reduced such that the total percentage ownership for all persons would equal 100%.

Employees

As of February 28, 2007, ISI had 249 full-time employees. Future success will depend significantly on ISI's ability to attract, retain and motivate qualified personnel. ISI is not a party to any collective bargaining agreement, has not experienced any strikes or work stoppages and considers its relationship with its employees to be satisfactory.

Health and Dental Insurance

ISI has a self-insured Health and Dental Insurance Plan that allows ISI to insure for a maximum cost (generally not exceeding what can be paid to a third-party insurance company), but also get the financial benefit of the medical expenses incurred if such expenses do not reach this maximum. For example, in 2004 the maximum aggregate stop loss was $880,250; the company only incurred expenses of $566,704. Since the maximum stop loss amount is the amount that ISI would have had to pay to a third-party to provide identical coverages, the difference between the maximum stop loss and the actual costs incurred represented costs savings to ISI. This self-insurance plan, in general, allows the company to get the benefits of lower medical costs without being at risk for excessive medical costs.

In addition to the aggregate insurance, ISI also obtains individual stop loss insurance. This insurance pays if any individual exceeds spending of $65,000 per year. This additional insurance, when blended with the aggregate stop loss, allows ISI to provide good health care to its employees with a known medical expense, but leaves the potential for savings if expenses do not reach the maximum.

Self-insured health and dental insurance plan

	December 31,		
	2004	**2005**	**2006**
Insurance Coverage			
Individual Stop Loss	65,000	65,000	65,000
Aggregate Stop Loss	880,250	857,359	1,092,149
Payments			
Third Party Administrator (1)	184,594	199,762	189,791
Claims Paid	566,704	829,675	1,558,509
Accruals			

Incurred But Not Reported	147,840	126,111	285,882

Note 1: The payments to Third Party Administrator covered the cost of both aggregate and individual stop loss coverage along with the cost of administering the plan.

Facilities

ISI's corporate headquarters, where all corporate functions are housed, is located at 12903 Delivery Drive in San Antonio, Texas. These facilities of approximately 16,000 square feet also house the headquarters for ISI-Detention and MCS-Detention. The headquarters for MCS-Commercial and the San Antonio Regional Office of MCS-Commercial are located in a leased building of approximately 8,000 square feet at 12918 Delivery Drive in San Antonio, Texas, across the street from the ISI corporate headquarters. These two buildings, comprising approximately 24,000 square feet, are leased by ISI for approximately $16,667 per month. MCS-Detention occupies an additional building located at 12902 Flagship in San Antonio, Texas, of approximately 7,000 square feet, for approximately $7,000 per month. MCS-Commercial also conducts operations in Austin, Dallas and Houston, Texas, and Denver, Colorado. The Austin facilities are located at 8711 Burnett Road, Suite D-40, Austin, Texas, 78757 and are comprised of 400 square feet of warehouse space, 800 square feet of office space for combined square footage of 1200 square feet, at a current monthly cost to ISI of $960.00. MCS-Commercial conducts its operations in these offices. The Dallas facilities are located at 2472 Southwell Road, Dallas, Texas, 75229, and are comprised of 650 square feet of warehouse space, 14,350 square feet of office space, for a combined square footage of 15,000 square feet, at a current monthly cost to ISI of $5,000.00. The Denver facilities are located at 7388 South Revere Parkway, Unit 603, Centennial CO, 80112, Denver, Colorado, comprised of 1,100 square feet of warehouse space and 6,680 square feet of office space, for a combined square footage of 7,780 square feet, at a current monthly cost to ISI of $4,250.71. The Houston facilities, as of December 27, 2006, will be located at 10624 Rockley Road, Houston, Texas, 77009, and are comprised of 900 square feet of warehouse space, 4,328 square feet of office space for combined square footage of 5,228 square feet, at a monthly cost to ISI, commencing on April 1, 2007, of $3,398.20. No rental is due for the period of December 27, 2006 to March 31, 2007. The current lease for office space for the Houston facilities was acquired in a 2005 acquisition, and was scheduled to terminate by its own terms on December 31, 2006. The move to new facilities in Houston is not a material event for ISI.

The following facilities are leased from Green Wing Management, Ltd., an entity owned and controlled by Sam Youngblood and Don Carr:

- 12903 Delivery Dr., San Antonio, Texas
- 12918 Delivery Dr., San Antonio, Texas
- 12902 Flagship Dr., San Antonio, Texas

The Merger Agreement between ISI and Argyle requires that the leases on these properties be amended to reflect a term of 12 years from the closing of the merger, and also requires that an appraisal be completed by a qualified appraiser to determine the market rate of the leases on these three properties. The Merger Agreement requires that the rental rate to be paid on these properties be limited to no more than 90% of the market rate determined by the third-party appraiser. Additional appraisals by a third-party appraiser are to be conducted every three years during the 12 year terms, pursuant to the Merger Agreement, and the annual lease rate in the leases can increase at the time of these appraisals, but only to a level that does not to exceed 90% of the market rate determined by the third-party appraiser.

Pursuant to the Merger Agreement, Argyle has the right to purchase these three properties at any time, at the then current market value; however, the purchase price cannot be less than the value determined in the last appraisal preceding the effective date of the closing.

Legal Proceedings

ISI and its subsidiaries are not presently subject to any material litigation, and management is not aware of any threatened material litigation. ISI is a party to routine litigation and administration proceedings that arise from time to time in the ordinary course of business, none of which, individually or in the aggregate, is expected to have a material effect on ISI's financial situation or ability to operate.

ISI-Detention

ISI-Detention's management has been involved in furnishing and installing detention equipment in more than 1,600 correctional facilities since the company's inception in 1976. Its expertise and track record position ISI-Detention favorably among the nation's leading providers of products and solutions for correctional facilities. Its custom-designed systems meet local standards and are in full compliance with the applicable standards of the American Correctional Association, a voluntary organization whose standards for correctional facility design, operation and construction are the recognized industry benchmark for quality and safety.

ISI-Detention offers a complete array of electronic security system solutions revolving around electronic locking systems and hardware, security doors and frames, jail furniture, security glazing and other security-based systems. Whether acting as prime contractor or as a subcontractor for projects spanning all levels of security. More than 60% of the revenue for ISI-Detention and MCS-Detention during 2004, 2005, and 2006 has been the result of contracts with repeat customers.

ISI-Detention's product offerings include security locking systems, security hollow metal doors and wall panels, security windows, security glass and glazing, security furnishings and accessories, design support and full installation capabilities.

Beginning in the design phase, ISI-Detention works with architects, engineers and contractors to help design and develop plans and specifications for a given correctional facility. During this stage of development, ISI-Detention writes specifications for specific locking systems, analyzes particular conditions and requirements and recommends products that correspond to the needs of that correctional facility, depending on the type of security that is required and the underlying budget.

Typically, when ISI-Detention creates an initial budget for a project (before the detailed formal estimating of all job costs is completed) ISI-Detention typically estimates that 13% of the construction dollars will be allocated to ISI-Detention's scope of work on that project, including the security electronics portion. This is an initial estimate that ISI-Detention uses in the early stages of a project before final design is completed. While the final amount of the ISI-Detention scope of work changes from project to project, depending on many factors relating to the design and the intended use of the facility being built or renovated, management has found that an initial budget of 13% of the estimated total construction amount for a project has proven to be a reliable basis for estimating the size of ISI's portion of the project.

In many cases, ISI negotiates its contract with a repeat customer on a team approach (as described on page 54).

When competitive bids are solicited in connection with the construction of a correctional facility, ISI-Detention bids for the detention equipment portion of the overall project as a direct contractor or as one of the subcontractors for a general contractor. The furnished and installed package proposed by ISI-Detention typically includes security locking systems and hardware, security hollow metal (doors and frames), detention furniture (tables, bunks, benches, mirrors, etc.), security electronic controls (closed circuit television, intercom, etc.) and security glass and glazing. By providing this complete package furnished and installed, ISI-Detention is able to provide a warranty program and insure that all the pieces and components are fully integrated and inter-operate correctly.

ISI-Detention's typical warranty is a limited warranty of one year and is provided in more than 95% of the contracts entered into. This warranty provides for repair or replacement of defective materials or workmanship, if a failure occurs within one year of installation of the product. In very limited circumstances, ISI-Detention will provide an extended warranty of two years (with the same repair and replacement obligations as the one year warranty) when it is demanded by a significant customer or is otherwise required to secure a contract. In even more limited circumstances, an extended warranty of three years (with the same repair and replacement obligations as the one year warranty) will be provided.

The aggregate cost of fulfilling ISI Detention's warranty obligations on completed contracts in 2005 and 2006 has been less than $150,000 for those years combined, and there have been no claims asserted by customers or users of ISI's products that are outside the normal scope of warranty work required. Additionally, since all of the products sold by ISI are manufactured by others, the ultimate burden for warranty of those items is passed on to the manufacturers by ISI.

MCS-Detention and MCS-Commercial

Metroplex Control Systems (or MCS) was formed in 1988 in Dallas and was subsequently acquired by ISI in 2000. After the acquisition, MCS was restructured into two separate subsidiary entities (each under its own management): MCS-Detention and MCS-Commercial. MCS-Detention shares its headquarters with ISI and also has a neighboring 7,000 square foot facility. MCS-Commercial currently operates out of its own San Antonio headquarters and five regional offices. The offices in Austin, Houston and Denver resulted from acquisitions made by ISI. The operations in Dallas and Denver were enhanced and complemented by the acquisition of several Edwards System Technology centers.

MCS-Detention specializes in turnkey installations for public and privately owned/operated detention facilities. MCS-Commercial has built a parallel business targeting commercial and industrial facilities.

MCS-Detention designs, assembles, supplies, installs and maintains access control, video and integrated electronic control systems for correctional and government facilities throughout the United States. It also provides the above goods and services to detention market integrators, electrical contractors and competitors of ISI that lack their own in-house electronic solutions.

MCS Products and Solutions

MCS-Detention and MCS-Commercial offer turnkey installations, using components which cover the full spectrum of electronic security and low voltage systems. Included in their offerings are access control, closed circuit television (including cameras, camera management and video image mass storage), detention control, fire alarm, intercom, perimeter protection, sound/paging, video visitation and other custom designed systems. Experience in planning, installation and service, combined with state-of-the-art equipment, provides MCS-Detention and MCS-Commercial with a distinct advantage in marketing and developing customized solutions for clients.

None of the three ISI divisions manufactures the hardware that it sells. Hardware is purchased from third-parties and resold. Some of the hardware that the ISI divisions sell are computers. These computers require software, and that software is purchased from third parties. No proprietary software of ISI is sold to its customers. The ISI divisions load the third-party software on the computers (or it is installed by the manufacturer of the computer) and insure that the computers are working properly before they are sold and shipped to the customer.

The security solution created by ISI for each customer is a unique combination of different security devices, made by many different manufacturers. These devices include access controls (keypads, card swipe readers, and key fob proximity readers at doorways), electric locks, closed circuit television equipment, fire alarm systems and smoke detectors, etc. These many different devices were not originally manufactured to work together in an integrated system. Each manufacturer developed its product to work in a “typical” environment, and each manufacturer determined what “typical” would be.

Each project presents ISI with a unique combination of a one-of-a-kind array of security related devices in a unique geographical configuration and utilization, and security deployment environment. Examples of those disparate environments include a city jail in a humid coastal area with hundreds of prisoners being booked in and out each day, the searing heat of a desert prison with long-term inmates where classroom education is the key activity, or a downtown high-rise with residents and business tenants demanding comprehensive 24/7 personal safety that does not intrude upon their private or business lives. Making these systems work together is a key value-added service that the ISI divisions provide.

The unusual communication and operational problems between systems presented to ISI in each project, requires project-specific programming to resolve. The cost of such project-dedicated programming is charged to each individual project. The programming solution is stored for potential use at a later time should a similar requirement arise. Over time, ISI has developed a library or warehouse of these unique solutions, which helps ISI resolve the communication conflicts between disparate systems quickly and accurately.

This library of unique software solutions, created on a project-by-project basis, is the foundation of the proprietary TotalWerks suite of software programs that ISI uses to solve communication conflicts between security devices. This suite of software is a development tool used by ISI and it is not sold to any customer. The TotalWerks suite allows the fabrication and engineering personnel of MCS-Detention and MCS-Commercial to quickly create the software solutions that are needed for a specific project.

Before any system is shipped to a customer, it is first assembled in the MCS-Detention or MCS-Commercial offices, in a simulated real-world environment. The TotalWerks software is used during this intensive testing, and allows the engineering and fabrication staff to test every input/output device (door switch, card swipe reader, security keyboard, night watchman guard tour signal device, etc.) in the expected real world environment for that project in order to insure that each device works, and works properly with all the other required systems, before the system is shipped to the customer.

The TotalWerks suite of software is essentially a combination of the adaptations and tools that ISI has created for individual projects, and the cost of developing almost all of the component pieces of the Suite was charged to individual projects for which each separate adaptation or tool was created. The cost of the additional work completed on the TotalWerks suite to streamline its operation has been minimal, and not significant. Therefore, ISI does not maintain a separate research and development program.

Typical security programming is accomplished by the completion of a complex set of sophisticated spreadsheets that compile all of the security devices in a given project with all possible uses, applications and other requirements. The spreadsheet data is then converted to an equally complex and rough computer language ("ladder-logic") that the specialized industrial computers utilize to harmonize, operate, control and monitor the many often disparate security systems from many different manufacturers. This conversion process to ladder-logic is typically a time-consuming and error-prone process. By using the adaptations and other features available in the TotalWerks suite, the spreadsheet data can be quickly converted into ladder-logic that is fully useable by industrial grade computers required for complex and sophisticated security systems.

MCS Markets

MCS has developed a strong competence in both markets it serves, detention and commercial, in large part due to its team's expertise in particular fields of the security industry. Supported by its sophisticated engineering and software design capabilities and solutions, MCS has developed a strong reputation for technical leadership. MCS-Detention's first project was a renovation of the Lew Sterrett Tower (County Jail) in Dallas, Texas in August of 1988.

MCS has been selling products and providing the services necessary to support these products for over 18 years. MCS also uses a mobile OneLink satellite van that allows the firm to establish a live connection with the system programmers anywhere in the United States. This means quicker installations, modifications and additions to the systems as needed or required. With over 900 installations nationwide, management believes that MCS has established itself as a leader in the correctional security market.

MCS Employees

MCS management's attention to recruiting, employee retention, training and support has enhanced the company's ability to develop increasingly advanced proprietary technological solutions while demonstrating a service-oriented culture. In addition, MCS has evolved into a widespread organization with multiple offices, a structured sales organization and demonstrable service and maintenance abilities. MCS has 207 employees, multiple offices and multiple turnkey installation crews, 7,000 square feet of onsite fabrication area and a separate quality control room.

Market

Detention Market

At the end of 2005, there were 2,320,359 prisoners being held in federal or state prisons or in local jails or juvenile facilities. Statistically, 1 in every 136 U.S. residents was in prison or jail in 2005. The latter was an increase of 2.7% from year end 2004. The average growth in both the prison and jail populations during the previous ten years has been approximately 3% per year. At the end of 2005, state prisons were operating between 1% below and 14% above capacity, and federal prisons were operating at 34% above capacity. As a result of this situation, some states have had to ship their excess prisoners to other states where detention facilities have some excess capacity to absorb additional prisoners. Management believes that ISI is well positioned to take advantage of the continued growth in population in detention facilities. The statistics presented above were obtained from publicly available U.S. Department of Justice Bureau of Justice Statistics Bulletins.

The current prison construction programs of various federal agencies, states, counties and cities are driven by many different factors pertaining to inmate populations. In addition to annual increases in inmate population, these factors include the increase in the rate of juvenile and female incarceration, the segmenting of violent sexual predators, the segmenting of aging inmates, the recent rapid increase in the rate of illegal alien incarceration, plus the significant transient movement of the population, which also causes an increase in incarceration rates in different locations.

Private prison operators are growing at a much faster rate than the 2.5% to 3.0% increase in inmate growth (*Bureau of Justice Statistics Bulletin*). One of the reasons for this accelerated growth is the increasing acceptance of the financing plans that have been developed by the private operators.

Commercial Security Market

The North American electronic security market reached $23.8 billion by the end of 2005, of which 70% was in the commercial/industrial sector - MCS-Commercial's market. The fastest growing sectors within that market are video (10% per year) and access control (8-9% per year), both areas in which MCS-Commercial competes. MCS-Commercial also competes in the fire protection area. MCS-Commercial is also able to design and provide fire alarm products and services. The fire alarm market is a potential catalyst for garnering video and access control business because of the unique licensing requirements mandated by state and local authorities which oversee an industry that is focused more on life-safety than on property protection. Many of the organizations vying for commercial/industrial business lack the fire alarm certification licensing needed to provide a total system solution.

Note: The statistics presented above were obtained from documents originally published by JP. Freeman & Co., IMS Research, and The Freedonia Group, market research organizations serving the physical security industry

Business Strategy

Solutions Focus

ISI plans to focus its growth efforts on the design-build/negotiated market sector. In order to accomplish that growth, management will need to hire additional personnel. ISI's management has slated specific positions in sales and project development that must be filled with quality people to meet this growth goal. Although no firm targets have been set, benchmarks to determine the progress will be based on the increase of the backlog of work and in new customers from new territories and markets. How successfully the plan is being executed will be determined by whether ISI is able to stay within budget, maintain its planned growth in sales and earnings and by periodically checking on new projects. New projects will be monitored to determine increased sales activity and to determine probable sales closing success rates.

ISI anticipates that focusing on growth in the design build/negotiated sector will consume the majority of ISI's available resources. ISI is attempting to expand in this sector, because the company can add value through its design expertise that allows the company to satisfy its customers and eliminate the "bid and chase," or competitive bidding environment, where the company is not always able to provide its higher added value services to the customer.

In the detention sector, concentrating on the design-build/negotiated market offers the company the following advantages applicable to the detention market customer base:

- Develops a customer relationship at the initiation of projects, thereby maximizing the probability of success in the sales opportunity.

- Limits the exposure to competition, since the project requirements can be written around unique company product capabilities.

- Positions the company on the "customer's side of the table" for a consolidated team sales effort relative to the facility operator/owner.

- Avoids the "low bidder take all" sector of the market in which reduced margins are typical in order to position the company for better margin returns.

The greatest risks associated with ISI's growth strategy involve the hiring of employees. ISI must try to employ high-caliber sales and management personnel with professional expertise and past real-world practical experience. If these positions are filled with non-performing or under-performing people, the company will not be able to grow as it anticipates. In addition, ISI must hire an appropriate number of persons so that its customers can be appropriately serviced, but not so many persons such that its employees are working at substantially below capacity. ISI's failure to appropriately hire personnel could result in slower growth than anticipated, or in less profit.

Key Alliances

In the detention sector, creating, maintaining and enhancing key alliances with general contractors involved in the development and construction of detention facilities is critical for the development of a steady and recurring revenue stream in a market that is steadily growing.

In the commercial sector, the focus is to develop alliances with very large and multi-site regional or national organizations that will then utilize the company's capabilities for their security needs in growth/expansion projects and/or in many locations, so as to provide a steady and profitable revenue stream for the company.

Geographic Expansion and Strategic Acquisitions

In both sectors of the business, the acquisition of comprehensive video development/manufacturing capability that can be tightly integrated with the company's other products will greatly enhance the competitive posture of the company in capturing business and will also result in more of the project revenue remaining in-house for enhanced margin.

In the commercial sector, either acquisition of existing solution providers in some of the larger metropolitan markets in the U.S., or internal expansion to address those markets, will greatly enlarge the company's national footprint and better enable it to service the multi-site organizations that are being sought as customers. External acquisitions will give the company access to new customers in the regions that are of interest and would give the company a running start as opposed to the slower build-up that would ensue from internal expansion.

Marketing Initiatives

ISI intends to develop a market for its integrated detention electronic security solution that is developed utilizing ISI's proprietary software system. ISI plans to focus on two markets not significantly penetrated at this time -- the Midwest and the Northeast -- by establishing a local sales presence in these markets to sell ISI's detention solutions to contractors and integrators there. It has enlisted the support of a very strong sales professional with a background in the detention systems market to spearhead this effort.

Sales and Marketing

The ISI Sales and Marketing organization and structure can be characterized as follows:

- Niche target market focused sales and marketing to maximize return.
- Dedicated national account selling team with impressive credentials to capture larger scale and multi-site commercial security opportunities.
- Dedicated selling team to sell the company's hardware/software solutions to organizations that compete with the parent but that lack their own in-house capabilities and to organizations operating in portions of the national market not currently addressed by ISI.
- Highly motivated and organized sales organization that is keyed to profitability, rewards excellence, and that quickly weeds out non-performers.

Competitive Strengths

ISI management believes that it has a number of strengths versus the organizations with which it competes:

- Ability to react to changing technological needs.
- A software platform that lends itself to very rapid adaptation to the specific requirements of individual facilities and to the use of the two major operating systems in the market-Windows and Linux, with minimal effort.
- A broad array of software drivers that allow the company's solutions to utilize a wide variety of security system peripherals from many different third-party suppliers.
- A solid reputation in both the detention and the commercial market sectors with its customers for on-time project execution, security solution performance and customer service that results in a significant amount of repeat business

being garnered. For example, more than 60% of the revenue for ISI-Detention and MCS-Detention during 2004, 2005, and 2006 has been the result of contracts with repeat customers.

1A number of ISI's competitors for entire detention facilities that do not have in-house electronic system solutions purchase their electronics systems from ISI based upon their knowledge that ISI has leading edge solutions, including touchscreen and PDA wireless control for the detention industry, plus a software development process that provides timely and efficient security solutions for customers.

Research and Development

A software development team within MCS provides the operating arms of the company with new features and capabilities in developing security solutions.

Government Regulations

Various states within the United States require companies performing the type of work performed by ISI in detention facilities to be licensed. ISI maintains active licenses in every state in which it does do business that requires licensing. Outside of detention facilities, many states and local municipalities require companies that provide turnkey electronic security systems for commercial facilities to obtain and maintain special security licenses.

The process of obtaining specialty security licenses is bureaucratic. ISI has designated personnel to oversee the process for maintaining all the licenses for the company. Obtaining new licenses typically requires that a test be taken in that state, if it requires a state license. If a state license expires or is revoked for any reason, it could prevent ISI from being authorized to enter into a contract in that state. If a local license expires or is revoked for any reason, ISI may be assessed a fine, depending on the delinquency in regard to that license. The following is a list of the specialty licenses that ISI has secured as of December 31, 2006:

- Alabama - Detention & Security Equipment
- Arkansas - Sound & Intercom Systems, Fire Detection Systems, Signal & Burglar Alarm Systems, Computer Cabling
- Arizona - Low Voltage Communication Systems
- California - Low Voltage Systems
- Florida - Alarm System Contractor
- Georgia - Unrestricted Low Voltage
- Iowa - Subcontractor
- Idaho - Electrical Limited Energy Specialty Contractor
- Louisiana - Electrical Controls
- Minnesota - Technology Systems Contractor
- Mississippi - Security, Burglar & Fire Alarms
- Montana - Subcontractor
- North Carolina - Low Voltage Electrical and Alarm
- North Dakota - Subcontractor
- Nebraska - Subcontractor
- New Mexico - Sound, Intercommunication, Alarm System
- Nevada - Low Voltage Systems
- Tennessee - Electrical Controls
- Texas - Private Security Alarm License and Fire Alarm License
- Virginia - Electronic Communications
- City of Arvada - Building Subcontractor
- City of Aurora - Fire Alarm Contractor and Fire Alarm Supervisor
- City of Boulder - Fire Alarm Systems
- City of Broomfield - Contractor
- City of Centennial - Business license and Access Control and Security
- City of Colorado Springs - Fire Alarm
- City of Denver - Access Control System and Electrical Signal
- City of Lakewood - Contractor
- City of Littleton - Miscellaneous
- City of Loveland - Fire Alarm

· City of Thornton - Contractor - Fire Alarm
· City of Westminster - General Building Contractor
· City of Wheat Ridge - Electrical Signal

ISI has and maintains its security licensing in every locale where required and where business is being conducted by the company. ISI's management believes that the acquisition will have no material adverse affect upon the licensing of ISI or its subsidiaries.

ISI MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

General

ISI is one of the nation’s largest providers of detention equipment products and service solutions for private and public-sector correctional and related facilities. ISI is the parent company of several subsidiaries; however, its primary business operates through three segments that are service and solution providers in the physical security industry: ISI-Detention Contracting, or ISI-Detention; Metroplex Control Systesm, or MCS-Detention; and MCFSA, Ltd., or MCS-Commercial.

Below is a chart breaking down ISI’s revenues into three primary reportable segments for the period of 2000 to 2006.

Results of Operations

Management analyzes ISI’s results of operations, by identifying those critical items that impact each segment on a standalone basis, since such items are different for each sector. More than 85% of ISI’s revenue is generated by fixed-price contracts. The success of a fixed-price contract is based in large part upon the quality of the process utilized when estimating the costs that will be incurred in performing the contract. The larger the project and the longer the term of completion of the contract, the greater the number of variable factors there are to be considered and evaluated in estimating costs. A successful estimating process requires substantial experience and judgment. Management is aware of the significant need for experience and qualified estimating personnel and regularly monitors the estimating process and its results.

The most obvious benchmark that management considers in evaluating the estimating process is whether the amount estimated, and submitted as a bid, was reasonably similar to the amount bid by ISI’s competitors on the same project. Other bidders may bid exceptionally low (even at a loss) in order to secure a contract that the competitor may desperately need in order to maintain at least a modest level of cash flow, or for other reasons. Management must evaluate the bids that were submitted in competition with ISI’s bid, based on their knowledge of each competitor’s history and character (for example, some typically bid high, some typically bid low), the condition of the market, the complexity of the project, the type of construction and other factors. This review, conducted regularly, provides management with an ongoing general basis for evaluating the estimating process that results in fixed price contracts. Evaluating the results of bidding competitions allows management to evaluate the company’s estimating capabilities at the beginning or “front-end” of a new contract or project. Other benchmarks are used to evaluate the estimating process while a project is ongoing.

One of the key indicators in evaluating the ISI’s performance is whether the budget for the individual projects is being met. These budgets are, in large part, based upon, the estimation of costs utilized in the preparing the bid. If the budget for a project is not met, then the budget may be faulty, which may indicate that the estimating process being used needs to be reviewed and adjusted. Management regularly monitors the status of budget compliance on every project. One of the many benefits provided to management from this exercise is that this provides management with an ongoing tool to evaluate the effectiveness of the ISI estimating process during the course of completing a contract and at the “back-end” of each contract, when the final budget analysis is completed on each project.

Since 2003, the direct costs (which do not include sales, general and administrative costs–"SG&A") to complete a material fixed-price contract, which is a contract that resulted in more than $50,000 in gross revenues, have not exceeded the amount of the contract price, which would have resulted in a loss position. While this has occasionally occurred with contracts of $50,000.00 or less in gross revenues, those losses have not been deemed to be material. Since 2003, ISI has not suffered a loss with regard to any material contract. Management is not aware of any material contract of ISI that is in a loss position, or that with the passage of time is expected to result in a loss position.

The direct costs to complete a material fixed-price contract include variable costs related to the project, such as material, direct labor, project management costs, travel to the projects, hotel costs spent while the project is on-going, truck expenses utilized on those projects and cell phones of the personnel while they are on those projects. The term "direct costs" as used herein does not include "SG&A" or sales, general and administrative costs. Because SG&A costs are not allocated to each project, the fact that a project has generated gross margin (project revenues less direct costs) does not mean that a net profit will be recognized companywide. An individual contract can generate positive gross margin, but the company can still lose money. If the cumulative amount of gross profit on all major contracts does not exceed the total amount of SG&A costs, then the company will incur a loss.

Below is a table breaking down ISI's operations into three primary reportable segments.

Operating Segments	Revenues	Inter-Segment Revenues	Operating Income (Loss)	Depreciation/ Amortization of Property and Equipment	Total Assets	Capital Expenditures
ISI-Detention						
December 31, 2006	**$ 21,779,768**	$ **10,487,318**	$ **428,476**	$ **568,199**	$ **24,268,474**	$ **219,473**
December 31, 2005	$ 10,995,182	$ 3,312,691	$ (562,750)	$ 561,992	$ 17,627,240	$ 130,620
December 31, 2004	$ 14,756,861	$ 7,046,554	$ (4,162,230)	$ 237,792	$ 15,604,775	$ 202,498
March 31, 2006*	$ 4,294,326	$ 1,640,286	$ (346,050)	$ 152,603	$ 21,409,805	$ 49,020
March 31, 2007*	$ 6,112,051	$ 2,688,928	$ 351,617	$ 190,419	$ 25,677,197	$ 271,707
MCS-Detention						
December 31, 2006	**$ 13,434,569**	$ -	$ **1,501,332**	**$ 163,580**	**$ 2,306,616**	**$ 363,934**
December 31, 2005	$ 10,891,378	$ -	$ 1,803,595	$ 181,936	$ 1,704,762	$ 130,627
December 31, 2004	$ 11,031,267	$ -	$ 2,284,252	$ 176,858	$ 1,836,695	$ 250,528
March 31, 2006*	$ 4,193,566		$ 928,989	$ 29,933	$ 2,898,379	