

Argyle Security Acquisition CORP  
Form S-4/A  
March 28, 2007

As filed with the Securities and Exchange Commission on March 28, 2007

Registration No. 333-139594

---

---

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

---

**AMENDMENT No. 2  
TO  
FORM S-4  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

---

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

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

---

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

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

---

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

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

---

*Copies to:*

**Mitchell S. Nussbaum, Esq.**

**Loeb & Loeb LLP**  
**345 Park Avenue**  
**New York, NY 10154**  
**(212) 407-4000**

**D. Hull Youngblood, Jr.,**  
**Esq.**  
**Hughes & Luce LLP**  
**111 Congress**  
**Suite 900**  
**Austin, TX 78701**  
**(512) 482-6800**

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

---

---

---

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

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

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

**CALCULATION OF REGISTRATION FEE**

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

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

(2) Previously paid.

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

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

TO THE STOCKHOLDERS OF  
ARGYLE SECURITY ACQUISITION CORPORATION:

You are cordially invited to attend a special meeting of stockholders of Argyle Security Acquisition Corporation to be held on \_\_\_\_\_, 2007. At the meeting, you will be asked to consider proposals to approve the merger of a wholly-owned subsidiary of Argyle into ISI Detention Contracting Group, Inc., referred to in this proxy statement as ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. ISI is a provider of physical security solutions to commercial, governmental, and correctional customers. As a security solutions provider, ISI has the ability to interview a customer that needs security for a project and determine that customer's needs in light of the products and technology available within the customer's budget. ISI, using its expertise in the security industry, then develops security systems that answer the customer's needs using hardware and software that is available in the marketplace from third party vendors, as well as its own proprietary software. 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 among Argyle, the wholly-owned subsidiary of Argyle, and ISI, pursuant to which Argyle will pay ISI's security holders an aggregate of \$18,200,000 (after determining that ISI's adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts)) and 1,180,000 shares of Argyle's common stock (valued at approximately \$8.8 million, based on the closing price of the common stock on March 23, 2007) and assume approximately \$6,000,000 of long term debt (not including capitalized leases) and up to \$9,000,000 pursuant to a line of credit (of which approximately \$5.0 million was outstanding as of December 31, 2006), or an aggregate merger consideration of approximately \$38.0 million.
- The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;
- Amending Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;
- Amending Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and

The approval of any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

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

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

In addition, each stockholder (other than Argyle's initial stockholders) who votes against the 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 \$18,200,000 and 1,180,000 shares of Argyle's common stock.

In connection with the merger, immediately prior to the merger, William Blair Mezzanine Capital Fund III, L.P. will convert \$10,000,000 of long term debt into shares of ISI preferred stock. Additionally, ISI will remain obligated to the William Blair Mezzanine Capital Fund III, L.P. for approximately \$6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the \$6,000,000 long-term debt described above, up to \$9,000,000 that may be outstanding pursuant to a revolving credit line, and any capitalized leases. As of December 31, 2006 there was approximately \$5.0 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 29.8% of Argyle's common stock. The merger will result in a change in control of ISI, since the majority of the shares of the merged entity will be owned by the former stockholders of Argyle.

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

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

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

I look forward to seeing you at the meeting.

Sincerely,

Bob Marbut  
Chairman and Co-Chief Executive Officer

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

described on the proxy card.

---

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

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**  
**TO BE HELD \_\_\_\_\_, 2007**

TO THE STOCKHOLDERS OF  
ARGYLE SECURITY ACQUISITION CORPORATION:

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

1. The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 among Argyle, the wholly-owned subsidiary of Argyle, and ISI; pursuant to which Argyle will pay ISI's security holders an aggregate of \$18,200,000 (after determining that ISI's adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 are greater than \$4,500,000 and its backlog of orders at February 28, 2007 is greater than \$80,000,000 (including inter-company amounts), and 1,180,000 shares of Argyle's common stock (valued at approximately \$8.8 million, based on the closing price of the common stock on March 23, 2007) and assume approximately \$6,000,000 of long term debt (not including capitalized leases), and up to \$9,000,000 pursuant to a line of credit (of which approximately \$5.0 million was outstanding as of December 31, 2006), or an aggregate merger consideration of approximately \$38.0 million.
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 \_\_\_\_\_, 2007, the date for determining Argyle stockholders entitled to receive notice of and vote at the special meeting and any adjournment or postponement thereof. Only holders of record of Argyle common stock on that date are entitled to have their votes counted at the special meeting or any adjournment or postponement.

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

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

Dated: \_\_\_\_\_, 2007

By Order of the Board of Directors,

Bob Marbut  
Chairman and Co-Chief Executive Officer

---

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

**Subject to completion, dated March 28, 2007**

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

---

The Board of Directors of Argyle Security Acquisition Corporation approved the merger of a wholly-owned subsidiary of Argyle into ISI Detention Contracting Group, Inc., referred to in this document as ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. Pursuant to the terms of the merger agreement, the current security holders of ISI will receive an aggregate of \$18,200,000 and 1,180,000 shares of Argyle's common stock (valued at \$8.8 million, based on the closing price of the common stock on March 23, 2007). 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). The calculation of ISI's EBITDA was subject to an adjustment of \$900,000 relating to certain events that Argyle and ISI agreed should not reduce the EBITDA calculation.

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

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

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

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

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

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

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

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

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

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

**TABLE OF CONTENTS**

	Page
Summary of the Material Terms of the Merger	3
Questions and Answers About the Acquisition and the Argyle Special Meeting	4
Summary of the Proxy Statement/Prospectus	9
Risk Factors	15
Selected Historical Financial Information	24
Selected Unaudited Pro Forma Combined Financial Information	27
Comparative Per Share Information	28
Price Range of Securities and Dividends	28
The Argyle Special Meeting	30
Proposal to Acquire ISI	33
Proposal to Approve the 2007 Omnibus Securities and Incentive Plan	47
Proposal to Change Name to Argyle Security, Inc.	51
Proposal to Amend Argyle’s Second Amended and Restated Certificate of Incorporation to Remove Certain Provisions that Would No Longer Be Applicable to Argyle	51
Proposal to Adjourn or Postpone the Special Meeting for the Purpose of Soliciting Additional Proxies	53
Information About ISI	54
ISI Management’s Discussion and Analysis of Financial Condition and Results of Operations	63
Information About Argyle	75
Argyle Management’s Discussion and Analysis of Financial Condition and Results of Operations	77
Unaudited Pro Forma Condensed Consolidated Financial Statements	80
Directors And Management	92
Certain Relationships and Related Transactions	100
Beneficial Ownership of Securities	102
Shares Eligible For Future Sale	104
Argyle’s Securities	104
Stockholder Proposals	112
Legal Matters	112
Experts	112
Delivery Of Documents To Stockholders	112
Where You Can Find More Information	113
Index to Financial Statements	F-1
Annexes	A-1

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

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

Edgar Filing: Argyle Security Acquisition CORP - Form S-4/A

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

## SUMMARY OF THE MATERIAL TERMS OF THE MERGER

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

- Argyle is a blank check company formed for the purpose of acquiring a business in the security industry. ISI is a security solutions provider for the detention and commercial markets, employing third-party products to create fully integrated systems. See the sections entitled “Information about Argyle” and “Information about ISI.”
- Argyle, through the merger of its wholly owned subsidiary into ISI, will acquire ISI and all its assets and liabilities. See the section entitled “The Proposal to Acquire ISI.”
- The consummation of the merger is subject to certain conditions including the approval of this agreement by Argyle’s stockholders, holders of fewer than 765,009 of Argyle’s public shares exercising certain redemption rights they possess and the approval of an equity incentive plan by Argyle’s stockholders. See the sections entitled “The Special Meeting” and “Proposal to Acquire ISI.”
- The current security holders of ISI will receive an aggregate of \$18,200,000 and 1,180,000 shares of Argyle’s common stock. 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). See the section entitled “Proposal to Acquire ISI.”
- In connection with the merger, immediately prior to the merger, William Blair Mezzanine Capital Fund III, L.P. will convert \$10,000,000 of long-term debt into shares of ISI preferred stock. Additionally, ISI will remain obligated to William Blair Mezzanine Capital Fund III, L.P. for approximately \$6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI’s outstanding liabilities, including the \$6,000,000 of long-term debt described above, up to \$9,000,000 that may be outstanding pursuant to a revolving credit line and any capitalized leases. As of December 31, 2006 there was approximately \$5.0 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 acquire 440,288 shares in connection with the merger and will not be able to sell such shares until the earlier of six months after the closing of the acquisition or November 1, 2007, whichever is earlier. The remaining 739,712 shares that will be issued to 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 statement/prospectus contains disclosure of EBITDA and 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. As used in this presentation, adjusted EBITDA reflects the removal from the calculation of EBITDA of certain expenses that Argyle Security and ISI agreed should not reduce EBITDA. The companies do not expect these expenses to continue after the closing of the merger. Management believes that adjusted EBITDA, or earnings before interest, taxes, depreciation and amortization, is an appropriate measure of evaluating operating performance and liquidity, because it reflects the resources available for strategic opportunities including, among others, investments in the business and strategic acquisitions. Management believes that the backlog, or unearned revenues on projects that have been booked, is an appropriate measure of evaluating operating performance, because it reflects future potential revenues. 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. Adjusted EBITDA or backlog may not be comparable to similarly titled measures reported by other companies. Neither EBITDA nor backlog is a recognized term under U.S. GAAP, and EBITDA and backlog should be considered in addition to, and not as substitutes for, or superior to, operating income, cash flows, revenues, or other measures of financial performance prepared in accordance with generally accepted accounting principles. Neither adjusted EBITDA nor backlog is a completely representative measure of either the historical performance or, necessarily, the future potential of ISI.

**QUESTIONS AND ANSWERS ABOUT THE ACQUISITION  
AND THE ARGYLE SPECIAL MEETING**

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

**Q. Why is Argyle proposing the 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/prospectus represent 2.6% of Argyle's outstanding shares of common stock. By voting these shares for the merger, Argyle's initial stockholders increase the number of shares held by Argyle's public stockholders that must be voted against the merger proposal to reject the proposal.

**Q. What vote is required to approve the 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.

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

**Q. Do Argyle stockholders have redemption rights?**

A. If you hold common stock purchased in Argyle's initial public offering (and you are not an initial stockholder of Argyle) and you vote against the 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). At December 31, 2006, there was approximately \$29.5 million in the trust account. After taking into account taxes payable of \$118,855 and amounts owed to the underwriter for the private placement (\$45,000 plus interest) you would receive approximately \$7.66 if you exercised your redemption rights. The redemption amount (approximately \$7.66) is less than the liquidation amount (approximately \$7.93) 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 January 30, 2008, Argyle will dissolve and distribute to its public stockholders the amount in the trust account plus any remaining net assets.
- In any liquidation, the funds held in the trust account, plus any interest earned thereon (net of taxes payable), together with any remaining out-of-trust net assets, will be distributed pro rata to Argyle's common stockholders who hold shares issued in Argyle's initial public offering (other than the initial stockholders, each of whom has waived any right to any liquidation distribution with respect to them). See the risk factor on page 14 of this proxy statement/prospectus relating to risks associated with the dissolution of Argyle.
- Q. When do you expect the 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 adjournment and postponement proposal because brokers are not entitled to vote on these matters without receiving instructions from you.

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

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

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

## SUMMARY OF THE PROXY STATEMENT/PROSPECTUS

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

### The Companies

**Argyle Security Acquisition Corporation** is a Delaware corporation incorporated on June 22, 2005 in order to serve as a vehicle for the acquisition of an operating business in the security industry through a merger, capital stock exchange, asset acquisition or other similar business combination. On January 24, 2006, Argyle completed a private placement and received net proceeds of approximately \$900,000. On January 30, 2006, Argyle consummated its initial public offering and received net proceeds of approximately \$27.3 million. Argyle's management has broad discretion with respect to the specific application of the net proceeds of the private placement and the public offering, although substantially all of the net proceeds of the offerings are intended to be generally applied toward consummating a business combination. Of the proceeds from Argyle's initial public offering and private placement, approximately \$28.7 million was deposited into a trust account. The amount in the trust account includes approximately \$1.4 million of contingent underwriting compensation and \$45,000 of contingent private placement fees which will be paid to Rodman & Renshaw LLC if a business combination is consummated, but which will be forfeited if a business combination is not consummated. As of December 31, 2006, approximately \$29.5 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 December 31, 2006, Argyle has incurred expenses of \$469,943 for consulting and professional fees, \$130,632 for stock compensation, \$148,516 for franchise taxes, \$82,411 for insurance expense, \$61,467 for rental expense pursuant to Argyle's lease of office space and other operating and formation costs of \$139,264. Up to and including December 31, 2006, Argyle's trust account has earned interest of \$1,332,087 and its funds outside the trust account earned interest of \$20,242. 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 in operating expenses, resulting from these share-based payments was \$130,632 at January 30, 2006 using the Black-Scholes pricing model.

Argyle expects to use up to approximately \$20.5 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 \$0.5 million of the \$0.9 million in non-contingent anticipated costs had been incurred and recorded as of December 31, 2006. 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 December 31, 2006 was approximately \$0.7 million and \$0.6 million, respectively. Argyle expects to incur the remaining anticipated non-contingent transaction costs of \$0.4 million during first two quarters of 2007. Additionally, recurring monthly operating expenses of approximately \$75,000 per month will continue to accrue after December 31, 2006 and, in January 2007, Argyle renewed its directors and officers' insurance policy, incurring a premium of \$88,000.

Argyle's Board of Directors has discussed and preliminarily approved a \$300,000 bridge loan from our Co-Chief Executive Officers, directors and consultants. The terms and conditions of the bridge loan have not yet been negotiated and the documentation for the bridge loan has not yet been completed. Argyle anticipates that this bridge financing will close in late March or April 2007.

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 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. 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 or direct 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.

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 2<sup>nd</sup> largest single contract award, the 2<sup>nd</sup> largest total job backlog, and the 4<sup>th</sup> 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. Pursuant to the merger agreement, Argyle will pay ISI's security holders an aggregate of \$18,200,000 and 1,180,000 shares of Argyle's common stock (valued at approximately \$8.8 million, based on the closing price of the common stock on March 23, 2007). 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). The EBITDA and the February 28, 2007 backlog were calculated by ISI, and such calculations were presented to Argyle. Argyle verified the calculations and did not object to the calculations. The calculation of ISI's EBITDA was subject to an adjustment of \$900,000 relating to certain events that Argyle and ISI agreed should not reduce the EBITDA calculation. The merger agreement contains representations and warranties by Argyle and ISI and representations and warranties to be made by ISI's stockholders upon closing of the merger. ISI also makes certain covenants relating to the conduct of its business between the time the merger agreement was signed and the consummation of the merger, including that it will not take certain actions without the permission of Argyle and that Argyle will have access to ISI's records. The parties to the merger agreement also make covenants relating to confidentiality, non-solicitation and non-competition. In addition, after the consummation of the merger, Argyle has agreed to file a registration statement for the resale of the shares issued by Argyle in connection with the merger. The closing of the merger is subject to certain conditions, including the approval by Argyle's stockholders of the merger and the equity incentive plan described below.

In connection with the merger, immediately prior to the merger, William Blair Mezzanine Capital Fund III, L.P. will convert \$10,000,000 of long term debt into shares of ISI preferred stock. Additionally, ISI will remain obligated to the William Blair Mezzanine Capital Fund III, L.P. for approximately \$6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the \$6,000,000 long-term debt described above, up to \$9,000,000 that may be outstanding pursuant to a revolving credit line, and any capitalized leases. As of December 31, 2006 there was approximately \$5.0 million outstanding under the credit line.

There are 4,781,307 shares of Argyle common stock currently outstanding, 3,700,046 (77.4%) of which are trading publicly. 1,180,000 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 a reduction of 19.8%. Of this amount, holders of

stock purchased in Argyle's initial public offering will own 62.1%, a reduction of 15.3%. The merger will result in dilution in percentage ownership of Argyle's pre-acquisition holders.

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

Name of Beneficial Owner	Number of Shares of Common Stock	Beneficial Ownership Percentage
Sam Youngblood	63(1)	63.9%
Don Carr	33	31.4%
Mark McDonald	4.9064	4.7%
William Blair Mezzanine Capital Fund III, L.P.	52.5432(2)	34.2%

- (1) Includes 4 shares of common stock owned by the Youngblood Trust of which Sam Youngblood is trustee.
- (2) 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 warrants 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 warrants were deemed to be outstanding for the purposes of calculating the percentage ownership of each other person, the percentage ownership of each other person would be reduced such that the total percentage ownership for all persons would equal 100%.

In addition, ISI granted certain key employees rights to acquire up to 22.89 shares of ISI's common stock that are only exercisable immediately prior to the consummation of a merger. These rights will not be assumed by Argyle.

### 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 offering 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 December 31, 2006, a total of approximately \$5.9 million of the trust account would be disbursed, leaving approximately \$23.6 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 December 31, 2006, we believe that the maximum amount the indemnity obligation of Argyle's officers and directors could be is approximately \$444,000, 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.

### **Fairness Opinion**

In determining to recommend that holders of Argyle's securities vote for the merger proposal, the Board of Directors of Argyle considered the fairness opinion of its financial advisor, Giuliani Capital Advisors, dated December 8, 2006, and based upon and subject to the assumptions, qualifications and limitations set forth in the written opinion, the merger consideration as stipulated in the merger agreement was fair from a financial point of view to Argyle. The full text of Giuliani Capital Advisors' written opinion, dated December 8, 2006, is attached as Annex A to this proxy statement/prospectus. We urge you to read the opinion and the section "Fairness Opinion" beginning on page 41 of this proxy statement/prospectus carefully for a description of the procedures followed, assumptions made, matters considered and limitations on the reviews undertaken. Giuliani Capital Advisors' opinion does not constitute a recommendation to the Board of Directors or to the holders of Argyle's securities as to how such person should vote or act on any of the proposals set forth in this proxy statement/prospectus. For its services related to the Fairness Opinion, Giuliani Capital Advisors is owed a fee equal to \$200,000.

### **If the Acquisition Is Not Approved**

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

**Conditions; Termination.** Approval of the 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/prospectus.

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



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

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

## Argyle Special Meeting

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

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

**Votes Required.** Approval of the proposals relating to the merger, the incentive plan and the adjournment or postponement of the meeting will require the approval of a majority of the votes cast at a meeting of stockholders, and the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc. and the amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger will require the affirmative vote of holders of a majority of Argyle's outstanding common stock. Pursuant to Argyle's Second Amended and Restated Certificate of Incorporation, Argyle is required to obtain stockholder approval of the 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 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 consummated and Argyle is not required to dissolve pursuant to the terms of its Second Amended and Restated Certificate of Incorporation, it may seek another target business 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.

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

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

### **Argyle's Recommendation; Interests of Argyle's Management**

After careful consideration, Argyle's Board of Directors has determined that the 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 December 31, 2006, we believe that the maximum amount the indemnity obligation of Argyle's officers and directors could be is approximately \$444,000, 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.
- 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/prospectus, Argyle's counsel, Loeb & Loeb LLP, which is issuing an opinion as to the validity of the shares to be issued pursuant to this proxy statement/prospectus, has provided approximately \$162,000 of services for which it had not been paid as of December 31, 2006. As of December 31, 2006 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

## Edgar Filing: Argyle Security Acquisition CORP - Form S-4/A

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 December 31, 2006, Ernst & Young LLP, Argyle's auditors, was owed \$27,000 for transaction related services. Subsequent to December 31, 2006, Argyle paid Loeb & Loeb LLP approximately \$81,000 and paid Ernst & Young \$27,000.

- 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 February 28, 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 February 28, 2007 (\$)		Aggregate Initial Purchase Price of Securities (\$)		Gain on Securities as of February 28, 2007 (\$)
	Shares	Units	Shares	Units	Shares	Units	
Bob Marbut	371,228	93,750	2,739,663	763,125	10,023	750,000	2,742,765
Ron Chaimovski	290,512	31,250	2,143,979	254,375	7,844	250,000	2,140,510
Wesley Clark	71,720	0	529,294	n/a	1,936	n/a	527,358
John J. Smith	47,813	0	352,860	n/a	1,291	n/a	351,569

### Certain U.S. Federal Income Tax Consequences

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

### Quotation/Listing

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

### Accounting Treatment

Argyle will account for the 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/prospectus, before you decide whether to vote or direct your vote to be cast to approve the acquisition.

### **Risks related to ISI's Business**

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

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

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

A portion of ISI's business depends upon obtaining and maintaining required licenses. All such licenses are subject to audit by the relevant government 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.

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 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.

**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.

15

---

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

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

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

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

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

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

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

**ISI could potentially incur liability to clients and others.**

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

**ISI is reliant upon key personnel.**

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

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

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

**ISI is in a competitive industry with well financed competitors.**

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

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

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

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

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

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

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