Argyle Security Acquisition CORP
Form DEFM14A
July 13, 2007

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

Filed by the Registrant x

Filed by a Party other than the registrant o

Check the appropriate box:

o Preliminary Proxy Statement

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

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

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

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

Payment of Filing Fee (Check the appropriate box):

o No fee required.

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

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): Calculated based on the purchase price of $46,505,000 in cash, securities and assumed debt

(4) Proposed maximum aggregate value of transaction: $46,505,000

(5) Total fee paid: $1,441

x Fee paid previously with preliminary materials: $1,441

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

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

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

TO THE STOCKHOLDERS OF
ARGYLE SECURITY ACQUISITION CORPORATION:

You are cordially invited to attend a special meeting of stockholders of Argyle Security Acquisition Corporation to be held on July 30, 2007. At the meeting, you will be asked to consider proposals to approve the merger of a wholly-owned subsidiary of Argyle into ISI Detention Contracting Group, Inc., referred to in this proxy statement as ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. ISI is a provider of physical security solutions to commercial, governmental, and correctional customers. Approximately 70% of the total revenue of ISI is derived from work performed for general contractors, whereas approximately 30% comes from work performed directly for the end user. As a security solutions provider, ISI has the ability to interview a customer that needs security for a project and determine that customer's needs in light of the products and technology available within the customer's budget. ISI, using its expertise in the security industry, then develops security systems that answer the customer's needs using hardware and software that is available in the marketplace from third-party vendors, as well as its own proprietary software. ISI does not manufacture any products.

The security systems that ISI provides to its customers are "fully integrated security systems." This means that ISI develops a customized solution for its customer's security needs that is a combination of hardware and software from many different vendors and manufacturers, but these disparate systems can effectively communicate, react and work together. This communication is made possible because of the proprietary development software that ISI has created. ISI does not sell or license this software. ISI customers get "one-stop" shopping for customized solutions to their physical security needs. The customer can look to ISI as the sole source for the solution to all of its physical security needs, even if those needs require hardware and software from many different manufacturers.

The special meeting will be held at 8:30 a.m., San Antonio, Texas time, on July 30, 2007, at 200 Concord Plaza, Suite 700, San Antonio, TX 78216. At this important meeting, you will be asked to consider and vote upon the following:

- The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006, as amended on June 29, 2007, pursuant to which Argyle will pay ISI's security holders an aggregate merger consideration of approximately $46,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million, bearing interest at a rate of 5% per year, convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President;

- The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;

- Amending Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;

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Amending Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and

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

The Proxy Statement following this letter is dated July 11, 2007 and is first being mailed to Argyle stockholders on or about, July 13, 2007.

Argyle has entered into two amendments to the merger agreement with ISI. The first amendment, dated June 29, 2007, increased the merger consideration paid to the stockholders of ISI by $400,000 in cash and $1,925,000 in unsecured promissory notes and changed the date on which either party could terminate the merger agreement without cause from July 1, 2007 to July 16, 2007. The second amendment, dated July 11, 2007, changed the date on which either party could terminate the merger agreement without cause from July 16, 2007 to July 31, 2007. Each of the amendments also released ISI and its affiliates from any claims Argyle and its subsidiary may have had through the date of the applicable amendment, except in cases of intentional fraud or theft.

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

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

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

Under the merger agreement, ISI Security Group, Inc., a wholly-owned subsidiary of Argyle, will merge into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. The current security holders of ISI will receive an aggregate of $18,600,000, 1,180,000 shares of Argyle's common stock and unsecured promissory notes in the aggregate principal amount of $1,925,000, bearing interest at a rate of 5% per year and convertible into Argyle's common stock at a conversion price of $10 per share.

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

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

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

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

After the merger, ISI will remain obligated to the William Blair Mezzanine Capital Fund III, L.P. for approximately $6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the $6,000,000 long-term debt described above, up to $9,000,000 that may be outstanding pursuant to a revolving credit line, and any capitalized leases. As of April 16, 2007 there was approximately $5.7 million outstanding under the credit line.

After completion of the merger, if no stockholder exercises his or her redemption rights, Argyle's current stockholders will own approximately 80.2% of Argyle's outstanding common stock (assuming no Argyle warrants are exercised). Argyle's public stockholders alone will own approximately 62.1% of post-merger Argyle, its initial stockholders, including its officers and directors, will own approximately 18.1% of post-merger Argyle, and former ISI stockholders will own approximately 19.8% of post-merger Argyle. Currently, it is not anticipated that any of the current stockholders of ISI will be an officer or director of post-merger Argyle. However, post merger, the officers and directors of Argyle and ISI combined will beneficially own approximately 29.1% of Argyle's common stock. The merger will result in a change in control of ISI, since the majority of the shares of the merged entity will be owned by the former stockholders of Argyle.

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

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

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

I look forward to seeing you at the meeting.

Sincerely,

Bob Marbut
Chairman and Co-Chief Executive Officer

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

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

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD July 30, 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 8:30 a.m. San Antonio, Texas, time, on July 30, 2007, at 200 Concord Plaza, Suite 700, San Antonio, TX 78216 to consider and vote upon proposals to approve:

1. The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006, as amended on June 29, 2007, pursuant to which Argyle will pay ISI's security holders an aggregate merger consideration of approximately $46,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million, bearing interest at a rate of 5% per year, convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President;

2. The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;

3. An amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;

4. An amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and

5. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

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

The Board of Directors has fixed the record date as the close of business on July 6, 2007, the date for determining Argyle stockholders entitled to receive notice of and vote at the special meeting and any adjournment or postponement thereof. Only holders of record of Argyle common stock on that date are entitled to have their votes counted at the special meeting or any adjournment or postponement.

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

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

Dated: July 11, 2007

By Order of the Board of Directors,

Bob Marbut
Chairman and Co-Chief Executive Officer

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

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

To obtain timely delivery of requested materials, security holders must request the information no later than five business days before the date they submit their proxies or attend the special meeting. The latest date to request the information to be received timely is July 23, 2007.

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SUMMARY OF THE MATERIAL TERMS OF THE MERGER

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

· Argyle is a blank check company formed for the purpose of acquiring a business in the security industry. ISI is a security solutions provider for the detention and commercial markets, employing third-party products to create fully integrated systems. See the sections entitled “Information about Argyle” and “Information about ISI.”

· Argyle, through the merger of its wholly-owned subsidiary into ISI, will acquire ISI and all its assets and liabilities. See the section entitled “The Proposal to Acquire ISI.”

· The consummation of the merger is subject to certain conditions including the approval of the merger agreement by Argyle’s stockholders, holders of fewer than 765,009 of Argyle’s public shares exercising certain redemption rights they possess and the approval of an equity incentive plan by Argyle’s stockholders. See the sections entitled “The Special Meeting” and “Proposal to Acquire ISI.”

· The current security holders of ISI will receive an aggregate of $18,600,000, 1,180,000 shares of Argyle’s common stock and unsecured promissory notes in the aggregate principal amount of $1,925,000. The cash portion of the purchase price includes $1,900,000 that ISI's stockholders are entitled to receive because ISI’s adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 were greater than $4,500,000 and its backlog of orders at February 28, 2007 was greater than $80,000,000 (including inter-company amounts) and $400,000 that Argyle agreed to pay the security holders of ISI pursuant to an amendment to the merger agreement dated June 29, 2007. Argyle agreed to issue the promissory notes to the security holders of ISI in the June 29, 2007 amendment. The promissory notes being issued to the ISI stockholders will (i) be in form mutually acceptable to ISI and Argyle, (ii) bear interest at a rate of 5% per annum, paid semi-annually, (iii) mature five years from the date of issuance, (iv) be convertible (in whole or in part) into shares of Argyle common stock at the election of the note holder at any time after January 1, 2008 at a price per share of $10.00, (v) be unsecured and subordinated to institutional debt other than trade debt (with which it will be in pari passu) outstanding at and after the closing of the merger and similar debt arrangements with an institution. The promissory notes will be redeemable at Argyle’s election after January 1, 2009, at a price per share of $10.00. See the section entitled “Proposal to Acquire ISI.”

The security holders of ISI will receive the following consideration:

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

Neal Horman	124,581	23,496	11,561	119,114	11,748

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

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

· After the merger, ISI will remain obligated to William Blair Mezzanine Capital Fund III, L.P. for approximately $6,000,000. Upon consummation of the merger, the surviving corporation will be obligated for all of ISI's outstanding liabilities, including the $6,000,000 of long-term debt described above, up to $9,000,000 that may be outstanding pursuant to a revolving credit line and any capitalized leases. As of April 16, 2007 there was approximately $5.7 million debt outstanding under the credit line.

· It is a requirement that any business acquired by Argyle have a fair market value equal to at least 80% of Argyle's net assets at the time of acquisition, which assets shall include the amount in the trust account. Based on the financial analysis of ISI generally used to approve the transaction, Argyle's Board of Directors determined that this requirement was met and exceeded. See the section entitled "Proposal to Acquire ISI - Board Consideration and Approval - Satisfaction of 80% Test."

· The merger agreement contains representations by Argyle and ISI and representations to be made by ISI's stockholders upon closing. At the closing of the merger, ISI's stockholders will make certain representations, including representations relating to the ownership of their securities in ISI, litigation, investment intent in Argyle's securities, and the assumption of risk of acquiring Argyle's securities. ISI also makes certain covenants relating to the conduct of its business between the time the merger agreement was signed and the consummation of the merger, including that it will not take certain actions without the permission of Argyle and that Argyle will have access to ISI's records. The parties to the merger agreement also make covenants relating to confidentiality, non-solicitation and non-competition. See the section entitled "Proposal to Acquire ISI."

· The officers and directors of Argyle and ISI combined will beneficially own approximately 29.8% of Argyle's common stock after the merger. The merger will result in a change in control of ISI since the majority of the shares of the merged entity will be owned by the former stockholders of Argyle.

· At the closing of the merger, each of the security holders of ISI will enter into a lock-up agreement with Argyle with respect to the shares that they acquire pursuant to the merger so that they will not be able to sell the shares (except to family members or affiliates) until the specified times expire. William Blair Mezzanine Capital Fund III, L.P. will receive 497,326 shares in connection with the merger and will not be able to sell such shares until the earlier of six months after the closing of the acquisition or November 1, 2007. However, William Blair Mezzanine Capital Fund III L.P. will then transfer to each of the other stockholders of ISI an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc.The remaining 682,674 (not including the 11,089 shares to be transferred to them by William Blair Mezzanine Capital Fund III L.P. post transaction) shares that will be issued to the remaining stockholders of ISI, will not be able to be sold until January 24, 2009. See the section entitled "Proposal to Acquire ISI."

Argyle's Board of Directors received a fairness opinion, dated December 8, 2006, from Giuliani Capital Advisors indicating that the merger consideration as stipulated in the merger agreement was fair to Argyle from a financial point of view. The fairness opinion does not take into account the additional merger consideration to be paid to the stockholders of ISI pursuant to the amendment to the merger agreement dated June 29, 2007. See the section entitled "Proposal to Acquire ISI - Fairness Opinion."

Non-GAAP Financial Measures

This Proxy contains disclosure of backlog (including "Total Backlog" and "Net Backlog") for certain periods, which may be deemed to be non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission, or the SEC. Management believes that the backlog, or unearned revenues on projects that have been booked, is an appropriate measure of evaluating operating performance, because it reflects future potential revenues. Total Backlog is the aggregate backlog of ISI's three operating divisions, before intercompany eliminations. Net Backlog is the amount remaining after intercompany eliminations are applied to Total Backlog. Backlog may not be comparable to similarly titled measures reported by other companies. Backlog is not a recognized term under U.S. GAAP, and backlog should be considered in addition to, and not as substitutes for, or superior to, operating income, cash flows, revenues, or other measures of financial performance prepared in accordance with generally accepted accounting principles. Backlog is not a completely representative measure of either the historical performance or, necessarily, the future potential of ISI.

QUESTIONS AND ANSWERS ABOUT THE ACQUISITION AND THE ARGYLE SPECIAL MEETING

These Questions and Answers are only summaries of the matters they discuss. Please read this entire Proxy Statement.

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

A. Argyle was formed to acquire, through merger, capital stock exchange, asset acquisition or other similar business combination, a business in the security industry.

Argyle's proposed merger with ISI is intended to be a "business combination" under Argyle's Second Amended and Restated Certificate of Incorporation. Argyle must submit the transaction to its stockholders for approval prior to completing a business combination. Argyle has negotiated the terms of a business combination with ISI and is now submitting the transaction to its stockholders for their approval.

Q. **What is being voted on?**

A. You are being asked to vote on five proposals:

· The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 among Argyle, the wholly-owned subsidiary of Argyle, and ISI;

· The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;

· Amending Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;

· Amending Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and

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

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

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

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

Q. What vote is required to approve the merger?

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

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

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

	to change Argyle's name and to remove those provisions regarding certain procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger?	
Q.	**Why is Argyle proposing to amend its certificate of incorporation?**	A. Argyle is proposing to amend its Second Amended and Restated Certificate of Incorporation at the time of the acquisition to change Argyle's corporate name to Argyle Security, Inc. and to remove those provisions regarding certain procedural and approval requirements applicable to Argyle that were only applicable prior to the consummation of a business combination. Both changes will reflect that Argyle is now an operating company.

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Q. **What vote is required to adopt the 2007 Omnibus Securities and Incentive Plan?**	A. Approval of the 2007 Omnibus Securities and Incentive Plan will require the affirmative vote of holders of a majority of the shares of Argyle’s common stock represented in person or by proxy and entitled to vote at the special meeting, provided that there is a quorum.
Q. **Why is Argyle proposing the 2007 Omnibus Securities and Incentive Plan?**	A. Argyle is proposing the 2007 Omnibus Securities and Incentive Plan to enable it to attract, retain and reward its directors, officers, employees and consultants following the merger. Pursuant to the merger agreement entered into by Argyle, Argyle’s wholly-owned subsidiary, and ISI, it is a condition to the obligation of ISI to consummate the merger that the 2007 Omnibus Securities and Incentive Plan be approved by Argyle’s stockholders. Immediately prior to the Closing, ISI employees Mark McDonald, Tim Moxon, Butch Roller, and Neal Horman will automatically receive an aggregate of 14.10 shares of common stock in ISI (7.00 shares, 2.00 shares, 3.05 shares and 2.05 shares, respectively). Upon the delivery of these shares, ISI will have no options outstanding upon the closing of the merger and, therefore, Argyle is not assuming any options. ISI requested that the approval of the 2007 Omnibus Securities and Incentive Plan be a condition to the merger because, although Argyle is under no obligation to issue any options under the 2007 Omnibus Securities and Incentive Plan, Argyle should have the ability to reward its employees with equity compensation post merger, as might be determined by Argyle’s Board of Directors or its Compensation Committee. If the proposal relating to the 2007 Omnibus Securities and Incentive Plan is not approved, and if ISI’s Board of Directors chooses not to waive that condition to the merger, Argyle will not be able to go forward with the acquisition of ISI.
Q. **What vote is required to adopt the proposal to adjourn or postpone the special meeting for the purpose of soliciting additional proxies?**	A. Approval of the adjournment and postponement proposal will require the affirmative vote of holders of a majority of the shares of Argyle’s common stock represented in person or by proxy and entitled to vote at the special meeting, provided there is a quorum.
Q. **Why is Argyle proposing the adjournment and postponement**	A. This proposal allows Argyle’s Board of Directors to submit a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the proposed merger. If this proposal is not approved by Argyle's stockholders, Argyle's Board of Directors may

proposal?	not be able to adjourn the special meeting to a later date in the event there are not sufficient votes at the time of the special meeting to approve the proposed merger.
Q. **Do Argyle stockholders have redemption rights?**	A. If you hold common stock purchased in Argyle's initial public offering (and you are not an initial stockholder of Argyle) and you vote against the merger, you will have the right to demand that Argyle redeem your shares into a pro rata portion of the trust account.
Q **If I have redemption rights, how do I exercise them?**	A. If you wish to exercise your redemption rights, you must vote against the merger and at the same time demand that Argyle redeem your shares for cash. If, notwithstanding your vote, the merger is completed, you will be entitled to receive a pro rata portion of the trust account, including any interest earned thereon until two business days prior to the consummation of the transaction (net of taxes payable and $600,000 of interest earned on the trust account that was removed from the trust account to fund Argyle's working capital). As of March 31, 2007, there was approximately $29.7 million in the trust account. After taking into account taxes payable of $5,064 and amounts owed to the underwriter for the private placement ($45,000 plus interest) you would receive approximately $7.75 if you exercised your redemption rights. The redemption amount as of March 31, 2007 (approximately $7.75) is less than the liquidation amount (approximately $8.03) you would receive if we failed to timely consummate a business combination since the liquidation amount will include certain amounts held in trust that will not be paid to stockholders upon a redemption, such as the deferred private placement fee proceeds attributable to the units sold in Argyle's private placement that took place immediately prior to its initial public offering and the proceeds to Argyle of that offering. You will be entitled to receive this cash only if you continue to hold your shares through the closing of the merger and then tender your stock certificate(s). Upon redemption of your shares, you will no longer own them. **Do not send your stock certificate(s) with your proxy card. If the business combination is consummated, redeeming stockholders will be sent instructions on how to tender their shares of common stock and when they should expect to receive the redemption amount. Stockholders will not be requested to tender their shares of common stock before the business combination is consummated.**
Q. **Do Argyle stockholders have dissenter or appraisal rights under Delaware law?**	A. No.

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

A. Argyle stockholders exercising redemption rights will receive their pro rata portion of the trust account as calculated pursuant to the question preceding this question. The balance of the funds in the account will be utilized to fund the cash portion of the consideration to the ISI stockholders, and any remaining funds will be retained by Argyle for operating capital subsequent to the closing of the merger.

Q. **What happens if the merger is not consummated?**

A. If Argyle does not acquire ISI pursuant to the merger of ISI into a subsidiary of Argyle, Argyle will seek an alternative business combination. As provided in its charter, Argyle is required, by July 30, 2007, to consummate a business combination, or enter a letter of intent, agreement in principle or definitive agreement, in which case Argyle would be allowed an additional six months to complete the transactions contemplated by such agreement. Under its Second Amended and Restated Certificate of Incorporation as currently in effect, if Argyle does not acquire at least majority control of a target business by at latest January 30, 2008, Argyle will dissolve and distribute to its public stockholders the amount in the trust account plus any remaining net assets.

Argyle has entered into two amendments to the merger agreement with ISI, each of which released ISI and its affiliates from any claims Argyle and its subsidiary may have had through the date of the applicable amendment, except in cases of intentional fraud or theft. The releases had the effect of eliminating any claim Argyle had with respect to violations of ISI's representations and warranties through July 11, 2007, unless the representations and warranties were violated intentionally. If the transaction closes, however, the stockholders of ISI are required pursuant to the merger agreement to, on the closing date, remake the representations and warranties included in the merger agreement, and claims that Argyle may have on such closing date relating to such representations and warranties would not be affected by the release. If the transaction does not close, however, Argyle would have no ability to make any claims on the representations and warranties if such claims were not based on intentional fraud.

In any liquidation, the funds held in the trust account, plus any interest earned thereon (net of taxes payable), together with any remaining out-of-trust net assets, will be distributed pro rata to Argyle's common stockholders who hold shares issued in Argyle's initial public offering (other than the initial stockholders, each of whom has waived any right to any liquidation distribution with respect to them). See the risk factor on page 14 of this Proxy Statement relating to risks associated with the dissolution of Argyle.

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

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

Q. **If I am not going to attend the special meeting in person, should I return my proxy card instead?**	A. Yes. After carefully reading and considering the information in this document, please fill out and sign your proxy card. Then return it in the return envelope as soon as possible, so that your shares may be represented at the special meeting. You may also vote by telephone or internet, as explained on the proxy card. A properly executed proxy will be counted for the purpose of determining the existence of a quorum.
Q. **What will happen if I abstain from voting or fail to instruct my broker to vote?**	A. Under Delaware law, an abstention, or the failure to instruct your broker how to vote (also known as a broker non-vote), is not considered a vote cast at the meeting with respect to the merger proposal and therefore, will have no effect on the vote relating to the merger. An abstention or broker non-vote will not enable you to elect to have your shares redeemed for your pro rata portion of the trust account. An abstention will have the same effect as a vote against the amendments to Argyle's Second Amended and Restated Certificate of Incorporation, the 2007 Omnibus Securities and Incentive Plan and the adjournment and postponement proposal. A broker non-vote will have the same effect as a vote against the amendments to Argyle's Second Amended and Restated Certificate of Incorporation, but will have no effect on the 2007 Omnibus Securities and Incentive Plan and the adjourment and postponement proposal because brokers are not entitled to vote on these matters without receiving instructions from you.
Q. **How do I change my vote?**	A. Send a later-dated, signed proxy card to Argyle's secretary prior to the date of the special meeting or attend the special meeting in person and vote. You also may revoke your proxy by sending a notice of revocation to Bob Marbut, Argyle Security Acquisition Corporation, 200 Concord Plaza, Suite 700, San Antonio, TX 78216.

Q. **If my shares are held in “street name,” will my broker automatically vote them for me?**	A. No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares. Your broker can tell you how to provide these instructions.
Q. **Who can help answer my questions?**	A. If you have questions, you may write or call Argyle Security Acquisition Corporation, 200 Concord Plaza, Suite 700, San Antonio, TX 78216, (210) 828-1700, Attention: Bob Marbut.
Q. **When and where will the special meeting be held?**	A. The meeting will be held at 8:30 a.m. San Antonio, Texas time on July 30, 2007 at 200 Concord Plaza, Suite 700, San Antonio, TX 78216.

SUMMARY OF THE PROXY STATEMENT

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

The Companies

Argyle Security Acquisition Corporation is a Delaware corporation incorporated on June 22, 2005 in order to serve as a vehicle for the acquisition of an operating business in the security industry through a merger, capital stock exchange, asset acquisition or other similar business combination. On January 24, 2006, Argyle completed a private placement and received net proceeds of approximately $900,000. On January 30, 2006, Argyle consummated its initial public offering and received net proceeds of approximately $27.3 million. Argyle's management has broad discretion with respect to the specific application of the net proceeds of the private placement and the public offering, although substantially all of the net proceeds of the offerings are intended to be generally applied toward consummating a business combination. Of the proceeds from Argyle's initial public offering and private placement, approximately $28.7 million was deposited into a trust account. The amount in the trust account includes approximately $1.4 million of contingent underwriting compensation and $45,000 of contingent private placement fees which will be paid to Rodman & Renshaw LLC if a business combination is consummated, but which will be forfeited if a business combination is not consummated. As of March 31, 2007, approximately $29.7 million was held in the trust account.

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

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

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

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

Argyle anticipates that it will incur total transaction costs of approximately $1.3 million. Such costs do not include transaction costs of approximately $1.0 million to be incurred by ISI (related primarily to anticipated attorney, brokerage and accounting fees). Of the $1.3 million of Argyle-anticipated transaction costs, approximately $0.4 million relate to certain Giuliani Capital Advisors' advisory fees which are contingent upon the closing of the transaction. Approximately $0.7 million of the $0.9 million in non-contingent anticipated costs had been incurred and recorded as of March 31, 2007. The $0.9 million primarily relates to Loeb and Loeb legal expenses, fees for Giuliani Capital Advisors' fairness opinion, accountants and valuation consultants' fees, roadshow expenses, printer fees and other miscellaneous expenses. Argyle's cash outside the trust and accrued expenses as of March 31, 2007 was approximately $0.1 million and $0.6 million, respectively. Argyle expects to incur the remaining anticipated non-contingent transaction costs of approximately $0.2 million during the second quarter of 2007. Additionally, recurring monthly operating expenses of approximately $80,000 per month will continue to accrue after March 31, 2007.

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

Argyle anticipates that the costs to consummate the acquisition will greatly exceed its available cash outside of the trust, even after the proposed financing discussed above. Argyle has not sought and does not anticipate seeking any fee deferrals. Argyle expects these costs would ultimately be borne by the combined company from the funds held in trust if the proposed ISI acquisition is completed. If the acquisition is not completed, the costs would be subject to the potential indemnification obligations of Argyle's officers and directors to the trust account related to expenses incurred for vendors or service providers. If these obligations are not performed or are inadequate, it is possible that vendors or service providers could seek to recover these expenses from the trust account, which could ultimately deplete the trust account and reduce a stockholder's current pro rata portion of the trust account upon liquidation.

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

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

ISI was founded in 1976 and is headquartered in San Antonio, Texas. ISI is the parent company of several subsidiaries, including three service and solution providers in the physical security industry: ISI Detention Contracting, a Texas corporation referred to as ISI-Detention, Metroplex Control Systems, a Texas limited partnership referred to as MCS-Detention and MCFSA, Ltd, a Texas limited partnership referred to as MCS-Commercial. These operating entities, among other things, combine third-party hardware and software to create efficient customized physical security solutions, as well as turnkey systems to an institutional customer base comprised of public and private owners and developers of correctional facilities; construction companies; security integrators; and commercial, industrial, and governmental facilities contractors and owner/operator entities. Approximately 70% of the total revenue of ISI is derived from work performed for general contractors, whereas approximately 30% comes from work performed directly for the end user. ISI does not manufacture any hardware. The only software that is sold to customers is either licensed from third parties in the name of the customer, or the license is purchased by ISI and transferred to the customer. ISI utilizes a proprietary software suite called TotalWerks to resolve communication problems between the hardware and software of different manufacturers. This software is essentially a combination of adaptations that ISI has developed on a project-by-project basis over several years. The TotalWerks software is not sold to customers.

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

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

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

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

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

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

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

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

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

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

The Merger

On December 8, 2006, Argyle, Argyle's wholly-owned subsidiary ISI Security Group, Inc. (referred to in this document as the Merger Subsidiary) and ISI entered into a merger agreement pursuant to which the Merger Subsidiary will merge into ISI, and ISI will become a wholly-owned subsidiary of Argyle. On June 29, 2007, Argyle, the Merger Subsidiary and ISI entered into an amendment to the merger agreement pursuant to which the security holders of ISI would receive an additional $400,000 in cash and unsecured promissory notes in the aggregate amount of $1.925 million, bearing interest at a rate of 5% per year, convertible into Argyle's common stock at a conversion price of $10 per share (unless the context indicates otherwise, as used in this proxy statement, the term merger agreement means the merger agreement as amended). The parties entered into the amendment because it was clear that the merger agreement would not be completed by July 1, 2007, the date specified in the merger agreement as the date on which either party could terminate the merger agreement without cause. Pursuant to the merger agreement, as amended, Argyle will pay ISI's security holders an aggregate merger consideration of approximately $46,505,000, consisting of $18,600,000, 1,180,000 shares of Argyle's common stock (valued at approximately $9,180,000, based on the closing price of the common stock on June 25, 2007) and unsecured promissory notes in the aggregate amount of $1.925 million convertible into Argyle's common stock at a conversion price of $10 per share, and the assumption of approximately $6,000,000 of long-term debt, up to $9,000,000 pursuant to a line of credit (of which approximately $5.7 million was outstanding as of April 16, 2007), $2.1 million of capitalized leases as of March 31, 2007, approximately $1.0 million of transaction costs, and up to $2,000,000 ($1,854,952 as of March 31, 2007) which will be paid to a company owned by ISI's Chief Executive Officer and President.

The parties to the merger agreement also make covenants relating to confidentiality, non-solicitation and non-competition. In addition, after the consummation of the merger, Argyle has agreed to file a registration statement for the resale of the shares issued by Argyle in connection with the merger. The closing of the merger is subject to certain conditions, including the approval by Argyle's stockholders of the merger and the equity incentive plan described below after the merger.

Argyle has entered into two amendments to the merger agreement with ISI. The first amendment, dated June 29, 2007, increased the merger consideration paid to the stockholders of ISI by $400,000 in cash and $1,925,000 in unsecured promissory notes and changed the date on which either party could terminate the merger agreement without cause from July 1, 2007 to July 16, 2007. The second amendment, dated July 11, 2007, changed the date on which either party could terminate the merger agreement without cause from July 16, 2007 to July 31, 2007. Each of the amendments also released ISI and its affiliates from any claims Argyle and its subsidiary may have had through the date of the applicable amendment, except in cases of intentional fraud or theft. The releases had the effect of eliminating any claim Argyle had with respect to violations of ISI's representations and warranties through July 11, 2007, unless the representations and warranties were violated intentionally. If the transaction closes, however, the stockholders of ISI are required pursuant to the merger agreement to, on the closing date, remake the representations and warranties included in the merger agreement, and claims that Argyle may have on such closing date relating to such representations and warranties would not be affected by the release. If the transaction does not close, however, Argyle would have no ability to make any claims on the representations and warranties if such claims were not based on intentional fraud.

The security holders of ISI will receive the following consideration:

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

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

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

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

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

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

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

Messrs. Youngblood and Carr and their spouses (the "Guarantors") personally guaranteed ISI*MCS's performance on bonded contracts. While ISI does not have the standing to assert a claim directly against the Guarantors for claims arising from bonded contracts, ISI might be able to indirectly rely upon the performance of the guarantees. For example, if a dispute arises regarding a bonded contract and ISI does not resolve or pay the claim, the bonding company may be required to pay the claim. In that event, the bonding company could assert a claim against the Guarantors to indemnify the bonding company for the losses incurred in paying or resolving the claim. However, ISI would remain obligated to defend, pay or otherwise resolve such claims, but ISI would be entitled to recover from ISI*MCS and its Affiliates any amounts paid to defend, pay or resolve such claims that exceed $250,000 per incident on bonded contracts paid in full as of closing.

ISI does not have standing to assert any claim directly against the Guarantors for claims arising from bonded contracts. The personal guarantees were provided for the benefit of the bonding company and not ISI. Additionally, ISI intends to defend, pay or otherwise resolve claims brought by the bonding company against the personal guarantees provided to the bonding company by the Guarantors, without regard to the benefit that ISI might realize from the resolution of claims by the bonding company through the personal guarantees. Argyle has agreed to indemnify Messrs. Youngblood and Carr and their spouses from claims brought by the bonding company against their personal guarantees for those contracts that have not been paid in full as of the Closing of the merger. ISI does not claim or intend to seek, any benefit, directly or indirect from the personal guarantees of Messrs. Youngblood and Carr and their spouses.

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

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

Assuming none of Argyle's stockholders exercise redemption rights with respect to the acquisition upon consummation of the merger, the former security holders of ISI securities will own 19.8% of Argyle's issued and outstanding common stock, and Argyle's pre-acquisition holders of common stock will own in the aggregate approximately 80.2% of Argyle's post-acquisition common stock. Holders of stock purchased in Argyle's initial public offering will own 62.1% of Argyle's post-acquisition outstanding common stock, a reduction of 15.3% from the 77.4% they currently own. The merger will result in dilution in percentage ownership of Argyle's pre-acquisition holders.

At the closing of the merger, each of the security holders of ISI will enter into a lock-up agreement with Argyle with respect to the shares that they acquire pursuant to the merger so that they will not be able to sell the shares (except to family members or affiliates) until the specified times expire. William Blair Mezzanine Capital Fund III, L.P. will acquire 497,326 shares in connection with the merger and will not be able to sell such shares until the earlier of six months after the closing of the acquisition or November 1, 2007. However, William Blair Mezzanine Capital Fund III L.P. will then transfer to each of the other stockholders of ISI an aggregate of 11,089 shares in consideration of such stockholders making the cash payment of $323,000 to WFG Investments, Inc. The holders of the remainder of the shares will not be able to sell their shares until January 24, 2009.

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

Argyle and Sam Youngblood as Chief Executive Officer of ISI.

Stockholders of ISI

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

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

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

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

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

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

Procedure

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

However, notwithstanding adoption of the merger proposal, the merger will only proceed if holders of no more than 20% of the total shares sold in Argyle's initial public offfering and the private placement exercise their redemption rights and vote against the proposed merger. If holders of shares purchased in Argyle’s initial public offering owning 20% or more of the shares of common stock sold in Argyle’s initial public offering and private placement vote against the proposed merger and elect to exercise their redemption rights, Argyle’s Board of Directors will abandon the merger, notwithstanding approval of a majority of its stockholders. If the maximum permissible number of shares elect redemption without Argyle being required to abandon the merger, as of March 31, 2007, a total of approximately $5.9 million of the trust account would have been disbursed, leaving approximately $23.8 million available for the merger with ISI and the payment of liabilities. Even if the maximum number of shares permitted to be redeemed were redeemed, Argyle would still have enough cash available in the trust account to consummate the merger.

In connection with the initial public offering, Argyle’s current officers and directors agreed to indemnify Argyle for debts and obligations to vendors that are owed money by Argyle for services rendered or products sold to Argyle, but only to the extent necessary to ensure that certain liabilities do not reduce funds in the trust account. The obligations of Argyle’s officers and directors to indemnify Argyle remain in effect and extend to transaction expenses to be incurred in connection with Argyle’s seeking to complete the ISI merger. Since these obligations were not collateralized or guaranteed, however, Argyle cannot assure you that its officers and directors would be able to satisfy their obligations if material liabilities are sought to be satisfied from the trust account. As of March 31, 2007, we believe that the indemnity obligation of Argyle’s officers and directors could total approximately $319,000, which is equal to the amount of accrued expenses, less amounts relating to vendors for which Argyle has received a waiver of each such vendor’s right to sue the trust account. Vendor letters requesting a waiver were sent out to Argyle’s significant vendors in the first half of 2006, and a total of six consultants and vendors agreed to the waiver. If all of the consultants and vendors who previously agreed to the waivers subsequently challenge the validity of such waivers, the indemnity obligation of our officers and directors as of March 31, 2007 would increase by approximately $272,000. If the merger is not consummated, Argyle anticipates the obligations would total approximately $600,000. Argyle does not have sufficient funds outside of trust to pay this obligation. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not, however, signed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

Fairness Opinion

In determining to recommend that holders of Argyle’s securities vote for the merger proposal, the Board of Directors of Argyle considered the fairness opinion of Giuliani Capital Advisors, dated December 8, 2006, and based upon and subject to the assumptions, qualifications and limitations set forth in the written opinion, the merger consideration as stipulated in the original merger agreement was fair from a financial point of view to Argyle. The fairness opinion provided by Giuliani Capital Advisors LLC is based on the merger consideration described in the original merger agreement from Deember 8, 2006 and not as the merger agreement was amended on June 29, 2007, pursuant to which Argyle agreed to pay the stockholders of ISI additional consideration (increasing the value paid to the ISI stockholders) of $400,000 in cash and unsecured promissory notes in the aggregate principal amount of $1.925 million, bearing interest at a rate of 5% per year, convertible into Argyle’s common stock at a conversion price of $10 per share. Argyle did not seek an updated fairness opinion because it would have taken an extended period of time to get a new fairness opinion and because the increase in consideration was relatively small. The full text of Giuliani

Capital Advisors' written opinion, dated December 8, 2006, is attached as Annex A to this Proxy Statement. We urge you to read the opinion and the section "Fairness Opinion" beginning on page 41 of this Proxy Statement carefully for a description of the procedures followed, assumptions made, matters considered and limitations on the reviews undertaken. Giuliani Capital Advisors' opinion does not constitute a recommendation to the Board of Directors or to the holders of Argyle's securities as to how such person should vote or act on any of the proposals set forth in this Proxy Statement. For its services related to the Fairness Opinion, Giuliani Capital Advisors is owed a fee equal to \$200,000. The fee for the fairness opinion was negotiated by Argyle and Giuliani Capital Advisors. We believe the amount of this fee is consistent with industry custom and practice for the preparation of a fairness opinion. The fairness opinion fee is not contingent upon consummation of the proposed merger and can not be credited against the success fee payable to Giuliani Capital Advisors upon consummation of the proposed merger. In addition to the fairness opinion fee, Giuliani Capital Advisors will be paid a separate fee for its advisory services (a total of approximately \$0.4 million, such amount is to be definitively determined upon the final amount of transaction consideration) if the merger is consummated. Fees to be paid to Giuliani Capital Advisors will total approximately \$0.6 million, including all contingent fees (advisory fee of \$0.4 million in the event the proposed merger is consummated) and non-contingent fees (fairness opinion fee of \$0.2 million regardless of whether the merger is consummated).

As noted above, due to the passage of time since the execution of the original merger agreement, on June 29, 2007 Argyle and ISI entered into an amendment regarding the performance by ISI in the intervening periods and the approaching termination date under the merger agreement. As part of its consideration of the terms of the amendment, Argyle's management prepared a presentation and analysis of the elements of the economic and other aspects of the amendment for review by Argyle's Board of Directors. This analysis compared the implied new enterprise value of ISI with that used in the Board's initial consideration of the ISI transaction and the Giuliani Capital Advisors' fairness opinion dated December 8, 2006 and noted that, while the overall transaction consideration and enterprise valuation had increased, the multiples of revenues and EBITDA had actually decreased slightly due to the improved operating performance of ISI since the time of the initial analysis. The review of the Board of Directors of the valuation ranges presented above, including the multiples of revenue and EBITDA used by Giuliani Capital Advisors in rendering its fairness opinion on December 8, 2006, resulted in the Board of Directors determining that the transaction was still fair to stockholders from a financial point of view. In addition, the presentation noted that backlog at ISI had increased and discussed the positive industry trends in the corrections industry more generally. The form of the increased consideration was also discussed, and the fact that the significant majority of the increase would be in the form of subordinated convertible notes as opposed to cash was highlighted. These factors, together with those that formed the basis of the Board's decision to proceed with the ISI transaction prior to the amendment, led the Board of Directors to approve the amendment in the form appearing as part of Appendix D to this Proxy Statement.

If the Acquisition Is Not Approved

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

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

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

The 2007 Omnibus Securities and Incentive Plan. The 2007 Omnibus Securities and Incentive Plan reserves 1,000,000 shares of Argyle common stock for issuance in accordance with its terms. Argyle currently anticipates that it will grant up to 300,000 shares pursuant to awards under the 2007 Incentive Plan to members of the ISI management team, current officers, directors and consultants of Argyle and new employees of Argyle to be hired after the merger. However, at this time, Argyle's Board of Directors has not approved the issuance of any such awards and is not under any contractual obligation to do so. Assuming the anticipated grants are made, there will be at least 700,000 shares remaining for issuance in accordance with the plan's terms. The purpose of the plan is to enable Argyle to offer its employees, officers, directors and consultants, and the employees, officers, directors and consultants of its subsidiaries, whose past, present and/or potential future contributions to Argyle have been, are or will be important to the success of Argyle, an opportunity to acquire an equity interest in Argyle. It is also designed to create incentives to motivate employees to significantly contribute toward growth and profitability, to provide Argyle executives, directors and other employees and persons who, by their position, ability and diligence are able to make important contributions to Argyle's growth and profitability, with an incentive to assist Argyle in achieving Argyle's long-term corporate objectives and to attract and retain executives and other employees of outstanding competence. The various types of incentive awards that may be provided under the plan will enable Argyle to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business.

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

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

The Merger Agreement and Related Documents. The merger agreement, including the amendments to the merger agreement entered into on June 29, 2007 and July 11, 2007, the form of the proposed amendments to Argyle's Second Amended and Restated Certificate of Incorporation, the 2007 Omnibus Securities and Incentive Plan and the fairness opinion of Giuliani Capital Advisors are annexed to this Proxy. We encourage you to read them in their entirety, as they are the key legal documents underlying the acquisition. They are also described in detail elsewhere in this document. The merger agreement, including the amendment to the merger agreement entered into on June 29, 2007, which is attached as Annex D in this prospectus/proxy statement, is incorporated by reference into this Proxy Statement.

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

Argyle Special Meeting

Date, Time and Place. The special meeting of Argyle's stockholders will be held at 8:30 a.m., San Antonio, Texas, time, on July 30, 2007, 200 Concord Plaza, Suite 700, 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 July 6, 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 July 6, 2007, there were 4,781,307 shares of Argyle common stock outstanding (including the 1,081,261 shares held by Argyle's officers and directors and their respective affiliates, which were not purchased in Argyle's initial public offering). Each Argyle common share entitles its holder to cast one vote per proposal.

Redemption Rights. Under its certificate of incorporation, a holder of Argyle common stock (other than an initial stockholder) who votes against the merger may demand that Argyle redeem his or her shares for cash, but such stockholder will only receive the redemption amount if the merger is subsequently consummated. Argyle's stockholders who purchased shares in its initial public offering would still be entitled to receive a portion of the trust account in the event of a liquidation of Argyle. This demand must be made in writing at the same time the stockholder votes against the merger, on the form of proxy card voted against the merger. If you so demand, and the merger is approved and consummated, Argyle will redeem your shares into a pro rata portion of the trust account, net of taxes payable, less amounts payable in connection with the private placement that occurred immediately prior to Argyle's initial public offering and the amounts representing the net proceeds of Argyle's private placement as of two business days prior to the consummation of the merger. You will be entitled to receive cash for your shares only if you continue to hold your shares through completion of the merger and then tender your stock certificate(s) to Argyle. If you exercise your redemption rights, you will no longer own these Argyle shares. **Do not send your stock certificate(s) with your proxy card. If the business combination is consummated, redeeming stockholders will be sent instructions on how to tender their shares of common stock and when they should expect to receive the redemption amount. Stockholders will not be requested to tender their shares of common stock before the business combination is consummated.**

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

If the merger is not consumated and Argyle is not required to dissolve pursuant to the terms of its Second Amended and Restated Certificate of Incorporation, it may seek another target business with which to effect a business combination.

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

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

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

Argyle'sRecommendation; Interests of Argyle's Management

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

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

- If the proposed merger is not completed, and Argyle is subsequently required to liquidate, the shares owned by Argyle's directors will be worthless because the shares will no longer have any value and the directors are not entitled to liquidation distributions from Argyle. In addition, the possibility that Argyle's officers and directors will be required to perform their obligations under the indemnity agreements referred to above will be substantially increased.

- In connection with Argyle's initial public offering, Argyle's current officers and directors agreed to indemnify Argyle for debts and obligations to vendors that are owed money by Argyle for services rendered or products sold to Argyle, but only to the extent necessary to ensure that certain liabilities do not reduce funds in the trust account. If the merger is consummated, Argyle's officers and directors will not have to perform such obligations. If the merger is not consummated, however, Argyle's officers and directors could potentially be liable for any claims against the trust account by vendors who did not sign waivers. As of March 31, 2007, we believe that the maximum amount the indemnity obligation of Argyle's officers and directors could be is approximately $319,000, which is equal to the amount of accrued expenses, less approximately $272,000 relating to vendors for which Argyle has received a waiver of each such vendor's right to sue the trust account. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not, however, signed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

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

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

· It is anticipated that Argyle's current Co-Chief Executive Officers, Bob Marbut and Ron Chaimovski, will enter into employment agreements with Argyle post merger, though the terms of such agreements will be negotiated following the merger and will be approved by the Compensation Committee of Argyle's Board of Directors that will be formed after the closing of the merger.

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

· The following table lists the securities owned by the members of Argyle's current management team and Board of Directors and the amount of gain that each of them would realize if the merger is consummated, based on the market price of Argyle's securities on March 30, 2007. If a merger is not consummated, the securities held by these individuals would be valueless, since they would not be entitled to participate in distributions from the trust account.

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

Certain U.S. Federal Income Tax Consequences

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

Quotation/Listing

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

Accounting Treatment

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

Regulatory Matters

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

RISK FACTORS

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

Risks related to ISI's Business

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

Contracts for which federal, state or local governments are the ultimate customer has hitorically accounted for 100% of ISI's business. The detention systems segment, the largest business segment, outfits correctional facilities and courthouses. Many state and local governments operate under very tight budget constraints. These budget constraints could cause them to delay, reduce the scope of, or cancel pending projects, which could reduce ISI's revenues.

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

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

ISI has been subject to one audit of its licensing. In 2005, the Arkansas Licensing Board conducted a hearing regarding the renewal of ISI's Contractor License for the State of Arkansas. The outcome of the hearing was successful, and ISI was issued a Contractor's License.

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

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

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

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

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

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

While ISI does not have the standing to assert a claim directly against the Guarantors for claims arising from bonded contracts, ISI might be able to indirectly rely upon the performance of the guarantees. For example, if a dispute arises regarding a bonded contract and ISI does not resolve or pay the claim, the bonding company may be required to pay the claim. In that event, the bonding company could assert a claim against the Guarantors to indemnify the bonding company for the losses incurred in paying or resolving the claim. However, ISI would remain obligated to defend, pay or otherwise resolve such claims, but ISI would be entitled to recover from ISI*MCS and its Affiliates any amounts paid to defend, pay or resolve such claims that exceed $250,000 per incident on bonded contracts paid in full as of closing.

ISI does not have standing to assert any claim directly against the Guarantors for claims arising from bonded contracts. The personal guarantees were provided for the benefit of the bonding company and not ISI. Additionally, ISI intends to defend, pay or otherwise resolve claims brought by the bonding company against the personal guarantees provided to the bonding company by the Guarantors, without regard to the benefit that ISI might realize from the resolution of claims by the bonding company through the personal guarantees. Argyle has agreed to indemnify Messrs. Youngblood and Carr and their spouses from claims brought by the bonding company against their personal guarantees for those contracts that have not been paid in full as of the Closing of the merger. ISI does not claim or intend to seek, any benefit, directly or indirect from the personal guarantees of Messrs. Youngblood and Carr and their spouses.

ISI agreed to indemnify Sam Youngblood and Don Carr (and their spouses) for claims made against their personal guarantees that were required by the bonding company as a condition to providing a line of bonding capacity to ISI*MCS. ISI management estimates that the potential risk for Argyle on such indemnification could be approximately $27,501,711, which consists of all potential liability that could arise from all bonded contract obligations due and owing by ISI as of March 30, 2007. This assumes that all work performed or to be performed on bonded contracts is unsatisfactorily completed.

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

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

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

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

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

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

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

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

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

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

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

ISI does not have standing to assert any claim directly against the Guarantors for claims arising from bonded contracts. The personal guarantees were provided for the benefit of the bonding company and not ISI. Additionally, ISI intends to defend, pay or otherwise resolve claims brought by the bonding company against the personal guarantees provided to the bonding company by the Guarantors, without regard to the benefit that ISI might realize from the resolution of claims by the bonding company through the personal guarantees. Argyle has agreed to indemnify Messrs. Youngblood and Carr and their spouses from claims brought by the bonding company against their personal guarantees for those contracts that have not been paid in full as of the Closing of the merger. ISI does not claim or intend to seek, any benefit, directly or indirect from the personal guarantees of Messrs. Youngblood and Carr and their spouses.

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

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

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

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

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

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

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

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

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

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

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

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

ISI could potentially incur liability to clients and others.

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

ISI is reliant upon key personnel.

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

- Sam Youngblood - Chief Executive Officer of ISI. Mr. Youngblood is the chief executive of ISI, and his knowledge of ISI's business and reputation in the industry make him important to ISI's success.

- Don Carr - President of ISI. Mr. Carr is the key manager of sales for ISI. His experience and management capabilities have made him a major part of the historical success of ISI.

- Mark McDonald - President of MCS-Detention. Mr. McDonald is the principal creator of the proprietary software utilized by ISI in estimating the cost and pricing of a project. Mr. McDonald's expertise in the use and refinement of this software and his knowledge of the technological perspective of the security industry are significant.

- Robert "Butch" Roller - President of MCS-Commercial. Mr. Roller is responsible for operations and cost-efficient employee performance, and he provides substantial operational back-up for Mr. Youngblood.

- Neal Horman - Senior Software Developer of MCS-Detention. Mr. Horman now devotes substantial time to the creation of new products and tools to service client needs. Without Mr. Horman, the development of new products and tools would be delayed.

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

ISI is in a competitive industry with well financed competitors.

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

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

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

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

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

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

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

ISI offers some bids for new contracts directly to government agencies and commercial customers as a direct contractor to provide the security solutions for a project. In other instances, ISI provides its bid for security solutions to a general contractor, who adds ISI's pricing to all the other pricing for an entire project. In those instances ISI is a subcontractor to the general contractor. The owner of the project (the governmental entity or commercial owner) will choose whether they wish to receive bids only from general contractors, or whether they wish to receive bids separately from the entities providing security solutions, such as ISI and its competitors. When ISI is acting as a subcontractor to a general contractor, ISI has far less control and input over the final price for the project submitted to the owner by the general contractor than when ISI submits a bid directly and such circumstances therefore reduce the ability of ISI to win contracts.

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

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

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

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

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

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

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

Risks Relating to the Merger

Argyle did not obtain an updated fairness opinion from an independent third party in connection with its amendment to the merger agreement dated June 29, 2007, pursuant to which Argyle agreed to pay the stockholders of ISI additional consideration of $400,000 in cash and $1,925,000 in promissory notes.

On June 29, 2007, Argyle, the Merger Subsidiary and ISI entered into an amendment to the merger agreement pursuant to which Argyle agreed to pay the stockholders of ISI additional merger consideration of $400,000 in cash and $1,925,000 in promissory notes. Argyle did not obtain an updated fairness opinion in connection with the payment of this additional consideration and relied on the analysis of its Board of Directors, based on information presented to the Board of Directors by its Co-Chief Executive Officers, that the additional merger consideration was fair to its stockholders from a financial point of view. Therefore, no independent third party determined that the additional merger consideration was fair to Argyle’s stockholders from a financial point of view. In addition, the information presented to the Board of Directors was based on the industry multiples of revenue and EBITDA used in the fairness opinion from December 2006 even though a new fairness opinion was not provided and no one advised the Board of Directors that the industry multiples of revenue and EBITDA used in such fairness opinion were still applicable. It is possible that the applicable industry multiples of revenue and EBITDA have changed since December 2006 and that the conclusion of the Board of Directors as to the fairness of the additional consideration is incorrect.

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

Pursuant to Argyle’s Second Amended and Restated Certificate of Incorporation, holders of shares purchased in Argyle’s initial public offering (other than Argyle’s initial stockholders) may vote against the merger and demand that Argyle redeem their shares into pro rata portions of the trust account, net of taxes payable, as of the record date. Argyle and ISI will not consummate the merger if holders of 765,009 or more shares exercise these redemption rights. To the extent the merger is consummated and holders have demanded to so redeem their shares, there will be a corresponding reduction in the amount of funds available to the combined company following the merger. As of July 6, 2007, the record date, assuming the merger is approved, the maximum amount of funds that could be disbursed to Argyle’s stockholders upon the exercise of their redemption rights is approximately $6.0 million.

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

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

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

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

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

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

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

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

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

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

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

Following the merger, Argyle has agreed that it will negotiate employment agreements with Sam Youngblood (the Chief Executive Officer of ISI), Don Carr (the President of ISI), Mark McDonald (the President of MCS-Detention) and Tim Moxon (the Chief Financial Officer of ISI). Other than the agreement that the term of the employment agreements will be five years for Mark McDonald and two years for the others, and that Sam Youngblood and Don Carr must be directors of ISI post merger, the agreements have not yet been negotiated, meaning that the employment agreements currently in place with those parties will remain in full force and effect until the new agreements take effect. The new employment agreements will be approved by the Compensation Committee of Argyle's Board of Directors that will be formed after the closing of the merger. Section 8.7 of the Merger Agreement states:

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

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

Argyle's stockholders will not have the benefit of knowing what compensation arrangements will be post business combination when voting for the merger. In addition, by not negotiating agreements prior to the merger, it is possible that some or all of ISI's management may decide to seek employment at a company that will provide them with definitive terms of employment now.

Risks to Argyle's Stockholders

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

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

- To exercise the warrants and pay the exercise price for such warrants at a time when it may be disadvantageous for the holders to do so;
- To sell the warrants at the then current market price when they might otherwise wish to hold the warrants; or
- To accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants.

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

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

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

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

i. The market price of its common stock may decline to the extent that the current market price of its common stock reflects a market assumption that the merger will be consummated;

ii. Costs related to the merger, such as legal and accounting fees and the costs of the fairness opinion, must be paid even if the merger is not completed; and

iii. Charges will be made against earnings for transaction-related expenses, which could be higher than expected.

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

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

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

In any liquidation, the net proceeds of Argyle's initial public offering and private placement and the deferred underwriting compensation held in the trust account, plus any interest earned thereon (net of taxes payable and $600,000 of interest earned on the trust account that was released to fund Argyle's working capital), will be distributed on a pro rata basis to the holders of Argyle's common stock issued in Argyle's initial public offering. As of March 31, 2007, and assuming Argyle expended all of the funds not in the trust account, the per-share liquidation price would have been approximately $8.03, or $0.03 more than the price ($8.00 per unit) that Argyle sold each unit for in its initial public offering (The liquidation amount of $8.03 is greater than the original amount of $7.76 indicated in the prospectus relating to our initial public offering due to interest accrued on the amounts in the trust account). The proceeds deposited in the trust account could, however, become subject to the claims of Argyle's creditors which could be prior to the claims of Argyle's public stockholders. Argyle cannot assure you that the actual per-share liquidation price will not be less than $8.03, due to claims of creditors. Furthermore, there will be no distribution with respect to Argyle's outstanding warrants and, accordingly, the warrants will expire worthless.

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

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

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

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

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

If third parties bring claims against Argyle, the proceeds held in the trust account could be reduced, and the per share liquidation price received by stockholders could be less than $8.03 per share.

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

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As of March 31, 2007, Argyle has not received a waiver letter from the State of Delaware, its independent auditor, its financial advisor in so far as it relates to amounts due for its fairness opinion ($200,000) and certain miscellaneous service providers, with aggregate claims in the amount of approximately $319,000. Vendor letters requesting a waiver were sent out to Argyle's significant vendors in the first half of 2006, and a total of six consultants and vendors agreed to the waiver, representing approximately $272,000 at March 31, 2007. If the merger is not consummated, Argyle anticipates the obligations would total approximately $600,000. Argyle does not have sufficient funds outside of trust to pay these obligations. To the extent that creditors, even those who have executed a waiver of claims against the trust account, or ISI, bring a claim and attempt to have it satisfied out of the trust account, the proceeds available to Argyle's stockholders from the trust account could be reduced. If the merger is not consummated, ISI will be responsible for its own expenses incurred in connection with the merger. ISI has not yet, however, executed a waiver of its right to sue the trust account. The indemnification obligations of the officers and directors of Argyle would not extend to any claims made by ISI against the trust account. Therefore, if ISI chose to sue to the trust account and won its case, the trust account could be reduced by the amount of the claim. For example, if ISI sued to recover its costs of engaging in the transaction, the damages could be $1,000,000 or more, though ISI would also be able to sue the trust account for additional amounts. Although ISI was asked on more than one occasion to enter into a waiver of claims against the trust account by Argyle, it chose not to sign the waiver so that it could retain its ability to sue the trust account. There are no current plans for ISI to sign the waiver.

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

Additionally, if Argyle is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against Argyle which is not dismissed, the proceeds held in the trust account could be subject to applicable bankruptcy law, and may be included in Argyle's bankruptcy estate and subject to the claims of third parties with priority over the claims of Argyle's stockholders. To the extent any bankruptcy claims deplete the trust account, Argyle cannot assure you that it will be able to return to Argyle's public stockholders at least $8.03 per share.

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

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

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

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

SELECTED HISTORICAL FINANCIAL INFORMATION

We are providing the following financial information to assist you in your analysis of the financial aspects of the acquisition. We derived the December 31st historical information concerning ISI and Argyle from their respective audited consolidated financial statements and the three-month information from their respective unaudited financial statements. The information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained elsewhere herein. The historical results included below and elsewhere in this Proxy Statement are not indicative of the future performance of ISI, Argyle or the enterprise resulting from the acquisition.

ISI HISTORICAL FINANCIAL INFORMATION

Selected Consolidated Statements of Operations Data

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

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

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

Consolidated Balance Sheet Data

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

ARGYLE HISTORICAL FINANCIAL INFORMATION

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

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

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SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following selected unaudited pro forma financial information combines Argyle's historical balance sheet and that of ISI as of March 31, 2007, giving effect to the transactions described in the merger agreement as if they had occurred on March 31, 2007. Additionally, the financial information combines (i) Argyle's historical statement of operations for the year ended December 31, 2006 with that of ISI, and (ii) Argyle's historical statement of operations for the three months ended March 31, 2007 with that of ISI, in each case giving effect to the acquisition as if it had occurred on January 1, 2006. The following selected unaudited pro forma condensed combined financial information is intended to provide you with a picture of what Argyle's business might have looked like had the acquisition been completed on or as of the dates specified above. The combined financial information may have been different had the acquisition actually been completed on or as of those dates. You should not rely on the selected unaudited pro forma condensed combined financial information as being indicative of the historical results that would have occurred had the acquisition occurred or the future results that may be achieved after the acquisition. The following selected unaudited pro forma condensed combined financial information has been derived from, and should be read in conjunction with, the Unaudited Pro Forma Condensed Consolidated Financial Statements and related notes thereto starting on page 81.

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

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

(in thousands, except per share data)	**At March 31, 2007**
	Assuming No Redemption of Shares