

Argyle Security Acquisition CORP
Form PREM14A
May 09, 2007

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

Filed by the Registrant x

Filed by a Party other than the registrant o

Check the appropriate box:

x Preliminary Proxy Statement

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

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

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

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

Payment of Filing Fee (Check the appropriate box):

o No fee required.

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

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): Calculated based on the purchase price of \$38.7 million in cash, securities and assumed debt

(4) Proposed maximum aggregate value of transaction: \$38.7 million

(5) Total fee paid: \$1,188.09

Fee paid previously with preliminary materials:

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: \$936.85

(2) Form, Schedule or Registration Statement No.: 333-139594

(3) Filing Party: Argyle Security Acquisition Corporation

(4) Date Filed: December 22, 2006

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

TO THE STOCKHOLDERS OF
ARGYLE SECURITY ACQUISITION CORPORATION:

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

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

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

- The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 pursuant to which Argyle will pay ISI's security holders an aggregate merger consideration of approximately \$38.7 million, consisting of \$18,200,000 and 1,180,000 shares of Argyle's common stock (valued at approximately \$8.8 million, based on the closing price of the common stock on April 16, 2007) and the assumption of approximately \$6,000,000 of long-term debt and up to \$9,000,000 pursuant to a line of credit (of which approximately \$5.7 million was outstanding as of April 16, 2007).
- 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

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

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

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

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

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

Under the merger agreement, ISI Security Group, Inc., a wholly-owned subsidiary of Argyle, will merge into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle. The current security holders of ISI will receive an aggregate of \$18,200,000 and 1,180,000 shares of Argyle's common stock.

The security holders of ISI will receive the following consideration:

Name	Cash Consideration (\$)	Stock Consideration
William Blair Mezzanine Capital Fund III, L.P.	11,052,900	497,326
Sam Youngblood	4,053,477	386,221
Don Carr	1,997,116	190,233
Mark McDonald	682,509	66,108
Tim Moxon	115,729	11,214
Robert Roller	178,962	17,337
Neal Horman	119,308	11,561

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 28.9% of Argyle's common stock. The merger will result in a change in control of ISI, since the majority of the shares of the merged entity will be owned by the former stockholders of Argyle.

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

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

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

material carefully and vote your shares.

I look forward to seeing you at the meeting.

Sincerely,

Bob Marbut
Chairman and Co-Chief Executive Officer

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

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

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

TO THE STOCKHOLDERS OF
ARGYLE SECURITY ACQUISITION CORPORATION:

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

1. The proposed merger of a wholly-owned subsidiary of Argyle into ISI, resulting in ISI becoming a wholly-owned subsidiary of Argyle and the transactions contemplated by the merger agreement dated December 8, 2006 pursuant to which Argyle will pay ISI's security holders an aggregate merger consideration of approximately \$38.7 million, consisting of \$18,200,000 and 1,180,000 shares of Argyle's common stock (valued at approximately \$8.8 million, based on the closing price of the common stock on April 16, 2007) and the assumption of approximately \$6,000,000 of long-term debt and 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. The adoption of Argyle's 2007 Omnibus Securities and Incentive Plan, which provides for the grant of up to 1,000,000 shares of Argyle's common stock or cash equivalents to directors, officers, employees and/or consultants of Argyle and its subsidiaries;
3. An amendment to Argyle's Second Amended and Restated Certificate of Incorporation to change Argyle's corporate name to Argyle Security, Inc.;
4. An amendment to Argyle's Second Amended and Restated Certificate of Incorporation to remove certain provisions containing procedural and approval requirements applicable to Argyle prior to the consummation of a business combination that will no longer be operative upon consummation of the merger; and
5. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

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

The Board of Directors has fixed the record date as the close of business on _____, 2007, the date for determining Argyle stockholders entitled to receive notice of and vote at the special meeting and any adjournment or

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postponement thereof. Only holders of record of Argyle common stock on that date are entitled to have their votes counted at the special meeting or any adjournment or postponement.

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

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

Dated: _____, 2007

By Order of the Board of Directors,

Bob Marbut
Chairman and Co-Chief Executive Officer

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

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

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

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 \$18,200,000 and 1,180,000 shares of Argyle’s common stock. The cash portion of the purchase price includes \$1,900,000 that ISI’s stockholders are entitled to receive because ISI’s adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2006 were greater than \$4,500,000 and its backlog of orders at February 28, 2007 was greater than \$80,000,000 (including inter-company amounts). See the section entitled “Proposal to Acquire ISI.”

The security holders of ISI will receive the following consideration:

Name	Cash Consideration (\$)	Stock Consideration
William Blair Mezzanine Capital Fund III, L.P.	11,052,900	497,326
Sam Youngblood	4,053,477	386,221
Don Carr	1,997,116	190,233
Mark McDonald	682,509	4,66,108
Tim Moxon	115,729	11,214
Robert Roller	178,962	17,337
Neal Horman	119,308	11,561

- 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."