

**Argyle Security, Inc.**

**dba ISI Security**

**Consolidated Financial Statements - Unaudited**

**Three and Nine Months Ended September 30, 2013**

***The included financial statements and all accompanying information contained herein are confidential and non-public information. Such information has not been made generally available to the public. Those in possession of this information are subject to all state and federal securities laws governing the trading of securities while in possession of material non-public information. The information contained herein may not be duplicated or forwarded to any other party without the prior written consent of Argyle Security, Inc. dba ISI Security. The information contained herein is made only as of September 30, 2013 and neither Argyle Security, Inc. dba ISI Security nor any of its subsidiaries undertakes any obligation to update the information to reflect subsequent events or circumstances.***

**Argyle Security, Inc.**  
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**Consolidated Balance Sheet – Unaudited**  
*(In Thousands)*

September 30, 2013

**Assets**

	<b><u>2013</u></b>
Current assets:	
Cash and cash equivalents	\$ 1,210
Restricted cash	500
Receivables:	
Contract – net of allowance for doubtful accounts of \$402	14,669
Costs and estimated earnings in excess of billings on incomplete contracts	3,205
Inventory	880
Prepays and other current assets	<u>551</u>
Total current assets	<u>21,015</u>
Property and equipment, net	3,494
Intangible assets, net	4,837
Deposits and other assets	<u>273</u>
Total other assets	<u>8,604</u>
	<u><u>\$ 29,619</u></u>

**Argyle Security, Inc.**  
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**Consolidated Balance Sheet - Unaudited**  
*(In Thousands, Except Share Data)*

September 30, 2013

Liabilities and Stockholders' Equity

	<u>2013</u>
Current liabilities:	
Accounts payable and accrued liabilities	\$ 8,197
Billings in excess of costs and estimated earnings on incomplete contracts	4,573
Current portion of capitalized lease obligations	537
Total current liabilities	<u>13,307</u>
Long-term liabilities:	
Interest payable	1,115
Dividends payable	2
Long-term debt – less current portion	4,450
Long-term capitalized lease obligations - less current portion	<u>2,240</u>
Total long-term liabilities	<u>7,807</u>
Total liabilities	<u>21,114</u>
Stockholders' equity:	
Preferred stock of Argyle Security, Inc. - \$.0001 par value; 1,000,000 shares authorized; 659 shares of Series A and 27,273 of Series B issued and outstanding	3,083
Common stock of Argyle Security, Inc. - \$.0001 par value; 89,000,000 shares authorized; 29,381,819 shares issued and 28,446,271 shares outstanding	3
Treasury stock - par value; 935,548 common shares	-
Additional paid in capital	58,257
Accumulated deficit	<u>(52,838)</u>
Total stockholders' equity	<u>8,505</u>
Total liabilities and stockholders' equity	<u>\$ 29,619</u>

**Argyle Security, Inc.**  
**dba ISI Security**

**Consolidated Statements of Operations- Unaudited**  
*(In Thousands)*

Three and Nine Months Ended September 30, 2013

	<u>Three Months Ended September 30, 2013</u>	<u>Nine Months Ended September 30, 2013</u>
Revenues:		
Contract revenues	\$ 14,027	\$ 37,500
Service, manufacturing, and other revenues	4,931	14,731
Total revenues	<u>18,958</u>	<u>52,231</u>
Cost of revenues:		
Contract costs	10,754	30,674
Service, manufacturing, and other costs	3,400	9,944
Total cost of revenues	<u>14,154</u>	<u>40,618</u>
Gross profit	4,804	11,613
Operating expenses:		
Salaries and related expense	2,119	5,827
Professional fees and outside services	136	701
General and administrative expenses	1,074	3,152
Depreciation	234	740
Amortization of intangible assets	239	717
Total operating expenses	<u>3,802</u>	<u>11,137</u>
Operating income	1,002	476
Other income (expense):		
Other	9	45
Interest Expense	(205)	(750)
Earnings in affiliate	1,310	5,726
Total other income	<u>1,114</u>	<u>5,021</u>
Net income before provision for income taxes	2,116	5,497
Provision for income taxes	<u>573</u>	<u>717</u>
Net income	<u>\$ 1,543</u>	<u>\$ 4,780</u>

**Argyle Security, Inc.**  
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Consolidated Statements of Changes in Stockholders' Equity

Nine Months Ended September 30, 2013  
*(In Thousands, Except Share Data)*

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Treasury Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid in</u>	<u>Deficit</u>	<u>Stockholders'</u>
							<u>Capital</u>		<u>Equity</u>
Balance at December 31, 2012	28,446,271	\$ 3	34,696	\$ 7,157	935,548	\$ -	\$ 58,257	\$ (56,015)	\$ 9,402
Net income	-	-	-	-	-	-	-	4,780	4,780
Redemption of preferred stock	-	-	(6,764)	(4,074)	-	-	-	(1,337)	(5,411)
Dividends on preferred stock	-	-	-	-	-	-	-	(266)	(266)
Balance at September 30, 2013	<u>28,446,271</u>	<u>\$ 3</u>	<u>27,932</u>	<u>\$ 3,083</u>	<u>935,548</u>	<u>\$ -</u>	<u>\$ 58,257</u>	<u>\$ (52,838)</u>	<u>\$ 8,505</u>

**Argyle Security, Inc.**  
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**Consolidated Statements of Cash Flows**

Three and Nine Months Ended September 30, 2013  
*(In Thousands)*

	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2013</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,543	\$ 4,780
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Earnings in affiliate	(1,310)	(5,726)
Amortization	239	717
Depreciation	245	773
(Gain) Loss on disposal of asset	3	(35)
Decrease in contract and other receivables	337	2,281
Increase in costs and estimated earnings in excess of billings	(756)	(937)
Increase in inventory and other assets	(496)	(76)
Increase (decrease) in accounts payable and accrued expenses	2,439	(1,179)
Increase (decrease) in billings in excess of costs and estimated earnings	320	(205)
Net cash provided by operating activities	<b>2,564</b>	<b>393</b>
<b>Cash Flows From Investing Activities:</b>		
Investment in affiliate	4,500	7,500
Purchase of property and equipment	(21)	(68)
Net cash provided by investing activities	<b>4,479</b>	<b>7,432</b>
<b>Cash Flows From Financing Activities:</b>		
Restricted cash	1,250	2,500
Repayment on borrowings	(3,000)	(15,512)
Proceeds from borrowings	3,500	13,000
Redemption of Preferred Stock and accrued dividends	(7,501)	(7,501)
Payments on capital lease obligations	(147)	(473)
Net cash used in financing activities	<b>(5,898)</b>	<b>(7,986)</b>
Net increase (decrease) in cash and cash equivalents	<b>1,145</b>	<b>(161)</b>
Cash and cash equivalents at beginning of period	<b>65</b>	<b>1,371</b>
Cash and cash equivalents at end of period	<b>\$ 1,210</b>	<b>\$ 1,210</b>