

Argyle Security, Inc.

dba ISI Security

Consolidated Financial Statements - Unaudited

Three and Six Months Ended June 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 June 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.
dba ISI Security

Consolidated Balance Sheet – Unaudited
(In Thousands, Except Share Data)

June 30, 2013

Assets

	<u>2013</u>
Current assets:	
Cash and cash equivalents	\$ 65
Restricted cash	1,750
Receivables:	
Contract – net of allowance for doubtful accounts of \$428	15,006
Costs and estimated earnings in excess of billings on incomplete contracts	2,448
Inventory	697
Prepays and other current assets	<u>268</u>
Total current assets	<u>20,234</u>
Investment in affiliate	3,190
Property and equipment, net	3,721
Intangible assets, net	5,076
Deposits and other assets	<u>243</u>
Total other assets	<u>12,230</u>
	<u>\$ 32,464</u>

Argyle Security, Inc.
dba ISI Security

Consolidated Balance Sheet - Unaudited
(In Thousands, Except Share Data)

June 30, 2013

Liabilities and Stockholders' Equity

	2013
Current liabilities:	
Accounts payable and accrued liabilities	\$ 5,845
Billings in excess of costs and estimated earnings on incomplete contracts	4,253
Current portion of capitalized lease obligations	564
Total current liabilities	10,662
Long-term liabilities:	
Interest payable	1,028
Dividends payable	2,005
Long-term debt – less current portion	3,950
Long-term capitalized lease obligations - less current portion	2,360
Total long-term liabilities	9,343
Total liabilities	20,005
Stockholders' equity:	
Preferred stock of Argyle Security, Inc. - \$.0001 par value; 1,000,000 shares authorized; 7,423 shares of Series A and 27,273 of Series B issued and outstanding	7,157
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	(52,958)
Total stockholders' equity	12,459
Total liabilities and stockholders' equity	\$ 32,464

Argyle Security, Inc.
dba ISI Security

Consolidated Statements of Operations- Unaudited
(In Thousands)

Three and Six Months Ended June 30, 2013

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Revenues:		
Contract revenues	\$ 12,068	\$ 23,473
Service, manufacturing, and other revenues	4,940	9,801
Total revenues	17,008	33,274
Cost of revenues:		
Contract costs	10,022	19,920
Service, manufacturing, and other costs	3,094	6,546
Total cost of revenues	13,116	26,466
Gross profit	3,892	6,808
Operating expenses:		
Salaries and related expense	1,661	3,709
Professional fees and outside services	237	565
General and administrative expenses	1,123	2,077
Depreciation	238	506
Amortization of intangible assets	239	478
Total operating expenses	3,498	7,335
Operating income (loss)	394	(527)
Other income (expense):		
Other	35	36
Interest Expense	(238)	(545)
Earnings in affiliate	3,581	4,417
Total other income	3,378	3,908
Net income before provision for income taxes	3,772	3,381
Provision for income taxes	94	144
Net income	\$ 3,678	\$ 3,237

Argyle Security, Inc.
dba ISI Security

Consolidated Statements of Changes in Stockholders' Equity

Six Months Ended June 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>Capital</u>	<u>Deficit</u>	<u>Stockholders'</u> <u>Equity</u>
Balance at December 31, 2012	29,381,819	\$ 3	34,696	\$ 7,157	935,548	\$ -	\$ 58,257	\$ (56,015)	\$ 9,402
Net income	-	-	-	-	-	-	-	3,237	3,237
Dividends on preferred stock	-	-	-	-	-	-	-	(180)	(180)
Balance at June 30, 2013	<u>29,381,819</u>	<u>\$ 3</u>	<u>34,696</u>	<u>\$ 7,157</u>	<u>935,548</u>	<u>\$ -</u>	<u>\$ 58,257</u>	<u>\$ (52,958)</u>	<u>\$ 12,459</u>

Argyle Security, Inc.
dba ISI Security

Consolidated Statements of Cash Flows

Three and Six Months Ended June 30, 2013
(In Thousands)

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Cash Flows From Operating Activities:		
Net income	\$ 3,678	\$ 3,237
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Earnings in affiliate	(3,581)	(4,417)
Amortization	239	478
Depreciation	248	528
Gain on disposal of asset	(43)	(37)
(Increase) decrease in contract and other receivables	(842)	1,943
Increase in costs and estimated earnings in excess of billings	(890)	(180)
Decrease in inventory and other assets	221	420
Increase (decrease) in accounts payable and accrued expenses	1,003	(3,619)
Decrease in billings in excess of costs and estimated earnings	(358)	(525)
Net cash used in operating activities	<u>(325)</u>	<u>(2,172)</u>
Cash Flows From Investing Activities:		
Investment in affiliate	1,000	3,000
Purchase of property and equipment	(29)	(46)
Net cash provided by investing activities	<u>971</u>	<u>2,954</u>
Cash Flows From Financing Activities:		
Restricted cash	1,250	1,250
Repayment on borrowings	(4,000)	(12,512)
Proceeds from borrowings	2,100	9,500
Payments on capital lease obligations	(155)	(326)
Net cash used in financing activities	<u>(805)</u>	<u>(2,088)</u>
Net decrease in cash and cash equivalents	(159)	(1,306)
Cash and cash equivalents at beginning of period	224	1,371
Cash and cash equivalents at end of period	<u>\$ 65</u>	<u>\$ 65</u>