

GEORGIA BANCSHARES INC//  
Form DEF 14A  
December 09, 2005  
GEORGIA BANCSHARES, INC.

100 Westpark Drive

Peachtree City, Georgia 30269

(770) 631-9488

December 12, 2005

Dear Shareholder:

You are cordially invited to attend a special meeting of shareholders, which will be held at 4:30 p.m. on January 25, 2006, at our office located at 100 Westpark Drive, Peachtree City, Georgia 30269. I hope that you will be able to attend the meeting, and I look forward to seeing you.

At the meeting, shareholders will vote on a proposed amendment to our articles of incorporation (the "Articles of Amendment"). The Articles of Amendment provide for the reclassification of shares (the "Reclassification") of our common stock held by shareholders who are the record holders of fewer than 1,500 shares of common stock into shares of Series A Preferred Stock, on the basis of one share of Series A Preferred Stock for each share of common stock held by such shareholders. No cash will be paid to shareholders as consideration for their shares only shares of Series A Preferred Stock will be issued. All other shares of common stock will remain outstanding and be unaffected by the Reclassification.

Generally, the Series A Preferred Stock has limited voting rights, dividend and liquidation preferences to our common stock, participates equally with the common stock on a sale or change in control of the Company, and contains a call provision that allows the Company to call the Series A Preferred Stock at a price equal to the greater of the book value of the Series A Preferred Stock, the fair market value of the Series A Preferred Stock or the fair market value of our common stock.

The primary effect of the Reclassification will be to reduce our total number of record holders of common stock to below 300. As a result, we will terminate the registration of our common stock under federal securities laws, which will allow us to realize significant cost savings resulting from the termination of our reporting obligations under the Securities Exchange Act of 1934 (the "Securities Exchange Act").

Our principal reasons for effecting the Reclassification are the estimated direct and indirect cost savings of approximately \$240,000 per year that we expect to experience as a result of the deregistration of our common stock under the Securities Exchange Act. We also believe that while our shareholders will lose the benefits of holding registered stock, such as a reduction in the amount of publicly available information about the Company and the elimination of certain corporate governance safeguards resulting from the Sarbanes-Oxley Act, these benefits are outweighed by the costs relating to the registration of our common stock. These costs and benefits are discussed in more detail in the enclosed proxy statement.

We plan to effect the Reclassification by filing the Articles of Amendment as soon as possible after we obtain shareholder approval to do so. This date will also serve as the record date for determining the ownership of shares for purposes of the Reclassification.

The board of directors has established December 5, 2005 as the record date for determining shareholders who are entitled to notice of the special meeting and to vote on the matters presented at the meeting. Whether or not you plan to attend the special meeting, please complete, sign and date the proxy card and return it in the envelope provided in time for it to be received by January 25, 2006. If you attend the meeting, you may vote in person, even if you have previously returned your proxy card.

The board of directors has determined that the Reclassification is fair to Georgia Bancshares' unaffiliated shareholders and has voted in favor of the approval of the Articles of Amendment. On behalf of the board of directors, I urge you to vote **FOR** approval of the Articles of Amendment.

Sincerely,  
/s/ Ira P. Shepherd, III  
Ira P. Shepherd, III  
President and Chief Executive Officer



**GEORGIA BANCSHARES, INC.**

100 Westpark Drive

Peachtree City, Georgia 30269

(770) 631-9488

**NOTICE OF THE SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON JANUARY 25, 2006**

A special meeting of shareholders of Georgia Bancshares, Inc. will be held at 4:30 p.m. on January 25, 2006, at our office located at 100 Westpark Drive, Peachtree City, Georgia 30269, for the following purposes:

(1) To vote on a proposed amendment to the articles of incorporation (the *Articles of Amendment* ) of Georgia Bancshares, which provides for the reclassification of shares (the *Reclassification* ) of Georgia Bancshares common stock held by shareholders who are the record holders of fewer than 1,500 shares of common stock into shares of Georgia Bancshares Series A Preferred Stock, on the basis of one share of Series A Preferred Stock for each share of common stock held by such shareholders. The text of the Articles of Amendment is set forth in *Appendix A* to the enclosed proxy statement; and

(2) To transact any other business as may properly come before the meeting or any adjournment of the meeting.

**The board of directors recommends that you vote FOR the above proposals.**

The board of directors has set the close of business on December 5, 2005 as the record date for determining the shareholders who are entitled to notice of, and to vote at, the meeting or any adjournment of the meeting.

We hope that you will be able to attend the meeting. We ask, however, whether or not you plan to attend the meeting, that you mark, date, sign, and return the enclosed proxy card as soon as possible. Promptly returning your proxy card will help ensure the greatest number of shareholders are present whether in person or by proxy.

If you attend the meeting in person, you may revoke your proxy at the meeting and vote your shares in person. You may revoke your proxy at any time before the proxy is exercised.

By Order of the Board of Directors,  
/s/ Ira P. Shepherd, III  
Ira P. Shepherd, III  
President and Chief Executive Officer

December 12, 2005

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**GEORGIA BANCSHARES, INC.**

100 Westpark Drive

Peachtree City, Georgia 30269

(770) 631-9488

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**PROXY STATEMENT**

**For the Special Meeting of Shareholders**

**To Be Held on January 25, 2006**

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The board of directors of Georgia Bancshares, Inc. ( Georgia Bancshares or the Company ) is furnishing this proxy statement in connection with its solicitation of proxies for use at a Special Meeting of Shareholders. At the meeting, shareholders will be asked to vote on a proposed amendment to our articles of incorporation (the Articles of Amendment ) providing for the reclassification of certain shares (the Reclassification ) of the Company s common stock into Series A Preferred Stock.

The Reclassification is designed to reduce the number of Georgia Bancshares common shareholders of record to below 300, which will allow us to terminate the registration of our common stock under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act ). The board has determined that it is in the best interests of Georgia Bancshares and our shareholders to effect the Reclassification because the Company will realize significant cost savings as a result of the termination of our reporting obligations under the Securities Exchange Act. The board believes these cost savings and the other benefits of deregistration described in this proxy statement outweigh the loss of the benefits of registration to our shareholders, such as a reduction in publicly available information about the Company and the elimination of certain corporate safeguards resulting from the Sarbanes-Oxley Act.

In the Reclassification, shareholders who are the record holders of fewer than 1,500 shares of Georgia Bancshares common stock, no par value, will receive one share of Georgia Bancshares Series A Preferred Stock, no par value, for each share of common stock they own on the effective date of the Reclassification. No cash will be paid to shareholders as consideration for their shares only shares of Series A Preferred Stock will be issued. All other shares of Georgia Bancshares common stock will remain outstanding and will be unaffected by the Reclassification.

Generally, the Series A Preferred Stock has limited voting rights, dividend and liquidation preferences to our common stock, participates equally with the common stock on a sale or change in control of the Company, and contains a call provision that allows the Company to call the Series A Preferred Stock at a price equal to the greater of the book value of the Series A Preferred Stock, the fair market value of the Series A Preferred Stock or fair market value of our common stock.

This proxy statement provides you with detailed information about the proposed Reclassification. We encourage you to read this entire document carefully.

The board of directors has determined that the Reclassification is fair to Georgia Bancshares unaffiliated shareholders and has approved the Articles of Amendment. The Reclassification cannot be completed, however, unless the Articles of Amendment are approved by the holders of a majority of the votes entitled to be cast on the proposal to approve the Articles of Amendment. The current directors and executive officers of Georgia Bancshares own approximately 30.27% of the outstanding shares, and if they exercise all of their vested warrants and options, they would own 44.21% of the outstanding shares. The directors and executive officers have indicated that they intend to vote their shares in favor of the Articles of Amendment.

**Neither the Securities and Exchange Commission (the SEC ) nor any state securities commission has approved or disapproved the Reclassification or the transactions contemplated thereby or has determined if this proxy statement is truthful or complete. The SEC has not passed upon the fairness or merits of the Reclassification or the transactions contemplated thereby, nor upon the accuracy or**

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**adequacy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.**

**The date of this proxy statement is December 12, 2005. We first mailed this proxy statement to the shareholders of Georgia Bancshares on or about that date.**

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## IMPORTANT NOTICES

Neither our common stock nor our Series A Preferred Stock is a deposit or bank account and is not insured by the Federal Deposit Insurance Corporation (the FDIC ) or any other governmental agency.

We have not authorized any person to give any information or to make any representations other than the information and statements included in this proxy statement. You should not rely on any other information. The information contained in this proxy statement is correct only as of the date of this proxy statement, regardless of the date it is delivered or when the Reclassification is effected.

We will update this proxy statement to reflect any factors or events arising after its date that individually or together represent a material change in the information included in this document.

We make forward-looking statements in this proxy statement that are subject to risks and uncertainties. Forward-looking statements include information about possible or assumed future results of the operations or our performance after the Reclassification is accomplished. When we use words such as believes, anticipates, expects, intends, targeted, and similar expressions, we are making forward-looking statements that are subject to risks and uncertainties. Various future events or factors may cause our results of operations or performance to differ materially from those expressed in our forward-looking statements. These factors include:

- (1) changes in economic conditions, both nationally and in our primary market area;
- (2) changes in governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- (3) the effect of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements;
- (4) the effects of competition from other financial service providers operating in our primary market area and elsewhere; and
- (5) the failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities.

The words we, our, and us, as used in this proxy statement, refer to Georgia Bancshares and its wholly-owned subsidiary, The Bank of Georgia, collectively, unless the context indicates otherwise.

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## SUMMARY TERM SHEET

The following is a summary of the material terms of the Articles of Amendment. This summary is qualified in its entirety by reference to the more detailed information appearing elsewhere in or accompanying this proxy statement, including the financial information and appendices. We urge you to review the entire proxy statement and accompanying materials carefully.

- **Structure of the Reclassification.** The Articles of Amendment provide for the Reclassification of shares of Georgia Bancshares common stock into shares of Series A Preferred Stock. In the Reclassification, shareholders who are the record holders of fewer than 1,500 shares of Georgia Bancshares common stock will receive one share of Series A Preferred Stock for each share of Georgia Bancshares common stock they own on the effective date of the Reclassification. No cash will be paid to shareholders as consideration for their shares only shares of Series A Preferred Stock will be issued. All other shares of Georgia Bancshares common stock will remain outstanding and will be unaffected by the Reclassification.

We selected this structure, as opposed to a transaction in which some of our shareholders would receive cash for their shares, principally because it would enable the Company to conserve capital that could be deployed instead to support future growth and because it presented a means by which all of our shareholders could retain an equity interest in the Company.

See page 34 for additional information.

- **Terms of the Series A Preferred Stock to be Issued in the Reclassification.** Our board has designated 5,000,000 shares of our authorized stock as Series A Preferred Stock. The terms of the Series A Preferred Stock are set forth in Appendix B and provide as follows:

- *Voting Rights.* Unlike the common stock, the Series A Preferred Stock will not have voting rights except under very limited circumstances. Except as provided by law, holders of Series A Preferred Stock are entitled to vote only upon proposals for a business combination resulting in the transfer of a majority of the outstanding common stock or of all or substantially all of the Company's assets (a Change in Control) and upon which holders of our common stock are entitled to vote. For those matters on which holders of Series A Preferred Stock are entitled to vote, such holders have the right to one vote for each share held, and are entitled to receive notice of any shareholders meeting held to act upon such matters in accordance with the bylaws of Georgia Bancshares. When voting on a proposed Change in Control, the holders of Series A Preferred Stock will vote together with the holders of common stock and not as a separate class.

Generally, under Section 14-2-1004 of the Georgia Code, the holders of the Series A Preferred Stock will be entitled to vote as a separate voting group on any future amendments to our articles of incorporation that would adversely affect the designations, rights, preferences or limitations of all or part of the shares of Series A Preferred Stock. However, this section does not apply to the creation of a new series of shares pursuant to the authority reserved to the board of directors under our articles of incorporation.

After the Reclassification, we will have 5,000,000 shares of authorized but unissued preferred stock. Our articles authorize the board, without further action by the holders of our common stock or the Series A Preferred Stock to provide for the issuance of these shares in one or more classes or series and to establish the relative rights, preferences and limitations of each class or series of preferred stock. As a result, after the Reclassification our board, which will be elected by the holders of the common stock, may authorize the issuance of other classes or series of preferred stock or equity securities that rank senior to or on parity with the Series A Preferred Stock.

- *Rank:* The Series A Preferred Stock ranks senior to our common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company. The relative rights and preferences of the Series A Preferred Stock may be subordinated to the relative rights and preferences of holders of subsequent issues of other series or classes of stock and equity securities designated by the board of directors. The Series A Preferred Stock is junior to indebtedness issued from time to time by the Company, including notes and debentures.
- *Dividend Rights:* Holders of Series A Preferred Stock are entitled to a 10% preference in the distribution of dividends, when and if declared and paid by Georgia Bancshares, so that holders of the Series A Preferred shares are entitled to receive dividends in an amount not less than 110% of that paid to common shareholders prior to the receipt of dividends by the holders of common stock. Georgia Bancshares is not required to pay any dividends on the Series A Preferred Stock and has the right to waive the declaration or payment of dividends. Any dividends waived by Georgia Bancshares will not accumulate to future periods and will not represent a contingent liability of Georgia Bancshares.
- *Perpetual Stock:* The Series A Preferred Stock is perpetual stock, which means stock that does not have a maturity date, cannot be redeemed at the option of the holder, and has no other provisions that will require future redemption of the issue.
- *Conversion Rights:* The shares of Series A Preferred Stock automatically convert to shares of common stock upon a Change in Control, with each share of Series A Preferred Stock convertible into one share of common stock.
- *Liquidation Rights:* Holders of Series A Preferred Stock are entitled to a preference in the distribution of assets of Georgia Bancshares in the event of any liquidation, dissolution or winding-up of Georgia Bancshares, whether voluntary or involuntary, equal to the greater of book value per share at the time of payment, the amount per share to be paid to common shareholders, or \$7.75 per share.
- *Preemptive Rights:* Holders of Series A Preferred Stock do not have any preemptive rights to purchase any additional shares of Series A Preferred Stock or shares of any other class of capital stock of Georgia Bancshares that may be issued in the future.
- *Antidilution Adjustments:* If the number of our outstanding shares of common stock are increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or any other company, by reason of any merger, consolidation, liquidation, reclassification, recapitalization, stock split up, combination of shares or stock dividend, an appropriate adjustment shall be made by the board of directors in the number and relative terms of the Series A Preferred Stock.
- *Redemption Rights:* Holders of Series A Preferred Stock have no right to require that Georgia Bancshares redeem their shares.
- *Call Rights:* Georgia Bancshares has the right to repurchase all or any part of the Series A Preferred Stock at any time at a purchase price per share equal to the greater of the book value per share of the Series A Preferred Stock, as determined under generally accepted accounting principles, fair market value per share of the Series A Preferred Stock or fair market value of our common stock. Fair market value is determined reasonably and in good faith by the Company's board of directors, and means the price a third party would pay for the Series A Preferred Stock or common stock as of the applicable valuation date on a per-share basis. Additionally, the call provision provides for an appraisal procedure in the event that the holder of Series A Preferred Stock that is called by the Company disagrees with the board's determination of the fair market value of the Series A Preferred Stock or the common stock.



See page 44 for more information regarding the terms of the Series A Preferred Stock.

- **Series A Preferred Stock Issued in Reliance on Exemption from Registration.** We are issuing the shares of Series A Preferred Stock without registration under the Securities Act of 1933 in reliance on an exemption under Section 3(a)(9) of the Securities Act for the exchange by a company of any security with its existing shareholders exclusively, where no commission or other remuneration is paid or given directly or indirectly for solicitation the exchange. We believe that exemption is available for the Reclassification because we are only issuing the Series A Preferred Stock to our holders of common stock, and to no other persons or entities. Further, we are not paying any commission or other remuneration for soliciting the exchange.
- **Determination of Shares Held of Record.** Because SEC rules require that we count record holders for purposes of determining our reporting obligations, the Reclassification is based on shares held of record without regard to the ultimate control of the shares. A shareholder of record is the shareholder whose name is listed on the front of the stock certificate, regardless of who ultimately has the power to vote or sell the shares. For example, if a shareholder holds separate certificates individually, as a joint tenant with someone else, as trustee, and in an IRA, those four certificates represent shares held by four different record holders, even if a single shareholder controls the voting or disposition of those shares. Similarly, shares held by a broker in street name on a shareholder's behalf are held of record by the broker.

As a result, a single shareholder with 1,500 or more shares held in various accounts could receive Series A Preferred Stock in the Reclassification for all of his or her shares if those accounts individually hold fewer than 1,500 shares. To avoid this, the shareholder may either consolidate his or her ownership into a single form of ownership representing 1,500 or more shares, or acquire additional shares in the market prior to the effective date of the Reclassification. Additionally, a shareholder who holds fewer than 1,500 shares of common stock through a broker may be unaffected by the Reclassification if the broker holds an aggregate of 1,500 or more shares.

- **Effects of the Reclassification.** As a result of the Reclassification:
  - Our number of common shareholders of record, measured as of October 31, 2005, will be reduced from approximately 450 to approximately 210, and the number of outstanding shares of Georgia Bancshares common stock will decrease from approximately 2,977,032 to approximately 2,819,923, resulting in a decrease in the number of shares of our common stock that will be available for purchase and sale in the market;
  - We estimate that approximately 157,109 shares of Series A Preferred Stock will be issued in connection with the Reclassification.
  - We will be entitled to terminate the registration of our common stock under the Securities Exchange Act, which will mean that we will no longer be required to file reports with the SEC or be classified as a public company. This will greatly reduce the amount of information that is publicly available about the Company and will eliminate certain corporate governance safeguards resulting from the Sarbanes-Oxley Act, such as the requirement for an audited report on our internal controls and disclosure requirements relating to our audit committee composition, code of ethics and director nomination process. Additionally, our executive officers, directors and other affiliates will no longer be subject to many of the reporting requirements and restrictions of the Securities Exchange Act, including the reporting and short-swing profit provisions of Section 16, and information about their compensation and stock ownership will not be publicly available;

- We will eliminate the direct and indirect costs and expenses associated with our registration under the Securities Exchange Act, which we estimate will be approximately \$240,000 on an annual basis.
- We estimate that professional fees and other expenses related to the Reclassification will be approximately \$60,000, which we intend to pay with existing working capital.
- Basic earnings per share on a pro forma basis will be increased from \$.66 per share to \$.70 per share for the nine months ended September 30, 2005 and will increase from \$.63 per share to \$.66 per share for the year ended December 31, 2004. Diluted earnings per share will not change from the \$.56 per share for the nine months ended September 30, 2005 and from \$.55 per share for the year ended December 31, 2004 as the Series A Preferred shares will be considered common stock equivalents in the computation of diluted earnings per share.
- Book value per common equivalent share, which includes the Series A Preferred Stock, will decrease on a pro forma basis from \$7.75 to \$7.38 as of September 30, 2005 and will decrease from \$7.10 to \$6.64 as of December 31, 2004.
- The percentage ownership of Georgia Bancshares common stock beneficially owned by its executive officers and directors as a group as of October 31, 2005 will increase from approximately 44.21% to 46.16%.

For a more detailed description of these effects and the effects of the Reclassification on our affiliates and shareholders generally, including those receiving Series A Preferred Stock and those retaining common stock, see pages 16 through 21.

- **Reasons for the Reclassification.** Our principal reasons for effecting the Reclassification are:
  - The direct and indirect cost savings of approximately \$240,000 per year that we expect to experience as a result of the deregistration of our common stock under the Securities Exchange Act and the anticipated decrease in expenses relating to servicing a relatively large number of shareholders holding small positions in our common stock; and
  - Our belief that our shareholders have not benefited proportionately from the costs relating to the registration of our common stock, principally as a result of the thin trading market for our stock.

See page 14 for more detailed information.

- **Fairness of the Reclassification.** Based on a careful review of the facts and circumstances relating to the Reclassification, our board of directors and each of our affiliates believe that the Reclassification and the terms and provisions of the Reclassification and the Series A Preferred Stock are substantively and procedurally fair to our unaffiliated shareholders. Our board of directors unanimously approved the Reclassification and recommends that shareholders vote in favor of the Reclassification.

Our affiliates are listed on page 28 and include all of our directors and executive officers. Because of our affiliates' positions with Georgia Bancshares, each is deemed to be engaged in the Reclassification transaction and has a conflict of interest with respect to the Reclassification because they are in a position to structure the Reclassification in a way that benefits the interests of the affiliates differently from the interests of the unaffiliated shareholders. At present, each of our directors beneficially owns more than 1,500 shares of common stock, and, as a result, they will retain their shares of common stock in the Reclassification. After the Reclassification, we anticipate that our directors and executive officers will beneficially own approximately 46.16% of our outstanding shares. See "Stock Ownership by Affiliates" on page 40 for more information regarding stock owned by our affiliates.



In the course of determining that the Reclassification is fair to and is in the best interests of our unaffiliated shareholders, including both unaffiliated shareholders who will continue to hold shares of common stock as well as those shareholders whose shares of common stock will be reclassified into shares of Series A Preferred Stock, the board and each of our affiliates considered a number of positive and negative factors affecting these groups of shareholders in making their determinations. In connection with its fairness determination, the board did not obtain any appraisal or independent valuation of the Series A Preferred Stock or common stock. The factors considered by the board include

- All shareholders will continue to hold an equity interest in Georgia Bancshares, and no shareholder will be forced to involuntarily liquidate his or her equity interest in Georgia Bancshares;
- The advantages and disadvantages of the rights, preferences and limitations of the Series A Preferred Stock balance in comparison to the relative rights of our common stock;
- The Reclassification will have no effect on diluted earnings per share for the nine months ended September 30, 2005 or the year ended December 31, 2004;
- Book value per common equivalent share will decrease approximately 4.77% from \$7.75 on a historical basis to \$7.38 on a pro forma basis as of September 30, 2005; and
- The Reclassification should not be a taxable event for any shareholders.
- **Effectiveness of the Reclassification.** The Reclassification will not be effected unless and until the Articles of Amendment are approved by the affirmative vote of a majority of Georgia Bancshares' outstanding shares. Based on our number of outstanding shares as of the record date, the Articles of Amendment must be approved by the affirmative vote of 1,488,517 shares. Assuming the shareholders approve the Articles of Amendment, as shortly thereafter as is practicable, Georgia Bancshares will file the Articles of Amendment with the Georgia Secretary of State and thereby effect the Reclassification. We anticipate that the Reclassification will be effected shortly after our special meeting of shareholders. See pages 32 and 34 for more detailed information.
- **Effect of the Reclassification on Outstanding Options and Warrants.** Outstanding options and warrants will not be affected by the Reclassification. See page 34 for more information.

**Dissenters' Rights.** Georgia Bancshares shareholders are not entitled to dissent from the Reclassification under Article 13 of the Georgia Business Corporation Code (the "Georgia Code").

**QUESTIONS AND ANSWERS**

**Q: Why did you send me this proxy statement?**

A: We sent you this proxy statement and the enclosed proxy card because our board of directors is soliciting your votes for use at our special meeting of shareholders.

This proxy statement includes all of the information that is required and necessary in order for you to cast an informed vote at the meeting. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We first sent this proxy statement, notice of the special meeting and the enclosed proxy card on or about December 12, 2005 to all shareholders entitled to vote. The record date for those entitled to vote is December 5, 2005. On that date, there were 2,977,032 shares of our common stock outstanding. Shareholders are entitled to one vote for each share of common stock held as of the record date.

**Q: What is the time and place of the special meeting?**

A: The special meeting will be held on January 25, 2006, at our office at 100 Westpark Drive, Peachtree City, Georgia 30269, at 4:30 p.m. Eastern Time.

**Q: Who may be present at the special meeting and who may vote?**

A: All holders of our common stock may attend the special meeting in person. However, only holders of our common stock of record as of December 5, 2005 may cast their votes in person or by proxy at the special meeting.

**Q: What is the vote required?**

A: The proposal to approve the Articles of Amendment must receive the affirmative vote of the holders of a majority of the votes entitled to be cast. If you do not vote your shares, either in person or by proxy, or if you abstain from voting on the proposal, it has the same effect as if you voted against the proposal to approve the Articles of Amendment. In addition, if your shares are held in a brokerage account and you do not instruct your broker on how to vote on the proposal, your broker will not be able to vote for you. This will have the same effect as a vote against the proposal to approve the Articles of Amendment.

**Q: What is the recommendation of our board of directors regarding the proposals?**

A: Our board of directors has determined that the Articles of Amendment are fair to our unaffiliated shareholders, both those retaining their common stock and those receiving Series A Preferred Stock, and that approval is advisable and in the best interests of Georgia Bancshares and each of these constituent groups. Our board of directors has therefore approved the Articles of Amendment and all transactions contemplated thereby and recommends that you vote FOR approval of the Articles of Amendment.

**Q: What do I need to do now?**

A: Please sign, date, and complete your proxy card and promptly return it in the enclosed, self-addressed, prepaid envelope so that your shares can be represented at the special meeting.

**Q: May I change my vote after I have mailed my signed proxy card?**

A: Yes. Just send by mail a written revocation or a new, later-dated, completed and signed proxy card before the special meeting, or attend the special meeting and vote in person. You may not change your vote by facsimile or telephone.





**Q: If my shares are held in street name by my broker, how will my shares be voted?**

A: Following the directions that your broker will mail to you, you may instruct your broker how to vote your shares. If you do not provide any instructions to your broker, your shares will not be voted on the proposal to approve the Articles of Amendment.

**Q: Will my shares held in street name or another form of record ownership be combined for voting purposes with shares I hold of record?**

A: No. Because any shares you may hold in street name will be deemed to be held by a different shareholder from any shares you hold of record, any shares so held will not be combined for voting purposes with shares you hold of record. Similarly, if you own shares in various registered forms, such as jointly with your spouse, as trustee of a trust, or as custodian for a minor, you will receive, and will need to sign and return, a separate proxy card for those shares because they are held in a different form of record ownership. Shares held by a corporation or business entity must be voted by an authorized officer of the entity, and shares held in an IRA must be voted under the rules governing the account.

**Q: If I am receiving Series A Preferred Stock in the Reclassification, when will I get my stock?**

A: After the special meeting and the closing of the transaction, we will mail you instructions on how to exchange your Georgia Bancshares common stock certificate(s) for Series A Preferred Stock. After you sign the forms provided and return your stock certificate(s), we will send you your Series A Preferred Stock.

**Q: I don't know where my stock certificate is. How will I get my Series A Preferred Stock?**

A: The materials we will send you will include an affidavit that you will need to sign attesting to the loss of your certificate. We may require that you provide a bond to cover any potential loss to Georgia Bancshares.

**Q: Will I have dissenters' rights in connection with the Reclassification?**

A: Dissenters' rights are not available in connection with the Reclassification.

**Q: What if I have questions about Reclassification or the voting process?**

A: Please direct any questions about the Reclassification or the voting process to our Chief Financial Officer, C. Lynn Gable, at our main office located at 100 Westpark Drive, Peachtree City, Georgia 30269, telephone (770) 631-9488.

## SPECIAL FACTORS

### Purpose of the Reclassification

The primary purpose of the Reclassification is to enable us to terminate the registration of our common stock under Section 12(g) of the Securities Exchange Act. Although we intend to keep our common and Series A Preferred shareholders informed as to our business and financial status after the Reclassification, we anticipate that deregistration will enable us to save significant legal, accounting and administrative expenses relating to our public disclosure and reporting requirements under the Securities Exchange Act. As a secondary matter, it is likely to decrease the administrative expense we incur in connection with soliciting proxies for routine annual meetings of shareholders because the Series A Preferred Stock will have limited voting rights.

After the Reclassification, we intend to keep our common and Series A Preferred shareholders informed about our business and financial condition by delivering annual audited financial statements and quarterly unaudited financial statements to them. Although Georgia law only requires that we deliver annual financial statements to shareholders upon written request, we intend to continue to deliver annual audited financial statements to all shareholders. We also plan to post these financial statements on our website, which also contains other information about our business. Moreover, our business operations are primarily conducted through our banking subsidiary, The Bank of Georgia, which is required to file quarterly financial reports with the FDIC. These reports are available online at [www.fdic.gov](http://www.fdic.gov).

Although we will still be required to file quarterly financial information with the FDIC and will still provide annual audited and interim unaudited financial information to our shareholders, as a non-SEC registered company our auditing expenses will decrease significantly because we and our auditors will not be required to comply with standards prescribed by the SEC and the Public Company Accounting Oversight Board with respect to our audit and because our auditors will not be required to review the information we must include in our periodic SEC reports as described more fully below. Our other reporting processes will also be significantly simplified because we will no longer be required to comply with disclosure and reporting requirements under the Securities Exchange Act and the Sarbanes-Oxley Act. These requirements include preparing and filing current and periodic reports with the SEC regarding our business, financial condition, board of directors and management team, having these reports reviewed by outside counsel and independent auditors, and, for the year ended December 31, 2007, documenting, testing and reporting on our internal control structure.

In particular, as a private company, we will no longer be required to file annual reports on Form 10-K, quarterly reports on Form 10-Q or proxy statements with the SEC. The Form 10-K and proxy statement rules require detailed disclosures regarding executive compensation, corporate governance and management stock ownership, which are not required in our financial reports to the FDIC or our audited financial statements. Additionally, we will no longer be required to include management's discussion and analysis of our financial results in annual reports to shareholders or financial reports to the FDIC. Currently, our external auditors perform detailed reviews of management's discussion and analysis of our financial results to assure consistency with audited financial statements and to ensure we are in compliance with applicable disclosure requirements.

We also incur substantial costs in management time and legal and accounting fees related to the preparation, review and filing of our periodic reports and proxy statements. Unlike the periodic reports that we currently file with the SEC, the quarterly financial information that we file with the FDIC does not require the review of either our independent accountants or legal counsel. As a result of the elimination of the disclosure and reporting requirements under the Securities Exchange Act, we estimate that we will save approximately \$35,000 per year in management time and \$55,000 per year in legal and accounting fees.

Furthermore, as a private company, we will not be required to comply with Section 404 of the Sarbanes-Oxley Act, which would require that we document, test and assess our internal control structure and that our external auditors report on management's assessment of our internal control structure. These requirements would become effective for our fiscal year ending 2007. As a result of our limited personnel resources, we anticipate that we would need to engage an outside consultant to assist management in documenting and testing our internal control structure. Additionally, we estimate that our external audit fees will increase as a result of Section 404 because our external auditors will be required to perform additional audit procedures in order to report on management's assessment of our internal control structure. We also anticipate we would incur additional legal fees for advice related to compliance with Section 404. We estimate that we would incur approximately \$110,000 annually in consulting, compensation, accounting and legal expenses related to compliance with Section 404 of the Sarbanes-Oxley Act, plus a one-time fiscal 2006 fee of approximately \$30,000 for initial consultation activities in these areas. If our SEC reporting obligations cease prior to the effective date of Section 404 of the Sarbanes-Oxley Act, we will not need to incur these expenses.

Additionally, we are currently required to file proxy statements and periodic reports electronically with the SEC through the SEC's Edgar filing system. We incur substantial expense in converting documents to be filed with the SEC into an Edgar format. By terminating our reporting requirements with the SEC, we will be able to save approximately \$6,000 per year in costs related to preparing documents for filing via the Edgar system. We also expect to save approximately \$34,000 annually in administrative costs related to soliciting proxies for routine annual meetings, including printing and mailing costs and transfer agent fees related to the proxy solicitation.

We are required to comply with many of the same securities law requirements that apply to large public companies with substantial compliance resources. Our resources are more limited, however, and these compliance activities represent a significant administrative and financial burden to a company of our relatively small size and market capitalization. We also incur less tangible but nonetheless significant expenditure of management's time and attention that could otherwise be deployed toward revenue-enhancing activities.

In summary, our estimated cost of compliance with the Securities Exchange Act and the Sarbanes-Oxley Act is substantial, representing an estimated direct and indirect annual cost to us of approximately \$240,000 with the expected effect of Section 404 of the Sarbanes-Oxley Act. Our anticipated cost savings are also summarized under "Reasons for the Reclassification" on page 14.

As of October 31, 2005, Georgia Bancshares had approximately 450 common shareholders of record, but approximately 94.72% of the outstanding shares as of that date were held by approximately 210 shareholders. Additionally, of our 450 common shareholders, approximately 240 shareholders each hold fewer than 1,500 shares, or an aggregate of approximately 5.28% of our outstanding common stock as of October 31, 2005. While our common stock is traded via the Over-the-Counter Bulletin Board, trading is infrequent, and the trading volume is low. As a result, there is a limited market for our common stock and the board of directors believes there is little likelihood that a more active market will develop. However, because we have more than 300 shareholders of record and our common stock is registered under Section 12(g) of the Securities Exchange Act, we are required to comply with the disclosure and reporting requirements under the Securities Exchange Act and the Sarbanes-Oxley Act of 2002.

In light of the limited market for our common stock, we believe the termination of our status as an SEC-registered company will not have a significant impact on any future efforts by the Company to raise additional capital or to acquire other business entities. We believe the Reclassification will provide a more efficient means of using our capital to benefit our shareholders by allowing us to save significant administrative, accounting, and legal expenses incurred in complying with disclosure, reporting and compliance requirements described above. Moreover, we believe that our limited trading market and the

resulting inability of our shareholders to realize the full value of their investment in our common stock through an efficient market has resulted in little relative benefit for our shareholders as compared to the costs of maintaining our registration.

Additionally, the Reclassification will give all of our shareholders the opportunity to retain an equity interest in Georgia Bancshares and therefore to participate in any future growth and earnings of the Company and in any future value received as a result of the sale of the Company. Although the Company will have the right to call the Series A Preferred Stock at any time, the Company currently has no intention of exercising its call option. Additionally, the Series A Preferred Stock is callable at a price per share equal to the greater of the book value of the Series A Preferred Stock, the fair market of the Series A Preferred Stock or the fair market value of our common stock, determined in each case at the time the call right is exercised. Therefore, holders of Series A Preferred Stock that may be called by the Company will receive no less than the fair market value of the common stock for their shares of Series A Preferred Stock if called in the future. See **Call Rights** on page 45 for more information regarding the Series A Preferred Stock call provision.

#### **Alternatives Considered**

In making our determination to proceed with the Reclassification, we considered other alternatives. We rejected these alternatives because we believed the Reclassification would be the simplest and most cost-effective manner in which to achieve the purposes described above. These alternatives included:

**Cash-Out Merger.** The board considered the reorganization of the Company through a merger with a new corporation formed solely to effect a reorganization. In a cash-out merger, shareholders owning fewer than 1,500 shares of Georgia Bancshares common stock would have received cash equal to the fair value of the common stock in exchange for their shares, and all other shares of Georgia Bancshares common stock would have remained outstanding. Accordingly, a cash-out merger would not necessarily offer all shareholders an opportunity to retain an equity interest in the Company, to participate in future growth and earnings of the Company, or to benefit from any future value received as a result of the sale of the Company. While shareholders could consolidate their accounts or acquire sufficient shares to exceed the 1,500-share threshold in order to retain an equity interest in the Company, the board preferred to structure a transaction that would allow shareholders to retain an equity interest without being required to pay for additional shares or consolidate their holdings in a way that might not otherwise be advantageous for them. The board also recognized that the terms of the Series A Preferred Stock provide that the Company may call the Series A Preferred Stock at any time, which would deprive the holders of any shares that may be called of their equity interests in the Company. However, since the Company has no present intention of calling the Series A Preferred Stock, the board believed the Reclassification provided a better opportunity, at least in the short term, for all shareholders to retain their equity interests in the Company. Further, the receipt of cash in exchange for shares of common stock would generally result in a negative tax consequence for those shareholders receiving cash.

Additionally, based on the number of shares held by shareholders holding fewer than 1,500 shares of record, management estimated that a cash-out merger could have cost up to \$2.7 million. As a result, the board anticipated that the Company would have to incur debt to finance such a reorganization, which could potentially weaken the Company's regulatory capital position. The board believes it is important to maintain a strong capital position in order to support the Company's anticipated future growth.

Based on the foregoing reasons, the board rejected this alternative.

**Reverse Stock Split.** We considered declaring a reverse stock split at a ratio of 1-for-1,500, with cash payments to shareholders who would hold less than one share on a post-split basis. This alternative would also have the effect of reducing the number of shareholders, but would require us either to account for outstanding fractional shares after the transaction, engage in a forward stock split at the reverse split ratio,

or pay cash to shareholders holding any resulting fractional shares. The estimated cost of this alternative was approximately the same as the cash-out merger. This alternative would have also required the Company to incur debt to finance the repurchase of shares. A reverse stock split also would not have offered all shareholders an opportunity to retain an equity interest in Georgia Bancshares. Accordingly, a reverse stock split was rejected for the same reasons as the cash-out merger alternative, as well as administrative inconvenience and potential additional cost involved in issuing or eliminating fractional shares as described above.

**Issuer Tender Offer.** We also considered an issuer tender offer to repurchase shares of our outstanding common stock. The results of an issuer tender offer would be unpredictable, however, due to its voluntary nature. We were uncertain as to whether this alternative would result in shares being tendered by a sufficient number of shareholders so as to result in our common stock being held by fewer than 300 shareholders of record. Additionally, if a sufficient number of shares were tendered, we estimate the cost of this alternative would be approximately the same as the cash-out merger. Therefore, this alternative also would require the Company to incur debt to finance the repurchase of the tendered shares. As a result, we also rejected this alternative.

**Expense Reductions in Other Areas.** While we might be able to offset the expenses relating to SEC registration by reducing expenses in other areas, we have not pursued such an alternative because there are no areas in which we could achieve comparable savings without adversely affecting a vital part of our business or impeding our opportunity to grow. Our most significant area of potential savings would involve personnel costs, and we are already thinly staffed. We believe the expense savings a reclassification would enable us to accomplish will not adversely affect our ability to execute our business plan, but will instead position us to execute it more efficiently. For these reasons, we did not analyze cost reductions in other areas as an alternative to the Reclassification.

**Business Combination.** We have neither sought nor received any proposals from third parties for any business combination transactions such as a merger, consolidation, or sale of all or substantially all of our assets. Our board did not seek any such proposals because these types of transactions are inconsistent with the narrower purpose of the proposed transaction, which is to discontinue our SEC reporting obligations. The board believes that by implementing a deregistration transaction, our management will be better positioned to focus its attention on our customers and the communities in which we operate and expenses will be reduced.

**Maintaining the Status Quo.** The board considered maintaining the status quo. In that case, we would continue to incur the significant expenses, as outlined below, of being an SEC-reporting company without the expected commensurate benefits. Thus, the board considered maintaining the status quo not to be in the best interests of the Company or its unaffiliated shareholders.

#### **Background of the Reclassification**

We have filed reports under the Securities Exchange Act since 2002. These reports include annual, quarterly and current reports analyzing our business, financial condition, results of operations and management structure; ongoing reports regarding insiders transactions and potential short swing profit liability; and proxy statements disclosing information about our directors and officers, their compensation and our corporate governance process. We are also required to comply with the Sarbanes-Oxley Act, which governs our activities in a variety of areas, including disclosure and internal controls, internal and external audit relationships, and the duties and qualifications of our board committees. While we have complied with these requirements and believe they are generally beneficial to our shareholders, our compliance costs have increased each year, while our already limited personnel resources have remained essentially constant. In an effort to contain these increasing costs, many compliance tasks that had been performed by counsel were assumed by management. We anticipate further increases in compliance costs as result of the

detailed report of our internal controls that we will be required to file for fiscal year 2007 under Section 404 of the Sarbanes-Oxley Act. See Reasons for the Reclassification below.

We began to analyze the increased internal control requirements under Section 404 of the Sarbanes-Oxley Act in April of 2004. Under the regulations in effect at that time, we were required to prepare a report of our internal controls for fiscal year 2005 and therefore needed to prepare for compliance with Section 404. As a result of discussions with our internal and external auditors, we began preliminary documentation of our internal control procedures at that time.

Our chief financial officer, Lynn Gable, again met with our internal and external auditors in November of 2004 to obtain further guidance regarding Georgia Bancshares' strategy for implementing the procedures required by Section 404. Our external auditors, Porter Keadle Moore, LLP, provided a sample manual to Mr. Gable regarding the implementation of the required procedures. At this time, we revised our approach to documenting our internal controls to comply with the guidance of our external auditor and began to focus on the costs of implementing the procedures.

On December 13, 2004, our president and chief executive officer, Pat Shepherd, and Mr. Gable attended a going private seminar. At the seminar, Mr. Shepherd and Mr. Gable gathered information regarding the general advantages and disadvantages of becoming a private company. The advantages summarized included:

- the potential resulting savings in legal, audit, consulting and administrative costs;
- the elimination of SEC, and particularly Section 404 internal control, reporting requirements;
- the related savings in management and staff time spent in SEC compliance activities;
- the increased flexibility provided for corporate governance and management activities; and
- the reduction in CEO and CFO liability for SEC report certification.

The disadvantages summarized included:

- the legal, accounting, financial advisory and other transaction costs associated with such a transaction;
- the capital cost of repurchasing shares;
- the resulting reduction in liquidity for the outstanding stock;
- the inability to use the company's stock as acquisition currency; and
- the loss of access to the public capital markets.

The alternatives presented included an issuer tender offer, reverse stock split and cash-out merger, but did not include a reclassification transaction.

On the following day, Mr. Gable requested a shareholder list from our transfer agent so that he could begin to analyze our number of record shareholders and identify the threshold necessary to reduce our number of record shareholders below 300 while allowing an appropriate margin for expansion of the shareholder base through option exercises and other potential stock issuances. He performed this analysis during the remainder of December 2004 and early January 2005 and in the process determined that a 1,500-share threshold would enable us to reduce our number of record shareholders to approximately 245.

In January 2005, Mr. Gable discussed the overall savings related to terminating our registration under the Securities Exchange Act with our external auditors and outside counsel. Based on these discussions, he prepared an estimate of the net savings that we could realize from going private. The preliminary estimate





indicated that our overall expense savings would be approximately \$221,000 per year. See [Reasons for the Reclassification](#) for more specific information regarding the types of expenses considered.

On January 27, 2005, our board of directors held a strategic planning session. At this planning session, Messrs. Shepherd and Gable introduced the concept of going private to the board of directors. The board of directors reviewed the potential future savings associated with going private as well as the number of shareholders (approximately 220) that would need to be cashed out in order to go private. After discussion, the board of directors decided not to pursue a going private transaction despite the potential cost savings because the board did not want to force shareholders to liquidate their equity interests in Georgia Bancshares in order to go private.

On March 9, 2005, Messrs. Shepherd and Gable received a client alert from our counsel that discussed reclassifying shares of a public company's common stock as a means of reducing the number of record holders of common stock below 300. The client alert stated that such a reclassification could result in a reduction in the number of the Company's record holders of common stock sufficient to allow the Company to go private and allow all shareholders to retain their equity interests in the Company. Shortly after receipt, Mr. Gable contacted counsel to discuss the elements of a reclassification transaction in more detail.

At our regular board meeting on March 17, 2005, counsel made a presentation to the board of directors regarding the structure and potential terms of a reclassification transaction. The presentation focused on the principal differentiating factors that would be necessary to incorporate into the new class of stock, including voting and dividend differences, a liquidation preference, and possible restrictions on transfer. After the presentation, the board of directors formed a special committee that was authorized and directed to consider whether a reclassification transaction presented a viable alternative means of going private, particularly with respect to potential shareholder reaction, transaction and capital costs, effects on the liquidity of the stock and administrative issues relating to the ongoing maintenance of two separate classes of stock. The full board retained the authority to consider the terms of the new class of stock, the appropriate threshold for the exchange, and all other aspects of the transaction. The board of directors appointed Dale Geeslin, Robert Hancock, Donnie Russell and Mr. Shepherd to the special committee.

On April 11, 2005, the special committee met to review and analyze the issues described above. In the committee's view, the capital cost savings represented by the transaction and the opportunity for shareholders to retain an equity interest in our company outweighed the potential loss of liquidity and administrative inconvenience that could result from a reclassification. As a result, the special committee resolved to recommend the reclassification to the board of directors.

On April 21, 2005, the special committee recommended a reclassification transaction to the board of directors. After discussion, the board of directors authorized Mr. Gable to request counsel to prepare proposed preferred stock terms for consideration by the full board.

On June 1, 2005, counsel submitted to Mr. Gable a summary of proposed preferred stock terms. The proposed terms were based on terms of preferred stock issued in similar going-private transactions and were identical to those of the Series A Preferred Stock described in this proxy statement except that the call provision was not included. On June 16, 2005, the board approved a reclassification on the proposed terms, with holders of fewer than 1,500 shares of our common stock receiving preferred stock in the transaction.

On June 24, 2005, counsel discussed with Mr. Gable the possibility of incorporating a call provision in the preferred stock as a means of ensuring that the number of registered holders does not exceed the threshold required for SEC registration of the preferred stock. Counsel proposed a call provision in the form contained in the Series A Preferred Stock terms for management's consideration. Messrs. Shepherd

and Gable reviewed the proposed terms during the course of the following week and notified counsel that they favored the call provision as proposed and that they would present it to the board of directors as an added feature of the preferred stock to be issued in the reclassification.

On July 21, 2005, the board met to consider the reclassification transaction and the terms of the Series A Preferred Stock as described in this proxy statement. The board discussed and affirmed the substantive and procedural fairness of the terms of the reclassification to unaffiliated shareholders receiving Series A Preferred Stock and to those retaining common stock. In addition, the board confirmed the 1,500-share threshold for conversion of common stock to preferred stock and approved amendments to our articles of incorporation establishing the terms of the preferred stock and setting forth the terms of the reclassification.

At the July 21, 2005 meeting, the board also reviewed a letter to our shareholders describing the proposed transaction. On July 29, 2005, we mailed a letter to our shareholders announcing our intent to effect the reclassification on the terms described in this proxy statement.

In September of 2005, management conducted further analysis of the net savings that the Company will likely realize from the Reclassification. Based on the increased expenses of filing our Annual Report on Form 10-K for the year ended December 31, 2004 and preparing the proxy statement for our 2005 Annual Meeting of shareholders, particularly in the areas of printing costs and management and staff time, we estimated the net annual savings that the Company will realize from going private to be \$240,000.

#### Reasons for the Reclassification

As described above in Purpose of the Reclassification, the Reclassification will allow us to save significant costs related to the preparation, review and filing of our periodic reports and annual proxy statement. We also expect to experience savings related to Edgar conversion costs and proxy solicitation costs, including printing and mailing costs. We expect printing and mailing costs to be lower because financial and proxy statements that we deliver to shareholders after the Reclassification will not include many of the disclosures required under the proxy or periodic reporting rules, such as disclosures regarding executive compensation, corporate governance and management ownership, and management's discussion and analysis of our financial results. Additionally, we plan to deregister before we are required to take substantial steps toward compliance with Section 404 of the Sarbanes-Oxley Act so that we will save additional anticipated costs related to documenting, testing and reporting on our internal control structure.

We estimate that we will save up to approximately \$240,000 per year in the areas listed in the tables below as a result of the reduction in the number of common shareholders and the elimination of registration of our common stock under the Securities Exchange Act. This estimate includes anticipated annual costs related to compliance with Section 404 of the Sarbanes-Oxley Act, which, at the time we made our decision to pursue the Reclassification, would have been effective for our fiscal year ending December 31, 2006. Since the time we approved the Reclassification, the SEC has extended the deadline for compliance with Section 404 by Georgia Bancshares and similar companies to the fiscal year ending December 31, 2007.

We expect to save the following fees and expenses related to the preparation, review and filing of periodic reports on Form 10-K and Form 10-Q and annual proxy statements:

Legal Fees	\$ 30,000
Independent Auditor Fees	25,000
Edgar Conversion Costs	6,000
Proxy Solicitation, Printing and Mailing Costs	34,000
Management and Staff Time	35,000
Total Periodic Reporting Costs	\$ 130,000

We expect to save the following annual fees and expenses related to compliance with the requirements under Section 404 of the Sarbanes Oxley Act. We anticipate that we would incur the bulk of these fees beginning in fiscal 2007. In addition to these fees, we anticipate that we will not be required to pay an additional one-time fiscal 2006 fee of approximately \$30,000 for initial Section 404 consulting fees.

Annual Consulting Fees	\$ 10,000
Legal Fees	10,000
Independent Auditor Fees	60,000
Indirect Management and Staff Time	30,000
Total Section 404 Compliance Costs	\$ 110,000
<b>Total Estimated Annual Savings</b>	<b>\$ 240,000</b>

As is noted above, we incur substantial indirect costs in management time spent on securities compliance activities. Although it is impossible to quantify these costs specifically, we estimate that our management and staff currently spend an average of approximately 20% of their time (equating to approximately 14 days per quarter) on activities directly related to compliance with federal securities laws, such as preparing and reviewing SEC-compliant financial statements and periodic reports, maintaining and overseeing disclosure and internal controls, monitoring and reporting transactions and other data relating to insiders' stock ownership, and consulting with external auditors and counsel on compliance issues. In addition, if we do not deregister our common stock, we estimate our management and staff will spend an additional 12 days per quarter, or 17% of their time, on activities related to compliance with Section 404 of the Sarbanes-Oxley Act.

Our common stock is not listed on an exchange and has historically been very thinly traded on the Over-the-Counter Bulletin Board (the OTCBB). When we went public in 2002, we intended to apply to list our common stock on the Nasdaq Stock Market at a future time, assuming we could then meet Nasdaq's listing standards and that such a listing would be in our best interests. Although we subsequently grew to the degree necessary to meet the listing standards, we determined that listing our common stock on Nasdaq or another exchange would not, in itself, increase the liquidity of our stock. To accomplish that goal, the listing would need to be coupled with a follow-on offering, stock split or other transaction that would increase the number of unrestricted shares available to be traded. Because an offering would result in dilution of our existing shareholders' interests and a stock split would decrease the market price per share of our stock without expanding our shareholder base, we elected not to pursue these alternatives and to focus on building shareholder value through organic growth, expense savings, and other means of improving our profitability.

In addition, the OTCBB has provided an automated quotation service for our stock at no cost to us, as compared to the \$100,000 Nasdaq entry fee and the \$20,000 annual fee thereafter. Furthermore, the Nasdaq Stock Market would limit our flexibility in a variety of areas, including the composition and activities of our board of directors and committees thereof, interactions with our independent auditors, the executive compensation process and other aspects of corporate governance. We anticipate that the common stock and the preferred stock will continue to trade on the OTCBB after the reclassification has been completed, and believe this represents the best balance of costs and benefits for us and our shareholders in view of our strategic objectives. In addition, we do not enjoy sufficient market liquidity to enable our shareholders to trade their shares easily and do not have sufficient liquidity in our common stock to enable us to use it as potential acquisition currency.

### Effects of the Reclassification on Georgia Bancshares

The Reclassification is designed to reduce the number of Georgia Bancshares common shareholders of record below 300, which will allow us to terminate the registration of our common stock under the Securities Exchange Act. Based on information as of October 31, 2005, we believe that the Reclassification will reduce our number of common shareholders of record from approximately 450 to approximately 210. We estimate that approximately 157,109 shares held by approximately 240 common shareholders of record will be exchanged for Series A Preferred Stock in the Reclassification and that approximately 2,819,923 shares of our common stock will be issued and outstanding after the Reclassification. In addition to the exchange of shares of our common stock for shares of our Series A Preferred Stock, we believe the Reclassification will have the following effects on Georgia Bancshares:

#### Positive Effects

- **Elimination of Securities Exchange Act Registration.** After the Reclassification, our common stock will not be registered under the Securities Exchange Act, nor will we be subject to the periodic reporting requirements or the proxy rules under the Securities Exchange Act. Additionally, we will maintain our existing internal control procedures and continue to evaluate them for potential improvements but will not be required to document, test and report on our internal control structure as required by Section 404 of the Sarbanes-Oxley Act. We expect to eliminate direct and indirect costs and expenses associated with the Securities Exchange Act registration, which we estimate would be up to approximately \$240,000 on an annual basis, including costs related to compliance with Section 404 of the Sarbanes-Oxley Act. Additionally, as a non-SEC reporting company, we believe our management team, which currently spends a significant amount of time on activities related to compliance with the Securities Exchange Act, will have significantly more time to devote to business development and revenue-enhancing activities. See

Background of the Reclassification on page 11 and Reasons for the Reclassification on page 14 for a discussion of the nature of the information we will no longer be required to provide.

- **Earnings Per Share.** Basic earnings per share will increase 6.06% from \$.66 per share on a historical basis to \$.70 per share on a pro forma basis for the nine months ended September 30, 2005, and will increase 4.76% from \$.63 per share on a historical basis to \$.66 per share on a pro forma basis for the year ended December 31, 2004. Diluted earnings per share will not change from \$.56 per share for the nine months ended September 30, 2005 or from \$.55 per share for the year ended December 31, 2004 because the Series A Preferred shares will be considered common stock equivalents in the computation of diluted earnings per share.

- **Outstanding Stock Options.** The Reclassification will have no effect on outstanding options to purchase Georgia Bancshares common stock.

- **Elimination of Liability Under Section 18 of the Securities Exchange Act.** Because the Company will no longer be required to file any reports under the Securities Exchange Act, it will no longer be subject to liability under Section 18 of the Securities Exchange Act. Generally, Section 18 provides that if the Company makes a false or misleading statement with respect to any material fact in any of its filings pursuant to the Securities Exchange Act, in light of the circumstances at the time the statement was made, the Company will be liable to any person who purchases or sells a security at a price that is affected by the statement.

Negative Effects:

- **Effect on Market for Shares.** Our common stock is currently traded on the Over-the-Counter Bulletin Board. After the Reclassification, both the common stock and the Series A Preferred Stock will be traded on the Over-the-Counter Bulletin Board. The public information concerning Georgia Bancshares as a result of its not being required to file reports under the Securities Exchange Act may adversely affect the already limited liquidity of our common stock and result in limited liquidity for our Series A Preferred Stock. Additionally, the liquidity of the common stock may also be reduced because the number of shares available to be traded will decrease after the Reclassification. A decrease in the market liquidity for the shares of Georgia Bancshares common stock may cause a decrease in the value of the shares. Conversely, however, the more limited supply of Georgia Bancshares common stock could also prompt a corresponding increase in its market price, assuming a stable or increased demand for the stock.
- **Book Value Per Common Equivalent Share.** Book value per common equivalent share, which includes the Series A Preferred Stock, will decrease 4.77% from \$7.75 on a historical basis to \$7.38 on a pro forma basis as of September 30, 2005.
- **Financial Effects of the Reclassification.** We estimate that professional fees and other expenses related to the transaction will total approximately \$60,000. We plan to pay these fees and expenses out of our existing working capital and do not expect that the payment of these expenses will have a material adverse effect on our capital adequacy, liquidity, results of operations or cash flow. You should read the discussion under Approval of the Articles of Amendment Source of Funds and Expenses on page 36 for a description of our source of funds for the fees and expenses we expect to incur in connection with the transaction.
- **Elimination of Protection Under Section 16 of the Securities Exchange Act.** Because neither our common stock nor Series A Preferred Stock will be registered under the Securities Exchange Act, beginning 90 days after the effectiveness of the Reclassification, the Company will no longer be entitled under Section 16 of the Securities Exchange Act to any short-swing profits realized by its directors, officers or 10% shareholders on purchases and sales of the Company's securities that occur within a six-month period.

Other Effects:

- **Conduct of Business After the Reclassification.** We expect our business and operations to continue as they are currently being conducted and, except as disclosed below, the transaction is not anticipated to have any effect upon the conduct of our business.
- **Raising Additional Capital and Obtaining Financing After the Reclassification.** In light of the limited market for our common stock and the availability of capital from sources other than public markets, we believe the termination of our status as an SEC-registered company will not have a significant impact on any future efforts by the Company to raise additional capital. If we need to raise additional capital to support growth in the future, we have several financing alternatives that will not be affected by our status as a private company, including raising additional equity through private offerings, issuing trust preferred securities or borrowing funds from a correspondent bank.
- **Plans or Proposals.** Other than as described in this proxy statement, we do not have any current plans or proposals to effect any extraordinary corporate transaction such as a merger, reorganization or liquidation; to sell or transfer any material amount of our assets; to change our board of directors or management; to change materially our indebtedness or capitalization; or otherwise to effect any material change in our corporate structure or business. As stated throughout this proxy statement, we believe there are significant advantages in effecting the Reclassification and becoming a non-reporting company. Although management has neither the intention at present



to enter into any of the transactions described above nor is involved with negotiations relating to any such transaction, there is always a possibility that we may enter into such an arrangement or transaction in the future, including, but not limited to, entering into a merger or acquisition transaction, making a public or private offering of our shares, or any other arrangement or transaction we may deem appropriate. We will disclose the terms of such a transaction at the appropriate time upon advice of counsel.

#### **Effects of the Reclassification on Affiliates**

In addition to the effects the Reclassification will have on shareholders generally, which are described below, the Reclassification will have some additional positive and negative effects specifically on our executive officers and directors, each of whom may, as a result of his or her position, be deemed an affiliate of Georgia Bancshares. As used in this proxy statement, the term *affiliated shareholder* means any shareholder who is a director or executive officer of Georgia Bancshares or the beneficial owner of 10% or more of Georgia Bancshares' outstanding shares, and the term *unaffiliated shareholder* means any shareholder other than an affiliated shareholder.

#### **Positive Effects:**

- ***Earnings Per Share.*** Assuming the Reorganization had been completed as of September 30, 2005, our affiliated shareholders would experience the same effect on earnings per share as our unaffiliated shareholders, including (1) a 4.76% increase in basic earnings per share for the year ended December 31, 2004, from \$.63 per share on a historical basis to \$.66 per share on a pro forma basis; (2) a 6.06% increase in basic earnings per share for the nine months ended September 30, 2005, from \$.66 per share on a historical basis to \$.70 per share on a pro forma basis; and (3) no change in diluted earnings per share from \$.55 for the year ended December 31, 2004 or from \$.56 per share for the nine months ended September 30, 2005, because the Series A Preferred shares will be considered common stock equivalents in the computation of diluted earnings per share.
- ***No Further Reporting Obligations or Restrictions Under Section 16 of the Securities Exchange Act.*** After the Reclassification, our common stock will not be registered under the Securities Exchange Act. As a result, beginning 90 days after the effective date of the Reclassification, our executive officers, directors and other affiliates will no longer be subject to many of the reporting requirements and restrictions of the Securities Exchange Act, including the reporting and short-swing profit provisions of Section 16. After that time, our affiliates may realize short-swing profits on purchases and sales of the Company's securities that occur within a six-month period. Currently, under Section 16 of the Securities Exchange Act, the Company would be entitled to receive any such short-swing profits from the affiliate.
- ***No Further Disclosure Obligations Under the Securities Exchange Act.*** After the Reclassification, Georgia Bancshares will no longer be subject to the periodic reporting requirements or the proxy rules under the Securities Exchange Act. As a result, information about our affiliates' compensation and stock ownership will no longer be publicly available.
- ***Consolidation of Management Ownership.*** As a result of the Reclassification, we expect that the percentage of beneficial ownership of Georgia Bancshares common stock held by our directors and executive officers as a group as of October 31, 2005 will increase from approximately 44.21% before the Reclassification to approximately 46.16% after the Reclassification. See *Information About Georgia Bancshares and Its Affiliates' Stock Ownership by Affiliates* on page 39 for information about the number of shares of common stock held by our directors, executive officers and significant shareholders.
- ***Elimination of Liability Under Section 18 of the Securities Exchange Act.*** Because the Company will no longer be required to file any reports under the Securities Exchange Act, our affiliates will no





longer be subject to liability under Section 18 with respect to such reports. Currently, if any of our affiliates make a statement in any of the Company's filings under the Securities Exchange Act that, in light of the circumstances at the time the statement is made, is false or misleading with respect to any material fact, the affiliate may be liable under Section 18 of the Securities Exchange Act to any person that purchases or sells a security at a price that is affected by the statement.

**Negative Effects:**

- **Book Value Per Share.** Assuming the Reclassification had been completed as of September 30, 2005, our affiliated shareholders would experience the same reduction in book value per common equivalent share as our unaffiliated shareholders, or a 4.77% decrease in book value per common equivalent share, from \$7.75 on a historical basis to \$7.38 on a pro forma basis as of September 30, 2005.
- **Rule 144 Not Available.** Because our common stock will not be registered under the Securities Exchange Act after the Reclassification, executive officers and directors of Georgia Bancshares will be deprived of the ability to dispose of their shares of Georgia Bancshares common stock under Rule 144 of the Securities Act of 1933, which provides a safe harbor for resales of stock by affiliates of an issuer. As a result, they will need to resell their shares in a private transaction, which can result in reduced liquidity for the recipient and a lower purchaser price for the shares.

**Effects of the Reclassification on Unaffiliated Shareholders**

In addition to the effects the Reclassification will have on shareholders generally, which are described in the next section, the Reclassification will also have the following negative effects on our unaffiliated shareholders:

**Reduction in Publicly Available Information.** Georgia Bancshares will no longer be required to file public reports of its financial condition and other aspects of its business with the SEC after the Reclassification. Specifically, we will no longer be required to make public disclosures regarding executive compensation, corporate governance matters, or management stock ownership. As a result, unaffiliated shareholders will have less legally-mandated access to information about our business and results of operations than they had prior to the Reclassification. Our affiliated shareholders, however, because of their positions as directors and/or executive officers of the Company, will continue to have continuous access to all information regarding our financial condition and other aspects of our business.

**Absence of Dissenters' Rights.** Because statutory dissenters' rights are not available for the Reclassification, shareholders will not be entitled to seek cash payment for their shares of Georgia Bancshares common stock.

**Elimination of Protections Under Section 18 of the Securities Exchange Act.** Because the Company will no longer be required to file any reports under the Securities Exchange Act, our unaffiliated shareholders will no longer be afforded the protections under Section 18 with respect to false or misleading statements in such reports. Currently, if the Company or any of its affiliates makes a false or misleading statement with respect to any material fact in any of the Company's filings under the Securities Exchange Act, in light of the circumstances at the time the statement was made, the Company or the affiliate may be liable under Section 18 of the Securities Exchange Act to any person who purchases or sells a security at a price that is affected by the statement.

### Effects of the Reclassification on Shareholders Generally

The Reclassification will have the following effects on shareholders regardless of whether they are affiliated or unaffiliated shareholders. We expect, however, that no shares held by our affiliates will be reclassified to Series A Preferred Stock because none of our affiliates will likely hold fewer than 1,500 shares of record at the effective time of the Reclassification. The effects will vary depending on whether the shareholder receives Series A Preferred Stock for some or all of his or her shares of Georgia Bancshares common stock or does not receive Series A Preferred Stock for any of his or her shares and continues to hold the same number of shares following the Reclassification. Because a shareholder may own shares in more than one capacity (for example, individually and through an individual retirement account), a shareholder may receive Series A Preferred Stock for some of his or her shares of common stock while retaining ownership of other shares of common stock following the Reclassification.

The following sections describe the material effects that we expect to result from the Reclassification with respect to shares that are exchanged for Series A Preferred Stock and shares that are unaffected by the Reclassification. You may experience a combination of these effects if you receive Series A Preferred Stock for some of your shares while retaining ownership of other shares of common stock. The effects described below assume that 157,109 shares are exchanged for Series A Preferred Stock in the Reclassification.

***Shares Exchanged for Series A Preferred Stock.*** As to shares of our common stock that are exchanged in the Reclassification for Series A Preferred Stock, shareholders will experience the following positive and negative effects:

#### ***Positive Effects:***

- Diluted earnings per share will not change from \$.56 per share for the nine months ended September 30, 2005 or from \$.55 per share for the year ended December 31, 2004 because the Series A Preferred shares will be considered common stock equivalents in the computation of diluted earnings per share. Additionally, basic earnings per share will increase 6.06% from \$.66 per share on a historical basis to \$.70 per share on a pro forma basis for the nine months ended September 30, 2005, and will increase 4.76% from \$.63 per share on a historical basis to \$.66 per share on a pro forma basis for the year ended December 31, 2004, which will provide a greater potential dividend stream.
- Shareholders receiving Series A Preferred Stock will have a 10% preference to the holders of common stock in the distribution of any dividend by the Company. Our board of directors, which will be elected by the holders of the common stock after the Reclassification, has the authority to declare future dividends on our common stock and Series A Preferred Stock. However, we have not historically declared or paid cash dividends, there is no guarantee that we will declare or pay such dividends in the future and dividends payable to preferred shareholders will not accumulate to future periods. In view of the potential for a greater dividend payment in the future, we view this as a favorable term of the Series A Preferred Stock, despite its neutral effect as applied to our dividend history to date. See *Market for Common Stock and Dividends* on page 42 for more information regarding our dividend policies.
- The Series A Preferred Stock will automatically convert into shares of common stock upon a change in control of the Company, on the basis of one share of common stock for each share of Series A Preferred Stock (subject to antidilution protection), and thus holders of the Series A Preferred Stock will participate equally with the holders of common stock in any sale of the Company.
- Holders of the Series A Preferred Stock will have a preference to holders of common stock upon any liquidation of the Company in an amount equal to the greater of the net book value of the Series A Preferred Stock, the amount to be paid to the common shareholders, or \$7.75 for each share of Series A Preferred Stock.

- Under Georgia law, the designations, rights, preferences and limitations of the Series A Preferred Stock cannot be changed without the approval of the holders of the Series A Preferred Stock voting as a separate group. However, see the discussion below under *Negative Effects* regarding our board's authority to issue new classes or series of preferred stock or equity securities in the future that ranks senior to or on parity with the Series A Preferred Stock.

**Negative Effects:**

- Book value per common equivalent share, which includes the Series A Preferred Stock, will decrease 4.77% from \$7.75 on a historical basis to \$7.38 on a pro forma basis as of September 30, 2005.
- Holders of Series A Preferred Stock will be entitled to vote only upon a change in control of the Company, which generally is business combination resulting in the transfer of a majority of the outstanding common stock, or the acquisition of all or substantially all of the Company's assets. Holders of Series A Preferred Stock will not be entitled to vote on the election of directors.
- Our board of directors, which will be elected by the holders of the common stock after the Reclassification, may authorize the issuance of other classes or series of preferred stock or equity securities that rank senior to or on parity with the Series A Preferred Stock. As a result, the rights and preferences of the Series A Preferred Stock may be subordinate to the rights and preferences of any new class or series of preferred stock or equity securities issued in the future. Any new class or series of preferred stock or equity securities that ranks senior to or on parity with the Series A Preferred Stock would also be senior to our common stock.
- The Series A Preferred Stock is subject to call by the Company at any time at a price equal to the greater of the book value of the Series A Preferred Stock, the fair market value of the Series A Preferred Stock, or the fair market value of our common stock.

***Remaining Common Shareholders.*** As to shares of our common stock that are not exchanged for Series A Preferred Stock in the Reclassification, shareholders will experience the following positive and negative effects:

**Positive Effects:**

- Common shareholders will continue to exercise sole voting control over the Company, except with respect to a change in control of the Company.
- Shareholders continuing to hold common stock after the Reclassification will have relatively increased voting control over the Company because the number of outstanding shares of common stock will be reduced.

**Negative Effects:**

- Our common stock will rank junior in priority to the Series A Preferred Stock because holders of Series A Preferred Stock will have a 10% preference with respect to the distribution of any dividend by the Company and a preference upon any liquidation of the Company.
- We anticipate the liquidity of the common stock will be reduced as a result of the Reclassification. The reduced liquidity may cause a decrease in the market value of our common stock. See *Effect on Market for Shares* on page 17 for more information.
- Because the registration statement covering the shares of common stock issuable under our stock incentive plan will no longer be current after the Reclassification, the resale of common stock obtained upon the exercise of stock

options will be limited to private sales and may only be effected after a holding period that ensures the shares will not be redistributed publicly (typically one year).

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**Recommendation of the Board of Directors; Fairness of the Reclassification**

The board believes that the Reclassification is substantively and procedurally fair to Georgia Bancshares' unaffiliated shareholders who will receive Series A Preferred Stock in the Reclassification. The board also believes that the Reclassification is substantively and procedurally fair to unaffiliated shareholders who will retain their shares of common stock following the Reclassification. The board of directors, including those directors who are not employees of Georgia Bancshares, has approved the Reclassification and the Articles of Amendment, and the board recommends that the shareholders vote for approval of the Articles of Amendment, which will effect the Reclassification.

Each director and executive officer is deemed a filing person in connection with this transaction. As filing persons, they have each determined in their individual capacity that the Reclassification is substantively and procedurally fair to our unaffiliated shareholders in each of the constituencies described above. No individual filing person, however, is making any recommendation to shareholders as to how to vote. See

Determination of Fairness by Georgia Bancshares Affiliates on page 28 for information regarding the filing persons' fairness determination.

All of our directors and executive officers have indicated that they intend to vote their shares of common stock (and any shares with respect to which they have or share voting power) in favor of the Articles of Amendment. Our directors and executive officers owned approximately 30.27% of the shares outstanding as of October 31, 2005, and if they had exercised all of their vested warrants and options, they would have owned 44.21% of the outstanding shares. Although the board as a whole recommends that the shareholders vote in favor of the Articles of Amendment for the reasons set forth in Reasons for the Reclassification on page 14, no director or executive officer is making any recommendation to the shareholders in his or her individual capacity.

We considered a number of factors in determining to approve the Reclassification, including the effects described under Effects of the Reclassification on Georgia Bancshares on page 16, Effects of the Reclassification on Affiliates on page 18, and the relative advantages and disadvantages described under Reasons for the Reclassification on page 14 and Effect of the Reclassification on Shareholders Generally on page 20. The board also reviewed the tax and pro forma financial effects of the Reclassification on Georgia Bancshares and its shareholders.

After the Reclassification, Georgia Bancshares' common stock will not be registered under the Securities Exchange Act. The board considered the views of management regarding the cost savings to be achieved by eliminating the reporting and disclosure requirements related to the registration of the common stock under the Securities Exchange Act, including indirect savings resulting from reductions in the time and effort currently required of management to comply with the reporting and other requirements associated with continued registration of the common stock under the Securities Exchange Act. Similarly, the board also considered the prospective decrease in the administrative expense we incur in connection with soliciting proxies for routine special meetings of shareholders. Management determined that the Reclassification would result in cost savings of approximately \$240,000 per year.

Additionally, the board considered the effect that terminating the registration of the common stock would have on the market for the common stock and the ability of shareholders to buy and sell shares. However, the board determined that, even as an SEC-registered company, Georgia Bancshares has not had an active, liquid trading market for its common stock and that its shareholders derive little relative benefit from its status as an SEC-registered company. The board determined that the cost savings and reduced management time to be achieved by terminating registration of the common stock under the Securities Exchange Act outweighed any potential detriment from eliminating the registration.

We considered alternatives to the proposed going-private transaction but ultimately approved the Reclassification proposal. Please read the discussion under Alternatives Considered on page 10 for a description of these alternatives.

**Substantive Fairness.** The board considered numerous factors, discussed below, in reaching its conclusions that the Reclassification and the Articles of Amendment are substantively fair to our unaffiliated shareholders who will receive Series A Preferred Stock in the Reclassification and to our unaffiliated shareholders who will retain their shares of common stock. In reaching these conclusions, the board considered all of the factors as a whole and did not assign specific weights to particular factors:

**Factors Affecting Shareholders Receiving Series A Preferred Stock and Shareholders Retaining Common Stock**

- **Equity Interest in the Company.** All shareholders will continue to hold an equity interest in the Company and will continue to have the opportunity to participate in any future growth and earnings, including any future sale or change in control of the Company. The board viewed this factor as supporting its determination of fairness because no shareholders will be forced to involuntarily liquidate their equity interest in the Company, as would be the case in a cash-out merger or a reverse stock split. See **Alternatives Considered** on page 10.
- **Earnings Per Share.** Diluted earnings per share will not change from \$.56 per share for the nine months ended September 30, 2005 or from \$.55 per share for the year ended December 31, 2004 because the Series A Preferred shares will be considered common stock equivalents in the computation of diluted earnings per share. The board viewed the effect on diluted earnings per share as a factor, among others that supported its conclusion of fairness of the Reclassification because the Series A Preferred shareholders will continue to share in the earnings of the Company with the common shareholders. Basic earnings per share on a pro forma basis will increase from \$.66 per share to \$.70 per share for the nine months ended September 30, 2005, and will increase from \$.63 per share to \$.66 per share for the year ended December 31, 2004. Although the board noted basic earnings per share will increase, it did not consider that to be a material factor in determining fairness because earnings will not be available for distribution to the common shareholders unless the Series A shareholders first receive a 10% greater distribution. Therefore, the board believes diluted earnings per share is a more meaningful financial ratio because it includes outstanding shares of Series A Preferred Stock.
- **Book Value Per Common Equivalent Share.** Book value per common equivalent share, which includes the Series A Preferred Stock, will decrease approximately 4.77% from \$7.75 on a historical basis to \$7.38 on a pro forma basis as of September 30, 2005. The decrease in book value per common equivalent share is due to transaction costs of approximately \$60,000. The board viewed the 4.77% decrease as nominal and believes the effect on book value supports its determination of fairness, especially because the decrease in book value affects both the shareholders receiving Series A Preferred Stock and those retaining common stock.
- **Tax Consequences.** The board noted that the Reclassification should not result in a taxable event for shareholders receiving Series A Preferred Stock and would not result in a taxable event for shareholders retaining their shares of common stock. These tax consequences contributed to the board's recommendation and conclusion as to the fairness of the Reclassification to unaffiliated shareholders who will receive Series A Preferred Stock and those who will retain their shares of common stock following the Reclassification. The board noted that if the transaction had been structured as a cash-out merger or a reverse stock split, it would have been a taxable event for those shareholders receiving cash. See **Alternatives Considered** on page 10 and **Federal Income Tax Consequences of the Reclassification** on page 29 for more information regarding the tax consequences of the Reclassification.
- **Loss of Benefits of SEC Registration of our Stock.** After the reclassification, neither our common stock nor our preferred stock will be registered under the Securities Exchange Act. This will greatly reduce the amount of information that is publicly available about the Company, including detailed analyses by management of our financial results, current reports of significant corporate events,



copies of material contracts involving the Company, and information as to executive and director compensation and stock ownership. It will also eliminate certain corporate governance safeguards resulting from the Sarbanes-Oxley Act, such as the requirement for an audited report on our internal controls and disclosure requirements relating to our audit committee, code of ethics and director nominations process. Additionally, our executive officers, directors and other affiliates will no longer be subject to many of the reporting requirements and restrictions of the Securities Exchange Act, including the provisions of Section 16, which allow the Company to recover profits realized by its insiders as a result of their trading in Company securities under certain circumstances. The board noted that while the loss of the benefits of SEC registration was, standing alone, a negative factor in its fairness determination, the fact that detailed financial data about the Company and the Bank would continue to be publicly available from the Federal Reserve Board and the FDIC after the reclassification provided an offsetting benefit.

**Shareholders Receiving Series A Preferred Stock**

In making its determination that the Reclassification was fair to shareholders receiving Series A Preferred Stock, the board considered the relative advantage and disadvantages of the following terms of the Series A Preferred Stock:

- **Liquidation Preference.** In the event of the liquidation or dissolution of the Company, before any payment is made to the holders of the common stock, the holders of the Series A Preferred Stock will be entitled to be paid in full (on a per-share basis) an amount equal to the greater of the net book value of the Series A Preferred Stock, the amount to be paid to the common holders, or \$7.75 per share. As a result, upon the liquidation or dissolution of the Company, the holders of the Series A Preferred Stock will be paid before any payment is made to the common shareholders. Although the board acknowledged that the liquidation preference is not likely to affect shareholders in the near term, it nevertheless viewed it as a benefit to the shareholders receiving Series A Preferred Stock.
- **Dividend Preference.** The holders of the Series A Preferred Stock will be entitled to a 10% preference in the distributions of dividends prior to the payment of any dividends to the holders of common stock. This dividend preference means that holders of Series A Preferred Stock will be entitled to receive a full payment of 110% of any dividend declared to the holders of common stock before the common shareholders are entitled to payment. We have not, however, historically declared or paid cash dividends, and there is no guarantee that we will declare or pay such dividends in the future. In addition, dividends payable on the Series A Preferred Stock will not accumulate to future periods. In view of the potential for a greater dividend payment in the future, the board viewed the dividend preference as a favorable term of the to Series A Preferred Stock, despite its neutral effect as applied to our dividend history date.
- **Conversion to Common Stock on a Change in Control.** Upon a change in control of the Company, the Series A Preferred Stock will convert automatically into shares of the Company's common stock. Therefore, holders of the Series A Preferred Stock will participate in any value received as a result of any future sale of the Company at the same value per share as the holders of the common stock. Although a sale of the Company is not contemplated in the near future, the board viewed the conversion provision as a benefit to the shareholders receiving Series A Preferred Stock.



- Limited Voting Rights. The holders of the Series A Preferred Stock will be entitled to vote only upon a proposed change in control of the Company. The holders of the Series A Preferred Stock will not be entitled to vote on the election of directors and will therefore have no influence on the future composition of the board of directors or senior management team of the Company. Furthermore, a change in control of the Company is not presently contemplated and may never occur. The board noted, however, that the shareholders receiving Series A Preferred Stock currently have limited influence on shareholder votes, because those shareholders hold an aggregate of approximately 5.28% of our outstanding common stock as of October 31, 2005. The board viewed the limited voting rights as a negative factor for the shareholders receiving Series A Preferred Stock.
- Call Provision. The Series A Preferred Stock includes a call provision that allows the Company to repurchase the Series A Preferred Stock at any time at a purchase price per share equal to the greater of book value per share of the Series A Preferred Stock, as determined under generally accepted accounting principles, fair market value per share of the Series A Preferred Stock or fair market value of our common stock, determined in each case at the time the call right is exercised. Under the terms of the Series A Preferred Stock, fair market value is determined reasonably and in good faith by the Company's board of directors and means the price that a third party would pay for the Series A Preferred Stock or common stock as of the applicable valuation date. To determine this price, the board will consider recent arms-length trading prices for the stock, the Company's recent historical and prospective earnings per share, the Company's business prospects generally, and other factors it deems relevant, and anticipates that it would seek the assistance of an independent financial advisor in making its determination.

The board believes a call provision is necessary to provide the Company flexibility in the future to manage the size of its Series A Preferred Stock shareholder base and maintain its status as a non-SEC registered company. While the holders of the Series A Preferred Stock are not entitled to approve a repurchase by the Company, the Company will be required to pay no less than the fair market value per share of the Series A Preferred Stock or its common stock for any shares repurchase. The board therefore believes that holders of Series A Preferred Stock will receive a fair price, which will reflect any increase in value of the common stock, for any repurchased shares of Series A Preferred Stock. Additionally, the call provision provides for an appraisal procedure in the event that any holder of Series A Preferred Stock disagrees with the board's determination of the fair market value of the Series A Preferred Stock or common stock. The board viewed the call provision as a negative factor for the shareholders receiving Series A Preferred Stock.

While the board viewed the limited voting rights and call provision as negative factors for the shareholders receiving Series A Preferred Stock, the board concluded that the overall terms of Series A Preferred Stock were fair to the shareholders receiving Series A Preferred Stock because the Series A Preferred Stock includes a liquidation preference and a 10% dividend preference to the common stock and a conversion provision and voting rights in the event of a change of control of the Company. Additionally, although shareholders receiving Series A Preferred Stock in the Reclassification will be required to surrender their shares of common stock involuntarily in exchange for the Series A Preferred Stock, the board believes that because the shares of Series A Preferred Stock are convertible into common stock upon a change in control, and are callable at a price per share equal to no less than the fair market value of the Series A Preferred Stock or common stock, these shareholders will have an opportunity to participate in any future growth and earnings of the Company.

Shareholders Retaining Shares of Common Stock:

- Voting Rights. Holders of our common stock are entitled to one vote per share on all matters on which the holders of common stock are entitled to vote, including but not limited to a proposed change in control of the Company and the election of directors. The board viewed these voting rights as a benefit to the shareholders retaining common stock.
- Junior in Priority to Series A Preferred Stock. The Series A Preferred Stock will rank senior in priority to the common stock with respect to dividend rights and rights related to the liquidation or dissolution of the Company. In the event of the liquidation or dissolution of the Company, before any payment is made to the holders of common stock, the holders of the Series A Preferred Stock will be entitled to be paid in full (on a per-share basis) an amount equal to the greater of the net book value of the Series A Preferred Stock, the amount to be paid to the common holders, or \$7.75 per share. As a result, upon the liquidation or dissolution of the Company, the holders of Series A Preferred Stock will be entitled to payment before any payment is made to the holders of common stock. Additionally, the holders of Series A Preferred Stock will be entitled to a 10% preference in the distribution of dividends prior to the payment of any dividends to the holders of common stock. The board viewed the liquidation and dividend preference of the Series A Preferred Stock as a disadvantage to the shareholders retaining common stock.

The board believes the subordination of the common stock to the Series A Preferred Stock is fair to the shareholders retaining common stock because the common shareholders will continue to have unlimited voting rights.

#### Determination of Exchange Ratio

While the Series A Preferred Stock has limited voting rights and is subject to call, the board determined that a one-for-one exchange ratio is fair to the shareholders receiving Series A Preferred Stock and to the shareholders retaining their common stock because the Series A Preferred Stock converts to common stock on a change in control, is callable at no less than fair market value of the common stock and contains a dividend and liquidation preference to the common stock. This determination was made based on the board's review of the relative rights and preferences of Series A Preferred Stock as compared to the common stock, and no quantitative analysis of the value of Series A Preferred Stock or common stock was considered. Specifically, the board weighed subjectively the collective advantages of the Series A Preferred Stock—the existence and amounts of the liquidation and dividend preferences, the existence of the conversion feature, the call price formula and the ability to vote on a change in control—against the relative advantages of the common stock, such as unlimited voting rights and the absence of a call provision, and determined that those rights were in balance. It also weighed subjectively the relative disadvantages of the two classes—the general lack of voting power and the existence of a call right in favor of the Company in the case of the Series A Preferred Stock and the subordination in terms of rank, dividends and liquidation preference in the case of the common stock, and determined that the relative drawbacks were also in balance. Finally, it considered the benefits that would be shared by the classes, such as voting and consideration payable upon a change in control and the ability to benefit from the expense savings of the Reclassification and share in future growth of the Company, and determined that these represented factors that would have the same immediate and long-term effect on the value of each class. As a result of these analyses, the board determined that the advantages and disadvantages of the terms of the Series A Preferred Stock were in balance compared to those of our common stock and that a one-for-one exchange ratio was therefore appropriate. The board believes the advantages and disadvantages of the terms of the Series A Preferred Stock are in balance compared to the rights related to our common stock and therefore determined no further quantitative analysis was necessary.

Although the Series A Preferred Stock has substantially different rights and preferences from our common stock, the board believes, from a financial point of view, that the value of the Series A Preferred

Stock is equivalent to our common stock. Because the board believes the value of the Series A Preferred Stock is equivalent to the value of the common stock, the actual cash value of the Series A Preferred Stock and the common stock is immaterial to the determination of the fairness of the Reclassification because the cash value of the Series A Preferred Stock and the common stock would be the same. Additionally, an appraisal of the Series A Preferred Stock was not necessary for tax purposes because the Company determined that the Reclassification should not be taxable to shareholders receiving Series A Preferred Stock or to shareholders retaining common stock. As a result, the board decided not to seek an independent valuation or appraisal of the Series A Preferred Stock or the common stock from a financial advisor.

In reaching its conclusion that the Reclassification and the Articles of Amendment are substantively fair to our unaffiliated shareholders who will receive Series A Preferred Stock and who will retain their shares of common stock, the board did not consider the current or historical market price of our common stock, our going concern value, or the liquidation value of our assets to be material for the reasons set forth above. Additionally, the board determined that the overall terms of the Series A Preferred Stock were fair to all of our unaffiliated shareholders.

The board is not aware of any material contracts, negotiations or transactions, other than in conjunction with the Reclassification as described in Background of the Reclassification on page 11, during the preceding two years for (1) the merger or consolidation of Georgia Bancshares into or with another person or entity; (2) the sale or other transfer of all or any substantial part of the assets of Georgia Bancshares; (3) a tender offer for any outstanding shares of Georgia Bancshares common stock; or (4) the election of directors to our board.

**Procedural Fairness.** The board of directors, including those who are not employees of Georgia Bancshares, has unanimously approved the Reclassification and the Articles of Amendment and is seeking shareholder approval of the Reclassification contemplated by the Articles of Amendment. All of our affiliates, which includes all of our directors and executive officers, participated in the board discussions regarding pursuing a transaction designed to allow the Company to deregister its common stock. Each of our affiliates potentially has a conflict of interest with respect to the Reclassification because they are in a position to structure the Reclassification in a way that benefits the interests of the affiliates differently from the interests of the unaffiliated shareholders. As described under Effects of Reclassification on Affiliates on page 18, the Reclassification will have various positive effects on our affiliates that it will not have on unaffiliated shareholders. In particular, we anticipate that no shares of common stock held by our affiliates will be reclassified to Series A Preferred stock in the Reclassification. Since there will be fewer outstanding shares of common stock after the Reclassification, the affiliates will own a larger relative percentage of the outstanding common stock after the Reclassification, and the common stock will continue to have voting rights as compared to the Series A Preferred stock, which will have limited voting rights.

The vote of a majority of the votes entitled to be cast on the Articles of Amendment will be required to approve them. Approval by a majority of unaffiliated shareholders is not required. The board determined that any such voting requirement would usurp the power of the shareholders to consider and approve the Reclassification in accordance with Georgia law. The board also considered such a provision unnecessary in light of the fact that the provisions of the Articles of Amendment apply regardless of whether a shareholder is an affiliate. The board also noted that shareholders who wish to increase their record holdings in order to avoid the exchange of their Georgia Bancshares common stock for Series A Preferred Stock may do so by purchasing shares of Georgia Bancshares common stock from other shareholders prior to the effective time of the Reclassification or placing them in street name with a broker holding at least 1,500 shares. Conversely, shareholders who wish to receive Series A Preferred Stock but hold 1,500 or more shares of common stock may subdivide or sell their common stock before the Reclassification is effected.

Dissenters' rights are not required under Georgia law and have not been voluntarily extended by the board. While this is a negative factor as to procedural fairness to all shareholders, the board determined that the other procedural protections described above, the substantive fairness of the transaction and the potential capital expenditure that could be required to satisfy a dissenter's demand for cash payment supported the decision not to extend dissenters' rights in the transaction.

No unaffiliated representative acting solely on behalf of unaffiliated shareholders for the purpose of negotiating the terms of the Reclassification or preparing a report covering its fairness was retained by Georgia Bancshares or by a majority of directors who are not employees of Georgia Bancshares. In addition, we have not made any provision in connection with the Reclassification to grant unaffiliated shareholders access to our corporate files, except as provided under the Georgia Code and our bylaws, or to obtain legal counsel or appraisal services at our expense. With respect to unaffiliated shareholders' access to our corporate files, the board determined that this proxy statement, together with Georgia Bancshares' other filings with the SEC, provide adequate information for unaffiliated shareholders to make an informed decision with respect to the Articles of Amendment. As for obtaining legal counsel or appraisal services for unaffiliated shareholders at Georgia Bancshares' expense, the board did not consider these necessary or customary. In deciding not to adopt these additional procedures, the board also took into account factors such as Georgia Bancshares' size and the cost of such procedures. While these procedures would provide additional procedural protections for shareholders, the board determined that they were not necessary to ensure the procedural fairness of the Reclassification because, in its view, the ability of the shareholders to vote on the transaction as a single class and the time and means afforded to them to obtain their desired consideration in the Reclassification were sufficient to support the board's determination that the transaction is procedurally fair to each shareholder constituency.

After consideration of the factors described above, the board of directors has determined that the Articles of Amendment are procedurally fair, notwithstanding the absence of an unaffiliated shareholder approval requirement, an unaffiliated shareholder representative and the provision of legal counsel or appraisal services at Georgia Bancshares' expense, to Georgia Bancshares' unaffiliated shareholders who will receive Series A Preferred Stock in the Reclassification. The board has also determined that the Articles of Amendment are procedurally fair to unaffiliated shareholders who will retain their shares of common stock because they are entitled to vote on the transaction and because they will have an opportunity to reduce or deconsolidate their holdings in order to receive Series A Preferred Stock if they so desire. Additionally, the board believes that the Articles of Amendment are substantively fair to these constituencies. Finally, the board has determined that the Articles of Amendment are substantively and procedurally fair to affiliated shareholders for the same reasons specified as to unaffiliated shareholders, given that the Articles of Amendment do not distinguish between these groups.

#### **Determination of Fairness by Georgia Bancshares Affiliates**

Our affiliates consist of our directors and executive officers:

Arile C. Aukerman	Malcolm R. Godwin	Ira P. Shepherd, III
Joseph S. Black	W. Robert Hancock, Jr.	Eric K. Smith
Rick A. Duncan	Vincent M. Rossetti	Enrico A. Stanziale
C. Lynn Gable	Donnie H. Russell	James H. Webb, Jr.
Dale K. Geeslin	Thomas G. Sellmer	

These affiliates are deemed to be filing persons for purposes of this transaction.

For each of our affiliates, their purpose and reasons for engaging in the Reclassification, alternatives considered and analyses regarding substantive and procedural fairness of the Reclassification to unaffiliated shareholders receiving Series A Preferred Stock in the Reclassification and to those retaining their shares of common stock were the same as those of the board of directors, and each of these affiliates adopted the analyses of the board of directors with respect to these issues. Based on these factors and

analyses, each of our affiliates has concluded that the Reclassification is procedurally and substantively fair to our unaffiliated shareholders who will receive Series A Preferred Stock in the Reclassification and to its unaffiliated shareholders who will retain their shares of common stock.

#### Federal Income Tax Consequences of the Reclassification

Presented below are the material federal income tax consequences of the Reclassification to: (1) shareholders (including any affiliated shareholders) who will receive Series A Preferred Stock in the Reclassification, (2) shareholders (including any affiliated shareholders) who will retain shares of Georgia Bancshares common stock after the Reclassification and (3) Georgia Bancshares itself.

The discussion does not address all U.S. federal income tax considerations that may be relevant to certain shareholders in light of their particular circumstances. The discussion assumes that the Georgia Bancshares shareholders hold their shares of common stock as capital assets (generally for investment). In addition, the discussion does not address any foreign, state or local income tax consequences of the Reclassification. The following summary does not address all U.S. federal income tax considerations applicable to certain classes of shareholders, including:

- financial institutions;
- insurance companies;
- tax-exempt organizations;
- dealers in securities or currencies;
- traders in securities that elect to mark-to-market;
- persons that hold Georgia Bancshares common stock as part of a hedge, straddle or conversion transaction;
- persons who are considered foreign persons for U.S. federal income tax purposes;
- persons who acquired or acquire shares of Georgia Bancshares common stock pursuant to the exercise of employee stock options or otherwise as compensation; and
- persons who do not hold their shares of Georgia Bancshares common stock as a capital asset.

No ruling has been or will be obtained from the Internal Revenue Service (the IRS) as to the tax consequences of the Reclassification. In addition, the IRS is not obligated to follow the tax consequences as described herein and may conclude that different tax consequences apply to a shareholder with respect to the exchange of his or her stock in the Reclassification.

Accordingly, we recommend that shareholders consult their own tax advisors as to the specific tax consequences of the Reclassification, including applicable federal, foreign, state and local tax consequences to them of the Reclassification in light of their own particular circumstances.

#### ***Federal Income Tax Consequences to Shareholders Receiving Series A Preferred Stock in the Reclassification.***

The Reclassification will be treated as a recapitalization, which is considered a tax-free reorganization for federal income tax purposes. Accordingly, a shareholder who receives Series A Preferred Stock in the Reclassification should not recognize any gain or loss. Further, the shareholder's basis in the Series A Preferred Stock should be the same as such shareholder's basis in his or her common stock surrendered in the Reclassification and the period such

shareholder is considered to have held the Series A Preferred Stock should include the period the shareholder held his Georgia Bancshares common stock surrendered in the Reclassification.

Although the Reclassification will be treated as a tax-free reorganization and the exchange of Series A Preferred Stock for common stock should not result in the recognition of gain or loss, no

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assurance can be given that the IRS will agree and/or will not challenge such characterization for federal income tax purposes. While ordinarily the receipt of stock, such as the Series A Preferred Stock, in a transaction such as the Reclassification would not result in a taxable transaction for federal income tax purposes, certain types of stock, such as nonqualified preferred stock may not be exchanged tax-free in a reorganization.

The term nonqualified preferred stock is preferred stock in which (1) the holder of such stock has the right to require the issuer (or a related person) to redeem or purchase the stock within 20 years of the date of issue of such stock, (2) the issuer (or a related person) is required to redeem or purchase such stock within 20 years of the date of issue of such stock, (3) the issuer (or a related person) has the right to redeem or purchase the stock within 20 years of the date of issue of such stock and, as of the issue date of such stock, it is more likely than not that such right will be exercised, or (4) the dividend rate on such stock varies in whole or in part (directly or indirectly) with reference to interest rates, commodity prices, or similar indices. Further, preferred stock means stock which is limited and preferred as to dividends and does not participate in corporate growth to any significant extent. Stock shall not be treated as participating in corporate growth to any significant extent unless there is a real and meaningful likelihood of the shareholder actually participating in the earnings and growth of the corporation.

The Series A Preferred Stock should not be considered to be preferred stock for federal income tax purposes and therefore should not be considered nonqualified preferred stock because

- the Series A Preferred Stock is entitled in all circumstances to dividends that are no less in amount than the amount of dividends to which Georgia Bancshares common stock is entitled;
- the amount distributed with respect to a share of the Series A Preferred Stock in the event of a liquidation cannot be less than the amount distributed with respect to one share of Georgia Bancshares common stock; and
- the amount paid on redemption of a share of Series A Preferred Stock is never less than the fair market value of one share of Georgia Bancshares common stock at the time of redemption.

Nevertheless, if the IRS were to successfully contend that the Series A Preferred Stock should be treated as nonqualified preferred stock for federal income tax purposes, the receipt of the Series A Preferred Stock would be treated the same as the receipt of cash in the Reclassification.

***Federal Income Tax Consequences to Shareholders Who Do Not Receive Series A Preferred Stock in the Reclassification.*** Affiliated and unaffiliated shareholders who remain common shareholders following the Reclassification will not recognize gain or loss as a result of the Reclassification. The Reclassification will not affect the adjusted tax basis or holding period of any shares of Georgia Bancshares common stock that a shareholder continues to own after the Reclassification.

***Federal Income Tax Consequences to Georgia Bancshares and The Bank of Georgia.*** Neither Georgia Bancshares nor The Bank of Georgia will recognize gain or loss for U.S. federal income tax purposes as a result of the Reclassification.

***Backup Withholding.*** Non-corporate shareholders of Georgia Bancshares may be subject to backup withholding at a rate of 28% on cash payments received in the Reclassification. Backup withholding will not apply, however, to a shareholder who (1) furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding on the substitute Form W-9 included in the letter of transmittal, (2) who provides a certificate of foreign status on an appropriate Form W-8, or (3) who is otherwise exempt from backup withholding. A shareholder who fails to provide the correct taxpayer identification number on Form W-9 may be subject to a \$50 penalty imposed by the IRS.





The preceding discussion does not purport to be a complete analysis or discussion of all potential tax effects relevant to the Reclassification. Thus, shareholders are urged to consult their own tax advisors as to their specific tax consequences of the Reclassification, including tax return reporting requirements, the applicability and effect of foreign, federal, state, local and other applicable tax laws and the effect of any proposed changes in the tax laws.

#### Pro Forma Effect of the Reclassification

The following selected pro forma financial data illustrates the pro forma effect of the Reclassification on Georgia Bancshares financial statements as of September 30, 2005, for the nine months ended September 30, 2005, and for the year ended December 31, 2004. Management has prepared this information based on its estimate that 157,109 shares of Georgia Bancshares common stock will be reclassified into 157,109 shares of Series A Preferred Stock in the Reclassification and that the transaction expenses related to the Reclassification will be \$60,000. Please see Pro Forma Consolidated Financial Information beginning on page 49 for the complete pro forma financial information relating to this transaction.

#### Selected Pro Forma Consolidated Financial Data

(In thousands except per share data)	As of and for the nine months ended September 30, 2005	As of and for the year ended December 31, 2004
Net interest income	\$ 7,884	\$ 9,265
Provision for loan losses	290	585
Other income	1,075	682
Other expense	5,849	6,627
Income tax expense	857	889
Net income	\$ 1,964	1,846
<b>PER COMMON SHARE</b>		
Basic earnings per share	\$ 0.70	0.66
Diluted earnings per share	0.56	0.55
Book value	\$ 7.38	6.64
<b>AT PERIOD END</b>		
Assets	\$ 269,832	249,490
Shareholders equity	\$ 23,009	21,046
Common shares outstanding	2,819,923	2,815,704
Series A Preferred shares outstanding	157,109	157,109
Weighted average shares outstanding	2,972,944	2,940,832

**INFORMATION REGARDING THE  
SPECIAL MEETING OF SHAREHOLDERS**

**Time and Place of Meeting**

We are soliciting proxies through this proxy statement for use at the special meeting of Georgia Bancshares shareholders. The special meeting will be held at 4:30 p.m. on January 25, 2006, at our main office at 100 Westpark Drive, Peachtree City, Georgia 30269.

**Record Date and Mailing Date**

The close of business on December 5, 2005 is the record date for the determination of shareholders entitled to notice of and to vote at the special meeting. We first mailed the proxy statement and the accompanying form of proxy to shareholders on or about December 12, 2005.

**Number of Shares Outstanding**

As of the close of business on the record date, Georgia Bancshares had 10,000,000 shares of common stock, no par value, authorized, of which 2,977,032 shares were issued and outstanding. Each outstanding share is entitled to one vote on all matters presented at the meeting.

**Proposal to be Considered**

Shareholders will be asked to vote on the Articles of Amendment, which provide for the Reclassification of each share of Georgia Bancshares common stock held by record holders of fewer than 1,500 shares of Georgia Bancshares common stock into one share of Series A Preferred Stock for each share of common stock they own on the effective date of the Reclassification. The terms of the Articles of Amendment and the Reclassification are described beginning on page 34. The full text of the Articles of Amendment is set forth in *Appendix A* to the enclosed proxy statement, and the terms of the Series A Preferred Stock are contained in *Appendix B*. The Reclassification is designed to reduce Georgia Bancshares number of shareholders of record to below 300.

**Dissenters Rights**

Shareholders are not entitled to dissenters rights in connection with the Articles of Amendment.

**Procedures for Voting by Proxy**

If you properly sign, return and do not revoke your proxy, the persons appointed as proxies will vote your shares according to the instructions you have specified on the proxy. If you sign and return your proxy but do not specify how the persons appointed as proxies are to vote your shares, your proxy will be voted **FOR** approval of the Articles of Amendment and in the best judgment of the persons appointed as proxies on all other matters that are unknown to us as of a reasonable time prior to this solicitation and that are properly brought before the special meeting.

You can revoke your proxy at any time before it is voted by delivering to Georgia Bancshares Corporate Secretary, 100 Westpark Drive, Peachtree City, Georgia 30269, either a written revocation of the proxy or a duly signed proxy bearing a later date or by attending the special meeting and voting in person.

**Requirements for Shareholder Approval**

A quorum will be present at the meeting if a majority of the outstanding shares of Georgia Bancshares common stock are represented in person or by valid proxy. We will count abstentions and broker non-votes, which are described below, in determining whether a quorum exists.

Approval of the Articles of Amendment requires the affirmative vote of a majority of the votes entitled to be cast. On October 31, 2005, Georgia Bancshares directors and executive officers owned approximately 901,206 shares, representing approximately 30.27% of the outstanding shares of common stock as of that date, and if they had exercised all of their vested options and warrants, they would have owned 44.21% of the outstanding shares. Every director and executive officer has indicated that he intends to vote his or her shares in favor of the Articles of Amendment.

Any other matter that may properly come before the special meeting requires that more shares be voted in favor of the matter than voted against the matter.

**Abstentions.** A shareholder who is present in person or by proxy at the special meeting and who abstains from voting on any or all proposals will be included in the number of shareholders present at the special meeting for the purpose of determining the presence of a quorum. Abstentions do not count as votes in favor of or against a given matter. Based on the 2,977,032 shares outstanding as of the record date, a quorum will consist of 1,488,517 shares represented either in person or by proxy. This also represents the minimum number of votes required to be cast in favor of the Articles of Amendment in order to approve them. Assuming only the minimum number of shares necessary to constitute a quorum are present in person or by proxy at the special meeting, and assuming one of those shares is subject to a proxy marked as an abstention, the proposal to approve the Articles of Amendment would not pass because it would not have received the affirmative vote of a majority of the votes entitled to be cast at the meeting. As a result, such an abstention would effectively function as a vote against approval of the Articles of Amendment, even though it would not be counted in the voting tally as such. Abstentions will not affect the outcome of any other proposal because only a majority of the votes actually cast must be voted in favor of such a proposal.

**Broker Non-Votes.** Generally, brokers who hold shares for the accounts of beneficial owners must vote these shares as directed by the beneficial owner. If, after the broker transmits proxy materials to the beneficial owner, no voting direction is given by the beneficial owner, the broker may vote the shares in his or her own discretion, if permitted to do so by the exchange or other organization of which the broker is a member. Brokers may *not* vote in their own discretion with respect to the proposal to approve the Articles of Amendment. Proxies that contain a broker vote on one or more proposals but no vote on others are referred to as broker non-votes with respect to the proposals not voted upon. A broker non-vote, with respect to a proposal for which the broker has no discretionary voting authority, does not count as a vote in favor of or against that particular proposal. Based on the same reasoning that applies to abstentions as discussed above, broker non-votes will effectively function as votes against the approval of the Articles of Amendment but will not affect the outcome of the election of directors or of any other proposal properly brought before the meeting.

#### **Solicitation of Proxies**

Proxies are being solicited by our board of directors, and Georgia Bancshares pays all costs for such solicitation. In addition, our directors, officers and employees may, without additional compensation, solicit proxies by personal interview, telephone or fax. We will direct brokerage firms or other custodians, nominees or fiduciaries to forward our proxy solicitation materials to the beneficial owners of common stock held of record by these institutions and will reimburse them for the reasonable out-of-pocket expenses they incur in connection with this process.

**PROPOSAL 1: APPROVAL OF THE ARTICLES OF AMENDMENT**

**Description of the Articles of Amendment**

*Georgia Bancshares, Inc..* Georgia Bancshares was incorporated in Georgia in December 2000, and became the bank holding company for The Bank of Georgia, a Georgia banking corporation, through a share exchange on May 18, 2001. The Bank of Georgia began general banking business in Peachtree City, Georgia in February 2000. As of September 30, 2005, Georgia Bancshares had \$270 million in consolidated assets, \$228 million in deposits and \$23 million in shareholders' equity.

*Structure of the Reclassification.* The Articles of Amendment provide for the Reclassification of Georgia Bancshares common stock into shares of Series A Preferred Stock. In the Reclassification, shareholders owning fewer than 1,500 shares of Georgia Bancshares common stock will receive one share of Series A Preferred Stock for each share of common stock they own on the effective date of the Reclassification. All other shares will remain outstanding and will be unaffected by the Reclassification.

*Determination of Shares Held of Record.* Shareholders who are the record holders of fewer than 1,500 shares of Georgia Bancshares common stock will receive one share of Series A Preferred Stock for each share of Georgia Bancshares common stock they own on the effective date of the Reclassification. A record holder of 1,500 or more shares will be unaffected. Because SEC rules require that we count record holders for purposes of determining our reporting obligations, our Articles of Amendment are based on the number of shares held of record without regard to the ultimate control of the shares.

A shareholder of record is the shareholder whose name is listed on the front of the stock certificate, regardless of who ultimately has the power to vote or sell the shares. For example, if a shareholder holds four separate certificates (individually, as a joint tenant with someone else, as trustee, and in an IRA), those certificates represent shares held by four different record holders, even if a single shareholder controls the voting or disposition of those shares. Similarly, shares held by a broker in street name on a shareholder's behalf are held of record by the broker.

As a result, a single shareholder with 1,500 or more shares held in various accounts could receive Series A Preferred Stock in the Reclassification for all of his or her shares if those accounts individually hold fewer than 1,500 shares. To avoid this, the shareholder could either consolidate his or her ownership into a single form of ownership representing 1,500 or more shares, or acquire additional shares in the market prior to the effective date of the Reclassification, or place all of the shares into a street name account with a holder holding at least 1,500 shares.

*Effect on Outstanding Stock Options.* The holders of outstanding stock options issued by Georgia Bancshares will continue to hold those securities. The terms of the options will not be affected by the Reclassification.

*Legal Effectiveness.* As soon as practicable after shareholder approval, we will file the Articles of Amendment with the Georgia Secretary of State and will send a Letter of Transmittal to all record holders of Georgia Bancshares common stock who are entitled to receive Series A Preferred Stock in the Reclassification directing them to submit their common stock certificates for exchange. The Reclassification will be effective upon the filing of the Articles of Amendment with the Georgia Secretary of State. We anticipate that this will occur shortly after the special meeting of shareholders.

On the effective date of the Reclassification, each shareholder who owns fewer than 1,500 shares of record immediately prior to the Reclassification will not have any rights as a Georgia Bancshares common shareholder and will instead have the rights of a Series A Preferred shareholder.

*Exchange of Stock Certificates for Series A Preferred Stock.* The Letter of Transmittal will provide the means by which shareholders will surrender their Georgia Bancshares common stock certificates and obtain the Series A Preferred Stock certificates to which they are entitled. If certificates evidencing



Georgia Bancshares common stock have been lost or destroyed, Georgia Bancshares may, in its sole discretion, accept a duly executed affidavit and indemnity agreement of loss or destruction in a form satisfactory to Georgia Bancshares in lieu of the lost or destroyed certificate. If a certificate is lost or destroyed, the shareholder will be required to submit, in addition to other documents, a bond or other security, satisfactory to the board, indemnifying Georgia Bancshares and all other persons against any losses incurred as a consequence of the issuance of a new stock certificate. Shareholders whose certificates have been lost or destroyed should contact Georgia Bancshares as soon as possible. Additional instructions regarding lost or destroyed stock certificates will be included in the Letter of Transmittal that will be sent to shareholders after the Reclassification becomes effective.

Except as described above with respect to lost stock certificates, there will be no service charges or costs payable by shareholders in connection with the exchange of their common stock certificates for Series A Preferred Stock certificates in the Reclassification. Georgia Bancshares will bear these costs.

**The Letter of Transmittal will be sent to shareholders promptly after the effective date of the Reclassification. Do not send in your common stock certificates until you have received the Letter of Transmittal. Assuming you submit your common stock certificates promptly thereafter, we expect that you will receive your Series A Preferred Stock certificates approximately four weeks after the effective date of the Reclassification.**

*Conditions and Regulatory Approvals.* Aside from shareholder approval of the Articles of Amendment, the Reclassification is not subject to any conditions or regulatory approvals.

*Termination of Securities Exchange Act Registration.* Our common stock is currently registered under the Securities Exchange Act. We will be permitted to terminate our registration once we can certify that Georgia Bancshares has fewer than 300 shareholders of record. Upon the completion of the Reclassification, Georgia Bancshares will have approximately 210 common shareholders of record. We intend to apply for termination of the registration of Georgia Bancshares common stock under the Securities Exchange Act as promptly as possible after the effective date of the Reclassification.

Termination of registration under the Securities Exchange Act will substantially reduce the information we are required to furnish to our shareholders and to the SEC, and would make some provisions of the Securities Exchange Act no longer applicable to us (e.g., the short-swing profit provisions of Section 16, the requirement of furnishing a proxy or information statement in connection with shareholder meetings under Section 14(a), and required compliance with the Sarbanes-Oxley Act). Furthermore, Georgia Bancshares affiliates will be deprived of the ability to dispose of their Georgia Bancshares common stock under Rule 144 promulgated under the Securities Act of 1933 unless the Company elects to provide current public information about itself to the investing public.

We estimate that termination of registration of Georgia Bancshares common stock under the Securities Exchange Act will save the Company approximately \$240,000 per year in legal and accounting fees, printing costs, management time and other expenses. See *Special Factors Effects of the Reclassification on Georgia Bancshares* on page 16.

**Source of Funds and Expenses**

Georgia Bancshares will pay all of the expenses related to the Reclassification. We estimate these expenses will be as follows:

SEC filing fees	\$ 500
Legal fees	40,000
Printing and mailing costs	18,000
Miscellaneous	1,500
<b>Total</b>	<b>\$ 60,000</b>

Georgia Bancshares intends to finance the expenses related to the Reclassification with existing working capital.

**Dissenters Rights**

Dissenters rights are not available for the Reclassification.

## INFORMATION ABOUT GEORGIA BANCSHARES AND ITS AFFILIATES

### Overview

Georgia Bancshares was incorporated in Georgia in December, 2000 and became the bank holding company for The Bank of Georgia, a Georgia banking corporation, through a share exchange on May 18, 2001. The Bank of Georgia began general banking business in Fayetteville, Georgia on February 18, 2000. As of September 30, 2005, Georgia Bancshares had \$270 million in consolidated assets, \$228 million in deposits and \$23 million in shareholders equity.

### Directors and Executive Officers

Set forth below is certain information about our directors and executive officers. Each director is also a director of our subsidiary, The Bank of Georgia.

Arlie C. Aukerman, 83, Class I director since our formation in 2001, was the chairman and president of A.C. Aukerman Company, a construction firm located in Lovejoy, Georgia from 1950 until his retirement in 1993. He was a director of Fayette County Bank from 1989 until 1999. Mr. Aukerman has been a director of The Bank of Georgia since 1999.

Joseph S. Black, 57, Class I director since our formation in 2001, serves as the vice chairman of the board of the bank and our company. Mr. Black was the president and chief executive officer of Pathway Communities, Inc. (formerly Peachtree Development Corporation), a real estate development company located in Peachtree City, Georgia for 25 years (1979-2004) and retired at year end 2004. He has started a new real estate development company, Development South Corp. Mr. Black formerly served as a director and secretary of Fayette County Bank from 1989 until 1999. Mr. Black is a 1969 graduate of North Carolina State University. He serves his community through his involvement as an executive board member of the Flint River Boy Scouts Council, and a life member of the Fayette County Chamber of Commerce. Mr. Black has been a director of The Bank of Georgia since 1999.

Rick A. Duncan, 52, Class I director since our formation in 2001, serves as our senior loan officer and one of our executive vice presidents of the bank. Mr. Duncan has 25 years of banking experience in lending and credit administration. Mr. Duncan began his career with The Citizens & Southern National Bank of Clayton County in 1978, and he subsequently served as vice president and commercial loan officer with Tara State Bank in Riverdale, Georgia from 1983 to 1995. In 1995, Mr. Duncan joined Fayette County Bank in Peachtree City, Georgia where he served as senior vice president/senior lender and as a director until May 1999, when he left to join The Bank of Georgia. Mr. Duncan received a B.A. degree in 1975 from West Georgia College and is a graduate of the School of Banking of the South (LSU). Mr. Duncan has been a director of The Bank of Georgia since 1999.

C. Lynn Gable, 52, joined the bank as senior vice president and chief financial officer in October 2003. Prior to joining The Bank of Georgia, he served as senior vice president and chief financial officer of Community First Bank in Carrollton, Georgia from 1997 until it was acquired by Branch Bank & Trust in July 2002. Mr. Gable operated his own financial consulting firm prior to joining Community First Bank in 1997. Mr. Gable received a B.B.A. degree in 1975 and a M.B.A. degree in 1981 from West Georgia College. He also holds a Master of Strategic Studies degree from the U.S. Army War College. He is a 2003 graduate of The Graduate School of Banking at LSU. Mr. Gable has served over 33 years as a member of the Army National Guard and currently holds the rank of brigadier general.

Dale K. Geeslin, 48, Class I director since our formation in 2001, serves as our secretary. Mr. Geeslin is a partner in the certified public accounting firm of Tidwell Dewitt, LLC. Mr. Geeslin graduated from Auburn University in 1981 with a BSBA in accounting. He has served as Finance and Personnel Committee Chairman of the First Baptist Church of Peachtree City and Chairman of the Peer Review



Executive Committee of the Georgia Society of CPAs. Mr. Geeslin has been a director of The Bank of Georgia since 1999.

Malcolm R. Godwin, 49, Class II director since our formation in 2001, serves as one of our executive vice presidents and the chief operating officer of the bank. Mr. Godwin most recently served as the executive vice president and as a director of Fayette County Bank in Peachtree City, Georgia from 1995 until his resignation in February 1999, when he left to join The Bank of Georgia. Mr. Godwin previously served as the senior vice president and senior lending officer of Peachtree National Bank from 1989 until 1995 and as vice president of Wachovia Bank in Atlanta, Georgia from 1981 until 1989. He graduated from Georgia State University in 1977 and The Graduate School of Banking at LSU in 1993. Mr. Godwin has served as a member of the Tyrone Development Authority and Zoning and Planning Commission. Mr. Godwin has been a director of The Bank of Georgia since 1999.

William R. Hancock, Jr., 48, Class II director since our formation in 2001, has been a partner in the law firm of Glover & Davis, P.A., in Peachtree City, Georgia since 1990, and a partner in F&H Investment Company, a Peachtree City real estate firm, since 1997. Mr. Hancock served on the advisory board of First Union National Bank from 1995 until 1999. He graduated from the Furman University in 1978 and the University of Georgia School of Law in 1981. Mr. Hancock served as the Chairman of the City of Newnan Development Authority and is a member of the board of directors of Newnan Hospital. Mr. Hancock has been a director of The Bank of Georgia since 1999.

Vincent M. Rossetti, 52, Class II director since our formation in 2001, is the president of Ravin Homes, Inc., a residential home building company in Peachtree City, Georgia where he has been employed since 1982. Mr. Rossetti is also the manager of MiRome, LLC, a real estate company that owns and manages office buildings. He graduated from Towson State University in 1977 with a degree in business/economics. Mr. Rossetti served on the Board of Trustees of Peachtree Regional Hospital and was President of the Midwest Georgia Homebuilders Association. He currently volunteers as a member of the board of directors of the Fayette County Family YMCA. Mr. Rossetti has been a director of The Bank of Georgia since 1999.

Donnie H. Russell, 61, Class II director since our formation in 2001, has been the owner and president of Parham Industries, Inc., a manufactured housing sales company, since 1968. He has been very active in the community banking market. He was an organizer and director of both Fayette County Bank in Peachtree City and Commerce Bank in Atlanta, Georgia. Mr. Russell graduated from Auburn University in 1967. Mr. Russell has been a director of The Bank of Georgia since 1999.

Thomas G. Sellmer, 54, Class III director since our formation in 2001, has been the owner of Sellmer Property Management, a real estate management and investment company, since its formation in 1993. Mr. Sellmer is also involved in numerous real estate ventures throughout Fayette County. He was the vice president of Southern Screen & Embroidery, Inc. prior to starting Sellmer Property Management. Mr. Sellmer graduated from the University of Tennessee in 1972. Mr. Sellmer has been a director of The Bank of Georgia since 1999.

Ira Pat Shepherd, III, 57, Class III director since our formation in 2001, serves as our chief executive officer and president. Mr. Shepherd has over 30 years of experience in the financial services industry and was most recently employed as the chief executive officer and president of RegionsBank/Fayette County and its predecessor, Fayette County Bank in Peachtree City, Georgia from 1989 until 1999 when he left to join our bank. He served as the vice president and senior lending officer for Peachtree National Bank from 1986 until 1989 and as the vice president of First National Bank of Newnan from 1970 until 1986. Mr. Shepherd received his B.B.A. degree in banking and finance from the University of Georgia in 1970 and graduated from the Louisiana State University graduate school of banking in 1990. Mr. Shepherd was the State Treasurer of Georgia Ducks Unlimited and currently serves as the Secretary/Treasurer of the Fayette County Ducks Unlimited. Mr. Shepherd has been a director of The Bank of Georgia since 1999.

Eric K. Smith, 38, has served as a senior vice president of our bank since March 2001. Prior to joining The Bank of Georgia, he served as a vice-president commercial lending with Branch Bank & Trust, in Newnan, Georgia from July 2000 until joining the bank and as senior loan originator with First Citizens Bank, FSB, in Newnan, Georgia from 1987 until First Citizens was acquired by Branch Bank & Trust in July 2000. Mr. Smith graduated from Georgia State University in 1995 with a B.A., in Marketing and graduated from The Graduate School of Banking at Louisiana State University in 2004. Mr. Smith is an associate director for the Midwest Georgia Homebuilders Association.

Enrico A. Stanziale, 64, Class III director and chairman of the board since our formation in 2001, is the former owner and president of Amacor, Inc., a manufacturer of chemical resistant coatings. Mr. Stanziale retired from Amacor in 2000 after operating the company since its formation in 1992. Mr. Stanziale was the chairman of Fayette County Bank from 1989 until 1997. He attended Fairleigh Dickinson University from 1959 until 1964. Mr. Stanziale has been a director of The Bank of Georgia since 1999.

James H. Webb, Jr., 58, Class III director since our formation in 2001, has been a senior partner for the law firm of Webb, Lindsey, & Wade, LLC in Peachtree City, Georgia since 1992. Mr. Webb is active in the community and is a part owner of several different businesses. He graduated from Georgia State University in 1971 and the University of Georgia School of Law in 1977. Mr. Webb has served as the president of the Fayette County Chamber of Commerce, the state chairman of Lawyers for Dole, first vice-chairman of the Sixth District Republican Party, chairman of the International Society, and general counsel for the Sixth District Republican Party. He has volunteered as the fund-raising campaign chairman of the Boy Scouts of America, chairman of the Fayette County cystic fibrosis campaign, and as a member of the governor's task force on DUI. He currently is a board member of the Fayette Community Foundation. Mr. Webb has been a director of The Bank of Georgia since 1999.

#### **Stock Ownership by Affiliates**

The following table sets forth the number and the percentage ownership of shares of Georgia Bancshares common stock beneficially owned by each director, executive officer, and 5% shareholder of Georgia Bancshares and by all directors and executive officers as a group as of October 31, 2005.

The table also sets forth the number and approximate percentage of shares of Georgia Bancshares common stock that the persons named in the table would beneficially own after the effective date of the Reclassification on a pro forma basis, assuming 157,109 shares are exchanged for Series A Preferred Stock in the Reclassification and there are no changes in the named person's ownership between October 31, 2005 and the effective date of the Reclassification.

Name	Number of Shares Beneficially Owned(1)		Percentage of Total Before Reclassification(2)	Percentage of Total After Reclassification(2)
<b>Directors:</b>				
Arlie C. Aukerman	190,112		6.39%	6.75%
Joseph S. Black	133,922	(3)	4.40%	4.64%
Rick A. Duncan	168,501	(4)	5.48%	5.77%
Dale K. Geeslin	59,222	(5)	1.97%	2.08%
Malcolm R. Godwin	174,331	(6)	5.67%	5.97%
W. Robert Hancock, Jr.	64,845	(7)	2.16%	2.28%
Vincent M. Rossetti	154,685	(8)	5.10%	5.37%
Donnie H. Russell	123,075	(9)	4.05%	4.28%
Thomas G. Sellmer	170,507	(10)	5.58%	5.88%
Ira Pat Shepherd, III	119,541	(11)	3.91%	4.12%
Enrico A. Stanziale	117,412	(12)	3.87%	4.08%
James H. Webb, Jr.	82,073	(13)	2.72%	2.87%
<b>Executive Officers who are not Directors</b>				
C. Lynn Gable	37,240	(14)	1.25%	1.32%
Eric K. Smith	49,570	(15)	1.65%	1.74%
<b>All Directors and Executive Officers as a Group (14 persons)</b>	<b>1,645,033</b>		<b>44.21%</b>	<b>46.16%</b>

(1) Includes shares for which the named person

- has sole voting and investment power,
- has shared voting and investment power with a spouse or other person,
- holds in an IRA or other retirement plan program, unless otherwise indicated in the footnotes,
- has the right to acquire within 60 days.

(2) Determined by assuming the named person exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any options.

(3) Includes 68,359 shares subject to exercisable options and warrants.

(4) Includes 98,757 shares subject to exercisable options and warrants.

(5) Includes 29,299 shares subject to exercisable options and warrants.

(6) Includes 99,842 shares subject to exercisable options and warrants.

(7) Includes 29,297 shares subject to exercisable options and warrants.

(8) Includes 58,594 shares subject to exercisable options and warrants.

(9) Includes 58,594 shares subject to exercisable options and warrants.



- (10) Includes 81,250 shares subject to exercisable options and warrants.
- (11) Includes 79,228 shares subject to exercisable options and warrants.
- (12) Includes 58,594 shares subject to exercisable options and warrants.
- (13) Includes 41,037 shares subject to exercisable options and warrants.
- (14) Includes 10,000 shares subject to exercisable options and warrants.
- (15) Includes 30,976 shares subject to exercisable options and warrants.

#### Recent Affiliate Transactions in Georgia Bancshares Stock

The following table shows all transactions in Georgia Bancshares common stock for which consideration was paid involving Georgia Bancshares and its executive officers, directors and affiliates during the past two years or because becoming an affiliate, whichever is later. During the past two years, Georgia Bancshares has not repurchased any shares of its common stock. Unless otherwise indicated, all transactions were effected on the open market.

Name	Date	Number of Shares	Price Per share	Where/How Effected
Arlie C. Aukerman	11/30/04	32,552	\$ 5.12	Exercised Warrants
	1/06/04	3,300	\$ 15.00	Sale
	12/23/03	1,700	\$ 15.00	Sale
Joseph S. Black	11/5/03	200	\$ 16.00	Sale
	11/12/03	667	\$ 15.50	Gift
	9/12/03	180	\$ 16.80	Sale
	9/12/03	200	\$ 16.80	Sale
	9/10/03	500	\$ 16.80	Sale
	8/22/03	375	\$ 16.80	Sale
	7/24/03	200	\$ 21.50	Sale
Rick A. Duncan	7/24/03	500	\$ 21.50	Sale
	9/28/05	200	\$14.25	Purchase
	9/26/05	200	\$14.50	Purchase
	9/13/05	2,000	\$14.80	Purchase
	9/12/05	2,000	\$14.80	Purchase
C. Lynn Gable	8/10/05	500	\$ 14.00	Purchase
	9/30/05	2,520	\$14.05	Purchase
	8/10/05	500	\$ 14.00	Purchase
	3/30/05	1,952	\$ 15.83	Purchase
	2/16/05	12,436	\$ 16.25	Purchase
	1/10/05	156	\$ 15.00	Purchase
	8/12/04	3,050	\$ 12.75	Purchase
12/18/03	5,387	\$ 14.95	Purchase	

Malcolm R. Godwin	9/13/05	2,000	\$14.80	Purchase
	9/12/05	2,000	\$14.80	Purchase
	9/07/05	500	\$14.85	Purchase
	9/01/05	1,000	\$15.10	Purchase
	8/10/05	200	\$ 14.25	Purchase
	8/10/05	500	\$ 14.00	Purchase
	8/09/05	500	\$ 14.50	Purchase
	12/21/04	200	\$ 15.00	Gift
	8/20/04	750	\$ 12.75	Purchase
	8/20/04	900	\$ 12.75	Purchase
Clyde A. McArthur	10/27/03	500	\$ 16.00	Gift
	9/15/03	1,783	\$ 8.00	Cashless Exercise of Options
	9/15/03	839	\$ 17.00	Cashless Exercise of Options
	8/8/03	4,500	\$ 6.75	Cashless Exercise of Options
Thomas G. Sellmer	8/8/03	1,500	\$ 20.25	Cashless Exercise of Options
	10/27/05	850	\$14.00	Purchase
	9/29/05	1,500	\$14.00	Purchase
	9/28/05	500	\$14.00	Purchase
	9/22/05	1,625	\$16.00	Purchase
	9/12/05	800	\$14.80	Purchase
	9/08/05	200	\$14.80	Purchase
	3/09/05	300	\$ 16.00	Purchase
	1/11/05	300	\$ 14.00	Purchase
	12/20/04	312	\$ 13.50	Purchase
Eric K. Smith	11/29/04	1,000	\$ 15.50	Purchase
	9/16/03	625	\$ 16.00	Sale
Enrico A. Stanziale	8/16/04	100	\$ 12.90	Purchase

### Related Party Transactions

From time to time our directors, officers and their affiliates, including members of their families or businesses and other organizations with which they are associated, may have banking transactions in the ordinary course of business with The Bank of Georgia. The Bank of Georgia's policy is that any loans or other transactions with those persons or entities (a) are made in accordance with applicable law and The Bank of Georgia's lending policies; (b) are made on substantially the same terms, including price, interest rates and collateral, as those prevailing at the time for comparable transactions with other unrelated parties of similar standing; and (c) do not involve more than the normal risk of collectibility or present other unfavorable features to the Company and The Bank of Georgia. In addition, all future transactions with our directors, officers and their affiliates are intended to be on terms no less favorable than could be obtained from an unaffiliated third party, and must be approved by a majority of our directors, including a majority of the directors who do not have an interest in the transaction.

### Market for Common Stock and Dividends

The following table shows the quarterly high and low trading prices and cash dividends for the Georgia Bancshares common stock for the periods indicated. There is not an organized trading market for our common stock, and we do not expect that an active market for the common stock or Series A

Preferred Stock will develop after the Reclassification. The common stock is currently traded on the Over-the-Counter Bulletin Board. We do not presently intend to take any steps to cause the shares of Georgia Bancshares common stock or Series A Preferred Stock to become eligible for trading on an exchange or automated quotation system after the Reorganization, and we will not be required to file reports under the Securities Exchange Act.

	Quarter	High (\$)	Low (\$)	Dividend
2005	Fourth (through Dec. 9, 2005)	\$ 14.25	\$ 13.75	
	Third	17.75	14.00	
	Second	18.49	15.61	
	First	16.57	14.00	
2004	Fourth	16.00	12.75	
	Third	13.05	12.35	
	Second	14.00	12.15	
	First	15.25	14.00	
2003	Fourth	16.00	15.00	
	Third	17.21	14.20	
	Second	14.00	12.00	
	First	15.20	10.80	

### Description of Capital Stock

The authorized capital stock of Georgia Bancshares, Inc. consists of 10,000,000 shares of common stock, no par value, and 10,000,000 shares of preferred stock, no par value per share. As of the record date, 2,977,032 shares of Georgia Bancshares common stock were issued and outstanding and were held of record by approximately 450 shareholders. We estimate the number of shares of Georgia Bancshares common stock outstanding after the Reclassification will be approximately 2,819,923 shares. As of the record date, no shares of Georgia Bancshares preferred stock were issued or outstanding. We estimate that the number of shares of Georgia Bancshares Series A Preferred Stock outstanding after the Reclassification will be approximately 157,109 shares. The exact number of shares of common stock and Series A Preferred Stock outstanding after the Reclassification will depend on the number of shares of common stock that are reclassified into Series A Preferred Stock. The following summary describes the material terms of Georgia Bancshares, Inc.'s capital stock.

**Common Stock.** All holders of Georgia Bancshares common stock are entitled to share equally in dividends from funds legally available therefor when, as, and if declared by the board of directors, and upon liquidation or dissolution of Georgia Bancshares, whether voluntary or involuntary, to share equally in all assets of Georgia Bancshares available for distribution to the common shareholders. Georgia Bancshares may pay dividends in cash, property or shares of common stock, unless Georgia Bancshares is insolvent or the dividend payment would render it insolvent. Each holder of our common stock is entitled to one vote for each share on all matters submitted to the shareholders. Holders of our common stock do not have any preemptive right to acquire authorized but unissued capital stock of Georgia Bancshares. There is no cumulative voting, redemption right, sinking fund provision, or right of conversion in existence with respect to our common stock. All outstanding shares of our common stock are fully paid and non-assessable. Generally, we may issue additional shares of Georgia Bancshares common stock without regulatory or shareholder approval, and common stock may be issued for cash or other property.

**Preferred Stock.** Our articles of incorporation authorize us to issue up to 10,000,000 shares of preferred stock and provide that the board of directors is authorized, without further action by the holders

of the common stock, to provide for the issuance of shares of preferred stock in one or more classes or series and to fix the designations, powers, preferences, and relative, participating, optional and other rights, qualifications, limitations, and restrictions, including the dividend rate, conversion rights, voting rights, redemption price, and liquidation preference, and to fix the number of shares to be included in any such classes or series. Any preferred stock so issued may rank senior to the common stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding-up, or both. In addition, any such shares of preferred stock may have class or series voting rights.

Our board has designated 5,000,000 shares of our authorized preferred stock as Series A Preferred Stock with the rights and limitations described below under *Terms of the Series A Preferred Stock to be Issued in the Reclassification* and reproduced in full in *Appendix B*. These shares of Series A Preferred Stock will be issued to record holders of fewer than 1,500 shares of our common stock in the Reclassification. As to the remaining shares of authorized Series A Preferred Stock that will not be issued in this transaction, our board of directors has the authority, without approval of our shareholders, to authorize from time to time the issuance of such stock. Because our board of directors has the power to establish the relative rights, preferences and limitations of each series of preferred stock, it may afford to holders of any series preferences and rights senior to the rights of the holders of the shares of common stock, as well as the shares of Series A Preferred Stock to be issued in the Reclassification. Although our board of directors has no intention of doing so at the present time, it could cause the issuance of additional shares of stock, which could discourage an acquisition attempt or other transactions that some or a majority of the shareholders might believe to be in their best interests or in which the shareholders might receive a premium for their shares of common stock over the market price of such shares.

#### **Terms of the Series A Preferred Stock to be Issued in the Reclassification**

**General.** The shares of Series A Preferred Stock to be issued in the Reclassification will be fully paid and nonassessable shares of stock.

**Rank.** The Series A Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, ranks senior to the common stock and to all other classes and series of equity securities of the Company, other than any classes or series of equity securities that the Company subsequently issues ranking on a parity with, or senior to the Series A Preferred Stock, as to dividend rights and rights upon liquidation, dissolution or winding-up of the Company. The relative rights and preferences of the Series A Preferred Stock may be subordinated to the relative rights and preferences of holders of subsequent issues of other series or classes of stock and equity securities designated by the board of directors. The Series A Preferred Stock is junior to indebtedness issued from time to time by the Company, including notes and debentures.

**Dividend Rights.** Holders of Series A Preferred Stock are entitled to a 10% preference in the distribution of dividends, when and if declared and paid by Georgia Bancshares, so that holders of the Series A Preferred shares are entitled to receive dividends in an amount not less than 110% of that paid on common shares prior to the receipt of dividends by the holders of common stock. For example, if Georgia Bancshares declared a dividend of \$.10 per share payable to the holders of its common stock, the holders of the Series A Preferred Stock would be entitled to receive a dividend of \$.11 per share before any dividends were paid to the holders of the common stock. Georgia Bancshares is not required to pay any dividends on the Series A Preferred Stock, and has the right to waive the declaration or payment of dividends. Any dividends waived by Georgia Bancshares will not accumulate to future periods and will not represent a contingent liability of Georgia Bancshares.

**Perpetual Stock.** The Series A Preferred Stock is perpetual stock, which means stock that does not have a maturity date, cannot be redeemed at the option of the holder, and has no other provisions that will require future redemption of the issue.



**Voting Rights.** Unlike the common stock, the Series A Preferred Stock will not have voting rights except under limited circumstances. Except as otherwise provided by law, holders of Series A Preferred Stock are entitled to vote only upon proposals for (i) a merger, share exchange, consolidation or other business combination of the corporation with any other person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) or affiliate thereof, other than a merger, share exchange, consolidation or business combination that would result in the outstanding common stock of the corporation immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into common stock of the surviving entity or a parent or affiliate thereof) more than fifty percent (50%) of the outstanding common stock of the corporation or such surviving entity or parent or affiliate thereof outstanding immediately after such merger, consolidation or business combination, or (ii) an agreement for the sale or disposition by the corporation of all or substantially all of the corporation's assets (a Change in Control). For those matters on which holders of Series A Preferred Stock are entitled to vote, such holders have the right to one vote for each such share, and are entitled to receive notice of any shareholders' meeting held to act upon such matters in accordance with the bylaws of Georgia Bancshares. When voting on a proposed Change in Control, the holders of Series A Preferred Stock will vote together with the holders of common stock and not as a separate class.

**Conversion Rights.** The shares of Series A Preferred Stock convert automatically to shares of common stock immediately prior to the consummation of a Change in Control, with each share of Series A Preferred Stock convertible into one share of common stock, subject to the antidilution adjustment described below.

**Liquidation Rights.** Holders of Series A Preferred Stock are entitled to a preference in the distribution of assets of Georgia Bancshares in the event of any liquidation, dissolution or winding-up of Georgia Bancshares, whether voluntary or involuntary, equal to the greater of the book value per share, the amount per share to be paid to common shareholders, or \$7.75 per share.

**Preemptive Rights.** Holders of Series A Preferred Stock do not have any preemptive rights to purchase any additional shares of Series A Preferred Stock or shares of any other class of capital stock of Georgia Bancshares that may be issued in the future.

**Antidilution Adjustments.** If the number of our outstanding shares of common stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or any other company, by reason of any merger, consolidation, liquidation, reclassification, recapitalization, stock split up, combination of shares or stock dividend, an appropriate adjustment shall be made by the board of directors in the number and relative terms of the Series A Preferred Stock.

**Redemption Rights.** Holders of Series A Preferred Stock have no right to require that Georgia Bancshares redeem their shares.

**Call Rights.** Georgia Bancshares has the right to repurchase all or any part of the Series A Preferred Stock at any time at a purchase price per share equal to the greater of the book value per share of the Series A Preferred Stock, as determined under generally accepted accounting principles, fair market value per share of the Series A Preferred Stock or fair market value per share of our common stock. Fair market value is determined reasonably and in good faith by the Company's board of directors, and means the price a third party would pay for the Series A Preferred Stock or common stock as of the applicable valuation date on a per-share basis. If any holder of Series A Preferred Stock (the Dissenting Holder) does not agree with the fair market value per share of the Series A Preferred Stock or the common stock as determined by the board of directors, the Dissenting Holder may provide written notice of such disagreement to the Company within ten (10) days of the date on which the notice of the repurchase was delivered to the Dissenting Holder. Within 30 days after the timely receipt of such notice from a Dissenting Holder, the Company will engage a qualified, independent appraiser (the Appraiser) experienced in



appraising companies similar to Georgia Bancshares and reasonably acceptable to the Dissenting Holder, to determine the fair market value per share. The Company and the Dissenting Holder must supply all information necessary to allow the Appraiser to perform the appraisal, and the Appraiser will be instructed to use its best efforts to complete the appraisal within 30 days. The fair market value per share determined by the Appraiser will, absent fraud, be final and binding upon all parties to the particular transaction. Upon the completion of the appraisal, the Appraiser will provide the Company and the other parties instituting the appraisal procedures a written determination of the fair market value per share. All costs associated with such an appraisal will be borne equally by the Dissenting Holder and the Company.

#### **Shareholder Communications**

**Shareholder Proposals.** If shareholders wish a proposal to be included in our proxy statement and form of proxy relating to the 2006 annual meeting, they must deliver a written copy of their proposal to our principal executive offices no later than December 16, 2005. To ensure prompt receipt by the company, the proposal should be sent certified mail, return receipt requested. Proposals must comply with our bylaws relating to shareholder proposals in order to be included in our proxy materials.

Our bylaws provide that any shareholder proposal to be made at an annual meeting, but which is not requested to be included in our proxy materials, must be delivered between 30 and 60 days prior to the special meeting; provided, however, that if less than 31 days notice of the meeting is given to shareholders, then notice must be delivered within ten (10) days following the day on which notice of the meeting was mailed to shareholders. Discretionary authority will be conferred upon the persons appointed as proxies to vote on any matters submitted after this deadline, in the case of an annual meeting, and in the case of a special meeting, discretionary authority will be conferred as to matters of which our board of directors is unaware as of a reasonable time prior to the date of this proxy statement.

**Shareholder Communications.** Shareholders wishing to communicate with the board of directors or with a particular director may do so in writing addressed to the board, or to the particular director, and by sending it to the Secretary of the Company at Georgia Bancshares principal office at 100 Westpark Drive, Peachtree City, Georgia 30269. The Secretary will promptly forward such communications to the applicable director or to the chairman of the board for consideration at the next scheduled meeting.

#### **Other Matters**

The board of directors of the Company knows of no other matters that may be brought before the meeting. If, however, any matter other than the election of directors, or matters incidental to the election of directors, should properly come before the meeting, votes will be cast pursuant to the proxies in accordance with the best judgment of the proxyholders. If you cannot be present in person, you are requested to complete, sign, date, and return the enclosed proxy promptly. An envelope has been provided for that purpose. No postage is required if mailed in the United States.

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following historical financial data is derived from, and qualified by reference to, Georgia Bancshares' Consolidated Financial Statements and the Notes thereto included in its Annual Reports on Form 10-K for the years ended December 31, 2004 and December 31, 2003 and its Quarterly Report on Form 10-Q for the nine months ended September 30, 2005. You should read the selected financial data set forth below in conjunction with the foregoing financial statements and notes and in the context of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the reports listed above. The portions of our annual and quarterly reports described above are attached as *Appendices C and D* to this proxy statement.

(In thousands except per share data)	As of and for the year ended December 31	
	2004	2003
Net interest income	\$ 9,265	6,652
Provision for loan losses	585	266
Other income	682	386
Other expense	6,627	4,719
Income taxes	889	730
Net earnings	\$ 1,846	1,323
<b>PER COMMON SHARE</b>		
Basic earnings per share	\$ 0.63	0.45
Diluted earnings per share	0.55	0.39
Cash dividends declared	0.00	0.00
Book value	\$ 7.10	6.56
<b>AT YEAR END</b>		
Loans, net	\$ 189,641	147,463
Earning assets	231,921	190,535
Assets	249,550	205,092
Deposits	212,258	181,968
Shareholders' equity	\$ 21,106	19,263
Common shares outstanding	2,973	2,936
<b>AVERAGE BALANCES</b>		
Loans	\$ 169,397	138,068
Earning assets	213,992	176,409
Assets	229,382	185,984
Deposits	203,074	162,932
Shareholders' equity	\$ 19,927	18,798
Weighted average shares outstanding	2,941	2,926
<b>KEY PERFORMANCE RATIOS</b>		
Return on average assets	0.80%	0.71%
Return on average shareholders' equity	9.26%	7.04%
Net interest margin	4.33%	3.77%
Dividend payout ratio	N/A	N/A
Average equity to average assets	8.69%	10.11%
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>		
Pretax income	\$ 2,735	2,053
Add fixed charges:		
Interest on junior subordinated debentures	81	0
Total applicable fixed charges	81	0
Adjusted Pretax income	\$ 2,816	2,053
Ratio of earnings to fixed charges	2.88%	0.00%

(In thousands except per share data)	As of and for the nine months ended September 30	
	2005	2004
Net interest income	\$ 7,884	6,633
Provision for loan losses	290	430
Other income	1,075	448
Other expense	5,849	4,624
Income taxes	857	661
Net earnings	\$ 1,964	1,366
<b>PER COMMON SHARE</b>		
Basic earnings per share	\$ 0.66	0.45
Diluted earnings per share	0.56	0.36
Cash dividends declared	0.00	0.00
Book value	\$ 7.75	6.95
<b>AT PERIOD END</b>		
Loans, net	\$ 214,798	185,567
Earning assets	243,125	235,716
Assets	269,892	251,105
Deposits	228,144	220,064
Shareholders equity	\$ 23,069	20,422
Common shares outstanding	2,977	2,940
<b>AVERAGE BALANCES</b>		
Loans	\$ 206,414	165,744
Earning assets	235,871	207,716
Assets	257,813	221,230
Deposits	218,716	199,553
Shareholders equity	\$ 21,901	19,611
Weighted average shares outstanding	2,973	2,937
<b>KEY PERFORMANCE RATIOS</b>		
Return on average assets (annualized)	1.02%	0.82%
Return on average shareholders equity (annualized)	11.95%	9.29%
Net interest margin	4.46%	4.26%
Dividend payout ratio	N/A	N/A
Average equity to average assets	8.49%	8.86%
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>		
Pretax income	\$ 2,821	2,027
Add fixed charges:		
Interest on junior subordinated debentures	279	2
Total applicable fixed charges	279	2
Adjusted Pretax income	\$ 3,100	2,029
Ratio of earnings to fixed charges	9.00%	0.10%

**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma consolidated balance sheet as of September 30, 2005 (the Pro Forma Balance Sheet ), and the unaudited pro forma consolidated statements of operations for the year ended December 31, 2004, and for the nine months ended September 30, 2005 (collectively, the Pro Forma Statements of Operations ), show the pro forma effect of the Reclassification. Pro forma adjustments to the Pro Forma Balance Sheet are computed as if the Reclassification occurred at September 30, 2005, while the pro forma adjustments to the Pro Forma Statements of Operations are computed as if the Reclassification were consummated on January 1, 2004, the earliest period presented. The following financial statements do not reflect any anticipated cost savings that may be realized by Georgia Bancshares after consummation of the Reclassification.

The pro forma information does not purport to represent what Georgia Bancshares results of operations actually would have been if the Reclassification had occurred on January 1, 2004.

**GEORGIA BANCSHARES, INC.**  
**Pro Forma Consolidated Balance Sheet**  
**September 30, 2005**  
**(Dollars in thousands)**  
**(Unaudited)**

	Historical	Pro Forma Adjustments Debit	Pro Forma Adjustments Credit	Pro Forma Combined
<b>ASSETS</b>				
Cash and due from banks	\$ 9,663	(2)	60	\$ 9,603
Federal funds sold	2,485			2,485
Cash and cash equivalents	12,148			12,088
Securities available for sale	25,751			25,751
Other investments	1,997			1,997
Loans	214,798			214,798
Premises and equipment	6,547			6,547
Other assets	8,651			8,651
Total assets	\$ 269,892			\$ 269,832
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
Deposits:				
Non-interest bearing	30,034			30,034
Interest bearing	198,110			198,110
Total deposits	228,144			228,144
Accrued expenses and other liabilities	1,977			1,977
Other borrowed funds	16,702			16,702
Total liabilities	246,823			246,823
Shareholders' equity:				
Series A Preferred Stock	0	(1)	2,199	2,199
Common stock	17,249	(1)	2,199	14,990
		(2)	60	
Accumulated earnings	5,825			5,825
Accumulated other comprehensive income	(5)	)		(5)
Total shareholders' equity	23,069			23,009
Total liabilities and equity	\$ 269,892			\$ 269,832
(1) Assumes the issuance of 157,109 shares of Series A Preferred Stock, issued in exchange for 157,109 shares of common stock				
(2) Cost of the transaction including \$60,000 in filing, legal and other fees				
Shares outstanding (common and Series A Preferred)	2,977,032			2,977,032
Book value per common share	\$ 7.75			\$ 7.38

See accompanying notes to pro forma consolidated financial statements.

**GEORGIA BANCSHARES, INC.**  
**Pro Forma Condensed Consolidated Statements of Operations**  
**For the Nine Months Ended September 30, 2005**  
(In thousands, except per share data)  
(Unaudited)

	Historical	Pro Forma Adjustments	Pro Forma
Interest income	\$ 12,244		\$ 12,244
Interest expense	4,359		4,359
Net interest income	7,884		7,885
Provision for loan losses	290		290
Other income	1,075		1,075
Other expense	5,849		5,849
Earnings before taxes	2,821		2,821
Income tax expense	857		857
Net earnings	1,964		1,964
Basic earnings per share	\$ 0.66		\$ 0.70
Diluted earnings per share	\$ 0.56		\$ 0.56

The proposed transaction would not have an effect on the historical statement of operations of Georgia Bancshares as all transaction costs would be financed with existing non-interest bearing cash.

See accompanying notes to pro forma consolidated financial statements.



**GEORGIA BANCSHARES, INC.**  
**Pro Forma Consolidated Statements of Operations**  
**For the Year Ended December 31, 2004**  
(In thousands, except per share data)  
(Unaudited)

	Historical	Pro Forma Adjustments	Pro Forma
Interest income	\$ 13,508		\$ 13,508
Interest expense	4,243		4,243
Net interest income	9,265		9,265
Provision for loan losses	585		585
Other income	682		682
Other expense	6,627		6,627
Earnings before income taxes	2,735		2,735
Income tax expense	889		889
Net earnings	\$ 1,846		\$ 1,846
Basic earnings per share	\$ 0.63		\$ 0.66
Diluted earnings per share	\$ 0.55		\$ 0.55

The proposed transaction would not have an effect on the historical statement of operations of Georgia Bancshares as all transaction costs would be financed with existing non-interest bearing cash.

See accompanying notes to pro forma consolidated financial statements.

**GEORGIA BANCSHARES, INC.**

**Notes to Consolidated Pro Forma Financial Statements**

(1) The unaudited pro forma consolidated balance sheet as of September 30, 2005 and consolidated statements of operations for the year ended December 31, 2004 and for the nine months ended September 30, 2005 have been prepared based on the historical consolidated balance sheets and statements of operations, which give effect to the Reclassification as if it had occurred on the earliest date presented.

(2) In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and results for the period presented have been included. Adjustments, if any, are normal and recurring nature.

**WHERE YOU CAN FIND MORE INFORMATION**

We file reports, proxy statements and other information with the SEC. Copies of these reports and other information may be inspected and copied at the SEC's public reference facilities located at Station Place, 100 F Street, N.E., Washington, D.C. 20549. Copies of these reports and other information can also be obtained by mail at prescribed rates from the SEC at the address provided above, via telephone at 1-800-SEC-0330, or via the SEC's website at [www.sec.gov](http://www.sec.gov).

We have filed a Schedule 13E-3 under the Securities Exchange Act in connection with the Reclassification. This proxy statement does not contain all the information contained in the Schedule 13E-3 because certain portions have been omitted in accordance with SEC rules and regulations. The Schedule 13E-3 is available at the SEC for inspection and copying as described above.

**APPENDIX A**

**ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION**

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**ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION  
OF  
GEORGIA BANCSHARES, INC.**

I.

The name of the corporation is GEORGIA BANCSHARES, INC.

II.

Effective the date hereof, the following Article Seven shall be added to the Articles of Incorporation of the Corporation:

**ARTICLE SEVEN  
RECLASSIFICATION OF COMMON STOCK**

Upon the filing of these Articles of Amendment, each share of Common Stock outstanding immediately prior to such filing owned by a shareholder who is the record holder of fewer than 1,500 shares of such Common Stock shall, by virtue of the filing of these Articles of Amendment and without any action on the part of the holder thereof, hereafter be reclassified as Series A Preferred Stock, on the basis of one share of Series A Preferred Stock for each share of Common Stock so reclassified, which shares of Series A Preferred Stock shall thereupon be duly issued and outstanding, fully paid and nonassessable. Each share of Common Stock outstanding immediately prior to the filing of these Articles of Amendment owned by a shareholder who is the record holder of 1,500 or more shares of Common Stock shall not be reclassified and shall continue in existence as a share of Common Stock.

[Signature follows on next page.]

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**IN WITNESS WHEREOF**, the Corporation has caused these Articles of Amendment to the Articles of Incorporation to be signed by its duly authorized officer, this     day of             200 .

**GEORGIA BANCSHARES, INC.**

By:

Ira P. Shepard  
President and Chief Executive Officer

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**APPENDIX B**

**SERIES A PREFERRED STOCK  
RELATIVE RIGHTS AND PREFERENCES AND OTHER TERMS  
AS DESIGNATED BY THE BOARD OF DIRECTORS**

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**GEORGIA BANCSHARES, INC.**

**SERIES A PREFERRED STOCK**

Relative Rights and Preferences and Other Terms

As Designated By the Board of Directors

1. *Designation and Initial Number.* The class of shares of preferred stock hereby authorized shall be designated the Series A Preferred Stock. The initial number of authorized shares of the Series A Preferred Stock shall be 5,000,000 shares.
2. *Rank.* The Series A Preferred Stock, with respect to dividend rights and rights of liquidation, dissolution or winding up of the corporation, ranks senior to the Common Stock and all of the classes and series of equity securities of the corporation, other than any classes or series of equity securities of the corporation subsequently issued ranking on a parity with, or senior to, the Series A Preferred Stock, as to dividend rights and rights upon liquidation, dissolution or winding up of the corporation. The relative rights and preferences of the Series A Preferred Stock may be subordinated to the relative rights and preferences of holders of subsequent issues of other classes or series of preferred stock and equity securities of the corporation designated by the Board of Directors. The Series A Preferred Stock is junior to indebtedness issued from time to time by the corporation, including notes and debentures.
3. *Voting Rights.* Except as provided by law, the holders of the Series A Preferred Stock shall have limited voting rights, and shall be entitled to vote only upon any proposal for a Change of Control (as defined in Section 12). On those matters in which the holders of Series A Preferred Stock are entitled to vote, the holders shall have the right to one vote for each share of Series A Preferred Stock, and shall be entitled to receive notice of any shareholders meeting held to act upon such matters in accordance of the Bylaws of the corporation, and shall be entitled to vote in such manner as provided by law. Except as provided by law, the holders of Series A Preferred Stock shall vote together with the holders of Common Stock as a single class, and not as a separate class.
4. *Dividend Rights.* The holders of shares of Series A Preferred Stock shall be entitled to a preference in the distribution of dividends, when and as declared by the Board of Directors, and shall receive out of any assets of the corporation legally available therefore, dividends in a per share amount not less than 110% of that paid on the shares of Common Stock prior to the payment of any dividends to the holders of the Common Stock. The shares of Series A Preferred Stock shall be non-cumulative with respect to dividends, and the corporation shall have the right to waive the declaration of payment of dividends. Any dividends waived by the corporation shall not accumulate to future periods and shall not represent a contingent liability of the corporation.
5. *Liquidation or Dissolution.* In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the affairs of the corporation, then, before any distribution or payment shall be made to the holders of any junior stock, the holders of Series A Preferred Stock shall be entitled to be paid in full (on a per share basis) the greater of the net book value of the shares of Series A Preferred Stock as determined under generally accepted accounting principles; the amount paid to the holders of Common Stock or the sum of \$7.75 per share. To the extent such payment shall have been made in full to the holders of the Series A Preferred Stock and any parity stock, the remaining assets and funds of the corporation shall be distributed among the holders of the junior stock, according to their respective rights and preferences and in each case according to their respective shares. If upon liquidation, dissolution or winding up, the amounts so payable are not paid in full to the holders of all outstanding shares of Series A Preferred Stock, and all other shares on a parity with the Series A Preferred Stock, then the holders of Series A Preferred Stock and all other shares on a parity with the Series A Preferred Stock will share ratably in any distribution of assets in proportion to the full amounts to which they would otherwise be respectively entitled. Neither a Change of Control nor any purchase or redemption of stock of the corporation of any

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class shall be deemed to be a liquidation, dissolution or winding up of the corporation within the meaning of the provisions of this Section 5.

6. *Convertibility.* The Series A Preferred Stock shall automatically convert into shares of the corporation's Common Stock, on the basis of one share of Common Stock for each share of Series A Preferred Stock, immediately prior to the closing of a Change of Control; provided, however, that such conversion shall be conditioned upon the closing of any such Change of Control, and the holder entitled to receive the Common Stock upon conversion of the Series A Preferred Stock shall be deemed to have converted such shares of Series A Preferred Stock immediately prior to the closing of such Change of Control. If the shares of Series A Preferred Stock shall be converted into Common Stock pursuant to this Section 6, the shares that are converted shall be cancelled and shall not be issuable by this corporation thereafter.

7. *Repurchase Provision.* The corporation shall have the right to repurchase all or any part of the Series A Preferred Stock at any time at a purchase price per share equal to the greater of: (i) the then-current book value per share of the Series A Preferred Stock, as determined under generally accepted accounting principles, (ii) the then-current fair market value per share of the Series A Preferred Stock; or (iii) the then-current fair market value per share of the Common Stock. For purposes of this Section 7, fair market value per share means the fair market value per share as determined reasonably and in good faith by the corporation's Board of Directors, which means the price a third party would pay for the Series A Preferred Stock or Common Stock as of the applicable valuation date on a per share basis. If any holder of Series A Preferred Stock (the Dissenting Holder) does not agree with the fair market value per share of the Series A Preferred Stock or Common Stock as determined by the Board of Directors under this Section 7, the Dissenting Holder shall provide written notice of such disagreement to the corporation within 10 days of the date on which the notice of the repurchase was delivered to the Dissenting Holder. Within 30 days after the timely receipt of such notice from a Dissenting Holder, the corporation shall engage a qualified, independent appraiser (the Appraiser), experienced in appraising companies similar to the corporation and reasonably acceptable to the Dissenting Holder, to determine the fair market value per share of the Series A Preferred Stock or Common Stock, as the case may be. The corporation and the Dissenting Holder must supply all information necessary to allow the Appraiser to perform the appraisal, and the Appraiser will be instructed to use its best efforts to complete the appraisal within 30 days. The fair market value per share determined by the Appraiser will, absent fraud, be final and binding upon all parties to the particular transaction. Upon the completion of the appraisal, the Appraiser will provide the corporation and the other parties instituting the appraisal procedures a written determination of the fair market value per share. All costs associated with such an appraisal will be borne equally by the Dissenting Holder and the corporation.

8. *Antidilution Adjustments.* If the outstanding shares of Common Stock are increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the corporation or of any other corporation by reason of any merger, consolidation, liquidation, reclassification, recapitalization, stock split up, combination of shares, or stock dividend, appropriate adjustment shall be made by the Board of Directors of the corporation in the number, and relative terms, of the shares of Series A Preferred Stock.

9. *Registration Rights.* None.

10. *No Implied Limitations.* Nothing herein shall limit, by inference or otherwise, the discretionary right of the Board of Directors to divide any or all of the shares of any preferred or special classes into series and, within the limitations set forth in the Georgia Business Corporation Code, to fix and determine the relative rights and preferences of the shares of any series so established, to the full extent provided in the Articles of Incorporation of the corporation.

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11. *General Provisions.* In addition to the above provisions with respect to the Series A Preferred Stock, such Series A Preferred Stock shall be subject to, and entitled to the benefits of, the provisions set forth in the corporation's Articles of Incorporation with respect to preferred stock generally.

12. *Definitions.* As used herein with respect to the Series A Preferred Stock, the following terms have the following meanings:

a. The term *Change of Control* shall mean the consummation of (i) a merger, share exchange, consolidation or other business combination of the corporation with any other person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) or affiliate thereof, other than a merger, share exchange, consolidation or business combination that would result in the outstanding common stock of the corporation immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into common stock of the surviving entity or a parent or affiliate thereof) more than fifty percent (50%) of the outstanding common stock of the corporation or such surviving entity or parent or affiliate thereof outstanding immediately after such merger, consolidation or business combination, or (ii) an agreement for the sale or disposition by the corporation of all or substantially all of the corporation's assets

b. The term *parity stock* means any class of capital stock or series of preferred stock (including but not limited to Series A Preferred Stock) and any other class of stock of the corporation hereafter authorized that ranks on a parity with the Series A Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the corporation.

c. The term *junior stock* shall mean the Common Stock and any other class of stock of the corporation hereafter authorized over which the Series A Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the corporation.

13. *Notices.* All notices required or permitted to be given by the corporation with respect to the Series A Preferred Stock shall be in writing, and if delivered by first class United States mail, postage prepaid, to the holders of the Series A Preferred Stock at their last addresses as they shall appear upon the books of the corporation, shall be conclusively presumed to have been duly given, whether or not the shareholder actually receives such notice; provided, however, that failure to duly give such notice by mail, or any defect in such notice, to the holders of any stock designated for repurchase, shall not affect the validity of the proceedings for the repurchase of any other shares of Series A Preferred Stock.

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**APPENDIX C**

**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION  
AND ANALYSIS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**

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GEORGIA BANCSHARES, INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets

	September 30, 2005 (unaudited)	December 31, 2004
<b>Assets:</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 9,572,389	\$ 4,631,303
Interest-bearing deposits in other banks	90,654	5,115,984
Federal funds sold	2,485,000	0
Cash and cash equivalents	12,148,043	9,747,287
Investment securities:		
Securities available-for-sale	25,750,626	35,039,356
Other investments	1,997,241	1,540,466
	27,747,867	36,579,822
Loans, gross	217,687,155	192,294,881
Loan loss reserve	2,888,848	2,654,334
Loans, net	214,798,307	189,640,547
Accrued interest receivable	2,377,332	1,612,109
Premises and equipment, net	6,546,528	6,212,760
Bank owned life insurance	4,848,006	4,715,027
Other assets	1,426,338	1,042,499
<b>Total assets</b>	<b>\$ 269,892,421</b>	<b>\$ 249,550,051</b>
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing	\$ 30,034,175	\$ 22,666,896
NOW	38,628,841	29,139,505
Savings	23,713,173	29,340,650
Time deposits \$100,000 and over	73,408,621	78,243,539
Other time deposits	62,359,069	52,867,428
Total deposits	228,143,879	212,258,018
Securities sold under agreements to repurchase	215,165	529,358
Federal funds purchased	0	5,500,000
Federal Home Loan Bank advances	10,000,000	2,000,000
Junior subordinated debentures	6,702,000	6,702,000
Accrued interest payable and other liabilities	1,762,231	1,454,492
Total liabilities	246,823,275	228,443,868
<b>Shareholders Equity</b>		
Common stock	17,248,549	17,217,471
Retained earnings	5,825,097	3,861,473
Accumulated other comprehensive income (loss)	(4,500	) 27,239
Total shareholders equity	23,069,146	21,106,183
<b>Total liabilities and shareholders equity</b>	<b>\$ 269,892,421</b>	<b>\$ 249,550,051</b>

See notes to condensed consolidated financial statements.



**GEORGIA BANCSHARES, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Income**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Interest income:</b>		
Interest and fees on loans	\$ 3,993,443	\$ 3,131,931
Interest and dividends on investments	265,949	390,252
Interest on federal funds sold and other interest income	11,019	12,997
<b>Total interest income</b>	<b>4,270,411</b>	<b>3,535,180</b>
<b>Interest expense:</b>		
Interest on deposits	1,384,434	1,036,877
Interest on securities sold under agreements to repurchase	713	2,001
Interest on other borrowed funds	217,845	20,958
<b>Total interest expense</b>	<b>1,602,992</b>	<b>1,059,836</b>
<b>Net interest income</b>	<b>2,667,419</b>	<b>2,475,344</b>
Provision for loan losses	96,600	280,000
<b>Net interest income after provision for loan losses</b>	<b>2,570,819</b>	<b>2,195,344</b>
<b>Other income:</b>		
Service charges on deposit accounts	88,422	73,372
Losses on sale of other assets	0	(5,000 )
Gains on sales of securities available-for-sale	0	11,146
Mortgage banking income	240,532	87,352
Other operating income	111,513	47,295
<b>Total other income</b>	<b>440,467</b>	<b>214,165</b>
<b>Other expense:</b>		
Salaries and employee benefits	1,306,908	976,884
Occupancy and equipment expense	211,104	197,554
Data processing	162,250	151,420
Other operating expenses	315,129	360,141
<b>Total other expense</b>	<b>1,995,391</b>	<b>1,685,999</b>
<b>Income before income taxes</b>	<b>1,015,895</b>	<b>723,510</b>
Income tax expense	306,000	238,000
<b>Net earnings</b>	<b>\$ 709,895</b>	<b>\$ 485,510</b>
<b>Basic earnings per share</b>	<b>\$ 0.24</b>	<b>\$ 0.17</b>
<b>Diluted earnings per share</b>	<b>\$ 0.20</b>	<b>\$ 0.14</b>

See notes to condensed consolidated financial statements.

**GEORGIA BANCSHARES, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Income**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Interest income:</b>		
Interest and fees on loans	\$ 11,351,640	\$ 8,678,276
Interest and dividends on investments	858,683	997,519
Interest on federal funds sold and other interest income	33,180	50,954
Total interest income	12,243,503	9,726,749
<b>Interest expense:</b>		
Interest on deposits	3,818,125	3,046,708
Interest on securities sold under agreements to repurchase	3,565	4,664
Interest on other borrowed funds	537,587	42,020
Total interest expense	4,359,277	3,093,392
<b>Net interest income</b>	<b>7,884,226</b>	<b>6,633,357</b>
Provision for loan losses	289,800	430,000
<b>Net interest income after provision for loan losses</b>	<b>7,594,426</b>	<b>6,203,357</b>
<b>Other income:</b>		
Service charges on deposit accounts	252,837	231,355
Gains (losses) on sale of other assets	599	(9,678 )
Gains on sales of securities available-for-sale	0	17,015
Mortgage banking income	505,635	87,352
Other operating income	316,168	121,558
Total other income	1,075,239	447,602
<b>Other expense:</b>		
Salaries and employee benefits	3,720,764	2,705,962
Occupancy and equipment expense	632,408	542,139
Data processing	472,727	442,011
Other operating expenses	1,023,071	934,104
Total other expense	5,848,970	4,624,216
<b>Income before income taxes</b>	<b>2,820,695</b>	<b>2,026,743</b>
Income tax expense	857,071	661,000
<b>Net earnings</b>	<b>\$ 1,963,624</b>	<b>\$ 1,365,743</b>
<b>Basic earnings per share</b>	<b>\$ 0.66</b>	<b>\$ 0.46</b>
<b>Diluted earnings per share</b>	<b>\$ 0.56</b>	<b>\$ 0.40</b>

See notes to condensed consolidated financial statements.

**GEORGIA BANCSHARES, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 1,963,624	\$ 1,365,743
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	434,904	441,477
Provision for loan losses	289,800	430,000
Gains on sales of securities available-for-sale	0	(17,015 )
(Gains) losses on sale of other assets	(599 )	9,678
Deferred income taxes	(115,921 )	(209,612 )
Changes in operating assets and liabilities:		
Unearned loan fees, net	(62,819 )	2,479
Accrued interest receivable	(765,223 )	(244,085 )
Increase in bank owned life insurance	(132,979 )	0
Other assets	(247,867 )	(330,682 )
Accrued interest payable and other liabilities	307,739	364,175
Net cash provided by operating activities	1,670,659	1,812,158
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(1,343,424 )	(15,395,412 )
Proceeds from sales and pay downs of securities available-for-sale	3,430,210	7,361,469
Proceeds from maturities of securities available-for-sale	7,000,000	4,270,853
Purchases of other investments	(456,775 )	0
Proceeds from redemption of other investments	0	50,200
Net increase in loans	(25,384,741 )	(38,536,364 )
Purchases of premises and equipment	(617,919 )	(1,076,928 )
Net cash used in investing activities	(17,372,649 )	(43,326,182 )
<b>Cash flows from financing activities:</b>		
Net increase in deposits	15,885,861	38,096,363
Net change in federal funds purchased	(5,500,000 )	0
Net change in securities sold under agreements to repurchase	(314,193 )	61,337
Payments on Federal Home Loan Bank advances	(2,000,000 )	0
Proceeds from Federal Home Loan Bank advances	10,000,000	0
Proceeds from junior subordinated debentures	0	6,702,000
Proceeds from exercise of employee stock options	31,078	33,983
Settlement of stock purchase obligation	0	(657,730 )
Net cash provided by financing activities	18,102,746	44,235,953
<b>Net increase in cash and cash equivalents</b>	<b>2,400,756</b>	<b>2,721,929</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>9,747,287</b>	<b>15,432,998</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 12,148,043</b>	<b>\$ 18,154,927</b>
Supplemental disclosures:		
Cash paid during the period for interest	\$ 4,310,010	\$ 3,007,147
Cash paid during the period for income taxes	\$ 1,015,000	\$ 795,909
Non-cash investing and financing activities:		
Change in unrealized gains on securities available-for-sale, net of tax	\$ 31,739	\$ (47,596 )

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See notes to condensed consolidated financial statements.

**GEORGIA BANCSHARES, INC. AND SUBSIDIARY**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with the requirements for interim financial statements and, accordingly, they are condensed and omit disclosures that would substantially duplicate those contained in the most recent annual report to shareholders. The financial statements as of September 30, 2005 and for the interim periods ended September 30, 2005 and 2004 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The financial information as of December 31, 2004 has been derived from the audited financial statements as of that date. For further information, refer to the financial statements and the notes included in Georgia Bancshares, Inc. 2004 Annual Report.

**Critical Accounting Policies**

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements at December 31, 2004 as filed in our Annual Report on Form 10-K.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates which could have a material impact on our carrying values of assets and liabilities and our results of operations.

We believe the process for establishing the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. We have developed policies and procedures for evaluating the overall quality of our credit portfolio and the timely identification of potential credit problems. The loan portfolio is periodically reviewed to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. We have established an allowance for loan losses through a provision for loan losses charged to expense on our statement of operations.

**Stock Compensation Plans**



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Statement of Financial Accounting Standards ( SFAS ) No. 123, *Accounting for Stock-Based Compensation*, encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation costs for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Accordingly, the Company has recorded no expense in the nine months ended September 30, 2005 and September 30, 2004 related to its stock options. The Company has elected to continue with the accounting

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**GEORGIA BANCSHARES, INC. AND SUBSIDIARY**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

methodology in Opinion No. 25 and, as a result, has provided the following pro forma disclosure of net income and basic and diluted earnings per common share.

		<b>For the nine months ended September 30,</b>	
		<b>2005</b>	<b>2004</b>
Net earnings	As reported	\$ 1,963,624	\$ 1,365,743
	Effect of stock option grants	(137,752 )	(132,116 )
	Pro forma	\$ 1,825,872	\$ 1,233,627
Basic earnings per share	As reported	\$ 0.66	\$ 0.46
	Pro forma	\$ 0.61	\$ 0.42
Diluted earnings per share	As reported	\$ 0.56	\$ 0.40
	Pro forma	\$ 0.52	\$ 0.36

**NOTE 2 COMPREHENSIVE INCOME**

Comprehensive income includes net income and other comprehensive income, which is defined as non-owner related transactions in equity. The following table sets forth the amounts of other comprehensive income included in equity along with the related tax effect for the nine-month periods ended September 30, 2005 and 2004.

	<b>Pre-tax Amount</b>	<b>Income Tax Effect</b>	<b>Net-of-tax Amount</b>
<b>For the Nine Months Ended September 30, 2005:</b>			
Unrealized gains on securities available-for-sale:			
Unrealized holding gains arising during the period	\$ (51,191 )	\$ 19,452	\$ (31,739 )
Reclassification adjustment for gains included in net earnings			
Other comprehensive income (loss)	\$ (51,191 )	\$ 19,452	\$ (31,739 )
	<b>Pre-tax Amount</b>	<b>Income Tax Effect</b>	<b>Net-of-tax Amount</b>
<b>For the Nine Months Ended September 30, 2004:</b>			
Unrealized gains on securities available-for-sale:			
Unrealized holding gains arising during the period	\$54,100	\$(17,892 )	\$36,208
Reclassification adjustment for gains included in net earnings	17,015	(5,627 )	11,388
Other comprehensive income (loss)	\$71,115	\$(23,519 )	\$47,596

Accumulated other comprehensive income consists solely of the unrealized gain on securities available for sale, net of the deferred tax effects.

**NOTE 3 EARNINGS PER SHARE**

Net earnings per share basic is computed by dividing net earnings by the weighted average number of common shares outstanding. Net earnings per share diluted is computed by dividing net earnings by

**GEORGIA BANCSHARES, INC. AND SUBSIDIARY**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**NOTE 3 EARNINGS PER SHARE (Continued)**

the weighted average number of common shares outstanding plus dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock options.

	<b>Three Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Net earnings per share basic computation:</b>		
Net earnings	\$ 709,895	\$ 485,510
Average common shares outstanding basic	2,974,539	2,939,406
Net earnings per share basic	\$ 0.24	\$ 0.17
<b>Net earnings per share diluted computation:</b>		
Net earnings	\$ 709,895	\$ 485,510
Average common shares outstanding basic	2,974,539	2,939,406
Incremental shares from assumed conversions:		
Stock options and warrants	500,629	411,690
Average common shares outstanding diluted	3,475,168	3,351,096
Net earnings per share diluted	\$ 0.20	\$ 0.14

All information has been adjusted for any stock splits and stock dividends effected during the periods presented.

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Net earnings per share basic computation:</b>		
Net earnings	\$ 1,963,624	\$ 1,365,743
Average common shares outstanding basic	2,973,482	2,937,223
Net earnings per share basic	\$ 0.66	\$ 0.46
<b>Net earnings per share diluted computation:</b>		
Net earnings	\$ 1,963,624	\$ 1,365,743
Average common shares outstanding basic	2,973,482	2,937,223
Incremental shares from assumed conversions:		
Stock options and warrants	505,921	448,441
Average common shares outstanding diluted	3,479,403	3,385,664