GUARANTY BANCSHARES INC /TX/
Form PRER14A
August 22, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

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

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Guaranty Bancshares, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

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

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $1.00 per share

(2) Aggregate number of securities to which transaction applies:

61,749

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

$24.00 (per share price to be paid in the transaction)

(4) Proposed maximum aggregate value of transaction:

$1,481,976

(5) Total fee paid:

$175

x Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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GUARANTY BANCSHARES, INC.

100 W. Arkansas

Mt. Pleasant, Texas 75455

(903) 572-9881

, 2005

Dear Shareholder:

You are cordially invited to attend the special meeting of shareholders of Guaranty Bancshares, Inc. (Guaranty) on , 2005 beginning at a.m., local time, to be held at the main office of Guaranty Bond Bank at 100 W. Arkansas, Mt. Pleasant, Texas.

At the special meeting, you will be asked to consider and vote on a proposal to approve an Agreement and Plan of Merger which provides for the merger of GB Facilitation, Inc., a newly formed, wholly-owned subsidiary of Guaranty, with and into Guaranty, with Guaranty as the surviving entity in what is commonly referred to as a going private transaction. The purpose of the merger is to reduce our number of shareholders of record to fewer than 300, as required for the termination of our registration under the Securities Exchange Act of 1934, as amended, and thereby eliminate the burdens and expense required to comply with the reporting and related requirements under those laws.

If the merger agreement is approved and the merger is subsequently completed, shareholders owning fewer than 600 shares of Guaranty common stock (other than shareholders who properly exercise their rights as dissenting shareholders) will receive $24.00 in cash for each share they own as of the effective time of the merger. All other shares will remain outstanding and be unaffected by the merger.

At the special meeting, you will also be asked to consider and vote on a proposal to approve an amendment to Guaranty s Articles of Incorporation. The amendment would grant us a right of first refusal with respect to certain transfers of shares of our common stock. This amendment is intended help us control any potential future increases in the number of our record shareholders and enable us to avoid or delay again becoming subject to the reporting requirements under the Exchange Act. Approval of the amendment is contingent upon shareholder approval of the merger agreement and completion of the merger.

Our board of directors believes that the merger agreement and the amendment are in the best interests of Guaranty and our shareholders and unanimously recommends that you vote FOR approval of the merger agreement and FOR approval of the amendment. The approval of the merger agreement and the amendment both require the affirmative vote of the holders of a majority of the outstanding shares of our common stock. Whether or not you plan to attend the special meeting, please complete and return the enclosed proxy card. If you sign, date and return your proxy card without indicating how you want to vote, your proxy will be counted as a vote FOR approval of the merger agreement and FOR approval of the amendment.

If you participate in the Guaranty Bancshares 401(k) Plan, you may direct the trustee how to vote the number of shares of Guaranty common stock that are credited to your account as of the record date. If you are a participant in the 401(k) Plan, you will receive a separate voting instruction form on which to indicate your voting directions with respect to the shares of Guaranty common stock you hold through the 401(k) Plan.

The enclosed proxy statement gives you detailed information about the special meeting, the merger, the amendment and related matters. We urge you to carefully read the enclosed proxy statement, including the considerations discussed under Special Factors, beginning on page 10 and the appendices to the proxy statement, which include the merger agreement and the amendment. You may also obtain information about Guaranty from documents we have filed with the Securities and Exchange Commission. See Where You Can Find More Information on page 56.

As a shareholder of Guaranty, you have the right to dissent from the merger and obtain payment in cash of the fair value of your shares of Guaranty common stock under the applicable provisions of Texas law. See Proposal I Approval of the Merger Agreement Dissenters Rights of Appraisal and *Appendix D*.

On behalf of our Board of Directors, thank you for your continued interest in Guaranty.

Sincerely,

Arthur B. Scharlach, Jr.

Chairman of the Board and

Chief Executive Officer

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GUARANTY BANCSHARES, INC.

100 W. Arkansas

Mt. Pleasant, Texas 75455

(903) 572-9881

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD , 2005

Notice is hereby given that a special meeting of shareholders of Guaranty Bancshares, Inc., a Texas corporation, will be held at the main office of Guaranty Bond Bank at 100 W. Arkansas, Mt. Pleasant, Texas, beginning at a.m., local time, on , 2005, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of June 13, 2005, by and between Guaranty and GB Facilitation, Inc., a Texas corporation and wholly-owned subsidiary of Guaranty, pursuant to which GB Facilitation will merge with and into Guaranty, with Guaranty being the surviving corporation;

2. To consider and vote upon an amendment to Guaranty s Articles of Incorporation which would grant Guaranty a right of first refusal with respect to certain transfers of shares of Guaranty common stock. The amendment is contingent on shareholder approval of the merger agreement and completion of the merger; and

3. To transact such other business as may properly come before the special meeting or any adjournments or postponements thereof.

Guaranty s shareholders have the right to dissent from the merger and obtain payment in cash of the fair value of their shares of Guaranty common stock under the applicable provisions of Texas law. In order for a shareholder to perfect his or her right to dissent, such shareholder must comply with the provisions of Articles 5.11, 5.12 and 5.13 of the Texas Business Corporation Act regarding the rights of dissenting shareholders. We have attached a copy of Articles 5.11, 5.12 and 5.13 of the Texas Business Corporation Act as *Appendix D* to the accompanying proxy statement and a summary of these provisions can be found under Proposal I: Approval of the Merger Agreement Dissenters Rights of Appraisal.

Only shareholders of record as of the close of business on , 2005, the record date, are entitled to notice of and to vote at the special meeting and at any adjournments or postponements thereof.

By Order of the Board of Directors,

Arthur B. Scharlach, Jr.

Chairman of the Board and

Chief Executive Officer

Mt. Pleasant, Texas

, 2005

Your Vote Is Very Important

You are cordially invited to attend the special meeting in person. Whether or not you plan to attend the special meeting, please complete, date and sign the enclosed proxy and mail it promptly in the enclosed envelope. You may revoke your proxy in the manner described in the accompanying proxy statement at any time before it is voted at the special meeting. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy card.

The board of directors of Guaranty recommends that you vote FOR approval of the merger agreement and FOR approval of the amendment.

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PRELIMINARY PROXY STATEMENT

FOR THE SPECIAL MEETING OF THE

SHAREHOLDERS OF

GUARANTY BANCSHARES, INC.

TO BE HELD ON , 2005

This proxy statement is being furnished in connection with the solicitation of proxies by the board of directors of Guaranty Bancshares, Inc. for use at the special meeting of shareholders to be held on , 2005 at the main office of Guaranty Bond Bank, 100 W. Arkansas, Mt. Pleasant, Texas beginning at a.m., local time.

At the special meeting, shareholders of record as of , 2005 will vote on (1) a proposal to approve the Agreement and Plan of Merger, dated as of June 13, 2005, by and between Guaranty and GB Facilitation, Inc., a newly-formed subsidiary of Guaranty organized for the sole purpose of facilitating the proposed transaction and (2) a proposal to approve an amendment to Guaranty s Articles of Incorporation. The merger agreement is attached to this proxy statement as *Appendix A* and the full text of the proposed amendment is attached to this proxy statement as *Appendix B*.

Pursuant to the merger agreement, GB Facilitation will merge with and into Guaranty, with Guaranty as the surviving corporation. If shareholders approve the merger agreement and the merger is subsequently completed, shareholders owning fewer than 600 shares of Guaranty common stock, in the aggregate, whether of record or in street name (other than shareholders who properly exercise their rights as dissenting shareholders), will receive $24.00 in cash for each share they own as of the effective time of the merger. All other shares will remain outstanding and be unaffected by the merger. After the merger, we anticipate that we will have fewer than 300 shareholders of record. As a result, we will be able to terminate our registration under the Securities Exchange Act of 1934, as amended, and thereby eliminate the significant expense required to comply with the periodic reporting and related requirements of those laws.

The proposed amendment to our Articles of Incorporation would prohibit certain transfers of Guaranty common stock unless the transferee first offers to sell the shares he or she would like to transfer to Guaranty. The purpose of the amendment is to help us control any potential future increases in the number or our record shareholders to enable us to avoid or delay again becoming subject to the reporting requirements under the Exchange Act. Approval of the proposed amendment is contingent on shareholder approval of the merger agreement and completion of the merger.

The merger cannot occur unless the merger agreement is approved by the holders of a majority of the outstanding shares of our common stock. The amendment must also be approved by the holders of a majority of the outstanding shares of our common stock. As of the record date, the directors and executive officers of Guaranty (12 persons) were entitled to vote shares, or % of the outstanding shares of Guaranty common stock entitled to vote at the special meeting. These shares are expected to be voted for approval of the merger agreement and for approval of the amendment.

Please see   Where You Can Find More Information   on page 56 for additional information about Guaranty on file with the Securities and Exchange Commission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the merits or fairness of this transaction, or passed upon the accuracy or adequacy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.

Proxy Statement dated   , 2005 and first mailed to Guaranty shareholders

on or about   , 2005.

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HOW TO OBTAIN ADDITIONAL INFORMATION

This proxy statement incorporates important business and financial information about Guaranty from documents filed with the SEC that have not been included in or delivered with this document. This information is described on page 56 under Where You Can Find More Information. You can obtain free copies of this information by writing or calling:

Guaranty Bancshares, Inc.

100 W. Arkansas

Mt. Pleasant, Texas 75455

Attention: Clifton A. Payne, Chief Financial Officer

Telephone (903) 572-9881

PLEASE NOTE

We have not authorized anyone to provide you with any information other than the information included in this document and the documents to which we refer you. If someone provides you with other information, please do not rely on it as being authorized by us.

Our common stock is not a deposit or bank account and is not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The words we, our, and us, as used in this proxy statement, refer to Guaranty and its wholly-owned subsidiaries, collectively, unless the context indicates otherwise.

This proxy statement has been prepared as of , 2005. There may be changes in the affairs of Guaranty since that date which are not reflected in this document.

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SUMMARY TERM SHEET

The following summary term sheet, together with the Questions and Answers following this summary term sheet, highlight selected information from this proxy statement and may not contain all of the information that is important to you. We urge you to carefully read this entire document and the other documents that we refer to in this document. These documents will give you a more complete description of the transaction that we are proposing. We have included page references in this summary to direct you to other places in this proxy statement where you can find a more complete description of the documents that we have summarized.

Structure of the Merger (page 43)

The merger agreement provides for the merger of GB Facilitation with and into Guaranty, with Guaranty surviving the merger. GB Facilitation is a newly-formed Texas corporation organized as a wholly-owned subsidiary of Guaranty for the sole purpose of facilitating the merger. After the merger, we expect our business and operations to continue as they are currently being conducted. We will continue to operate as a bank holding company and the parent corporation for the Bank, but will no longer file reports with the SEC. We expect to complete the merger in October of 2005, although delays could occur.

We have attached the merger agreement to this document as Appendix A. Please read the merger agreement. It is the legal document that governs the merger.

What You Will Receive in the Merger (page 43)

If the merger is completed, shareholders who own fewer than 600 shares of Guaranty common stock in the aggregate, whether of record or in street name, except for dissenting shares, will receive $24.00 in cash for each share they own as of the effective time of the merger. Shareholders who own 600 or more shares of Guaranty common stock will continue to hold their shares of Guaranty common stock and will not be entitled to receive any cash payment from us upon completion of the merger.

If you are the holder of fewer than 600 shares of our common stock, you will have to surrender your stock certificates representing such shares in order to receive the cash consideration for your shares. Do not send in your certificates until you receive written instructions regarding the certificate exchange process on or after the completion of the merger.

Determination of Shares Held (page 43)

A shareholder who owns fewer than 600 shares of Guaranty common stock in the aggregate, whether of record or in street name, will receive $24.00 per share in cash as a result of the merger. 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. Shares held by a broker in street name on a shareholder s behalf are held of record by the broker. However, because these shares could be transferred to each individual shareholder, we have decided that such shares held in street name should be included in determining which shareholders are to receive cash in the merger. Shares held by the Guaranty

401(k) Plan are held of record by the Plan and will not be affected in the merger or included for purposes of determining which shareholders are to receive cash in the merger.

For purposes of the merger, we may, in our sole discretion and without the input of the shareholder, aggregate the outstanding shares held (whether of record or beneficially owned) by any person or persons that we determine to constitute a single holder for purposes of determining the number of shares owned by such holder. Further, under the Securities Exchange Act of 1934, securities registered in substantially similar names where we have reason to believe, because of the address or other indications, that such names represent the same person, may be included as held of record by one person. Accordingly, if may hold shares in street name and record form, these shares would be combined for purposes of determining the number of shares you own.

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Fairness of the Transaction (page 16)

We believe that the merger is fair to our unaffiliated shareholders who will receive cash in the merger and to our unaffiliated and affiliated shareholders who will retain their shares. Our Board of Directors has approved the merger agreement and the transactions contemplated thereby. The Board s decision is based on several factors, which are summarized beginning on page 16. These factors include:

Independent Valuation: According to an independent valuation prepared by Hoefer & Arnett, Incorporated, the fair value of our common stock as of May 17, 2005 was $24.00 per share.

Opinion of Independent Financial Advisor: Hoefer & Arnett has delivered its opinion to our Board of Directors that the $24.00 per share price to be paid in the merger is fair, from a financial point of view, to our shareholders, both those who will receive cash in the merger and those who will retain their shares in the merger. A copy of the opinion is attached as *Appendix C*. See Special Factors Opinion of Independent Financial Advisor on page 20 for additional information.

Historical Market Prices of Guaranty Common Stock: The low and high sales prices of our common stock reported by the Nasdaq Stock Market over the past two years have ranged from $16.40 to $24.00 per share, with trades during the first six months of 2005 ranging from $17.50 to $23.38. See Information about Guaranty and its Affiliates Guaranty Common Stock Purchase and Sale Information on page 55, and Market for Common Stock and Dividends on page 53 for more specific information regarding prices at which our shares have been sold.

Premium to Book Value: The price per share to be paid in the merger reflects a multiple of 1.82 times our June 30, 2005 book value per share, representing a 81.54% premium over book value.

Going Concern Value: The price per share to be paid in the merger reflects Guaranty s value as a going concern and was not based on an amount that might be realized in a sale of 100% of our stock, since the merger will not result in a change in control of Guaranty.

Earnings Multiple: The price per share to be paid in the merger reflects a multiple of 19.35 times our earnings per share for the year ended December 31, 2004.

Liquidity Event: The merger will allow our shareholders owning fewer than 600 shares to liquidate their holdings without incurring brokerage costs. The Board believes this provides a benefit to our shareholders, particularly given the limited trading volume for our shares.

In addition, based on the same factors discussed above, each of the other persons who filed the Schedule 13E-3, which consists of each of the directors and executive officers of Guaranty and GB Facilitation, believe that the merger is fair to Guaranty s unaffiliated shareholders who will receive cash in the merger and to unaffiliated shareholders who will retain their shares.

Effects of the Merger on Shareholders (pages 27 and 28)

The merger will have various effects on our shareholders, including:

For shareholders who retain their shares in the merger:

- continued ownership of our common stock;
- decreased liquidity in our common stock;
- decreased access to publicly available information about Guaranty;
- a reduction in book value as of June 30, 2005 on a pro forma basis;
- an increase in earnings per share for year ended December 31, 2004 and the six months ended June 30, 2005 on a pro forma basis; and

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a slight increase in their respective percentage ownership of our common stock.

For shareholders receiving cash in the merger:

receipt of $24.00 per share in cash, the price determined by our Board;

loss of their equity and voting interest in Guaranty and loss of the ability to sell their shares at the time and for the price they choose;

federal income tax liability for any cash received in the merger; and

liquidation of their ownership interest in Guaranty without incurring brokerage costs.

Additional Effects of the Merger on Affiliated Shareholders (page 29)

Because of their positions, the directors and executive officers of Guaranty and GB Facilitation are deemed affiliates engaged in the transaction and are filing persons on the Schedule 13E-3 transaction statement filed by Guaranty and GB Facilitation in connection with the merger. Our directors and executive officers have no financial interests in the merger that differ from the interests of our unaffiliated shareholders. The merger will, however, have the following additional effects on our directors and executive officers:

elimination of individual reporting obligations under federal securities laws; and

elimination of a safe harbor for dispositions of their shares under federal securities laws.

Effects of the Merger on Guaranty (page 25)

As a result of the merger:

we will no longer be classified as a public company and will suspend indefinitely our filing of annual and periodic reports and proxy statements with the SEC;

our common stock will no longer be quoted on the Nasdaq Stock Market or any exchange;

the number of record shareholders, measured as of May 25, 2005, will be reduced from approximately 430 to approximately 184, and the number of outstanding shares of our common stock will decrease from 2,826,012 to approximately 2,764,263;

the percentage of ownership of our common stock beneficially held by executive officers and directors (12 persons) as a group as of May 25, 2005, will increase from 33.39% to approximately 34.12%;

diluted earnings per share of our common stock for the year ended December 31, 2004 would increase by approximately 5.65% from $1.24 on a historical basis to approximately $1.31 on a pro forma basis and diluted earnings per share for the six months ended June 30, 2005 of $0.71 would increase by approximately 4.23% to approximately $0.74 on a pro forma basis;

total shareholders equity as of June 30, 2005 would be reduced from approximately $37.4 million on a historical basis to approximately $35.8 million on a pro forma basis, assuming 61,749 shares are cashed out in the merger;

the book value per share of our common stock as of June 30, 2005 would be reduced from $13.22 per share on a historical basis to approximately $12.95 per share on a pro forma basis, assuming 61,749 shares are cashed out in the merger; and

the reduction in our shareholders equity described above will cause a corresponding decrease in our regulatory capital ratios. Assuming 61,749 shares are cashed out in the merger, our leverage capital ratio would decrease from 8.22% as of June 30, 2005 to approximately 7.96% on a pro forma basis; our tier 1 capital to risk-weighted assets ratio would be reduced from 11.90% as of June 30, 2005 to approximately 11.54% on a pro forma basis; and our total risk-based capital ratio would decrease from 13.06% as of June 30, 2005 to approximately 12.70% on a pro forma basis.

Guaranty Plans to Continue to Pay Semi-Annual Dividends (page 53)

Following the merger, subject to applicable statutory and regulatory restrictions, Guaranty intends to continue its practice of paying semi-annual cash dividends. For the second quarter of 2005, Guaranty paid a cash dividend of $0.21 per share. Guaranty expects that because of the projected cost savings, the merger will have no adverse effect on Guaranty s ability to pay cash dividends in the near future.

Conditions to the Completion of the Merger (page 46)

The completion of the merger depends upon the satisfaction of a number of conditions, unless waived, including:

- approval of the merger agreement by the holders of a majority of the outstanding shares of our common stock;
- all of the representations and warranties made in the merger agreement must be true and correct in all material respects as of the effective time of the merger;
- absence of pending or threatened litigation regarding the merger; and
- that the aggregate number of shares to be cashed out in the merger, plus the number of shares held by shareholders who delivered their notice to exercise their rights to dissent from the merger pursuant to the provisions of the Texas Business Corporation Act (TBCA), does not exceed 100,000 shares.

Material U.S. Federal Income Tax Consequences (page 31)

The receipt of cash in the merger will be taxable for United States federal income tax purposes. You will be treated as either having sold your shares of our common stock for the cash received or as having received the cash as a dividend. In general, your receipt of cash in exchange for your shares of our common stock will be treated as a sale or exchange and you will recognize gain or loss in an amount equal to the cash received less your adjusted tax basis of your shares exchanged for such cash if you actually and constructively own no shares of our common stock immediately after the exchange. If you actually or constructively own shares of our common stock after the exchange, your receipt of cash in exchange for your shares of our common stock may be taxed as a dividend. Shareholders who do not receive cash should not recognize any gain or loss on continuing to hold their shares of Guaranty common stock as a result of the merger.

For a more complete description of the United States federal income tax consequences to you as a result of the merger, please read the discussion under Special Factors Material U.S. Federal Income Tax Consequences.

Reasons for the Merger (page 10)

Our principal reasons for effecting the merger are:

- the direct and indirect cost savings of approximately $350,000 per year that we expect to experience as a result of the deregistration of our common stock under the Exchange Act; 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.

Appraisal Rights of Shareholders (page 47)

As a shareholder of Guaranty, under the provisions of the TBCA you have the right to dissent from the merger. If the merger is approved by the shareholders and consummated, any shareholder who properly perfects his right to dissent to the merger will be entitled to receive an amount of cash equal to the fair value of his or her shares rather than the consideration provided by the merger agreement.

Proposed Amendment to Articles of Incorporation (page 50)

The proposed amendment to the Articles of Incorporation is designed to grant us the right to purchase shares of our common stock that a shareholder desires to transfer if that transfer would result in an increase in the number of our record shareholders. The amendment is intended to help us control any potential future increases in the number of our record shareholders and enable us to avoid or delay again becoming subject to the reporting requirements under the Exchange Act.

As a result of the amendment, a shareholder that wants to transfer any shares of Guaranty common stock must give us a 30 day period in which to purchase the shares. The purchase price we will pay for the shares shall be no less than the per share price established by periodic independent third party appraisals of our common stock that we intend to obtain following the merger.

The amendment would be effective when Guaranty files articles of amendment with the Secretary of State of Texas. In accordance with Texas law, the restriction imposed by the amendment would not be binding with respect to shares issued before shareholder approval of the amendment unless the shareholder voted for approval of the amendment. We intend to file the articles of amendment promptly following completion of the merger. Approval of the amendment is contingent on shareholder approval of the merger agreement and completion of the merger. The merger is not contingent on shareholder approval of the amendment.

If the amendment is approved and becomes effective, and if you are the holder of 600 or more shares of our common stock and you voted in favor of the amendment, we will ask that you surrender your stock certificate(s) representing your shares to receive a new stock certificate(s) which will include information regarding the transfer restriction.

Shares Entitled to Vote and Vote Required (page 41)

Approval of the merger agreement and the amendment each require the approval of the holders of a majority of the outstanding shares of our common stock outstanding on , 2005. As of the close of business on , 2005, there were shares of our common stock entitled to notice of and to vote at the special meeting. As of the record date, our directors and executive officers were entitled to vote shares, or % of our outstanding common stock at the special meeting. These shares are expected to be voted for approval of the merger agreement and for approval of the amendment. Accordingly, shares held by unaffiliated shareholders, or % of our outstanding common stock, must be voted in favor of the merger agreement in order to approve the transaction. This number must also be voted in favor of the amendment for it to be approved.

Effective Time of the Merger (page 45)

The merger will become effective at the date and time specified in the Certificate of Merger to be issued by the Secretary of State of Texas. If our shareholders approve the merger agreement at the special meeting, and if the other conditions to the parties obligations to effect the merger are met or waived by the party entitled to do so, we anticipate that the merger will be completed in October of 2005, although delays could occur.

Financing of the Merger (page 46)

We estimate that approximately $1.5 million will be required to pay for the shares to be exchanged in the merger and that the expenses related to the merger will be approximately $120,000. We intend to use existing cash generated from our operations to fund the merger. Although it is not anticipated that we will need funds in excess of cash on hand to finance the merger, if additional funds are required, it is likely we will borrow such funds from one of our correspondent banks.

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A WARNING ABOUT FORWARD LOOKING STATEMENTS

We have made forward-looking statements in this proxy statement (and in documents to which we refer you in this proxy statement) that are subject to risks and uncertainties. You can identify these statements from our use of the words anticipate, believe, continue, expect, estimate, intend, may, will, should and similar expressions. These forward-looking statements include information about possible or assumed future results of our operations after the transaction is completed. Important factors that could cause actual results or developments to differ materially from estimates or projections contained in our forward-looking statements include, without limitation:

- general business and economic conditions in the markets we serve may change or be less favorable than anticipated;
- deposit attrition, operating costs, customer loss and business disruption may be greater than expected;
- competition among financial services companies may increase;
- changes in the interest rate environment may reduce our interest margins;
- changes in market rates and prices may impact the value of our securities, loans, deposits and other financial instruments;
- our actual cost savings resulting from the transaction are less than expected or we are unable to realize those cost savings as soon as expected;
- legislative or regulatory changes may adversely affect our businesses;
- personal or commercial customers bankruptcies increase;
- changes may occur in the securities markets; and
- operational risks may occur, including data processing system failures or fraud.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this proxy statement, any supplement to this proxy statement and the documents we have incorporated by reference. We will not update these statements unless the securities laws require us to do so, such as in the event of a material change in information previously disclosed.

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QUESTIONS AND ANSWERS

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

A: The special meeting will be held on , 2005 at a.m., local time, at the main office of Guaranty Bond Bank at 100 W. Arkansas, Mt. Pleasant, Texas.

Q: What are the shareholders being asked to vote upon?

A: At the special meeting, the shareholders are being asked:

- to consider and vote upon a proposal to approve the merger agreement that provides for the merger of the GB Facilitation with and into Guaranty;
- to consider and vote upon a proposal to approve the amendment to our Articles of Incorporation that grants us a right of first refusal with respect to certain transfers of our common stock; and
- to act on any other matters that may be submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

Q: What votes are required for approval?

A: Approval of the merger agreement and the amendment each require the approval of the holders of a majority of shares of our common stock outstanding on , 2005. As of this date, there were shares of our common stock outstanding.

Q: How does the board of directors recommend that I vote?

A: Our board of directors has approved and adopted the merger agreement and the amendment and recommends that you vote FOR approval of the merger agreement and FOR approval of the amendment.

In considering the recommendation of the Board of Directors, you should be aware that the members of our Board and the executive officers (12 persons) beneficially own approximately 33.39% of the outstanding shares of our common stock as of May 25, 2005 and all of such persons are expected to continue as shareholders and beneficially own approximately 34.12% of our common stock following the merger. Also, our current executive officers and directors will continue as our executive officers and directors following the merger. See Special Factors Interests of Executive Officers and Directors in the Merger and Information About Guaranty and its Affiliates Security Ownership of Certain Beneficial Owners and Management.

Q: What happens if I transfer my shares after the record date?

A:

The record date for the special meeting is earlier than the expected date of the merger. Therefore, if you transfer your shares of Guaranty common stock after the record date, but prior to the merger, you will retain the right to vote at the special meeting, but the right to receive any merger consideration will transfer with the shares of common stock.

Q: What do I need to do now?

A: After you have thoroughly reviewed this proxy statement, simply indicate on your proxy card how you want to vote and sign, date and complete your proxy card and mail it in the enclosed envelope so that your shares can be represented at the special meeting.

Q: What happens if I don t return a proxy card?

A: Because approval of the merger agreement and approval of the amendment each require the approval of at least a majority of the outstanding shares of our common stock entitled to vote, the failure to return your proxy card has the same effect as if you voted against the merger agreement and against the amendment, unless you attend the special meeting and vote in person.

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 later-dated, completed and signed proxy card before the special meeting or attend the special meeting and notify the secretary of the special meeting that you want to 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: Your broker will vote your shares only if you provide instructions on how to vote. You should instruct your broker how to vote your shares, following the directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted, which will have the same effect as a vote against the merger agreement and a vote against the amendment to our Articles of Incorporation.

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 than any shares you hold of record, any such shares 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 corporation or business entity must be voted by an authorized officer of the entity, and shares held in an IRA account must be voted under the rules governing the account.

Q: If I hold shares of common stock through the Guaranty 401(k) Plan, will I be able to vote those shares?

A: Yes. The Guaranty 401(k) Plan permits each participant to direct the trustees how to vote the shares attributable to the participant s plan account in connection with the merger agreement and the amendment. If you are a participant in the 401(k) Plan, you will receive a separate voting instruction form on which to indicate your voting directions with respect to the shares of Guaranty common stock you hold through the 401(k) Plan. However, if you fail to return your voting instruction, the trustees are entitled to vote the shares of Guaranty common stock you hold through the 401(k) Plan in accordance with their duties as fiduciaries. It is expected that the trustees will vote any such shares FOR approval of the merger agreement and FOR approval of the amendment.

Q: Do I have any rights to avoid participating in the merger?

A: Yes. You have the right to withhold your vote for the merger agreement, dissent from the merger and seek the fair value of your shares as described in Proposal I: Approval of the Merger Agreement Dissenters Rights of Appraisal beginning on page 47. The fair value may be more or less than the value of our common stock being paid in the merger. In order to perfect your rights to dissent, you must provide us written notice of your intent to dissent from the merger prior to the special meeting and you must not vote in favor of the merger agreement.

Q: If I am receiving cash in the merger, when will I get my money?

A: After the special meeting and the completion of the merger, we will mail you instructions on how to exchange your stock certificate(s) for cash. After you sign the forms provided and return your stock certificate(s), we will send you your payment.

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Q: If I hold shares in street name, how will they be treated in the merger?

A: Any shares you hold in street name will be added to the number of any shares you may hold directly in record name in determining the number of shares you hold. You will be entitled to receive the cash amount payable in the merger only if you certify to Guaranty that the total number of shares you hold (whether held of record or in street name) is fewer than 600. The merger agreement has detailed provisions regarding the treatment of shares held in street name. Please read the discussion under Proposal I: Approval of the Merger Agreement Conversion of Shares in the Merger for a description of these provisions generally as well as the terms of the merger agreement.

Q: If I hold shares through the Guaranty 401(k) Plan, how will they be treated in the merger?

A: Any shares you hold through the Guaranty 401(k) Plan will not be affected in the merger and will not be included for purposes of determining the number of shares you hold. The 401(k) Plan is the record holder of the shares held in the Plan. Because the Plan holds more than 600 shares of Guaranty common stock, the Plan will continue to hold those shares after the merger.

Q: What if I cannot find my stock certificate?

A: The materials we will send you will include an affidavit and indemnity agreement that you will need to sign attesting to the loss of your certificate. Guaranty and its transfer agent will also require that you provide a bond to cover any potential loss to Guaranty.

Q: Who can help answer my questions?

A: If you have additional questions about the merger or the special meeting, you should contact Clifton A. Payne at Guaranty Bancshares, Inc., 100 W. Arkansas, Mt. Pleasant, Texas 75455, telephone (903) 572-9881.

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SPECIAL FACTORS

Purpose and Reasons for the Merger

The primary purpose of the merger is to enable us to terminate the registration of our common stock under Section 12(g) of the Exchange Act. Although we intend to keep our shareholders informed regarding our business operations and financial results after the merger, we anticipate that such termination will enable us to save significant legal, accounting and administrative expenses relating to our public disclosure and reporting requirements under the Exchange Act. As a secondary matter, it is likely to decrease the administrative expense we incur in servicing a large number of record shareholders who own relatively small numbers of shares.

We had approximately 430 record shareholders as of May 25, 2005, but approximately 84.89% of the outstanding shares as of that date were held by approximately 43 shareholders. As a result, there is a limited market for our shares and our 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 Exchange Act, we are required to comply with the disclosure and reporting requirements under the Exchange Act and the Sarbanes-Oxley Act of 2002 (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 documenting our internal controls in preparation for an internal control audit to be filed with the SEC.

After the merger, we intend to keep our shareholders informed about our business operations and financial results by delivering annual audited financial statements and quarterly unaudited financial statements to them. We also plan to post these financial statements on our website at *www.gnty.com*, which also contains other information about our business. Moreover, our business operations are primarily conducted through our banking subsidiary, Guaranty Bond Bank, which is required to file quarterly financial reports with the Federal Deposit Insurance Corporation (FDIC). These reports are available online at *www.fdic.gov*. Further, for a period of 90 days following the filing of a Form 15 with the SEC, we and our shareholders continue to be subject to certain provisions of the Exchange Act, such as the reporting and short swing profit provisions of Section 16, the requirement to furnish a proxy or information statement in connection with shareholder meetings under Section 14(a) and the reporting obligations under Regulation 13D-G with respect to certain acquisitions of shares of our common stock.

We are currently required to comply with many of the same securities law requirements that apply to large public companies with substantially greater compliance resources. Our resources are more limited, however, and securities law compliance activities represent a significant administrative and financial burden to a company of our relatively small size and market capitalization. Our efforts to comply with these requirements also cause us to incur less tangible, but nonetheless significant, costs in management time and attention that could otherwise be deployed toward revenue enhancing activities. The cost of compliance is substantial, representing an estimated direct and indirect annual cost to us approximately $350,000. See page 11 for a detailed break-down of these estimated costs. In light of this expense and the limited trading volume in our common stock, our Board of Directors believes that we and our shareholders receive little relative benefit from being registered under the Exchange Act.

In light of the relatively small benefit we believe our shareholders have received as a result of our status as a public company, we believe the merger will provide a more efficient means of using our capital to benefit our shareholders. At present, we believe that our limited trading market and the resulting inability of our shareholders to have the desired degree of liquidity in 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.

The merger is designed to substantially reduce the number of our shareholders of record. As of May 25, 2005, we had approximately 246 shareholders who owned fewer than 600 shares of record. By reducing our number of record shareholders to fewer than 300 thereby allowing us to terminate our registration under the Exchange Act and suspend our reporting obligations, the merger will result in a reduction of the significant

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administrative, accounting, and legal expenses incurred in complying with disclosure, reporting and compliance requirements under the Exchange Act and the Sarbanes-Oxley Act.

In addition to relieving us of the administrative burden and costs associated with our public disclosure and otherwise complying with the periodic reporting requirements of the Exchange Act as well as decreasing the expense and burden of dealing with our high number of shareholders holding small positions in our common stock, the merger will also allow us:

to permit cashed-out shareholders to receive cash for their shares, without having to pay brokerage commissions, at a fair price that represents a premium of 24.35% over the most recent closing price of our common stock prior to announcement of the merger and a premium 15.61% over the median sales price in the three month period prior to announcement of the merger. If the merger is completed, our executive officers and directors (and all other holders of 600 or more shares) will benefit by a slight increase in their percentage ownership of our common stock and an increase in diluted earnings per share, although the net book value of their holdings will decrease; and

to increase management s flexibility to consider and initiate actions that may produce long-term benefits and growth without the pressure and expectation to produce quarterly earnings per share growth.

Our Board of Directors considered that some shareholders may prefer to continue as shareholders of a public company. There are many advantages to being a public company, including a more active trading market and the enhanced ability to use company stock to raise capital or make acquisitions. With respect to the trading market, there is a limited market for our common stock and therefore, we have not been able to effectively take advantage of this benefit. Another potential advantage of being a public company is the ability to access capital to meet additional capital needs. Since becoming a public company in 1998, however, we have not made any public offerings of common stock or any other equity or debt securities. We used our common stock as consideration for only one acquisition which occurred in 1999.

Nonetheless, the Board believes that the disadvantages of having us continue to be a public company outweigh the advantages of being a public company. The Board has no present intention to raise capital through sales of securities in a public offering or to acquire other business entities using our stock as the consideration for any such acquisition. Accordingly, we are not likely to make use of any advantage that our status as a public company may offer.

We incur significant direct costs attributable to our compliance with the SEC s filing and reporting requirements imposed on public companies. We also incur substantial indirect costs as a result of, among other things, the executive time spent to prepare and review such filings. Although it is impossible to specifically quantify these indirect costs, we estimate that our management and staff spend an average of 33% of their time (equating to approximately 20 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 our disclosure and internal controls, monitoring and reporting transactions and other data related to insiders stock ownership and consulting with independent auditors and counsel on compliance matters. Our direct and indirect costs related to being a public company are estimated to approximate $350,000 annually, as follows:

Direct Costs	
Independent registered public accounting firm	$ 70,000
SEC counsel	25,000
Accounting/internal controls consulting fees	50,000
Internal compliance costs	55,000
Indirect Costs	
Management staff and time	$ 150,000

Total Costs	$ 350,000

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It is important to note that in addition to the above-referenced estimated annual cost savings, the merger and termination of our Exchange Act registration would result in a significant cost savings due to Guaranty not being subject to new internal control audit requirements imposed by Section 404 of the Sarbanes-Oxley Act. Preparing Guaranty to comply with Section 404 of the Sarbanes-Oxley Act would require significant expenditures during 2006, including costs related to computer software and hardware, fees to third parties for compliance planning, assessment, documentation and testing and costs related to management and other employees. These costs are estimated to be approximately $300,000.

Alternatives Considered

The 600 share level for shareholders to be cashed out was chosen by management and recommended to our Board of Directors based on an analysis of our shareholder list as of May 25, 2005. Lower threshold numbers were considered and rejected as it was believed they would have created an unacceptably high risk that the transaction would not yield the desired result of having fewer than 300 shareholders of record. Because shareholders are free to buy or transfer shares until the effective time of the merger, we expect that some shareholders will acquire additional shares before the effective time through market purchases or other transactions in order to own more than the threshold number of shares and thus remain a shareholder after the merger. Because the number of shareholders above the threshold could increase before the effective time, it was necessary to select a threshold high enough to allow for possible changes in the composition of the shareholder list without defeating the purpose of the proposed transaction.

In making our determination, we considered other means of achieving the same result, but rejected these alternatives because we believed that the merger would be simplest, most cost-effective manner and would be most likely to achieve the desired result. These other alternatives considered included:

Issuer Tender Offer. We considered an issuer tender offer to repurchase shares of our outstanding common stock. Because acceptance of the tender offer would be voluntary, the results would be unpredictable and we were uncertain as to whether this alternative would result in participation by a sufficient number of record shareholders to accomplish the going private objective. Accordingly, we rejected this alternative.

Reverse Stock Split. We also considered the use of a process known as a reverse stock split as an alternative to the merger. In a reverse stock split, we would reduce the number of issued and outstanding shares of our common stock through an amendment to our articles of incorporation, so that shareholders owning a certain number of shares would own less than one full share of our common stock, and we would pay cash for the resulting fractional share interests. While the reverse stock split and the merger would both achieve the same objective of reducing the number of record shareholders in a predictable manner, we chose the merger because we concluded that a reverse stock split would cost us more in that we would have to pay cash to large shareholders for their fractional shares, even though they would remain shareholders after the transaction. We also considered structuring the transaction as a reverse stock split coupled with (1) an offer to sell additional shares of our common stock to shareholders who would own at least one share following the reverse stock split, or (2) a forward stock split, but we determined these structures to be too complicated and expensive.

Share Reclassification. In addition, the Board considered a share reclassification, which would involve authorization of new class of preferred stock and the exchange by certain shareholders of common stock for the new preferred stock. However, the Board rejected this alternative because it would not provide any liquidity for shareholders owning a small number of shares and would not reduce our costs with respect to servicing a large number of shareholders.

Purchase of Shares in the Open Market. We also considered purchasing shares of our common stock in the open market. We rejected this alternative because we concluded that it was highly unlikely that we could acquire shares from a sufficient number of holders to accomplish the going private objective.

We did not consider other methods to reduce expenses other than going private because (1) these types of transactions are inconsistent with the narrower purpose of the proposed transaction, which is to discontinue our

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SEC reporting obligations and (2) we were not aware of other methods of achieving expense reductions that were comparable with those reductions possible through the merger. In addition, we did discuss the possibility of a third party buyout, but we did not pursue this course of action because no third party offer presently existed and we believe that we can best maximize shareholder value by remaining an independent banking organization. Remaining independent will enable us to focus our growth in our target markets and capitalize on our local market presence, which we believe will enhance our earnings.

Other Considerations. In approving and recommending the proposed merger transaction, our directors were aware of potential conflicts of interest, or appearances of conflicts of interest issues. The transaction will result in an increase in the percentage of ownership of all directors and executive officers. As a group, our directors and officers beneficially own approximately 33.39% of the outstanding shares of our common stock and following the effective time of the merger, our directors and executive officers would beneficially own approximately 34.12% of the shares. However, this benefit is shared proportionally by all remaining shareholders. In addition, it is expected that the transaction will, after it is concluded, reduce the risk of litigation and liability to which directors and officers of public companies are exposed.

While the foregoing narration of the factors considered by our Board of Directors is intended to discuss in reasonable detail the material factors on which the Board relied, it does not necessarily reflect all factors involved in the process. In view of the variety of factors considered in connection with the Board s evaluation of the merger proposal, we did not find it practicable to quantify or otherwise assign relative weights to the specific factors considered in reaching our determination. We considered all the factors as a whole in reaching our determination. In addition, individual members of our Board of Directors may have given different weights to different factors.

The merger proposal is being made at this time because the sooner the proposal can be implemented, the sooner we will cease to incur the expenses and burdens associated with the reporting requirements of the Exchange Act and the sooner shareholders who are to receive cash in the merger will receive and be able to reinvest or otherwise make use of such cash payments. We determined that the merger proposal was the best choice for the shareholders and us. We estimate that following the proposed merger approximately 184 shareholders of record will remain, which will leave us comfortably below the maximum of 300 shareholders of record necessary to terminate our registration under the Exchange Act and no longer be subject to the related reporting requirements.

Background of the Merger

Overview. We were incorporated as a business corporation under the laws of the State of Texas in 1980 to serve as a holding company for Guaranty Bond Bank, formally known as Guaranty Bank, which was chartered in 1913, and for Talco State Bank, which was chartered in 1912 and merged into the Bank in 1997. We offer a broad range of financial products and services to small and medium-sized businesses and consumers through twelve banking locations in the Texas communities Mt. Pleasant (two offices), Bogata, Commerce, Ft. Stockton, Mount Vernon, Paris, Pittsburg, Sulphur Springs, Talco and Texarkana (two offices). Our headquarters are located at 100 W. Arkansas, Mt. Pleasant, Texas 75455, and our telephone number is (903) 572-9881.

The Bank owns interests in five entities which complement our business, the first three of which are wholly-owned: (1) Guaranty Leasing Company, which finances equipment leases and has engaged in certain leveraged lease transactions; (2) Guaranty Company, which owns real estate for future Bank expansion; (3) GB Com, Inc., a nominee company; (4) BSC Securities, L.C., which provides brokerage services; and, (5) Independent Bank Services, L.C., which performs compliance, loan review, internal audit and electronic data processing audit functions. These entities are accounted for in our consolidated financial statements using the equity method of accounting and are included in other assets on the balance sheet.

As of May 25, 2005, there were 2,826,012 shares of Guaranty common stock issued and outstanding and held by 430 record holders. Approximately 246 of these record shareholders held fewer than 600 shares (not

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including beneficial owners whose shares may be registered in street name). Collectively, these 246 record holders own an aggregate of approximately 50,036 shares, representing approximately 1.77% of our outstanding shares. Additionally, based on available information, we estimate that approximately 11,713 shares are held in street name by brokers or other nominees for the benefit of approximately 48 owners who hold, in the aggregate, fewer than 600 shares of our common stock. These shares will also be cashed out in the merger.

Board of Directors. Our common stock started trading on the National Market System of the Nasdaq Stock Market on May 21, 1998 and we have filed reports under the Exchange Act since 1998. These reports include annual, quarterly and current reports presenting and analyzing our business, financial condition, results of operations and management structure; ongoing reports regarding insiders stock transactions and potential short-swing profit liability; and proxy statements disclosing information about our directors and executive officers, their compensation and our corporate governance process. Although our public reporting obligations have existed since 1998, the Sarbanes-Oxley Act of 2002 has added several reporting and procedural requirements that have become effective at various points during the past two years. As a result of the Sarbanes-Oxley Act, we have become subject to heightened compliance and documentation requirements in a variety of areas, including disclosure and internal controls, internal and external audit relationships, and the duties and qualifications of our Board committees. We have also become subject to accelerated and expanded disclosure requirements relating to our corporate and trading activities. As a result of these new requirements, our cost of compliance has increased, particularly relative to our limited personnel resources and market capitalization. We anticipate further significant increases resulting from the upcoming requirement that we prepare and file with the SEC an audited report as to our internal controls for fiscal 2006. See Purpose and Reasons for the Merger on page 10.

As a result of these requirements under the Sarbanes-Oxley Act, in January of 2005 our Board of Directors began to discuss generally the relative benefits and costs, both direct and indirect, relating to continuing our status as a public company.

At the April 2005 Board meeting, our Board formally discussed issues related to continuing our status as a public company, including the alternatives available to effect a going private transaction. Based on these discussions, our Board authorized management to continue to investigate a going-private transaction by reviewing an updated shareholder list, obtaining a valuation of our common stock, hiring financial advisors to prepare a fairness opinion regarding the cash price to be paid in a going private transaction if one was ultimately approved and exploring financing alternatives. Following this meeting, our Chairman and the Chief Financial Officer examined our shareholder list to evaluate the effects of various cash-out thresholds and the costs involved with a going private transaction. Members of our management also discussed the process of going private with outside counsel, including the reverse stock split, merger, share reclassification, open market purchase and tender offer alternatives. We selected Hoefer & Arnett as our financial advisor for this transaction based on (1) its reputation and experience in rendering valuations and fairness opinions, (2) its knowledge of the financial services industry and our business and (3) the overall terms, including fees, of the engagement.

On May 17, 2005, the Board held a regular meeting at which it again discussed information regarding the alternative methods to accomplish a going private transaction, the appropriate cash-out threshold and the advantages and disadvantages of a going private transaction as summarized in Alternatives Considered on page 12 and Purpose and Reasons for the Merger on page 10. The Board also discussed our financial position and the use of cash or borrowings to finance the transaction.

On June 7, 2005, the Board held a special meeting at which it renewed its discussions as to whether it was in our best interests and the best interests of our shareholders to engage in the going private transaction. After lengthy discussion, the Board unanimously determined that we would go forward with the going private proposal in the form of a merger with a newly-formed, wholly-owned subsidiary. The Board also determined that the source of funds for payment to cash-out shareholders would be from our existing cash; provided that if funds were required in excess of cash on hand, management was authorized to borrow such funds.

On May 27, 2005, Hoefer & Arnett delivered to our Chairman and our Chief Financial Officer its final written valuation report, dated May 17, 2005, which described Hoefer & Arnett s analyses in detail. This

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valuation report was presented to the Board of Directors at the June 7, 2005 special Board meeting (see Opinion of Independent Financial Advisor on page 20 for a summary of the valuation). Hoefer & Arnett s independent valuation report provided that the fair value of our common stock was $24.00 per share and included a detailed explanation of the financial analyses supporting the fair value determination and the methods utilized in preparing its valuation. The valuation report also included a general discussion of approaches to valuation and an analysis of our financial condition. Additionally, the valuation report included an overview of approaches to value utilized by Hoefer & Arnett in making its determination of value, historical trading information for a guideline comparison (or a peer group) of publicly traded banks engaged in the same or similar lines of business as Guaranty, with financial assets under $1.0 billion and a return on assets of greater than 0.0% located in the southwestern region of the U.S., and financial information from public bank holding companies.

At the June 7, 2005 meeting, the Board also considered:

- the alternatives presented under Alternatives Considered on page 12;
- the benefits and disadvantages of the merger as described under Purpose and Reasons for the Merger on page 10 and Potential Disadvantages of the Merger on page 25;
- the effects of the merger as described under Effects of the Merger on Guaranty on page 25, Effects of the Merger on Shareholders Generally on page 27 and Effects of the Merger on Affiliated Shareholders on page 29; and
- the historical market prices of our common stock as described on page 53.

In determining the number of shares a shareholder needed to own in order to remain a shareholder after the merger, the Board s primary consideration was how best to achieve the goal of becoming a private company while cashing out the fewest number of shareholders. The Board considered using 500 shares as the minimum number of shares a shareholder needed to own in order to continue as a shareholder after the merger. It was determined, however, that 500 shares was too low of a threshold because it did not provide a large enough cushion below 300 in the event shareholders acquired additional shares to remain a shareholder or otherwise changed their holdings in our common stock. Thus, although more expensive, the Board selected 600 shares as the minimum number of shares required to remain as shareholder because it represented a breakpoint among shareholders and provided a sufficient cushion in order to ensure that, after completion of the merger, the number of record shareholders would be less than the 300 shareholder limit necessary to terminate our registration under the Exchange Act, while at the same time providing that a relatively small number of shares (estimated at approximately 61,749, or 2.19% of our outstanding shares at the time of the meeting) would be cashed out in the proposed merger.

At the June 7, 2005 special Board meeting, the Board discussed the possibility that our number of record shareholders could increase following the merger as a result of certain share transfers, whether by sale, gift or otherwise. Under the provisions of the Exchange Act, if, after completion of the merger, the number of our shareholders of record did increase to 300 or greater, then we would be required to resume our reporting obligations under the Exchange Act. The Board discussed an amendment to our Articles of Incorporation to give us a right of first refusal to purchase any shares of our common stock that are to be transferred in a manner that would result in an increase in the number of our record holders, although we would not be obligated to purchase any such shares. The purpose of the amendment is to help us control any potential future increases in the number of our record shareholders to enable us to delay or avoid again becoming subject to the reporting requirements under the Exchange Act.

At the June 7, 2005 special Board meeting, legal counsel advised the Board with respect to certain matters related to the transaction, including possibly forming an independent committee comprised of independent members of the Board to review and evaluate the proposed transaction on behalf of the shareholders as well as possibly structuring the transaction to include neutralized voting, whereby separate approval by a majority of those shareholders who are not executive officers or directors of Guaranty would be required in order to consummate the transaction. Following discussion, the Board unanimously determined not to form an independent committee to evaluate the proposed transaction because a majority of our Board of Directors is comprised of independent members and all of the directors (including all of our independent directors) held an interest in the transaction as shareholders who owned at least 600 shares of Guaranty s common stock. The Board also unanimously determined not to offer neutralized voting since the Board believed that a neutralized voting requirement would usurp the power of the holders of a majority of our outstanding shares to consider and approve the merger agreement as provided under Texas law, our charter documents and the terms of the merger agreement. We also considered such provision unnecessary in light of the rights of shareholders, whether affiliated or unaffiliated, to dissent from the merger under Texas corporate law, regardless of the number of shares that they own. While the Board of Directors believes that this procedural safeguard was not necessary in rendering its determination, the Board did consider that the members of the Board and our executive officers beneficially own approximately 33.39% of our outstanding common stock and would beneficially own an increased percentage following the merger. However, because affiliated and unaffiliated shareholders are treated identically under the terms of the transaction as proposed, the Board did not believe that this procedural safeguard was a necessary measure.

After a discussion of these factors, and Hoefer & Arnett s May 17, 2005 valuation report, our Board of Directors, including the independent directors, unanimously approved the merger agreement pursuant to which shareholders owning fewer than 600 shares would receive cash for their shares of our common stock. Given the involuntary nature of the merger and the fact that the range of low and high sale prices for Guaranty common stock reported by the Nasdaq Stock Market during the period from January 1, 2005 through June 6, 2005 was $17.50 to $23.38, the Board set the cash-out price at $24.00. The Board also made a determination that the merger was fair, from a financial and procedural point of view, to our unaffiliated shareholders receiving cash under the merger agreement and to our affiliated and unaffiliated shareholders retaining their shares, and directed that the merger agreement be submitted to the shareholders with a recommendation for approval. The Board also unanimously approved the proposed amendment to our Articles of Incorporation.

On June 7, 2005, Hoefer & Arnett also delivered its oral opinion to the Board stating that the $24.00 per share price to be paid in the merger was fair, from a financial point of view, to our shareholders, both those who will receive cash and those who will retain their shares in the merger. (See Opinion of Independent Financial Advisor). In rendering its opinion, Hoefer & Arnett reviewed, among other things, its written valuation report dated May 17, 2005. Hoefer & Arnett subsequently delivered its written opinion, dated as of June 7, 2005. The written opinion was dated June 7, 2005, approximately three weeks later than the valuation report, because Hoefer & Arnett could not prepare an opinion as to the fairness of the $24.00 per share cash out price until the Board established the cash-out price, which, as described above, did not occur until the June 7, 2005 special Board meeting.

Recommendation of the Board of Directors; Fairness of the Merger Proposal

The structure and terms of the merger were determined by our current management and our Board of Directors. Our Board of Directors currently consists of eleven (11) persons, seven (7) of whom are independent directors and four (4) of whom are officers of Guaranty or the Bank. We retained Hoefer & Arnett, an independent financial advisor experienced in the financial analysis of and valuation of financial institutions, to value our common stock. The cash consideration to be paid for our common stock under the merger was determined by us, based, in part, on Hoefer & Arnett s valuation report.

After considerable discussion, our Board of Directors unanimously determined and believes that the merger agreement is in the best interests of us and our shareholders. In reaching its conclusion, our Board of Directors also determined that the transaction is in the best interests of and substantively fair to unaffiliated shareholders who will receive cash in the merger as well as those shareholders who will retain their shares of common stock after the merger. Our Board of Directors also believes that the process by which the transaction was approved is fair to all of our shareholders, including unaffiliated shareholders receiving cash in the merger and unaffiliated shareholders who will retain their shares after the merger. Further, our Board unanimously approved the merger agreement, which included the $24.00 per share price to be paid to shareholders whose shares are cashed out in

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the merger. All of the members of our Board of Directors and our executive officers have expressed an intention to vote in favor of the merger agreement for the reasons described below. As of May 25, 2005, our directors and executive officers (12 persons) owned a total of 904,314 shares of our common stock, or approximately 32.00% (not including any shares that may be acquired pursuant to the exercise of stock options) of the total shares entitled to vote at the special meeting. Accordingly, only the approval of shareholders owning an additional shares is necessary for the approval of the merger agreement and for approval of the amendment

Our Board of Directors considered a number of factors in deciding to approve the merger agreement. The Board s primary reason for effecting the merger is to accomplish the going private transaction so that our shares will no longer be registered under the Exchange Act. We considered the views of management and that cost savings of approximately $350,000 per year could be achieved if we terminated the registration of our common stock under the 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 our common stock under the Exchange Act. We also considered the effect that terminating the registration of our common stock, the related de-listing of our common stock from the Nasdaq Stock Market and the proposed amendment to our Articles of Incorporation would have on the market for our common stock and the ability of shareholders to buy and sell shares. However, we determined that even as a publicly-traded company, there is a limited market for the shares of our common stock, especially for sales of large blocks of such shares, and that our shareholders derive little benefit from our status as a publicly-held company. We determined that the cost savings and reduced burden on management to be achieved by terminating registration of our common stock under the Exchange Act outweighed any potential detriment from terminating such registration.

We considered numerous factors in reaching our conclusion as to the fairness of the merger to all of our shareholders, including the effects described under Effects of the Merger on Guaranty on page 25, Effects of the Merger on Shareholders Generally on page 27, Effects of the Merger on Affiliated Shareholders on page 29 and Purposes and Reasons for the Merger on page 10. The Board also reviewed the federal income tax and pro forma financial effects of the merger on us and our shareholders. We did not assign any specific weights to the factors listed below. Moreover, in their considerations individual directors may have given differing weights to different factors.

Opinion of Independent Financial Advisor. Our Board of Directors considered the valuation report prepared by Hoefer & Arnett dated May 17, 2005, as well as the written fairness opinion dated June 7, 2005, to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the cash consideration to be paid in the merger is fair, from a financial point of view, to our shareholders, including unaffiliated shareholders who will receive cash in the merger as well as those shareholders who will retain their shares after the merger. The Board of Directors also reviewed and considered the financial analyses supporting the opinion of the financial advisor. You should read the discussion under Opinion of Independent Financial Advisor and the copy of the opinion of Hoefer & Arnett, which is attached as *Appendix C* to this proxy statement.

Historical Market Prices of Our Common Stock. Our common stock is quoted on the Nasdaq Stock Market System under the symbol GNTY . During the 12 months prior to the public announcement of the proposed merger, the stock traded infrequently. We reviewed the closing price for our common stock on the Nasdaq Stock Market from January 1, 2004 to June 6, 2005, which ranged from $17.05 to $23.38 per share. You should read the discussion under Information About Guaranty and its Affiliates Market for Common Stock and Dividends for more information about our stock prices. The closing price of our common stock on June 6, 2005, the day immediately prior to the public announcement of the merger, was $19.35. Based upon the limited trading history and the prices of our common stock prior to the public announcement of the merger, the Board of Directors believes that the price of $24.00 is fair to all of our shareholders.

Premium to Book Value. As of March 31, 2005, our book value per share was $13.20. Although book value was a factor that was considered by our Board of Directors, among others, in determining the

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consideration to be paid to cashed-out shareholders in the merger, the Board of Directors determined that it was not directly relevant because it was the Board s view that our value as a going concern is greater than our book value. However, the Board of Directors noted that the per share cash price of $24.00 payable in the merger reflected a multiple of 1.82 times our March 31, 2005, book value per share.

Going Concern Value. In determining the cash amount to be paid to cashed-out shareholders in the merger, our Board of Directors valued our shares on the basis of a going concern, without giving effect to any anticipated effects of the merger. Also, the Board of Directors did not consider the amount per share that might be realized in a sale of 100% of our stock, as our Board of Directors determined that consideration of such an amount was inappropriate in the context of a transaction that would not result in a change of control of Guaranty. In determining the going concern value of our shares, the Board of Directors adopted the analyses and conclusions of our financial advisor, which are described under Opinion of Independent Financial Advisor .

Earnings Multiple. Our Board of Directors reviewed our earnings for the previous three years. For the three years ended December 31, 2002, 2003 and 2004, we reported net income of approximately $4.4 million, $3.8 million and $3.7 million, respectively. The Board also considered our earnings of $983,000 for the first quarter of 2005. The price per share to be paid in the merger reflects a multiple of 19.35 times our earnings per share for the year ended December 31, 2004. From time to time, members of Guaranty s Board of Directors and management receive financial information from a variety of sources, including earnings for peer banks in its market area. Based on the Board s knowledge of the community banking industry in Guaranty s market and the earnings multiples of the comparable public companies set forth in the table in page 23, the Board believes that the price to be paid in the merger reflects a reasonable multiple to its earnings for the year ended December 31, 2004. Therefore, the Board viewed the earnings multiple as a factor, among others, which supported its decision to approve the merger agreement and its conclusion as to the fairness of the merger to unaffiliated shareholders, both those receiving cash for their shares and those retaining their shares following the merger.

Liquidity Event. Our Board of Directors considered the opportunity that the merger presents for shareholders owning fewer than 600 shares to liquidate their holdings without incurring brokerage costs, particularly given the limited trading volume for shares of our common stock at a price that represents a premium over historical sales prices.

We also recognized that the merger consideration to be paid to the cashed-out shareholders in the merger reflected a premium over the closing prices for our common stock on the Nasdaq Stock Market prior to the announcement of the merger.

The Board of Directors also considered historical prices paid by Guaranty to repurchase its shares. Since July 2003, we have repurchased a total of 114,580 shares at purchase prices ranging from $19.50 to $22.40 in open market transactions.

The Board of Directors did not consider transactions in our common stock which occurred following the announcement of the merger. Additionally, certain of our directors and executive officers have engaged in transactions involving shares of our common stock in the open market in the two years prior to the announcement of the going private transaction. The Board of Directors considered these trades along with trades by unaffiliated shareholders, in its review of the historical prices of our common stock. Because the transactions in our common stock by directors and executive officers were effected in the open market as were, to management s knowledge, trades by unaffiliated shareholders, the Board of Directors did not distinguish between transactions in our common stock involving our directors and executive officers and those involving unaffiliated shareholders.

Although it is quite rare for an insured depository institution to go into voluntary liquidation, the base valuation technique that relates to our book value is, for the most part, an assumed liquidation value. Since the price to be paid to the cash-out shareholders in the merger is in excess of our book value and because we will continue to operate our business following completion of the merger, we did not consider our liquidation value an important factor in determining the fairness of the merger.

No firm offers have been made by an unaffiliated person during the preceding two years for (1) the merger or consolidation of us into or with such person, (2) the sale or other transfer of all or any substantial part of our assets or (3) the purchase of a number of shares of our common stock that would enable the holder thereof to exercise control of us.

The transaction is not structured so that approval of at least a majority of unaffiliated shareholders is required. Our Board determined that any such voting requirement would usurp the power of the holders of a majority of our outstanding shares to consider and approve the merger agreement as provided under Texas law, our charter documents and the terms of the merger agreement. We also considered such a provision unnecessary in light of the rights of shareholders, whether affiliated or unaffiliated to dissent from the merger pursuant to Texas corporate law, regardless of the number of shares they own. See Proposal I: Approval of the Merger Agreement Dissenters Rights of Appraisal.

A majority of our Board of Directors is comprised of independent members, and, accordingly, there was no need to form a special committee or retain any unaffiliated representative(s) to represent unaffiliated shareholders, as our Board of Directors was able to adequately balance the competing interests of the non-continuing shareholders and the continuing shareholders in accordance with their fiduciary duties. Although all of the members of our Board of Directors own more than 600 shares of our common stock, the 600 share cutoff set in the merger agreement was determined without regard to the directors share ownership. As this represented the sole potential conflict of interest and the Board members will be treated identically to all other shareholders in the merger, we did not feel that any additional protections that may be afforded by a special committee would be significant. See Special Factors Interests of Executive Officers and Directors in the Merger and Special Factors Conduct of Guaranty s Business After the Merger.

We have not made any provision in connection with the merger to grant unaffiliated shareholders access to our corporate files or to obtain counsel or appraisal services at our expense. With respect to unaffiliated shareholders access to our corporate files, we determined that this proxy statement, together with our other filings with the SEC, provide adequate information for unaffiliated shareholders to make an informed decision with respect to the merger. We also considered the fact that under Texas corporate law, and subject to certain conditions set forth under Texas law, shareholders have the right to review our relevant books and records of account. We did not consider these steps necessary to ensure the fairness of the merger proposal. We determined that such steps would be costly and would not provide any meaningful additional benefits. We noted the fact that the financial advisor engaged by us considered and rendered its opinion as to the fairness, from a financial point of view, of the consideration payable in the merger to our shareholders, including shareholders who will receive cash in the merger and those who will retain their shares after the merger.

After consideration of the factors described above, the Board believes that the transaction is substantively fair, notwithstanding the absence of such an unaffiliated shareholder approval requirement, independent committee or unaffiliated representative. The Board also believes that the transaction is procedurally fair because, after consideration of all aspects of the proposed transaction as described above, all of the directors, including all of the members of the Board who are not employees of Guaranty, approved the merger and the merger agreement.

Determination of Fairness by Merger Subsidiary and Filing Persons

The merger subsidiary was formed for the purpose of facilitating the going private transaction. Its sole shareholder is Guaranty and its sole director and executive officer is Arthur B. Scharlach, Jr., who is also our Chairman of the Board and Chief Executive Officer. Under certain applicable rules and regulations promulgated by the SEC, our directors and executive officers are deemed to be filing persons for the purposes of the going

private transaction. As a result, each filing person is required to state whether he or she reasonably believes that the transaction is fair to unaffiliated security holders. The filing persons consist of the following individuals: Tyson T. Abston, Martin Bell, Johnny O. Conroy, Jonice Crane, C.A. Hinton, Sr., Carl Johnson, Jr., Kirk Lee, Weldon Miller, Clifton A. Payne, Bill Priefert, Arthur B. Scharlach, Jr. and Gene Watson (collectively, the Filing Persons).

In forming their belief as to the fairness of the transaction to the unaffiliated shareholders, the merger subsidiary and each of the Filing Persons relied upon the factors considered by and have expressly adopted the analysis and conclusions of the Board of Directors of Guaranty, including the analyses performed and opinion delivered by Hoefer & Arnett. See Recommendation of the Board of Directors; Fairness of the Merger Proposal. Based on those factors, the merger subsidiary and each of the Filing Persons reasonably believes that the merger agreement and the process by which the transaction was approved are fair to each of the unaffiliated shareholders, including those who will receive cash in the merger and those who will retain their shares of common stock. Neither the merger subsidiary nor any of the Filing Persons have received any report, opinion or appraisal from an outside party that is materially related to the merger other than the report of Hoefer & Arnett. The belief of each of the Filing Persons is their individual belief and does not constitute investment advice. If shareholders are unsure of whether to vote in favor of the merger agreement, they should consider the recommendation of the Board of Directors or consult with their personal financial advisor.

Opinion of Independent Financial Advisor

Our board of directors retained Hoefer & Arnett as its financial advisor in connection with the merger because Hoefer & Arnett is a nationally recognized investment banking firm with substantial expertise in transactions similar to the proposed transaction and is familiar with us and our business. The firm is a member of the National Association of Securities Dealers (NASD) with direct access to inter-dealer markets in NASD Automated Quotation (NASDAQ) and Over-the-Counter (OTC) securities, and makes markets in securities under its symbol HOFR. As part of its investment banking activities, Hoefer & Arnett is regularly engaged in the independent valuation of financial institutions and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

Hoefer & Arnett rendered to our Board of Directors of a written opinion on June 7, 2005, that the fair value of the outstanding common stock of Guaranty for the purpose of effecting a cash-out merger to go private was $24.00 per share and the consideration to be received is fair, from a financial point of view, to our shareholders that will be cashed out and to our shareholders that will remain following the merger. A copy of Hoefer & Arnett s opinion dated as of the date of this proxy statement is attached as *Appendix C* to this proxy statement and should be read in its entirety.

No limitations were imposed by our Board of Directors upon Hoefer & Arnett with respect to the investigations made or procedures followed in rendering its opinion. Hoefer & Arnett s fairness opinion is based on the financial analysis described below. Hoefer & Arnett s fairness opinion is directed to our Board of Directors and addresses only the fairness, from a financial point of view, of the merger consideration to the shareholders of Guaranty. Hoefer & Arnett s fairness opinion is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should vote with respect to the proposed transaction. Hoefer & Arnett s fairness opinion does not address our underlying business decision to proceed with the proposed transaction.

In arriving at its opinion, Hoefer & Arnett reviewed and analyzed, among other things, the following:

- a draft of the Agreement and Plan of Merger;

our annual reports on Form 10-K for the years ended December 31, 2004, December 31, 2003 and December 31, 2002;

our quarterly reports on Form 10-Q for the quarters ended March 31, 2005, September 30, 2004, June 30, 2004 and March 31, 2004;

certain other information relating to us, including financial forecasts provided to Hoefer & Arnett or discussed with Hoefer & Arnett by us and information from meetings with our management to discuss past and current operations, financial condition and prospects, as well as the results of regulatory examinations;

the publicly reported historical prices and trading activity for our common stock;

the market price of selected publicly traded banking institutions; and

certain other information, financial studies, analyses and investigations and financial, economic and market criteria which Hoefer & Arnett deemed relevant.

In conducting its review and in rendering its opinion, Hoefer & Arnett relied upon and assumed the accuracy and completeness of the financial and other information provided to it or publicly available, and did not attempt to independently verify the same. Hoefer & Arnett relied upon our management as to the reasonableness of the financial and operating forecasts and projections (and the assumptions and bases therefor) provided to it, and Hoefer & Arnett assumed that such forecasts and projections reflect the best currently available estimates and judgments of our management.

We do not publicly disclose internal management forecasts, projections or estimates of the type furnished to Hoefer & Arnett in connection with its analysis of the financial terms of the proposed transaction, and such forecasts and estimates were not prepared with a view towards public disclosure. These forecasts and estimates were based on numerous variables and assumptions which are inherently uncertain and which may not be within the control of management, including without limitation to, the general economic, regulatory and competitive conditions. Accordingly, actual results could vary materially from those set forth in such forecasts and estimates.

Hoefer & Arnett did not make or obtain any evaluations or appraisals of our assets or liabilities. Hoefer & Arnett is not an expert in the valuation of allowances for loan losses and it did not make an independent evaluation of our adequacy of the allowance for loan losses, nor did it did it review any individual loan credit files. Hoefer & Arnett assumed that the allowance for loan losses set forth in our financial statements was adequate to cover such losses. For purposes of its opinion, Hoefer & Arnett assumed that the merger would have the tax, accounting and legal effects described in the merger agreement. Hoefer & Arnett s opinion as expressed herein is limited to the fairness of the proposed transaction, from a financial point of view, to our shareholders.

The opinion expressed by Hoefer & Arnett was based upon market, economic and other relevant considerations as they existed and have been evaluated as of the date of the opinion and the information made available to it through that date. Events occurring after the date of issuance of the opinion including, but not limited to, changes affecting the securities markets, the results of operations or material changes in assets or liabilities, could materially affect the assumptions used in preparing the opinion. Hoefer & Arnett assumed that all of the representations and warranties contained in the merger agreement and any related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived.

Summary of Analysis. The following is a summary of the material financial analyses performed by Hoefer & Arnett in connection with the preparation of its opinion and does not purport to be a complete description of all the analyses performed by Hoefer & Arnett. The summary includes information presented in tabular format, which should be read together with the text that accompanies those tables. Hoefer & Arnett believes that its analyses must be considered as a whole and that selecting portions of such analyses and the factors considered therein, without considering all factors and analyses, could create an incomplete view of the analyses and the processes underlying its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. In its analyses, Hoefer & Arnett made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of Guaranty and Hoefer & Arnett. Any estimates contained in Hoefer & Arnett s analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold.

Article 5.12 of the TBCA defines fair value as the value of the shares as of the day immediately preceding the meeting at which the corporate action is adopted, excluding any appreciation or depreciation in anticipation of the proposed action. This definition is broadly accepted and used in courts of law and it is the basis upon which Hoefer & Arnett has relied in determining the fair value of Guaranty s common stock.

In arriving at its opinion as to the fair value of the appraised stock, Hoefer & Arnett considered the nature and history of Guaranty. Hoefer & Arnett considered the competitive environment in which Guaranty operates, the economic outlook for its trade area and for the banking industry in general, the book value and financial condition of Guaranty, its future earnings and dividend paying capacity and Guaranty future business prospects. Hoefer & Arnett considered previous sales of Guaranty common stock, the market and trading volume in Guaranty common stock, the size of the block of stock being valued, the market price of selected publicly traded banking institutions and the premiums paid in the acquisition of publicly traded banking institutions.

There are three valuation approaches that are generally accepted and employed, when appropriate, by appraisal experts in valuing the stock or assets of a going concern. The three valuation approaches are the asset based approach, the market approach and the income approach.

Asset Based Approach. According to the *BUSINESS VALUATION STANDARDS of the American Society of Appraisers*, the asset based (cost) approach is defined as a general way of determining a value indication of a business s assets and or equity interest using one or more methods based directly on the value of the assets of the business less liabilities. Asset based valuation methods seek to write-up (or down) or otherwise adjust the various tangible and intangible assets of an enterprise.

Market Approach. The market approach is a general way of determining a value indication of a business, business ownership interest or security using one or more methods that compare the subject to similar businesses, business ownership interests or securities that have been sold. Market methods include prior transactions in interests of the valuation subject and include a variety of methods that compare the subject with transactions involving similar investments, including publicly traded guideline companies or sales involving controlling interest in public or private guideline companies.

Income Approach. The income approach, as defined by the American Society of Appraisers, is defined as a general way of determining a value indication of a business, business ownership interest or security using one or more methods wherein a value is determined by converting anticipated benefits. In other words, some measurement of earnings or cash flow is forecasted for an appropriate period and then either capitalized using a single representative period or discounted to present value after estimating several future periods.

The valuation methods utilized by the appraiser are considered to be those most appropriate to a particular appraisal. Those valuation methods selected are summarized below.

Asset Based (Cost) Approach

Net Asset Value Method. This approach normally assumes liquidation or sale on the date of appraisal with the recognition of securities gains or losses, real estate appreciation or depreciation and any adjustments to the allowance for loan losses, discounts to the loan portfolio or changes in the net value of other assets. As such, it is not the best approach to use when valuing a going concern and, therefore, Hoefer & Arnett did not utilize this approach.

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Market Approach

Prior Transactions. When valuing a specific block of stock, the market value typically refers to the price at which the appraised company s stock was selling at the time of appraisal. Transactions are investigated to determine if they appear to have occurred at arms length, with a reasonable degree of frequency, and within a reasonably recent period relative to the valuation date. In this instance, Hoefer & Arnett reviewed previous trades of Guaranty common stock, which is thinly traded on the Nasdaq Stock Market (under the symbol GNTY). For the period between January 1, 2005 and May 17, 2005, the average daily trading volume for Guaranty was 1,346 shares (0.05% of the outstanding common shares) and on many days there were no trades in the Guaranty common stock. From January 1, 2005 to May 17, 2005, as reported by the Nasdaq Stock Market, the low price was $20.59 per share, the high price was $23.38 per share, the closing price on May 17, 2005 was $21.35 per share and the average closing price during the period was $21.51 per share.

Analysis of Comparable Publicly Traded Banking Organizations. This method considers the prices at which the stock of companies engaged in the same or similar line of business are selling in the open market on a minority basis, or a freely traded value. Hoefer & Arnett compared the financial performance and trading statistics of Guaranty to selected publicly traded banking organizations that are located in the southwestern region of the United States with total assets under $1 billion and a return on assets greater than 0.00% (the Selected Public Companies), which are shown below. Hoefer & Arnett selected the comparable companies listed below because they are located in the Southwest and their businesses and operating profiles are reasonably similar to those of Guaranty. No comparable company identified below is identical to Guaranty.

Company	Ticker	City	State
Vail Banks, Inc.	VAIL	Avon	CO
Parish National Bank	PNLC	Bogalusa	LA
Citizens National Bancshares of Bossier, Inc.	CNBL	Bossier City	LA
Jeff Davis Bancshares, Incorporated	JDVB	Jennings	LA
MidSouth Bancorp, Inc.	MSL	Lafayette	LA
Metairie Bank & Trust Company	MBKL	Metairie	LA
American Bancorp, Inc.	ABNC	Opelousas	LA
Central Service Corporation	CSCP	Enid	OK
North Dallas Bank & Trust Company	NODB	Dallas	TX
Summit Bancshares, Inc.	SBIT	Fort Worth	TX
Central Bancshares, Incorporated	CBSX	Houston	TX
MetroCorp Bancshares, Inc.	MCBI	Houston	TX

The following table compares selected performance and financial ratios of Guaranty at March 31, 2005 with the median ratios for the Selected Public Companies:

	Guaranty	Selected Public Companies
Total Assets	$ 552.5 million	$ 460.8 million
Return on Assets	0.72%	1.00%
Return on Equity	10.14%	10.97%
Equity to Assets	6.98%	8.62%
Nonperforming Assets to Assets	0.54%	0.25%

Hoefer & Arnett reviewed the multiples of price to stated book value, price to tangible book, price to earnings and dividend yield and calculated the median multiples for the Selected Public Companies. The median multiples were then applied to Guaranty s balance sheet information as of March 31, 2005, 2004 earnings,

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estimated 2005 earnings and estimated 2005 common dividends to derive an imputed range of values of Guaranty s common stock. The following table sets forth the median multiples as well as the imputed values based upon those median multiples:

	Median Multiple	Implied Value
Price / Book Value	1.51x	$ 19.93
Price / Tangible Book Value	1.58x	