GUARANTY BANCSHARES INC /TX/
Form PREM14A
July 11, 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. __)

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

¨ 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 (the Exchange Act) 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 future 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.

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 54.

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 (merger subsidiary), pursuant to which the merger subsidiary 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 future 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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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. (Guaranty) 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. (merger subsidiary), 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, merger subsidiary will merge with and into Guaranty, with Guaranty continuing 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 (the Exchange Act), 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 future 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. 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.

Please see Where You Can Find More Information on page 54 for additional information about Guaranty on file with the Securities and Exchange Commission (SEC).

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 54 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 About the Special Meeting and the Merger 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.

The Companies

Guaranty Bancshares, Inc.

100 W. Arkansas

Mt. Pleasant, Texas 75455

Guaranty, a Texas corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Through its wholly-owned subsidiary, Guaranty Bond Bank, formally known as Guaranty Bank (the Bank), Guaranty offers a broad range of financial products and services to small and medium-sized businesses and consumers through twelve banking locations in the Texas communities of Mt. Pleasant (two offices), Bogata, Commerce, Ft. Stockton, Mount Vernon, Paris, Pittsburg, Sulphur Springs, Talco and Texarkana (two offices). At March 31, 2005, Guaranty had, on a consolidated basis, total assets of $552.5 million, total deposits of $444.0 million and shareholders equity of $38.5 million.

GB Facilitation, Inc.

100 W. Arkansas

Mt. Pleasant, Texas 75455

The merger subsidiary is a newly-formed Texas corporation organized as a wholly-owned subsidiary of Guaranty for the sole purpose of facilitating the merger. It has engaged in no business activities or operations other than those incident to its formation.

The Merger Agreement (page 41)

*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.*

We propose a merger whereby the merger subsidiary will merge with and into Guaranty. 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 the third quarter of 2005.

What You Will Receive in the Merger (page 41)

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

For purposes of the merger, we may, in our sole discretion, 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 Exchange Act, securities registered in substantially similar names where we have reason to believe, because of the address or other

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indications, that such names represent the same person, may be included as held of record as one person. Accordingly, you may hold shares in street name and in record form, and such shares would be combined for purposes of determining the number of shares you own.

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.

Effects of the Merger on Shareholders (pages 25 and 27)

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 March 31, 2005 on a pro forma basis;
- an increase in earnings per share for year ended December 31, 2004 on a pro forma basis and no effect on earnings per share for the three months ended March 31, 2005 on a pro forma basis; and
- 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;
- loss of their equity and voting interest in Guaranty;
- 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 (directors, executive officers and 10% or greater shareholders):

- 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 23)

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 other 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 three months ended March 31, 2005 of $0.33 will remain unchanged on a pro forma basis;

total shareholders equity as of March 31, 2005 would be reduced from approximately $38.5 million on a historical basis to approximately $37.0 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 March 31, 2005 would be reduced from $13.20 per share on a historical basis to approximately $12.94 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 8.62% as of March 31, 2005 to approximately 8.35% on a pro forma basis; our tier 1 capital to risk-weighted assets ratio would be reduced from 12.60% as of March 31, 2005 to approximately 12.23% on a pro forma basis; and our total risk-based capital ratio would decrease from 13.78% as of March 31, 2005 to approximately 13.42% on a pro forma basis.

Conditions to the Completion of the Merger (page 44)

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 29)

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.

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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 opinion 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 (Hoefer & Arnett), 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 53, and Market for Common Stock and Dividends on page 51 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 March 31, 2005 book value per share, representing a 81.82% premium over book value.

Going Concern Value: The price per share to be paid in the merger reflects Guaranty 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.

Appraisal Rights of Shareholders (page 45)

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 48)

The proposed amendment to the Articles of Incorporation is designed to grant us a right to purchase the 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.

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.

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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, 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.

Special Meeting of Shareholders (page 39)

The special meeting of Guaranty shareholders 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. At the special meeting, you will be asked:

- to consider and vote upon a proposal to approve the merger agreement that provides for the merger of the merger subsidiary 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 future 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.

Shares Entitled to Vote; Quorum and Vote Required (page 39)

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. 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. All holders of record of our common stock as of , 2005, will receive a copy of this proxy statement and are entitled to vote at the special meeting.

Effective Time of the Merger (page 43)

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 the third quarter of 2005, although delays could occur.

Financing of the Merger (page 44)

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 within in the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act in this proxy statement (and in documents to which we refer you in this proxy statement) that are subject to risks and uncertainties. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of invoking these safe harbor provisions. You can identify these statements from our use of the words anticipate, believe, continue, expect, estimate, intend, may, will, should and 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.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

Q: What will happen in the merger?

A: In the merger, the merger subsidiary will be merged with and into Guaranty, with Guaranty being the surviving corporation. As a result of the merger, shareholders who own fewer than 600 shares of our common stock, except for shares owned by shareholders who properly exercise their rights as dissenting shareholders, will receive $24.00 in cash for each share owned as of the effective time of the merger. Shareholders who own 600 or more shares of our common stock will continue to hold shares of our common stock and will not receive any cash in connection with the merger. The merger agreement, a copy of which is attached hereto as *Appendix A*, has specific 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: When do you expect the merger to be completed?

A: We are working toward completing the merger as quickly as possible, and we expect the merger to be completed during the third quarter of 2005, although delays could occur.

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

A: The shareholders are being asked to approve (1) the merger agreement providing for the merger of the merger subsidiary with and into Guaranty and (2) an amendment to the Articles of Incorporation granting us a right of first refusal with respect to certain future transfers of our common stock. If successfully completed, the merger will reduce the number of our shareholders, which will enable us to discontinue our reporting requirements under the Exchange Act, thereby eliminating the significant expense related to those reporting requirements. If the amendment is approved, it would grant us a right of first refusal with respect to certain future transfers of shares of our common stock, and 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.

Q: What votes are required for approval?

A: Approval of the merger agreement and the amendment each requires the affirmative vote of a majority of shares of our common stock outstanding on , 2005.

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.

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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 vote in person?

A: Yes. You may attend the special meeting and may vote your shares in person, rather than signing and mailing a proxy card. However, to ensure your shares are represented at the special meeting, please complete, date and sign the enclosed proxy card and return it in the enclosed envelope.

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: 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 45. 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.

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

A: After the special meeting and the closing 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.

Q: What if I hold shares in street name?

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: 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: How will Guaranty be operated after the merger?

A: After the merger, Guaranty 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. Guaranty expects its business and operations to continue as they are currently being conducted and, except as disclosed in this proxy statement, the merger is not anticipated to have any effect upon the conduct of Guaranty s business and operations. Our board of directors believes the going-private transaction is consistent with Guaranty s vision of remaining a community-oriented banking company. As a result of the merger, shareholders of Guaranty who receive cash for their shares in the merger will no longer have a continuing interest as shareholders of Guaranty and will not share in any future earnings and growth of 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 (the 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*.

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. 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 administrative, accounting, and legal expenses incurred in complying with disclosure, reporting and compliance requirements under

the Exchange Act and the Sarbanes-Oxley Act.

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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 on an annual basis, 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

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

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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 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 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 advisors 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 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

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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;
- the effects of the merger as described under Effects of the Merger on Guaranty on page 23, Effects of the Merger on Shareholders Generally on page 25 and Effects of the Merger on Affiliated Shareholders on page 27; and
- the historical market prices of our common stock as described on page 51.

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

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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 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 23, Effects of the Merger on Shareholders Generally on page 25, Effects of the Merger on Affiliated Shareholders on page 27 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 listed 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 $24.00 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. 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. Our Board of Directors believes that our earnings over the last three years and the first three months in 2005 provide a basis for a reasonable expectation of future performance and an expectation of future benefits. Based upon its review, the Board of Directors believes that the $24.00 per share price is fair.

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 transaction. 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. While the Board of Directors did consider these trades in general terms in its review of the historical prices of our common stock, the Board of Directors did not distinguish between transactions in our common stock involving directors and executive officers and those not involving such persons.

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.

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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

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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 for the use and benefit of our Board of Directors in connection with its consideration of the proposed transaction. 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.

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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.

Stock Trading History. 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 Publicly Traded Banking Organizations. Hoefer & Arnett reviewed 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). Hoefer & Arnett compared financial performance ratios at Guaranty with financial performance ratios of the banking organizations making up the Selected Public Companies.

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, 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	$ 19.59
Price / 2004 Earnings	15.1x	$ 18.66
Price / Est. 2005 Earnings	15.1x	$ 22.10
Dividend Value	1.49%	$ 29.53

As illustrated in the above table, Hoefer & Arnett derived a range of imputed values of Guaranty common stock of $18.66 to $29.53, based upon the median multiples for the Selected Public Companies.

Discounted Cash Flow Analysis. Using a discounted cash flow analysis, Hoefer & Arnett estimated the net present value of the future streams of after-tax cash flow that Guaranty could produce to benefit a potential investor, referred to as dividendable net income, and added a terminal value. Hoefer & Arnett estimated a potential investor s cash flow based upon future dividends and a residual value. To calculate the residual value, Hoefer & Arnett assumed the sale of the stock at the end of five years. Hoefer & Arnett used the current trading multiples for both book and earnings to provide appropriate residual values and utilized a discount rate of 12%. This discounted cash flow analysis indicated implied values of $18.65 per share and $21.72 per share.

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Based on Hoefer & Arnett s review and analysis of the factors influencing value and utilizing the asset, market and income approaches without any discounts, it is the opinion of Hoefer & Arnett that, the fair value of the outstanding common stock of Guaranty as of June 7, 2005 was $24.00 per share.

Based upon a fair value of $24.00 per share, Hoefer & Arnett calculated the following ratios:

Fair value / March 31, 2005 book value	1.82x
Fair value / March 31, 2005 tangible book value	1.94x
Fair value / 2004 earnings	19.35x

Accretion/Dilution Analysis. Hoefer & Arnett analyzed the financial implications of the merger to the Guaranty shareholders that will remain following the merger. This analysis indicated the level of accretion to earnings per share that a shareholder of Guaranty would achieve on a pro forma basis including assumed cost savings. Based on conversations with Guaranty management, Hoefer & Arnett assumed that 61,749 shares will be cashed out, transaction costs of $120,000, an opportunity cost of capital of 6.00% and cost savings of approximately $350,000 per annum as a result of not having to comply with the reporting requirements under the Exchange Act and other requirements of being a public company. The table below summarizes these results:

	2004 Earnings
Guaranty Standalone	$ 1.24
Pro Forma	1.28
% Accretion	3.23%

Hoefer & Arnett provided investment banking and financial advisory services to Guaranty in 1998 in connection with its initial public offering for which it received customary fees. Hoefer & Arnett provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may effect transactions and hold securities of Guaranty for its own account and for the accounts of customers.

We will pay Hoefer & Arnett a fee of $15,000 in connection with Hoefer & Arnett s acting as our financial advisor and rendering its opinion, which is not contingent upon the completion of the merger. In addition, we have agreed to indemnify Hoefer & Arnett against certain liabilities and expenses arising out of or incurred in connection with its engagement, including liabilities and expenses which may arise under the federal securities laws.

Effects of the Merger on Guaranty

The merger will have various effects on Guaranty, as described below.

Reduction in the Number of Shareholders of Record. We believe that the merger will reduce the number of record shareholders from approximately 430 to approximately 184. As noted earlier, in addition to the approximately 50,036 shares held by shareholders of record owning fewer than 600 shares, we assume that beneficial owners of approximately 11,713 shares held in street name will receive cash for their shares in

the merger. Accordingly, the number of outstanding shares of our common stock will decrease from 2,826,012, as of the record date, to approximately 2,764,263 after the merger.

Decrease in Book Value and Effect on Earnings Per Share. Based on the fact that (1) the price to be paid in the merger to holders of fewer than 600 shares of common stock will be $24.00 per share, (2) the maximum number of shares of common stock expected to be cashed out as a result of the merger is 61,749, (3) the total cost to Guaranty (including expenses estimated to be approximately $120,000) of effecting the merger is expected to be approximately $1.6 million and (4) at March 31, 2005, shareholders equity was $38.5 million, or $13.20 per share, we expect that, as a result of the merger:

- our shareholders equity as of March 31, 2005 will be reduced from approximately $38.5 million on a historical basis to approximately $37.0 million on a pro forma basis;

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- the book value per share of our common stock as of March 31, 2005 will be reduced from $13.20 per share on a historical basis to approximately $12.94 per share on a pro forma basis;

- we will utilize existing cash on hand as well as funds generated from our operations to purchase the cashed-out shares and any dissenting shares, as well as to pay the fees and expenses incurred in connection with the merger, which management anticipates not to exceed $1.6 million, assuming 61,749 shares are repurchased; and

- diluted earnings per share of our common stock for the year ended December 31, 2004 will increase from $1.24 on a historical basis to approximately $1.31 on a pro forma basis and diluted earnings per share for the three months ended March 31, 2005 of $0.33 will remain unchanged on a pro forma basis.

Decrease in Capital. As a result of the merger, our capital will be reduced. More specifically, our tier 1 capital to risk-weighted assets ratio will decrease from 12.60% as of March 31, 2005 to approximately 12.23% on a pro forma basis, our leverage capital ratio will decrease from 8.62% as of March 31, 2005 to approximately 8.35% on a pro forma basis, and our total risk-based capital ratio will decrease from 13.78% as of March 31, 2005 to approximately 13.42% on a pro forma basis. All regulatory capital ratios have been calculated assuming that 61,749 shares are cashed out in the merger.

Termination of Exchange Act Reporting Obligations. Our common stock is currently registered under the Exchange Act. After the merger, our common stock will not be registered under the Exchange Act and we will no longer be subject to the reporting requirements under the Exchange Act. More specifically, we will no longer be required to file (1) annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K presenting and analyzing our business, financial condition and results of operations, (2) ongoing reports regarding insiders stock transactions and (3) proxy statements disclosing information about our directors and officers, their compensation and our corporate governance process. Accordingly, we expect to eliminate direct and indirect costs and expenses associated with continuance of the Exchange Act registration, estimated at approximately $350,000 per year. We intend to apply for such termination as soon as practicable following completion of the merger.

Effect on Market for Shares. Our common stock is currently quoted on the Nasdaq Stock Market, but it will not be quoted on Nasdaq or listed on any exchange after the merger. Because we will no longer be quoted on the Nasdaq Stock Market or be required to maintain current public information by filing reports under the Exchange Act, the market for shares of our common stock will be adversely affected. Although there is currently only minimal liquidity in our shares of common stock, there will be a significant reduction in the liquidity of our common stock after the merger.

Further, the proposed amendment to our Articles of Incorporation provides Guaranty a right of first refusal with respect to certain future transfers of our common stock. If shareholders approve the amendment at the special meeting and the merger is completed, this right of first refusal may further reduce the liquidity of our common stock.

Effect on Dividends. The principal source of our cash revenues comes from dividends received from the Bank. The amount of dividends that may be paid by the Bank to us depends on the Bank s earnings and capital position and is limited by federal and state law, regulations, and policies. In addition to the availability of funds from the Bank, our future dividend policy is subject to the discretion of our Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash needs, and general business conditions. If dividends should be declared in the future, the amount of such dividends presently cannot be estimated and it cannot be known whether such dividends would continue for future periods.

We anticipate that the merger will not have a material effect on our dividend policy, and we intend to continue paying a semi-annual cash dividend; however, any future declaration and payment of dividends will depend upon, among other factors, our results of operations and financial condition, future prospects, regulatory limitations and capital requirements, and other factors deemed relevant by our Board of Directors.

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Financial Effects of the Merger; Financing of the Merger. We expect that the purchase of the cashed-out shares in the merger will cost not more than approximately $1.5 million which does not include approximately $120,000 in professional fees and other expenses we anticipate incurring in the course of the transaction. In addition, we do not expect that the completion of the merger will have any material adverse effect on our capital adequacy, liquidity, results of operations or cash flow. Because we do not currently know the actual number of shares that will be cashed out in the merger, we do not know the exact amount of cash we will ultimately pay to shareholders in the merger. However, our obligation to consummate the merger under the merger agreement is conditioned on the aggregate number of shares of our common stock owned by shareholders who are to be cashed out or who have properly perfected their rights as dissenting shareholders not exceeding 100,000 shares.

Increased Ownership Percentage of Executive Officers and Directors. As a result of the merger, we expect that the percentage of ownership of our common stock beneficially owned by our current executive officers and directors as a group (12 persons) will increase from 33.39% to approximately 34.12%. For a description of the assumptions used in determining the numbers of shares and related percentages that we expect to be beneficially owned by executive officers and directors immediately following the merger, please see footnotes (1) and (2) under Information about Guaranty and its Affiliates Security Ownership of Certain Beneficial Owners and Management.

Our board of directors was aware of these interests and considered them in approving the merger agreement. See Special Factors Background of the Merger.

Effects of the Merger on Shareholders Generally

The merger will have various effects on our affiliated and unaffiliated shareholders as described below:

Before the Merger	Net Effect After the Merger
Shareholders holding fewer than 600 shares of our common stock	You will receive $24.00 in cash, for each share you own at the effective time of the merger. You will not have to pay any brokerage commissions or other service charges in connection with the merger. All amounts owed to you will be subject to applicable federal, state and local income taxes. You will have no further interest in Guaranty with respect to your cashed-out shares. Your only right will be to receive cash for those shares. You will receive a letter of transmittal from us as soon as practicable after the merger with instructions on how to surrender your existing certificate(s) in exchange for your cash payment.

NOTE: If you want to continue to remain a shareholder after the merger, you may do so by purchasing a sufficient number of shares of our common stock prior to the effective time of the merger so that you hold at least 600 shares at the effective time of the merger.

As described in the section Proposal I: Approval of the Merger Agreement Conversion of Shares in the Merger, there are specific provisions regarding the treatment of shares held in nominee form, or street name. In determining the number of shares held beneficially in street name by

any shareholder, we may, in our discretion, rely on no objection lists provided by any nominee holder. Further, after the merger, we will deliver to each shareholder who would appear to be entitled to receive cash in the merger in consideration for his or her shares a letter of transmittal requesting certain information from such shareholder and requiring the shareholder

to certify as to the number of shares actually held, whether in registered form, or in street name. Letters of transmittal will be delivered to any shareholder who (1) holds of record, or combined with any shares listed in clause (2), fewer than 600 shares, (2) according to records made available to us from the nominee holder for any shares held in street name, holds in street name, or combined with any shares held of record, fewer than 600 shares or (3) holds shares in street name and with respect to which we are not provided by the nominee holder the number of shares so held.

The effects of the merger to a shareholder will vary depending on whether all of the shareholder s shares will be cashed out in the merger. The determination of whether or not any particular shares of our common stock will be cashed out in the merger will be based on whether the holder of those shares holds either fewer than 600 shares or 600 or more shares. Since a shareholder may own shares for the benefit of another holder, a shareholder may beneficially own both shares that will be cashed out in the merger and shares that will remain outstanding in the merger. We expect that our executive officers and directors (12 persons) will continue to own beneficially a total of approximately 963,214 shares (including shares that may be acquired pursuant to the exercise of stock options), or approximately 34.12% of the outstanding shares immediately after the merger. We do not anticipate any affiliated shareholder s shares being cashed out in the merger. All of the effects to shareholders described below assume that the maximum of 61,749 shares are cashed out in the merger, unless otherwise noted.

Effects on Cashed-Out Shareholders. The effects of the merger on shareholders owning fewer than 600 shares immediately prior to the effective time of the merger will, upon consummation of the merger, include:

Receipt of Cash. Shareholders who own fewer than 600 shares of our common stock, in the aggregate, whether of record or in street name, will receive $24.00 in cash per share.

Loss of Ownership Interest. Shareholders will no longer have any equity or voting interest in Guaranty and therefore will not receive any cash dividends or participate in our future potential earnings or growth, if any, as a shareholder.

Taxes. Shareholders will likely be required to pay federal and, if applicable, state and local income taxes on the cash amount received in the merger. See Material U.S. Federal Income Tax Consequences.

Effects on Remaining Shareholders. The effects of the merger on shareholders owning 600 or more shares immediately prior to the effective time of the merger will, upon consummation of the merger, include:

Continued Ownership of Shares. Shareholders who own 600 or more shares immediately prior to the effective time of the merger will continue to be shareholders of Guaranty and will own the same number of shares immediately after the merger as they owned immediately prior to the merger.

Increased Ownership Percentage. Remaining shareholders will have a slightly increased ownership percentage in Guaranty as a result of the merger.

Decreased Access to Information. If the merger is completed, we intend to terminate our registration under the Exchange Act. As a result, we will no longer be subject to the periodic reporting requirements and the proxy rules of the Exchange Act.

Decreased Liquidity and Transfer Restrictions. The liquidity of the shares of our common stock held by remaining shareholders will be reduced because our common stock will no longer be quoted on the Nasdaq Stock Market and we will have fewer shareholders.

Additionally, if the proposed amendment is approved by our shareholders, we will have a right of first refusal to purchase any shares of our common stock proposed to be transferred in a transaction that would increase the number of our record shareholders. The absence of an established trading market, a smaller shareholder base and the amendment to our Articles of Incorporation, if approved by shareholders, may restrict your ability to transfer your shares of common stock after the merger.

Reduced Capital. Our regulatory capital ratios will be reduced, including a decrease in our tier 1 capital to risk-weighted assets ratio from 12.60% as of March 31, 2005 to approximately 12.23% on a pro forma basis. Our other regulatory capital ratios will be similarly reduced: our leverage ratio will

decrease from 8.62% as of March 31, 2005 to approximately 8.35% on a pro forma basis; and our total risk-based capital ratio will decrease from 13.78% as of March 31, 2005 to approximately 13.42% on a pro forma basis.

Reduced Book Value Per Share. The book value per share of our common stock as of March 31, 2005 would be reduced from $13.20 per share on a historical basis to approximately $12.94 per share on a pro forma basis.

Effect on Earnings Per Share. Diluted earnings per share for the year ended December 31, 2004 would increase from $1.24 on a historical basis to approximately $1.31 on a pro forma basis, an increase of 5.65%. Diluted earnings per share for the three months ended March 31, 2005 of $0.33 will remain unchanged on a pro forma basis.

Increased Ownership Percentage of Executive Officers and Directors. As a result of the merger, we expect that the percentage of ownership of common stock beneficially owned by our executive officers and directors (12 persons) as a group will increase from 33.39%, as of the record date, to approximately 34.12% on a pro forma basis (based on the number of shares we anticipate such executive officers and directors to own beneficially immediately after the merger).

Effects of the Merger on Affiliated Shareholders

In addition to the effects of the merger on shareholders generally, which are described in the previous section, the merger will have some additional effects on our executive officers and directors, each of whom is, a result of his or her position, deemed to be an affiliate of Guaranty. As used in this proxy statement, the term affiliated shareholder means any shareholder who is a director or executive officer of Guaranty or the beneficial owner of 10% or more of our outstanding common stock, and the term unaffiliated shareholder means any shareholder other than an affiliated shareholder.

No Further Reporting Obligations Under the Exchange Act. After the merger, our common stock will not be registered under the Exchange Act. As a result, our executive officers, directors and other affiliates will no longer be subject to many of the reporting requirements and restrictions of the Exchange Act, including the reporting and short-swing profit provisions of Section 16, and information about their compensation and stock ownership will not be publicly available.

Rule 144 Not Available. Because our common stock will not be registered under the Exchange Act after the merger and we will no longer be required to furnish publicly available periodic reports, our executive officers and directors will lose the ability to dispose of their shares of our common stock under Rule 144 of the Securities Act of 1933, which provides a safe harbor for resales of stock by affiliates of an issuer.

Examples of Merger Results

In general, the merger can be illustrated by the following examples:

Hypothetical Scenario	Result
Ms. Smith owns 500 shares of Guaranty common stock registered in her own name at the effective time of the merger. Ms. Smith holds no other shares.	Ms. Smith s 500 shares will be canceled and converted into the right to receive cash in the amount of $24.00 per share.

If Ms. Smith wants to continue her investment in Guaranty, she would need to buy at least 100 shares of our common stock (preferably of record in her own name so as to make it more readily apparent that she holds 600 or more shares). Ms. Smith should act far enough in advance of the effective time of the merger so that the purchase is complete and registered on our books before the effective time of the merger.

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Hypothetical Scenario	Result
Mr. Brown owns 100 shares of Guaranty that are held in a brokerage account at the effective time of the merger. Mr. Brown owns no other shares.	Mr. Brown s 100 shares will be converted into the right to receive cash in an amount equal to $24.00 per share, Mr. Brown will no longer be a shareholder of Guaranty.
Mr. Davis owns 500 shares of Guaranty registered in his own name and 500 shares that are held in a brokerage account at the effective time of the merger. Mr. Davis owns no other shares.	If either we or Mr. Davis can establish to our satisfaction that he, in fact, holds 600 or more shares, Mr. Davis 1,000 shares will remain outstanding after the merger. Otherwise, we will presume that all of the shares are held by a holder of fewer than 600 shares and were therefore canceled in the merger and converted into the right to receive cash in an amount equal to $24.00 per share. Mr. Davis will be able to rebut the presumption that his shares were cashed out in the merger by certifying in the letter of transmittal sent to him after the merger that he holds 600 or more shares and providing us such other information as it may request to verify that fact.

Interests of Executive Officers and Directors in the Merger

Our Board of Directors believes that it has acted in the best interests of Guaranty and its shareholders. However, as you consider the recommendation of the Board of Directors, you should be aware that the directors and executive officers have interests which are in addition to their interests as our shareholders. As a result of the merger, we expect that the beneficial ownership of our common stock held by current executive officers and directors (12 persons) as a group will increase from 33.39% to approximately 34.12%. See Information about Guaranty and its Affiliates Security Ownership of Certain Beneficial Owners and Management.

Our Board of Directors was aware of these interests and considered them in approving the merger agreement. See Special Factors Background of the Merger.

Conduct of Guaranty s Business After the Merger

Following the merger, Guaranty and its subsidiaries, including the Bank, will continue to conduct their existing operations in substantially the same manner as now conducted. Our executive officers and directors immediately prior to the merger will be the executive officers and directors of Guaranty after the merger. Except for the change that would result from the amendment (if approved by the shareholders at the special meeting), the Articles of Incorporation and Bylaws of Guaranty will remain in effect and unchanged by the merger. The deposits of the Bank will continue to be insured by the Federal Deposit Insurance Corporation, and Guaranty and the Bank will continue to be regulated by the same regulatory agencies as before the merger.

Fees and Expenses

We estimate that merger related fees and expenses, consisting primarily of financial advisory fees, SEC filing fees, fees and expenses of attorneys and accountants and other related charges, will total approximately $120,000, assuming the merger is completed. This amount consists of the following estimated fees:

Description	Amount
Advisory fees and expenses	$ 15,000
Legal fees and expenses	75,000
Accounting fees and expenses	10,000
Printing, solicitation and mailing costs	20,000
Total	$ 120,000

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Anticipated Accounting Treatment

We anticipate that we will account for the shares of our outstanding common stock repurchased in the merger as treasury shares.

Material U.S. Federal Income Tax Consequences

The following discussion summarizes the material U.S. federal income tax consequences to our shareholders with respect to the merger. The discussion is based upon the Internal Revenue Code of 1986, as amended, its legislative history, applicable U.S. Treasury regulations, existing administrative interpretations and court decisions currently in effect. Any of these authorities could be repealed, overruled or modified at any time after the date of this proxy statement, and any such change could be applied retroactively. This discussion does not address any alternative minimum tax consequences or the tax consequences under state, local or foreign laws.

The discussion that follows neither binds nor precludes the Internal Revenue Service from adopting a position contrary to that expressed in this document, and we cannot assure you that such a contrary position could not be asserted successfully by the Internal Revenue Service or adopted by a court if the positions were litigated. We have not obtained a ruling from the Internal Revenue Service or a written opinion from tax counsel with respect to the United States federal income tax consequences discussed below.

This discussion assumes that you hold your shares of our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code. This discussion is only for general information and does not address all aspects of federal income taxation that may be important to you in light of your particular circumstances or if you are subject to certain rules, such as those rules relating to shareholders who are not citizens or residents of the United States, financial institutions, tax-exempt organizations and entities (including IRAs), insurance companies, dealers in securities, shareholders who hold options to acquire shares of our common stock, and shareholders who acquired their shares of common stock through the exercise of employee stock options or similar derivative securities or otherwise as compensation.

Federal income tax consequences to shareholders who do not receive cash in the merger. If you (1) continue to hold shares of our common stock immediately after the merger, and (2) you receive no cash as a result of the merger, then you will not recognize any gain or loss in the merger and you will have the same adjusted tax basis and holding period in your shares of our common stock as you had in such stock immediately prior to the merger.

Federal income tax consequences to shareholders who receive cash in the merger. An exchange of your shares of our common stock for cash pursuant to the merger will be a taxable transaction. If you receive cash in exchange for your shares of common stock as a result of the merger, the cash you received will be treated as redemption of your shares of our common stock exchanged therefor under Section 302 of the Internal Revenue Code. Under Section 302 of the Internal Revenue Code, a shareholder who exchanges his or her shares of our common stock for cash will be treated as having sold his or her shares of our common stock if the exchange meets one of the following three tests:

- the exchange results in a complete termination of his or her equity interest in Guaranty;
- the exchange is substantially disproportionate with respect to the shareholder; or

the cash received is not essentially equivalent to a dividend with respect to the shareholder.

For purposes of these tests, in addition to the shares of common stock you actually own, you will be deemed to own constructively certain shares of our common stock under the constructive ownership rules of Section 318 of the Internal Revenue Code. Generally, the constructive ownership rules under Section 318 of the Internal Revenue Code treat a shareholder as owning:

shares of stock owned by certain relatives, related corporations, partnerships, estates or trusts, and

shares of stock the shareholder has an option to acquire.

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Because the constructive ownership rules are complex, each shareholder should consult his or her own tax advisor as to the applicability of these rules.

Cashed-out shareholders who do not actually or constructively own any shares of Guaranty common stock after the merger. In general, if you receive cash in exchange for your shares of our common stock as a result of the merger but do not actually or constructively own any shares of our common stock immediately after the merger, you will be treated as having sold your shares of our common stock for the cash received. You will recognize gain or loss on the exchange in an amount equal to the difference between the cash you receive for your cashed-out shares of our common stock and your aggregate adjusted tax basis in such stock. Your gain will be a capital gain provided you held your shares of our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code as of the effective time of the merger.

Shareholders receiving cash who actually or constructively continue to own any shares of Guaranty common stock after the merger. If you receive cash in exchange for your shares of our common stock as a result of the merger and are treated as directly or constructively owning shares of our common stock immediately after the merger, then you will be treated as having sold your shares of our common stock for the cash received only if you meet one of the three tests mentioned above and described below.

You will satisfy the complete termination test if you receive cash in exchange for your shares of our common stock pursuant to the merger and you completely terminate your direct and constructive ownership interest in Guaranty. If you would otherwise satisfy the complete termination requirement but for your constructive ownership of shares of our common stock held by family members, you may, in certain circumstances, be entitled to disregard such constructive ownership. You should check with your own tax advisor as to whether you would be entitled to disregard such constructive ownership and the required filings with the Internal Revenue Service pursuant to such a decision.

You will satisfy the substantially disproportionate test if immediately after the merger you actually and constructively own less than 50% of the total combined voting power of all classes of our stock entitled to vote and your percentage interest in Guaranty (i.e., the number of voting shares actually and constructively owned by you divided by the number of voting shares outstanding) is less than 80% of your percentage interest in Guaranty immediately prior to the merger.

You will satisfy the not essentially equivalent to a dividend test if the reduction in your percentage interest in Guaranty, as described above, constitutes a meaningful reduction of your proportionate interest given your particular facts and circumstances. The Internal Revenue Service has indicated in published rulings that a minority shareholder whose relative stock interest is minimal (i.e., less than 1%) and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction generally if the shareholder has some reduction in the shareholder s stock ownership percentage.

If you satisfy one of these three tests, you will be treated as having sold your shares of Guaranty common stock for the cash exchanged therefore and will recognize gain or loss on the exchange in an amount equal to the difference between the cash you receive for your cashed-out shares of our common stock and your aggregate adjusted tax basis in such stock. Your gain will be a capital gain provided you held your shares of our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code as of the effective time of the merger.

If you do not satisfy one of these three tests, you will be treated as having received a dividend to the extent of our current and accumulated earnings and profits, which we anticipate will be sufficient to cover the amount of any such dividend and will be includible in your gross income as ordinary income in its entirety, without reduction for the adjusted tax basis of your shares of our common stock exchanged for cash. No loss will be recognized. If the exchange is treated as a dividend, your adjusted tax basis in your shares of our common stock exchanged for cash generally will be added to your tax basis in your remaining shares of our common stock. To the extent that cash received in exchange for your

shares of our common stock is treated as a dividend to a

corporate shareholder, the corporate shareholder will be: (1) eligible for a dividends-received deduction (subject to applicable limitations); and (2) subject to the extraordinary dividend provisions of the Internal Revenue Code. To the extent, if any, the cash received by you exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your adjusted tax basis in the shares surrendered and thereafter as a capital gain.

Capital gain and loss. For individuals, net capital gain (defined generally as your total capital gains in excess of capital losses for the year) recognized upon the sale of capital assets that have been held for more than 12 months generally will be subject to tax at a rate not to exceed 15%. Net capital gain recognized from the sale of capital assets that have been held for 12 months or less will continue to be subject to tax at ordinary income tax rates. In addition, capital gain recognized by a corporate taxpayer will continue to be subject to tax at the ordinary income tax rates applicable to corporations. There are limitations on the deductibility of capital losses.

Backup withholding. If you receive cash in the merger, you will be required to provide your social security or other taxpayer identification numbers (or, in some instances, additional information) in connection with the merger to avoid backup withholding requirements that might otherwise apply. The letter of transmittal will require you to deliver such information when your shares of our common stock certificates are surrendered following the effective time of the merger. Failure to provide such information may result in backup withholding.

As explained above, the amounts paid to you as a result of the merger may result in dividend income, capital gain income, or some combination of dividend and capital gain income to you depending on your individual circumstances. The U.S. federal income tax discussion set forth above is based upon present law, which is subject to change possibly with retroactive effect. You should consult your tax advisor as to the particular federal, state, local, foreign, and other tax consequences of the transaction that are applicable to you in light of your specific circumstances.

Regulatory Requirements

In connection with the merger, we will be required to make certain filings with and obtain certain approvals from various federal and state governmental agencies, including:

- filing of Articles of Merger with the Secretary of State of Texas in accordance with the TBCA after the approval of the merger agreement by our shareholders; and

- complying with federal and state securities laws, including our and the merger subsidiary s filing, in conjunction with this proxy statement, of a Rule 13e-3 Transaction Statement on Schedule 13E-3 with the SEC.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table summarizes financial results actually achieved by Guaranty for the periods and at the dates indicated and should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements contained in reports that we have previously filed with the SEC. Historical financial information can be found in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and our Annual Report on Form 10-K for the year ended December 31, 2004, which are incorporated by reference in this proxy statement. See Where You Can Find Additional Information on page 54 for instructions on how to obtain the information that has been incorporated by reference. Financial amounts as of and for the three months ended March 31, 2005 and March 31, 2004 are unaudited, but management of Guaranty believes that such amounts reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of its results of operations and financial position as of the dates and for the periods indicated. You should not assume the results of operations for past periods and for the three months ended March 31, 2005 and 2004 indicate results for any future period.

	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Interest income	$ 7,142	$ 6,700	$ 27,029	$ 27,564	$ 28,955
Interest expense	2,643	2,150	9,137	10,242	12,272
Net interest income	4,499	4,550	17,892	17,322	16,683
Provision for loan losses	200	250	930	1,075	1,260
Net interest income after provision for loan losses	4,299	4,300	16,962	16,247	15,423
Noninterest income	1,391	1,228	4,756	4,937	5,056
Noninterest expense	4,247	4,114	16,483	15,837	14,692
Earnings before provision for income taxes	1,443	1,414	5,235	5,347	5,787
Provision for income taxes	460	382	1,575	1,503	1,410
Net earnings	$ 983	$ 1,032	$ 3,660	$ 3,844	$ 4,377
Common Share Data:					
Basic earnings per share (1)	$ 0.34	$ 0.35	$ 1.25	$ 1.32	$ 1.46
Diluted earnings per share (1)	0.33	0.35	1.24	1.30	1.45
Book value	13.20	12.88	13.26	12.47	11.81
Tangible book value	12.40	12.08	12.46	11.67	11.01
Cash dividends declared			0.40	0.37	0.32
Dividend payout ratio			31.88%	28.12%	21.73%
Weighted average shares outstanding (basic) (in thousands)	2,912	2,922	2,918	2,923	2,991
Weighted average shares outstanding (diluted) (in thousands)	2,955	2,966	2,963	2,953	3,013
Shares outstanding at end of period (in thousands)	2,920	2,922	2,913	2,922	2,932
Balance Sheet Data (at period end):					
Total assets	$ 552,512	$ 518,997	$ 541,966	$ 517,078	$ 517,968
Securities	111,842	92,811	103,751	99,614	106,992
Loans held for sale	2,666	1,263	1,749	1,244	5,727

Loans	379,806	366,639	375,585	364,270	359,888
Allowance for loan losses	4,418	4,029	4,154	3,906	3,692
Total deposits	444,031	415,855	433,743	407,847	424,950
Total shareholders equity	38,543	37,629	38,624	36,448	34,644

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	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Dollars in thousands, except per share data)				
Average Balance Sheet Data:					
Total assets	$ 548,633	$ 517,320	$ 527,025	$ 524,675	$ 490,620
Securities	111,305	95,897	97,549	109,325	91,710
Loans (2)	378,350	363,841	371,586	359,829	342,823