

GUARANTY BANCSHARES INC /TX/
Form DEF 14A
September 14, 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

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

Check the appropriate box:

- 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.
- 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.

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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:

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

(3) Filing Party:

(4) Date Filed:

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GUARANTY BANCSHARES, INC.

100 W. Arkansas

Mt. Pleasant, Texas 75455

(903) 572-9881

September 14, 2005

Dear Shareholder:

You are cordially invited to attend the special meeting of shareholders of Guaranty Bancshares, Inc. (Guaranty) on Tuesday, October 18, 2005 beginning at 2:00 p.m., local time, to be held at the main office of Guaranty Bond Bank at 100 W. Arkansas, Mt. Pleasant, Texas.

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

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

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

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

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

The enclosed proxy statement gives you detailed information about the special meeting, the merger, the amendment and related matters. We urge you to carefully read the enclosed proxy statement, including the considerations discussed under *Special Factors*, beginning on page 10 and the appendices to the proxy statement, which include the merger agreement and the amendment. You may also obtain information about Guaranty from documents we have filed with the Securities and Exchange Commission. See *Where You Can Find More Information* on page 57.

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

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

Sincerely,

Arthur B. Scharlach, Jr.

Chairman of the Board and

Chief Executive Officer

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GUARANTY BANCSHARES, INC.

100 W. Arkansas

Mt. Pleasant, Texas 75455

(903) 572-9881

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD OCTOBER 18, 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 2:00 p.m., local time, on Tuesday, October 18, 2005, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of June 13, 2005, by and between Guaranty and GB Facilitation, Inc., a Texas corporation and wholly-owned subsidiary of Guaranty, pursuant to which GB Facilitation will merge with and into Guaranty, with Guaranty being the surviving corporation;
2. To consider and vote upon an amendment to Guaranty's Articles of Incorporation which would grant Guaranty a right of first refusal with respect to certain transfers of shares of Guaranty common stock. The amendment is contingent on shareholder approval of the merger agreement and completion of the merger; and
3. To transact such other business as may properly come before the special meeting or any adjournments or postponements thereof.

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

Only shareholders of record as of the close of business on August 25, 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

September 14, 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 OCTOBER 18, 2005

This proxy statement is being furnished in connection with the solicitation of proxies by the board of directors of Guaranty Bancshares, Inc. for use at the special meeting of shareholders to be held on Tuesday, October 18, 2005 at the main office of Guaranty Bond Bank, 100 W. Arkansas, Mt. Pleasant, Texas beginning at 2:00 p.m., local time.

At the special meeting, shareholders of record as of August 25, 2005 will vote on (1) a proposal to approve the Agreement and Plan of Merger, dated as of June 13, 2005, by and between Guaranty and GB Facilitation, Inc., a newly-formed subsidiary of Guaranty organized for the sole purpose of facilitating the proposed transaction and (2) a proposal to approve an amendment to Guaranty's Articles of Incorporation. The merger agreement is attached to this proxy statement as *Appendix A* and the full text of the proposed amendment is attached to this proxy statement as *Appendix B*.

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

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

The merger cannot occur unless the merger agreement is approved by the holders of a majority of the outstanding shares of our common stock. The amendment must also be approved by the holders of a majority of the outstanding shares of our common stock. As of the record date, the directors and executive officers of Guaranty (12 persons) were entitled to vote 904,314 shares, or 32.00% of the outstanding shares of Guaranty common stock entitled to vote at the special meeting. These shares are expected to be voted for approval of the merger agreement and for approval of the amendment.

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Please see "Where You Can Find More Information" on page 57 for additional information about Guaranty on file with the Securities and Exchange Commission.

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

Proxy Statement dated September 14, 2005 and first mailed to Guaranty shareholders

on or about September 16, 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 57 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 September 14, 2005. There may be changes in the affairs of Guaranty since that date which are not reflected in this document.

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SUMMARY TERM SHEET

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

Structure of the Merger (page 44)

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

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

What You Will Receive in the Merger (page 44)

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

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

Determination of Shares Held (page 44)

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

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

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

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Fairness of the Transaction (page 16)

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

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

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

Historical Market Prices of Guaranty Common Stock: The low and high sales prices of our common stock reported by the Nasdaq Stock Market over the past two years have ranged from \$16.40 to \$24.00 per share, with trades during the first six months of 2005 ranging from \$17.50 to \$23.38. See *Information about Guaranty and its Affiliates - Guaranty Common Stock Purchase and Sale Information* on page 56, and *Market for Common Stock and Dividends* on page 54 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's value as a going concern and was not based on an amount that might be realized in a sale of 100% of our stock, since the merger will not result in a change in control of Guaranty.

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

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

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

Effects of the Merger on Shareholders (pages 28 and 29)

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

For shareholders who retain their shares in the merger:

continued ownership of our common stock;

decreased liquidity in our common stock;

decreased access to publicly available information about Guaranty;

a reduction in book value as of June 30, 2005 on a pro forma basis;

an increase in earnings per share for year ended December 31, 2004 and the six months ended June 30, 2005 on a pro forma basis; and

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

For shareholders receiving cash in the merger:

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

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

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

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

Additional Effects of the Merger on Affiliated Shareholders (page 30)

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

elimination of individual reporting obligations under federal securities laws; and

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

Effects of the Merger on Guaranty (page 26)

As a result of the merger:

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

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

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

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

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

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

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

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

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approximately 11.54% on a pro forma basis; and our total risk-based capital ratio would decrease from 13.06% as of June 30, 2005 to approximately 12.70% on a pro forma basis.

Guaranty Plans to Continue to Pay Semi-Annual Dividends (page 54)

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

Conditions to the Completion of the Merger (page 47)

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 32)

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

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

Reasons for the Merger (page 10)

Our principal reasons for effecting the merger are:

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

our belief that our shareholders have not benefited proportionately from the costs relating to the registration of our common stock, principally as a result of the thin trading market for our stock.

Appraisal Rights of Shareholders (page 48)

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

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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 51)

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

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

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

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

Shares Entitled to Vote and Vote Required (page 42)

Approval of the merger agreement and the amendment each require the approval of the holders of a majority of the outstanding shares of our common stock outstanding on August 25, 2005. As of the close of business on August 25, 2005, there were 2,825,748 shares of our common stock entitled to notice of and to vote at the special meeting. As of the record date, our directors and executive officers were entitled to vote 904,314 shares, or 32.00% of our outstanding common stock at the special meeting. These shares are expected to be voted for approval of the merger agreement and for approval of the amendment. Accordingly, 508,561 shares held by unaffiliated shareholders, or 18.00% of our outstanding common stock, must be voted in favor of the merger agreement in order to approve the transaction. This number must also be voted in favor of the amendment for it to be approved.

Effective Time of the Merger (page 46)

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

Financing of the Merger (page 47)

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

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A WARNING ABOUT FORWARD LOOKING STATEMENTS

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

general business and economic conditions in the markets we serve may change or be less favorable than anticipated;

deposit attrition, operating costs, customer loss and business disruption may be greater than expected;

competition among financial services companies may increase;

changes in the interest rate environment may reduce our interest margins;

changes in market rates and prices may impact the value of our securities, loans, deposits and other financial instruments;

our actual cost savings resulting from the transaction are less than expected or we are unable to realize those cost savings as soon as expected;

legislative or regulatory changes may adversely affect our businesses;

personal or commercial customers' bankruptcies increase;

changes may occur in the securities markets; and

operational risks may occur, including data processing system failures or fraud.

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

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QUESTIONS AND ANSWERS

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

A: The special meeting will be held on Tuesday, October 18, 2005 at 2:00 p.m., local time, at the main office of Guaranty Bond Bank at 100 W. Arkansas, Mt. Pleasant, Texas.

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

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

to consider and vote upon a proposal to approve the merger agreement that provides for the merger of the GB Facilitation with and into Guaranty;

to consider and vote upon a proposal to approve the amendment to our Articles of Incorporation that grants us a right of first refusal with respect to certain transfers of our common stock; and

to act on any other matters that may be submitted to a vote at the special meeting or any adjournments or postponements of the special meeting.

Q: What votes are required for approval?

A: Approval of the merger agreement and the amendment each require the approval of the holders of a majority of shares of our common stock outstanding on August 25, 2005. As of this date, there were 2,825,748 shares of our common stock outstanding.

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

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

In considering the recommendation of the Board of Directors, you should be aware that the members of our Board and the executive officers (12 persons) beneficially own approximately 33.39% of the outstanding shares of our common stock as of August 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:

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

Q: What do I need to do now?

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

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Q: What happens if I don't return a proxy card?

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

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