

Guaranty Financial Group Inc.  
Form S-1/A  
June 19, 2008

**Table of Contents**

**As filed with the Securities and Exchange Commission on June 19, 2008**

**Registration No. 333-150558**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**AMENDMENT NO. 8  
to  
FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Guaranty Financial Group Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**6035**

*(Primary Standard Industrial  
Classification Code Number)*

**74-2421034**

*(I.R.S. Employer  
Identification Number)*

**1300 MoPac Expressway South  
Austin, Texas 78746  
(512) 434-1000**

*(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive offices)*

**Kenneth R. Dubuque  
1300 MoPac Expressway South  
Austin, Texas 78746  
(512) 434-1000**

*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

***Copies to:***

**Glen Hettinger  
Fulbright & Jaworski L.L.P.  
2200 Ross Ave, Suite 2800  
Dallas, Texas 75201**

**Edward F. Petrosky  
Sidley Austin LLP  
787 Seventh Avenue  
New York, New York 10019**

**Tel: (214) 855-8000**  
**Fax: (214) 855-8200**

**Tel: (212) 839-5300**  
**Fax: (212) 839-5599**

**Approximate date of commencement of proposed sale to public:** As soon as practicable after the Registration Statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated  
filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting  
company

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
Non-transferable Common Stock			
Subscription Rights	(3)	(3)	\$0(3)
Common Stock, par value \$1.00 per share		\$150,000,000	\$5,895(4)
Total			

- (1) Estimated solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
- (2) This registration right relates to (a) non-transferable subscription rights to purchase common stock, and (b) the shares of common stock deliverable upon the exercise of the of the non-transferable subscription rights pursuant to the rights offering.
- (3) The non-transferable subscription rights are being issued without consideration. Pursuant to Rule 457(g), no separate registration fee is payable with respect to the rights being offered hereby since the rights are being registered in the same registration statement as the securities to be offered pursuant thereto.
- (4) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.**

---

**Table of Contents**

**PROSPECTUS**

**Guaranty Financial Group Inc.**

**Up to 29,013,539 Shares  
of Common Stock Issuable Upon the Exercise of Subscription  
Rights at \$5.17 per Share**

We are distributing, at no charge to our stockholders, non-transferable subscription rights to purchase up to an aggregate of 29,013,539 shares of our common stock. The holders of record as of June 18, 2008, the record date, of our common stock will receive one non-transferable subscription right for each whole share of common stock they own on the record date. The subscription price will be \$5.17 per share, which we refer to as the subscription price.

Each subscription right will entitle its holder to purchase 0.6487 shares of our common stock, which we refer to as the basic subscription right. If you fully exercise your basic subscription rights and other stockholders do not fully exercise their basic subscription rights, you will be entitled to exercise an over-subscription privilege to purchase, subject to limitations, a portion of the unsubscribed shares of our common stock. To the extent you exercise your over-subscription privilege and pay for an amount of shares that exceeds the number of the unsubscribed shares available to you, any excess subscription amount received by the subscription agent will be returned, without interest, as soon as practicable. The subscription rights will expire if they are not exercised by 5:00 p.m., New York City time, on July 21, 2008, unless we extend the rights offering period.

You should carefully consider, prior to the expiration of the rights offering, whether to exercise your subscription rights. All exercises of subscription rights are irrevocable. Our board of directors is making no recommendation regarding your exercise of the subscription rights. The subscription rights are not transferable and therefore may not be sold, transferred, or assigned. The subscription rights will not be listed for trading on The New York Stock Exchange or any stock exchange or market or on the OTC Bulletin Board.

Our obligation to close the rights offering and issue the shares subscribed for in the rights offering is subject to the express condition that the closing of the recent private placement of our Series B Mandatory Convertible Perpetual Cumulative Preferred Stock and subordinated notes of Guaranty Bank to a group of institutional investors shall have occurred. See Prospectus Summary The Rights Offering Conditions to Closing.

Our board of directors may cancel, modify, or amend or extend the rights offering at any time prior to the expiration of the rights offering for any reason. In the event that we cancel the rights offering, all subscription payments received by the subscription agent will be returned, without interest, as soon as practicable. Once you exercise your subscription rights, you cannot revoke the exercise of your subscription rights, even if you later learn information that you consider to be unfavorable and even if the market price of our common stock is below the subscription price.

Shares of our common stock are traded on The New York Stock Exchange under the ticker symbol GFG. On June 16, 2008, the closing sales price for our common stock was \$5.82 per share. The shares of common stock issued in this rights offering will also be listed on The New York Stock Exchange under the same ticker symbol.

**The exercise of your subscription rights for shares of our common stock involves risks. See Risk Factors beginning on page 12 of this prospectus, the section entitled Risk Factors in our Annual Report on Form 10-K**

**for the year ended December 31, 2007, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008, and all other documents incorporated by reference in this prospectus in their entirety to read about important factors you should consider before exercising your subscription rights.**

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful, accurate, or complete. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits, or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

	<b>Per Share</b>	<b>Aggregate</b>
Subscription Price	\$ 5.17	\$ 150,000,000
Estimated Expenses	\$ 0.10	\$ 2,963,160
Net Proceeds to Us	\$ 5.07	\$ 147,036,837

The dealer manager has agreed to use its reasonable efforts to advise and assist us in our efforts to solicit subscriptions of the rights distributed to holders of our common stock and we are offering common stock directly to holders of record on the record date without any underwriting agreement. See Plan of Distribution.

**Keefe, Bruyette & Woods**

**Dealer Manager**

The date of this prospectus is June 19, 2008

---

**Table of Contents**

**GUARANTY FINANCIAL GROUP INC.  
(Retail Branch Locations)**

---

**TABLE OF CONTENTS**

<u>QUESTIONS AND ANSWERS</u>	ii
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	vii
<u>PROSPECTUS SUMMARY</u>	1
<u>SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA</u>	10
<u>RISK FACTORS</u>	12
<u>USE OF PROCEEDS</u>	25
<u>CAPITALIZATION</u>	26
<u>THE RIGHTS OFFERING</u>	27
<u>INFORMATION REGARDING RECENTLY APPOINTED DIRECTOR</u>	37
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	37
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	42
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	44
<u>PLAN OF DISTRIBUTION</u>	45
<u>LEGAL MATTERS</u>	47
<u>EXPERTS</u>	47
<u>INCORPORATION BY REFERENCE</u>	47
<u>Opinion of Fulbright &amp; Jaworski L.L.P.</u>	
<u>Consent of Ernst &amp; Young LLP</u>	

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information in connection with this offering. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or the time of any exercise of the subscription rights. Our business, financial condition, results of operations, and prospects may have changed since the date of this prospectus. We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted or in which the person making the offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make the offer or solicitation.

Unless the context indicates otherwise, all references in this prospectus to we, our, us, the company, the registrant, or Guaranty refer to Guaranty Financial Group Inc. and our subsidiaries, including Guaranty Bank and Guaranty Insurance Services, Inc., except that in the discussion of our subscription rights and common stock and related matters, these terms refer solely to Guaranty Financial Group Inc. and not to any of our subsidiaries. Temple-Inland refers to our former parent corporation, Temple-Inland Inc., and Forestar refers to Forestar Real Estate Group Inc., which was spun off of Temple-Inland at the same time as our spin-off.

---



**Table of Contents**

**QUESTIONS AND ANSWERS**

***Q. What is this rights offering?***

A. This rights offering is a distribution, at no charge, to holders of our common stock of one non-transferable subscription right for each whole share of common stock they own as of 5:00 p.m., New York City time, on June 18, 2008, the rights offering record date. The subscription rights will be evidenced by the rights certificates. Each subscription right will entitle the holder to a basic subscription right and an over-subscription privilege.

***Q. What is the basic subscription right?***

A. The basic subscription right gives our stockholders the opportunity to purchase 0.6487 shares of our common stock per subscription right at a subscription price of \$5.17 per full share. We have granted to you, as a stockholder of record as of 5:00 p.m., New York City time, on the record date, one subscription right for each whole share of our common stock you owned at that time. For example, if you owned 100 shares of our common stock as of 5:00 p.m., New York City time, on the record date, you would receive 100 subscription rights and would have the right to purchase 64.87 shares of common stock (rounded down to 64 shares, with the total subscription payment being adjusted accordingly, as discussed below) at the subscription price of \$5.17 per full share pursuant to your basic subscription right. You may exercise any number of your basic subscription rights, or you may choose not to exercise any subscription rights at all.

Fractional shares of our common stock resulting from the exercise of the basic subscription right will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. Any excess subscription payments that the subscription agent receives will be returned, without interest, as soon as practicable.

***Q. What is the over-subscription privilege?***

A. In the event that you subscribe for all of the shares of our common stock available to you pursuant to your basic subscription right, you may also choose to subscribe for a portion of any shares of our common stock that are not purchased by our other stockholders through the exercise of their basic subscription rights, subject to limitations on over-subscription privileges. The maximum number of shares of our common stock that you can purchase pursuant to the over-subscription privilege will be determined (subject to certain limitations described below) according to the following formula based on your percentage ownership of our outstanding common stock as of 5:00 p.m., New York City time, on the record date: the total number of unsubscribed shares multiplied by a number equal to two times your ownership percentage of our outstanding common stock at the record date. For example, if you owned 2% of our outstanding common stock on the record date and you properly exercised your basic subscription right in full, you may subscribe to purchase up to 4% of the unsubscribed shares pursuant to your over-subscription privilege.

If sufficient shares of common stock are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the shares of common stock available, we will allocate the available shares of common stock among stockholders who over-subscribed by multiplying the number of shares requested by each stockholder through the exercise of their over-subscription privileges by a fraction that equals (x) the number of shares available to be issued through over-subscription privileges divided by (y) the total number of shares requested by all stockholders through the exercise of their over-subscription privileges.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege prior to the expiration of the rights offering. Because we will not know the total

number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock available to you, pursuant to both your basic subscription right and your over-subscription privilege, assuming that no stockholder other than you has purchased any shares of our common stock.

**Table of Contents**

***Q. Am I required to exercise all of the subscription rights I receive in the rights offering?***

A. No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. If you choose not to exercise your subscription rights in full, however, the relative percentage of our common stock that you own will substantially decrease, and your voting and other rights will be substantially diluted. In addition, if you do not exercise your basic subscription right in full, you will not be entitled to participate in the over-subscription privilege.

***Q. How soon must I act to exercise my subscription rights?***

A. You may exercise your subscription rights at any time beginning on the date of this prospectus until the expiration date of the rights offering, which is July 21, 2008, at 5:00 p.m., New York City time, unless we extend the rights offering period. If you elect to exercise any rights, the subscription agent must actually receive all required documents and payments from you prior to the expiration of the rights offering.

***Q. Are there any limits on the number of shares I may purchase in the rights offering or own as a result of the rights offering?***

A. Yes. Unless we otherwise agree in writing, a person or entity, together with related persons or entities, may not exercise subscription rights (including over-subscription privileges) to purchase shares of our common stock that, when aggregated with their existing ownership, would result in such person or entity, together with any related persons or entities, owning in excess of 9.9% of our issued and outstanding shares of common stock following the closing of the transactions contemplated by this rights offering. See *The Rights Offering Limit on How Many Shares of Common Stock You May Purchase in the Rights Offering*.

In addition, we will not issue shares of our common stock pursuant to the exercise of basic subscription rights or over-subscription privileges to any stockholder who is required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own, or control such shares if, as of the expiration date, we determine that such clearance or approval has not been satisfactorily obtained or any applicable waiting period has not expired. If we elect not to issue shares in such a case, the unissued shares will become available to satisfy over-subscriptions by other stockholders pursuant to their subscription rights.

***Q. May I transfer my subscription rights?***

A. No. You may not sell or transfer your subscription rights to any other person or entity. The subscription rights granted to you are transferable only by operation of law.

***Q. Are we requiring a minimum subscription to complete the rights offering?***

A. No. We are not requiring a minimum subscription to complete the rights offering.

***Q. Can our board of directors extend, cancel, amend or modify the rights offering?***

A. Yes. We have the option to extend the rights offering and the period for exercising your subscription rights. We intend to extend the rights offering period to the extent necessary to accommodate the announcement of our financial results for the quarter ending June 30, 2008. Our board of directors may cancel the rights offering at any time prior to the expiration of the rights offering for any reason. In the event that the rights offering is cancelled, all subscription payments that the subscription agent has received will be returned, without interest, as soon as practicable. We also reserve the right to amend or modify the terms of the rights offering.

***Q. Are there any conditions that must occur before closing of the rights offering?***

A. Yes. Prior to commencing the rights offering, we have entered into investment agreements and a purchase agreement with several institutional investors regarding the sale of approximately 5.54 million shares of the Series B Mandatory Convertible Perpetual Cumulative Preferred Stock, which we refer to as the Series B Preferred Stock, and units consisting of subordinated notes of our subsidiary, Guaranty Bank, with an aggregate original principal amount of \$275 million and additional shares of our Series B Preferred Stock. We refer to these transactions as the investment transactions. Our obligation to close the rights offering and to

**Table of Contents**

issue the shares of our common stock subscribed for in the rights offering is conditioned on the prior or simultaneous closing of the investment transactions. The closing of the investment transactions themselves are subject to conditions, including approval by the OTS of the purchase of the Series B Preferred Stock, to the extent required, and treatment of the debt component of the subordinated notes as Tier 2 capital. See *Recent Developments* *Subsequent Private Placement* for a more detailed description of the investment transactions, including the conditions to closing of the investment transactions.

***Q. Has our board of directors made a recommendation to our stockholders regarding the rights offering?***

A. No. Our board of directors is making no recommendation regarding your exercise of the subscription rights. Stockholders who exercise subscription rights risk investment loss on new money invested. We cannot assure you that the market price for our common stock will be above the subscription price or that anyone purchasing shares at the subscription price will be able to sell those shares in the future at the same price or a higher price. We urge you to make your decision based on your own assessment of our business and financial condition, our prospects for the future, the terms of this rights offering, and the information in, or incorporated by reference into, this prospectus. Please see *Risk Factors* for a discussion of some of the risks involved in investing in our common stock.

***Q. What will happen if I choose not to exercise my subscription rights?***

A. If you do not exercise any subscription rights, the number of shares of our common stock you own will not change. Other stockholders, however, may purchase shares and your percentage ownership of our company may be diluted after the completion of the rights offering.

***Q. How do I exercise my subscription rights? What forms and payment are required to purchase the shares of common stock offered pursuant to this rights offering?***

A. If you wish to participate in this rights offering, you must take the following steps:

deliver a properly completed rights certificate to the subscription agent before 5:00 p.m., New York City time, on July 21, 2008; and

deliver payment for the full amount of the subscription rights you wish to exercise to Computershare Trust Company, N.A., the subscription agent, using the methods outlined in this prospectus before, 5:00 p.m., New York City time, on July 21, 2008.

Additional details are provided under *The Rights Offering* *Method of Exercising Subscription Rights* and *The Rights Offering* *Payment Method*. If you cannot deliver your rights certificate to the subscription agent prior to the expiration of the rights offering, you may follow the guaranteed delivery procedures described under *The Rights Offering* *Guaranteed Delivery Procedures*.

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your subscription rights to the fullest extent possible based on the amount of the payment received, subject to the elimination of fractional shares.

***Q. What should I do if I want to participate in the rights offering, but I hold my shares in the name of my broker, dealer, custodian bank, or other nominee?***

A. If you hold your shares of common stock in the name of a broker, dealer, custodian bank, or other nominee, then your broker, dealer, custodian bank, or other nominee is the record holder of the shares you own. The record holder must exercise the subscription rights on your behalf for the shares of common stock you wish to purchase.

If you wish to purchase shares of our common stock through the rights offering, please promptly contact your broker, dealer, custodian bank, or other nominee that is the record holder of your shares. We will ask your record holder to notify you of the rights offering. You should complete and return to your record holder the form entitled Beneficial Owner Election Form. You should receive this form from your record holder with the other rights offering materials.

**Table of Contents**

***Q. When will I receive my new shares?***

A. If you purchase shares of our common stock through the rights offering, you will receive your new shares as soon as practicable after the closing of the rights offering, which we expect to occur as promptly as practicable following expiration of the rights offering.

***Q. After I send in my payment and rights certificate (or Notice of Guaranteed Delivery), may I cancel my exercise of subscription rights?***

A. No. All exercises of subscription rights are irrevocable. Once you send in your rights certificate (or Notice of Guaranteed Delivery) to exercise any subscription rights or, in the case of a 401(k) plan participant, once you notify the trustee of your intent to exercise any subscription rights, you cannot revoke the exercise of your subscription rights, even if you later learn information that you consider to be unfavorable and even if the market price of our common stock is below the subscription price. You should not exercise your subscription rights unless you are sure that you wish to purchase additional shares of our common stock at the subscription price of \$5.17 per full share.

***Q. How many shares of our common stock will be outstanding after the rights offering?***

A. As of June 16, 2008, we had 44,726,599 shares of our common stock issued and outstanding. The number of shares of our common stock that we will issue in this rights offering through the exercise of subscription rights will depend on the number of shares that are subscribed for in the rights offering. We anticipate that we will have a maximum of 73,740,138 shares of common stock outstanding after consummation of the rights offering, without giving effect to shares of common stock issuable upon the exercise or conversion of any outstanding securities including the Series B Preferred Stock.

***Q. How much money will the company receive from the rights offering?***

A. If all of the subscription rights (including all over-subscription privileges) are exercised in full by our stockholders, we expect the gross proceeds from the rights offering to be approximately \$150 million. We are offering shares in the rights offering to stockholders with no minimum purchase requirement and, as a result, there can be no assurances that we will sell all or any of the shares being offered to existing stockholders.

***Q. Are there risks in exercising my subscription rights?***

A. Yes. The exercise of your subscription rights involves risks. Exercising your subscription rights involves the purchase of additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the information in this prospectus, including the risks described under the heading **Risk Factors** and the documents incorporated by reference in this prospectus.

***Q. If the rights offering is not completed, will my subscription payment be refunded to me?***

A. Yes. The subscription agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the rights offering is not completed, all subscription payments that the subscription agent receives will be returned, without interest, as soon as practicable. If you own shares in street name, it may take longer for you to receive payment because the subscription agent will return payments to the record holder of your shares.

***Q. Will the subscription rights be listed on a stock exchange or national market?***

A. No. The subscription rights may not be sold, transferred, or assigned to any person or entity and will not be listed for trading on The New York Stock Exchange or on any stock exchange or market or on the OTC Bulletin Board. Our common stock will continue to trade on The New York Stock Exchange under the ticker symbol GFG and the shares of our common stock issued upon the exercise of the subscription rights will also be listed on The New York Stock Exchange under the ticker symbol GFG.



**Table of Contents**

***Q. What should I do if I want to participate in this rights offering but my shares are held in the Guaranty Financial Group Inc. Savings and Retirement Plan, the Temple-Inland Savings Plan, the Temple-Inland Savings Plan for Union Employees, or the El Morro Corrugated Box Corp. Savings and Investment Plan?***

A. If shares of our common stock are held by the Guaranty Financial Group Inc. Savings and Retirement Plan, the Temple-Inland Savings Plan, the Temple-Inland Savings Plan for Union Employees, or the El Morro Corrugated Box Corp. Savings and Investment Plan, referred to herein as the 401(k) plan, for your account under such 401(k) plan, as of 5:00 p.m., New York City time, on the record date, you will be notified of this rights offering. Participants in 401(k) plans that are eligible to receive subscription rights will receive a Plan Participant Election Form containing detailed instructions as to procedures to exercise, deadlines, payment requirements, and other procedure from the trustee of their 401(k) plan.

***Q. How do I exercise my subscription rights if I live outside the United States?***

A. We will not mail this prospectus or the rights certificates to stockholders whose addresses are outside the United States or who have an army post office or foreign post office address. The subscription agent will hold the rights certificates for the accounts of such stockholders. To exercise subscription rights, our foreign stockholders must notify the subscription agent and timely follow the procedures described in Rights Offering Foreign Stockholders.

***Q. What fees or charges apply if I purchase shares of the common stock?***

A. We are not charging any fee or sales commission to issue subscription rights to you or to issue shares to you if you exercise your subscription rights (other than the subscription price). If you exercise your subscription rights through the record holder of your shares, you are responsible for paying any fees your record holder may charge you.

***Q. What are the material U.S. federal income tax consequences of exercising subscription rights?***

A. For U.S. federal income tax purposes, you should not recognize income or loss in connection with the receipt or exercise of subscription rights in the rights offering. You should consult your tax advisor as to your particular tax consequences resulting from the rights offering. For a more detailed discussion, see Material U.S. Federal Income Tax Consequences.

***Q. To whom should I send my forms and payment?***

A. If your shares are held in the name of a broker, dealer, or other nominee, then you should send your subscription documents, rights certificate, notices of guaranteed delivery, and subscription payment to that record holder. If you are the record holder, then you should send your subscription documents, rights certificate, notices of guaranteed delivery, and subscription payment by overnight delivery, first class mail or, courier service to:

**By Mail:**

Computershare Trust Company, N.A.  
Attn: Corporate Actions  
P.O. Box 859208  
Braintree, MA 02185-9208

**By Overnight Carrier:**

Computershare Trust Company, N.A.  
Attn: Corporate Actions  
161 Bay State Drive  
Braintree, MA 02184

You are solely responsible for timely completing delivery to the subscription agent of your subscription documents, rights certificate, and payment. We urge you to allow sufficient time for delivery of your subscription materials to the

subscription agent.

*Q. Whom should I contact if I have other questions?*

**A. If you have other questions or need assistance, please contact the information agent, D. F. King & Co., Inc., at (800) 290-6426 or (212) 269-5550.**

vi

---

**Table of Contents**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements, which can be identified by the use of words such as estimate, could, likely, may, project, believe, intend, anticipate, plan, seek, expect, and words of similar meaning. You should not place undue reliance on any such forward-looking statement. These statements reflect management's views with respect to events as of the date of the forward-looking statement and are subject to risks and uncertainties. These forward-looking statements are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

A variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements. Factors and uncertainties that might cause such differences include but are not limited to:

general economic, market, or business conditions;

demand for new housing;

competitive action by other companies;

changes in laws or regulations and actions or restrictions of regulatory agencies;

deposit attrition, customer loss, or revenue loss in the ordinary course of business;

costs or other difficulties related to transitioning as a stand-alone company following our spin-off from Temple-Inland in December 2007;

inability to realize elements of our strategic plans;

changes in the interest rate environment that expand or reduce our margins or adversely affect critical estimates and projected returns on investments;

unfavorable changes in economic conditions affecting housing markets, credit markets, real estate values, or oil and gas prices, either nationally or regionally;

natural disasters in primary market areas that may result in prolonged business disruption or materially impair the value of collateral securing loans;

assumptions and estimates underlying critical accounting policies, particularly allowances for credit losses, that may prove to be materially incorrect or may not be borne out by subsequent events;

current or future litigation, regulatory investigations, proceedings or inquiries;

strategies to manage interest rate risk that may yield results other than those anticipated;

a significant change in the rate of inflation or deflation;

changes in the securities markets;

the ability to complete any merger, acquisition, or divestiture plans; regulatory or other limitations imposed as a result of any merger, acquisition, or divestiture; and the success of our business following any merger, acquisition, or divestiture;

the final resolutions or outcomes with respect to our contingent and other corporate liabilities related to our business and any related actions for indemnification made pursuant to the various agreements with Temple-Inland and Forestar;

changes in the credit and residential housing markets;

our ability to raise capital;

changes in the value of real estate securing our loans; and

**Table of Contents**

the possibility that our request for an exemption will not be granted by the U.S. Department of Labor, or DOL, on a retroactive basis, effective to the commencement of the rights offering, with respect to the acquisition, holding, and distribution of the subscription rights by our 401(k) plan and participants in our 401(k) plan.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. New factors emerge from time to time and it is not possible for us to predict all such factors nor can we assess the impact of any such statement on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Please see **Risk Factors** beginning on page 11 of this prospectus and the section entitled **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008. Any forward-looking statement speaks only as of the date which such statement is made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

**Table of Contents**

**PROSPECTUS SUMMARY**

*This prospectus summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before deciding whether or not you should exercise your subscription rights. To understand this offering fully, you should carefully read this prospectus, including the Risk Factors section and the information incorporated by reference in this prospectus, including our audited consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008.*

**Our Company**

We are a holding company organized in 1986 as a Delaware corporation. Our primary operating entities are Guaranty Bank and Guaranty Insurance Services, Inc. We currently operate in four business segments:

Commercial banking;

Retail banking;

Insurance agency; and

Treasury, corporate, and other.

Guaranty Bank, headquartered in Austin, Texas, is a federally-chartered savings bank that began operations in 1988. Guaranty Bank conducts consumer and business banking activities through a network of over 150 bank branches located in Texas and California and provides commercial banking products and services to diverse geographic markets throughout the United States. Guaranty Bank has consolidated total assets in excess of \$16 billion and is one of the largest financial institutions headquartered in Texas. Guaranty Insurance Services, Inc., headquartered in Austin, Texas, is one of the largest independent insurance agencies nationally and is a full service insurance agency emphasizing property and casualty insurance as well as fixed annuities. This insurance agency operates through 17 offices located in both Texas and California.

Our origins date back to 1938, when the original charter was given to Guaranty Building and Loan in Galveston, Texas. In late 1988, Temple-Inland formed Guaranty Bank by acquiring three institutions, including what was then Guaranty Federal Savings and Loan Association. At that time, Temple-Inland's existing insurance operations, which had begun in the late 1950s, were combined with the banking operations to create a financial services group as a part of Temple-Inland. These banking and insurance agency operations continued to grow during the last two decades, with over 30 acquisitions, and in the late 1990s, began to expand and acquire operations in California. On February 26, 2007, Temple-Inland announced its plans to spin-off Guaranty. We completed our spin-off from Temple-Inland on December 28, 2007. Leveraging years of banking and insurance experience, our management team brings extensive knowledge and expertise to position us to continue to grow and maximize long-term value for stockholders.

**Our Strategy**

Our primary operating philosophy is to maximize long-term stockholder value by building sustainable client relationships and delivering our products with extraordinary service. We have a long-term commitment to:

create long-term value for our stockholders;

improve the financial success of the people and businesses in the markets we serve;

make a significantly positive impact in the communities where we reside and work; and

attract, develop and retain superior employees.

## **Table of Contents**

Our core values, listed below, describe our corporate culture and how we operate our business:

We conduct our business with the highest degree of integrity, honesty, and efficiency;

We manage our clients' assets with care;

We show mutual respect to our clients, our neighbors, and our fellow employees;

We are passionate about our business;

We are entrepreneurial in our actions; and

We are empowered to make decisions that provide creative solutions for our customers.

Our specific long-term business strategies are to:

*Grow our commercial lending franchise.* Our commercial lending group has emphasized targeting certain industries and product types in which we have expertise. We will continue to serve niche industries in select markets across the country with experienced personnel who can add value to our customer relationships.

*Grow our retail franchise in Texas and California.* We will continue to invest in relocating existing bank branches and in opening new branches in the high growth areas of our existing markets. We will also build upon our consumer and small business lending capabilities. We believe these activities along with strategic mergers and acquisitions will enable us to maximize our presence in each of the markets we will serve.

*Increase fee income.* We will continue to emphasize our deposit services, annuities and mutual funds, insurance products, and other services that can be provided to our clients to deepen the relationship.

*Provide distinctive customer service.* We will continue to retain and attract individuals who understand the financial challenges of our clients and are experienced and trained to provide customized solutions.

*Improve operating efficiency.* We must continually review our policies and procedures to assure we are operating as efficiently as possible.

*Maintain strong credit and risk standards.* We will maintain the strong and effective approach to risk management that has been a foundation of our operating culture.

Near term, we are focusing on capital adequacy, credit quality, and cost containment. We believe our corporate culture and business strategies allow us to distinguish ourselves from other financial institutions operating in Texas and California and successfully attract and retain relationships with businesses and individual customers.

## **Business Segments**

We operate in four business segments.

### ***Commercial banking***

Commercial banking operates out of a primary production office in Dallas, with satellite production offices in Houston, Austin, Sacramento, and Irvine. We offer banking services to business and commercial customers including



financing for commercial real estate and homebuilder construction, mortgage warehouse financing, senior housing, middle market businesses and companies engaged in the energy industry. We provide lines of credit; working capital loans; acquisition, expansion and development facilities; borrowing base loans; real estate construction loans; regional and national homebuilder loans; term loans; equipment financing; letters of credit; and other loan products. The commercial loans we provide are diversified by product, industry, and geography. We lend to nationally known corporations, regional companies, oil and gas producers, top tier real estate developers, mortgage lenders, manufacturing and industrial companies, and other businesses. We have processes in place to analyze and evaluate on a regular basis our exposure to industries, products, market changes, and economic trends.

## **Table of Contents**

Our commercial customers are also able to use our corporate investment services, commercial deposit accounts, and treasury management services, including remote deposit capabilities.

### ***Retail banking***

We offer a broad range of retail banking services to consumers and small businesses including, deposits, loans and non-deposit investment products. We also offer an array of convenience-centered services, including telephone and Internet banking, debit cards, and direct deposit. We are associated with a nationwide network of automated teller machines of other financial institutions that enables our customers to use ATM facilities throughout the United States and around the globe.

We offer a variety of deposit accounts to our consumers and businesses, including savings, checking, interest-bearing checking, money-market and certificates of deposit. The primary sources of deposits are residents and businesses located in our Texas and California markets. We are the second largest independent bank in Texas by deposits. We have over 100 branches in Texas concentrated in the large and growing metropolitan areas of Austin, Dallas/Fort Worth, Houston, and San Antonio. We have over 50 branches in California concentrated in the Inland Empire and Central Valley regions of that state. Our California office locations are proximally located in or around the cities of San Diego, Palm Springs, Riverside, Sacramento, Stockton, and Bakersfield. These markets have very attractive consumer and business demographics including seven of the top 25 growth markets in the country.

To attract deposits, we employ a marketing plan in our service areas that features a broad product line and competitive rates and services. Our marketing plan includes advertising programs as well as personal solicitation by our employees, officers, and directors. Over 50% of our deposit balances are either checking or money market accounts. Additionally, a large portion of our certificates of deposit accounts represent significant long-term customer relationships. We do not generally raise deposits through brokers.

### ***Insurance agency***

Through our 17 branch offices in Texas and California, we offer property and casualty insurance and life insurance. In providing these products, we act as an agent for the third-party insurance companies and their underwriters. We do not underwrite these risks, nor do we provide the insurance coverage. We work with over 400 insurance companies. Our compensation is in the form of a commission paid by the insurance companies. Our agency also sells fixed annuity products through our retail bank branches. The markets served by the insurance agency generally follow the geographic footprint of our retail banking operations.

### ***Treasury, corporate and other***

This segment includes activities we perform to manage our liquidity needs and provide attractive risk adjusted returns. We borrow from the Federal Home Loan Bank of Dallas and other third parties and invest in what we believe to be low risk variable rate mortgage-backed securities. This segment also includes expenses we do not allocate to other segments.

## **Recent Developments**

### ***Initial Private Placement with TRT Financial Holdings, LLC***

On May 26, 2008, we entered into an investment agreement, which was amended on May 29, 2008, with TRT Financial Holdings, LLC, referred to herein as TRT, and certain affiliates of TRT, to sell 7,423,333 shares of our common stock at a price of \$5.17 per share to TRT for an aggregate purchase price of approximately \$38.4 million.

We refer to this investment agreement as the initial TRT investment agreement. TRT was formed for the purpose of this investment and is an affiliate of Robert Rowling and TRT Holdings, Inc., a privately owned holding company with interests in businesses engaged in hospitality, energy, fitness, and real estate. Following the issuance of 7,423,333 shares of our common stock to TRT on May 30, 2008 pursuant to the initial TRT investment agreement, we had 44,726,513 shares of common stock outstanding, and TRT owned approximately 16.6% of our common stock. The percentage ownership of our existing stockholders was reduced proportionately as a result of the issuance to TRT. Pursuant to the initial TRT investment agreement, TRT also agreed to purchase, and we agreed to sell, a number of shares of our Series B Mandatory Convertible

**Table of Contents**

Perpetual Cumulative Preferred Stock, which we refer to as the Series B Preferred Stock, such that TRT will beneficially own 19.9% of the total outstanding common stock, assuming full conversion immediately following such issuance. The per share purchase price of the Series B Preferred Stock to be purchased pursuant to the initial TRT investment agreement will be the lower of \$51.70 per share and the per share price at which any class or series of convertible preferred stock is issued by us to any third party on or prior to the expiration of the 120-day period following the issuance of the shares of common stock pursuant to the initial TRT investment agreement, subject to adjustment for any stock split, reverse stock split, stock dividend, or other combination or division affecting shares of our common stock.

Each share of our Series B Preferred Stock initially will be convertible into ten shares of our common stock. The conversion price per share of common stock will be subject to a scheduled price reduction of \$.50 per share every six months following the 120<sup>th</sup> day after issuance of the Series B Preferred Stock until we obtain stockholder approval of the conversion feature of the Series B Preferred Stock, subject to a minimum conversion price per share of \$3.00. Dividends on the Series B Preferred Stock will be cumulative and initially accrue at the rate of 14% per year. The dividend rate will increase 2% every six months following the initial stockholder meeting held to consider approval of the conversion feature of the Series B Preferred Stock if and until stockholder approval is obtained (subject to a maximum rate of 18% per year). The Series B Preferred Stock will be mandatorily convertible if and when we obtain stockholder approval for conversion of the Series B Preferred Stock.

Closing for the issuance of the shares of common stock to TRT pursuant to the initial TRT investment agreement occurred on May 30, 2008. The closing of the issuance of the Series B Preferred Stock is expected to occur on or before October 1, 2008. The only conditions to TRT's obligation to purchase the Series B Preferred Stock pursuant to the initial TRT investment agreement are that (i) TRT pay for the Series B Preferred Stock pursuant to the initial TRT investment agreement and (ii) we shall have made all filings required under the Securities Exchange Act of 1934, as amended, and with the OTS.

As part of the initial TRT investment agreement, TRT will have the right to have one person nominated by TRT to be elected to our board of directors for so long as TRT beneficially owns 10% or more of our issued and outstanding common stock. Pursuant to this right, Robert Rowling was appointed to our board of directors on May 30, 2008. Also, pursuant to the initial TRT investment agreement, TRT will have a preemptive right with regard to our issuance of specified securities until May 30, 2009.

Prior to the investment by TRT described above, our subsidiary, Guaranty Bank, acted as a lender or a member of a lending syndicate to TRT and its affiliates. We are not aware of any other prior relationships between us and TRT or its affiliates.

***Subsequent Private Placement with Institutional Investors***

On June 7, 2008, we entered into investment agreements, each dated as of June 7, 2008, which we refer to as the subsequent investment agreements, with several institutional investors, including TRT, and Icahn Partners LP and certain of its affiliated companies, whom we refer to collectively as Icahn Partners. We refer to the purchasers under the subsequent investment agreements as the stock investors. Under the subsequent investment agreements, we have agreed to sell 5.54 million shares of our Series B Preferred Stock to the stock investors for aggregate consideration of approximately \$286.6 million. Additionally, on June 7, 2008, we and our subsidiary, Guaranty Bank, entered into a purchase agreement dated June 7, 2008, which we refer to as the purchase agreement, with the stock investors and other institutional investors. We refer to the purchasers under the purchase agreement collectively as the unit investors. Under the purchase agreement, we and Guaranty Bank agreed to sell to the unit investors, for an aggregate consideration of \$275 million, units, which we refer to as the units, consisting of subordinated notes of Guaranty Bank with an aggregate original principal amount of \$275 million, which we refer to as the subordinated notes, and

638,000 shares of our Series B Preferred Stock.

We are obligated to call a stockholder meeting to approve the conversion feature of the Series B Preferred Stock as promptly as practicable following closing and the issuance of the Series B Preferred Stock pursuant to the terms of the subsequent investment agreements. Each stock investor executing a subsequent investment

**Table of Contents**

agreement is required to vote any shares of common stock it owns in favor of the conversion of the Series B Preferred Stock to the extent it is permitted to under the applicable rules of the New York Stock Exchange.

The stock investor s, the unit investor s and our respective obligations to close under the subsequent investment agreements and the purchase agreement are subject to standard conditions, including obtaining approvals of the OTS for the purchase of the Series B Preferred Stock, to the extent required, and the treatment of the debt component of the subordinated notes as Tier 2 capital.

The subordinated notes will bear interest at an annual rate of 12% and mature on the tenth anniversary of the date of issuance and are callable after the fifth anniversary of the date of issuance. Interest payments on the subordinated notes will be due semiannually in arrears on the last business day of each June and December commencing on December 31, 2008. The subordinated notes are subordinated as to principal, interest and premium, if any, to all claims against Guaranty Bank that have the same priority as savings accounts or higher, and interest is subordinate to Guaranty Bank s obligations to its depositors, its obligations under bankers acceptances and letters of credit, and its obligations to its other creditors, including its obligations to the Federal Reserve Bank and the Federal Deposit Insurance Corporation.

In connection with the sale of the Series B Preferred Stock to the stock investors and the units to the unit investors, we entered into letter agreements with Icahn Partners and TRT. Under the letter agreement with Icahn Partners, Icahn Partners and our Nominating and Governance Committee are to cooperate and work jointly to identify a qualified candidate that is acceptable to both the Icahn Partners and our Nominating and Governance Committee to serve on our board of directors. Our letter agreement with Icahn Partners also provides that Icahn Partners will have pre-emptive rights with regard to our issuance of specified securities for one year following the issuance of the Series B Preferred Stock under the subsequent investment agreement with Icahn Partners.

Assuming the conversion of the shares of Series B Preferred Stock issued pursuant to the subsequent investment agreements and the purchase agreement at the initial conversion price of \$5.17 per share, we will issue 61,819,340 shares of common stock, representing 58% of the 106,545,939 shares of common stock we would have outstanding following such conversion. For a more detailed description of the dilutive impact of these transactions, See Capitalization.

**Corporate Information**

Our principal executive offices are located at 1300 MoPac Expressway South, Austin, Texas 78746. Our telephone number is 512-434-1000. Our web site is [www.guarantygroup.com](http://www.guarantygroup.com). Information on our website is not incorporated in this prospectus and is not a part of this prospectus.

**Table of Contents**

**THE RIGHTS OFFERING**

Securities Offered	We are distributing to you, at no charge, one non-transferable subscription right for each whole share of our common stock that you owned as of 5:00 p.m., New York City time, on June 18, 2008, the record date, either as a holder of record or, in the case of shares held of record by brokers, dealers, custodian banks, or other nominees on your behalf, as a beneficial owner of such shares. If the rights offering is fully subscribed, we expect the gross proceeds from the rights offering to be up to \$150 million.
Basic Subscription Right	Each basic subscription right will entitle you to purchase 0.6487 shares of our common stock.
Over-Subscription Privilege	In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription rights, you may also choose to purchase a portion of any shares of our common stock that our other stockholders do not purchase through the exercise of their basic subscription rights. The maximum number of shares of our common stock that you can purchase pursuant to this over-subscription privilege will be determined (subject to availability and the limits described below under the heading <b>Limitation on the Purchase of Shares</b> ) according to the following formula based on your percentage ownership of our outstanding common stock as of 5:00 p.m., New York City time, on the record date: total number of unsubscribed shares multiplied by a number equal to two times your ownership percentage of our outstanding common stock at 5:00 p.m., New York City time, the record date. For example, if you owned 2% of our outstanding common stock on the record date and you properly exercised your basic subscription right in full, you may subscribe to purchase up to 4% of the unsubscribed shares with your over-subscription privilege.
Limitation on Purchase of Shares	<p>Unless we otherwise agree in writing, a person or entity, together with related persons or entities, may not exercise subscription rights (including over-subscription privileges) to purchase shares of our common stock that, when aggregated with their existing ownership, would result in such person or entity, together with any related persons or entities, owning in excess of 9.9% of our issued and outstanding shares of common stock following the closing of the transactions contemplated by this rights offering. See <b>The Rights Offering Limit on How Many Shares of Common Stock You May Purchase in the Rights Offering</b>.</p> <p>In addition, we will not issue shares of our common stock to any stockholder who is required to obtain prior clearance, or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own, or control such shares if we determine that, as of the expiration date of the offer, such clearance or approval has not been satisfactorily obtained and any applicable waiting period has not expired.</p>
Subscription Price	The subscription price will be \$5.17 per share.

Record Date

5:00 p.m., New York City time, on June 18, 2008.



**Table of Contents**

Expiration Date of the Rights Offering	5:00 p.m., New York City time, on July 21, 2008 (unless extended).
Use of Proceeds	We intend to use the proceeds of the rights offering for general corporate purposes, including investments in our subsidiaries. See Use of Proceeds.
Non-Transferability of Rights	The subscription rights may not be sold, transferred, or assigned to any person or entity and will not be listed for trading on The New York Stock Exchange or on any stock exchange or market or on the OTC Bulletin Board.
No Board Recommendation	Our board of directors is making no recommendation regarding whether you should exercise your subscription rights. We urge you to make your decision based on your own assessment of our business and financial condition, our prospects for the future, and the terms of the rights offering. Please see Risk Factors for a discussion of some of the risks involved in investing in our common stock.
Conditions to Closing	Prior to commencing the rights offering, we entered into investment agreements and a purchase agreement with several institutional investors regarding the sale of approximately 5.54 million of our Series B Preferred Stock and units consisting of subordinated notes of our subsidiary, Guaranty Bank with an aggregate original principal amount of \$275 million and additional shares of our Series B Preferred Stock. We refer to these transactions as the investment transactions. Our obligation to close the rights offering and to issue the shares of our common stock subscribed for in the rights offering is conditioned on the prior or simultaneous closing of the investment transactions. The closing of the investment transactions themselves are subject to conditions, including approval by the OTS of the purchase of our Series B Preferred Stock, to the extent required, and treatment of the debt component of the subordinated notes as Tier 2 capital. See Recent Developments Subsequent Private Placement with Institutional Investors for a more detailed description of the investment transactions, including the conditions to closing of the investment transactions.
No Revocation	All exercises of subscription rights are irrevocable. You should not exercise your subscription rights unless you are sure that you wish to purchase additional shares of our common stock at the subscription price. Once you exercise your subscription rights, you cannot revoke the exercise of your rights even if you later learn information that you consider to be unfavorable and even if the market price of our common stock is below the subscription price.
Material U.S. Federal Income Tax Consequences	For U.S. federal income tax purposes, you should not recognize income, gain, or loss upon receipt, exercise, or expiration of a subscription right. You should consult your own tax advisor as to the tax consequences to you of the receipt, exercise, or expiration of the subscription rights in light of your particular circumstances.



**Table of Contents**

**Extension, Cancellation, and Amendment** We have the option to extend the rights offering and the period for exercising your subscription rights and we intend to extend the subscription period to the extent necessary to accommodate the announcement of our financial results for the quarter ending June 30, 2008. Our board of directors may cancel the rights offering at any time prior to the expiration date of the rights offering for any reason. In the event that we cancel the rights offering, all subscription payments that the subscription agent has received will be returned, without interest, as soon as practicable. We also reserve the right to amend or modify the terms of the rights offering at any time prior to the expiration date of the offering.

**Procedures for Exercising Rights** To exercise your subscription rights, you must take the following steps:

If you are a registered holder of our common stock, the subscription agent must receive your payment for each share of common stock subscribed for pursuant to your basic subscription right and over-subscription privilege at the initial subscription price of \$5.17 per share and properly completed rights certificate before 5:00 p.m., New York City time, on July 21, 2008. You may deliver the documents and payments by mail or commercial carrier. If regular mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested.

If you are a beneficial owner of shares that are registered in the name of a broker, dealer, custodian bank, or other nominee, or if you would prefer that an institution conduct the transaction on your behalf, you should instruct your broker, dealer, custodian bank, or other nominee to exercise your subscription rights on your behalf and deliver all documents and payments to the subscription agent before 5:00 p.m., New York City time, on July 21, 2008.

If you wish to purchase shares of our common stock through the rights offering, please promptly contact any broker, dealer, custodian bank, or other nominee who is the record holder of your shares. We will ask your record holder to notify you of the rights offering. You should complete and return to your record holder the form entitled **Beneficial Owner Election Form**.

If you cannot deliver your rights certificate to the subscription agent prior to the expiration of the rights offering, you may follow the guaranteed delivery procedures described under **The Rights Offering Guaranteed Delivery Procedures**.

If you are a 401(k) plan participant, please refer to the information under **The Rights Offering Special Instructions for Participants in our 401(k) Plan**.

**Dealer Manager**

Keefe, Bruyette & Woods, Inc.

Subscription Agent

Computershare Trust Company, N.A.

Information Agent

D. F. King & Co., Inc.

**Table of Contents**

Shares Outstanding Before the Rights Offering	44,726,599 shares of our common stock were outstanding as of June 16, 2008.
Shares Outstanding After Completion of the Rights Offering	If the rights offering is fully subscribed by our stockholders, we expect approximately 73,740,138 shares of our common stock will be outstanding immediately after completion of the rights offering, without giving effect to the shares of common stock issuable upon the exercise or conversion of any outstanding securities, including the Series B Preferred Stock.
Fees and Expenses	We will pay the fees and expenses related to the rights offering, including the fees and certain out-of-pocket expenses of the dealer manager.
New York Stock Exchange	Shares of our common stock are currently traded on The New York Stock Exchange under the ticker symbol GFG. The shares of common stock issued upon the exercise of the subscription rights will also be listed on The New York Stock Exchange under the ticket symbol GFG. The subscription rights are non-transferable and will not be listed for trading on any stock exchange or market or the OTC Bulletin Board.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table summarizes our historical consolidated financial data for the periods and as of the dates indicated. You should read the selected consolidated financial data in conjunction with our consolidated financial statements and the notes to those financial statements included in the documents incorporated by reference in this prospectus. The selected historical consolidated financial data as of December 31, 2007 and 2006 and for each of the three years ended December 31, 2007 is derived from our audited consolidated financial statements and related notes included by reference in this prospectus. The historical consolidated financial data as of December 31, 2005, 2004, and 2003 and for each of the two years ended December 31, 2004 has been derived from our audited consolidated financial statements not included in this prospectus. The selected historical consolidated financial data as of March 31, 2008 and 2007 and for the three-month periods then ended are derived from our unaudited interim consolidated financial statements included by reference in this prospectus. We believe such amounts reflect all adjustments considered necessary for a fair presentation of our results of operations and financial condition as of the dates and for the periods indicated. Our interim operating results are not necessarily indicative of the results that may be expected for the entire year. Actual results can, and probably will, differ from those we currently estimate.

	<b>Three Months Ended March 31,</b>		<b>Years Ended December 31,</b>				<b>2003</b>
	<b>2008 (unaudited)</b>	<b>2007</b>	<b>2007</b>	<b>2006(a)(b)</b>	<b>2005(b)</b>	<b>2004(b)</b>	
<b>Income Statement Data:</b>							
Interest income	\$ 228	\$ 243	\$ 996	\$ 997	\$ 800	\$ 718	\$ 728
Interest expense	(130)	(148)	(605)	(585)	(404)	(312)	(346)
Net interest income	98	95	391	412	396	406	382
(Provision) credit for credit losses	(58)	2	(50)	(1)	(10)	12	(43)
Noninterest income	42	39	157	168	180	267	370
Noninterest expense	(99)	(93)	(372)	(388)	(384)	(534)	(539)
Income tax benefit (expense)	7	(16)	(48)	(70)	(66)	(56)	(61)
Net (loss) income	\$ (10)	\$ 27	\$ 78	\$ 121	\$ 116	\$ 95	\$ 109
<b>Per Share Data(c):</b>							
Basic and diluted (loss) earnings per share	\$ (0.28)	\$ n/a	\$ 2.20	\$ n/a	\$ n/a	\$ n/a	\$ n/a
Equity per share	23.91	n/a	32.16	n/a	n/a	n/a	n/a
Tangible equity per share	19.38	n/a	27.36	n/a	n/a	n/a	n/a
Weighted-average shares outstanding, basic and diluted	35.5	n/a	35.4	n/a	n/a	n/a	n/a
Shares outstanding at end of period	37.3	n/a	35.4	n/a	n/a	n/a	n/a

**Period-End Balance****Sheet Data:**

Assets	\$ 16,423	\$ 15,741	\$ 16,796	\$ 16,252	\$ 17,692	\$ 16,120	\$ 17,300
Loans, net	10,099	9,575	9,928	9,617	9,845	9,618	9,025
Allowance for loan losses	172	71	118	65	74	85	111
Investment securities	4,927	5,110	5,524	5,382	6,212	4,705	6,641
Deposits	9,248	9,494	9,375	9,486	9,201	8,964	8,698
Subordinated notes payable to trust	314	314	314	142			
Preferred stock issued by subsidiaries		305		305	305	305	305
Long-term Federal Home Loan Bank borrowings (original maturities greater than one year at the time of borrowing)	777	1,054	794	1,304	1,924	2,662	3,169
Other long-term debt	11	101	11	101	101	105	106
Stockholders equity	892	1,009	1,138	1,015	1,017	927	938
Non-performing assets(d)	284	36	179	31	37	91	131

**Selected Performance****Ratios:**

Return on average assets	(0.24)%	0.69%	0.49%	0.72%	0.71%	0.56%	0.61%
Return on average stockholders equity	(3.65)%	10.51%	7.52%	11.67%	11.97%	10.00%	11.37%
Net interest margin	2.49%	2.56%	2.59%	2.58%	2.58%	2.55%	2.37%
Efficiency ratio(e)	71%	69%	68%	67%	67%	79%	72%

**Capital Ratios:**

Tier 1 leverage ratio (Guaranty Bank)	7.58%	7.86%	7.74%	7.62%	6.94%	6.89%	6.31%
Tier 1 risk-based capital ratio (Guaranty Bank)	9.38%	9.97%	9.63%	9.93%	9.89%	9.74%	9.80%
Total risk-based capital ratio (Guaranty Bank)	10.61%	10.58%	10.54%	10.52%	10.54%	10.83%	11.13%
Tangible equity/tangible assets	4.45%	5.41%	5.82%	5.27%	4.73%	4.73%	4.11%

**Asset quality ratios(f):**

Non-performing assets/total loans and foreclosed real estate(d)	2.76%	0.37%	1.78%	0.32%	0.37%	0.93%	1.42%
Net charge-offs (recoveries)/average loans outstanding	0.08%	(0.33)%	(0.03)%	0.10%	0.21%	0.07%	0.66%
Allowance for loan losses to non-performing loans	66%	257%	71%	253%	213%	170%	172%
Allowance for loan losses to total loans	1.67%	0.74%	1.17%	0.68%	0.75%	0.88%	1.22%

**Table of Contents**

- (a) In 2006, we adopted the modified prospective application method of SFAS No. 123 (revised December 2004), *Share-Based Payment*.
- (b) In 2006, we sold our asset-based lending operations. In 2005, we eliminated our wholesale origination network. In 2004, we repositioned our mortgage origination activities and sold our third-party mortgage servicing rights. Charges related to these actions included in noninterest expense consist of:

	<b>For the Year</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In millions)</b>		
Severance	\$ 5	\$ 2	\$ 9
Loss on closure of origination facilities			11
Loss on sale of mortgage servicing rights			11
Goodwill impairment	6		
Other		3	3
	\$ 11	\$ 5	\$ 34

The decrease in noninterest income and expense in 2005 is principally due to the 2004 repositioning of our mortgage origination activities and the sale of our third-party mortgage servicing rights.

- (c) In December 2007, Temple-Inland distributed our common stock to its stockholders in a ratio of one share of our common stock for every three shares of Temple-Inland common stock. Earnings per common share for 2007 is computed as if the distribution had occurred at the beginning of 2007.
- (d) Includes nonaccrual loans, restructured loans not performing in accordance with their modified terms, and assets acquired through foreclosure. Excludes loans past due 90 days or more and still accruing.
- (e) Noninterest expense divided by net interest income plus noninterest income.
- (f) Excludes residential mortgage loans held for sale.



**Table of Contents**

**RISK FACTORS**

*An investment in our securities involves a high degree of risk. You should carefully consider the risks described below, together with the other information included or incorporated by reference in this prospectus, including the risk factors set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2007, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008, and the risks that we have highlighted in other sections of this prospectus. Risks described below are not the only risks involved in an investment in our securities. The risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations, and financial condition could suffer materially. In that event, the trading price and market value of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.*

**Risks Related to Our Business**

***Volatility in the credit and residential housing markets could result in further losses on our mortgage-backed securities and loans.***

Credit markets in many sectors have experienced dramatic reductions in liquidity and increases in required returns by investors in credit-sensitive assets. These conditions began in 2007 in the sub-prime mortgage market but have expanded in 2008 to include virtually all non-agency mortgage-backed securities and many other asset-backed markets. Mortgage-backed securities comprise a higher percentage of our assets than they do for many other financial institutions. At March 31, 2008, approximately 30% of our assets were mortgage-backed securities and approximately two-thirds of those securities were non-agency securities. Recent transactions by distressed sellers, and expectations of further distressed sales, have exacerbated market discounts for mortgage-backed securities and generally removed the majority of typical participants from transactions in non-agency securities. As a result, it is difficult to determine fair values for those securities and would likely be difficult to sell securities in the current market at all. We estimate the fair value of the non-agency securities we own was below par by approximately \$1.1 billion, or 30%, at March 31, 2008 and we do not believe the fair value of those securities has changed significantly subsequent to such date. Though we currently have the intent and ability to hold the securities until repayment, if it became necessary for us to sell non-agency securities, any sales would almost certainly be at a significant discount to par value which would have a negative effect on our operating results and capital position.

Current market conditions include a severe over-supply of land, lots, and finished homes in many markets including those where we do business. At March 31, 2008, approximately 8% of our assets were loans to homebuilders and 10% of our assets were single-family mortgage loans. Many of our homebuilder borrowers are experiencing decreased sales and pricing and some are facing significant financial difficulty. We had approximately \$182 million in non-performing homebuilder loans and approximately \$69 million of non-performing single-family mortgage loans at March 31, 2008. The percentage of our single-family mortgage loans delinquent in their payments increased from 3% to 9% since year-end 2006. If housing markets, particularly in California, continue to deteriorate, we will experience a further increase in non-performing loans, provisions for loan losses, and charge-offs. These factors could adversely affect our ability to grow earning assets, return to profitability, or meet our financial obligations.

***If a significant portion of our non-agency mortgage-backed securities portfolio were to be downgraded, it could negatively affect our liquidity.***

At March 31, 2008, we had outstanding indebtedness to FHLB Dallas in the amount of \$5.7 billion. FHLB Dallas policy requires non-agency mortgage-backed securities we pledge as collateral for those borrowings to be AAA-rated by at least one nationally-recognized securities rating organization at the time we pledge the securities. FHLB Dallas reduces the amount we may borrow against the securities if they are subsequently downgraded, and does not consider as eligible collateral any securities rated below investment grade by at least one nationally-recognized securities rating organization.

**Table of Contents**

All of our non-agency mortgage-backed securities are currently rated AAA by two nationally-recognized securities rating organizations, though one security with a carrying value of \$136 million has been designated as negative watch by one rating agency. If the rating agencies were to downgrade any of the securities that we have pledged to FHLB Dallas to below investment grade, the downgraded securities would not be eligible as collateral, and our borrowing capacity would be reduced. If our borrowing capacity were reduced, and we were not able to replace the financing on similar terms or replace the downgraded securities with other eligible collateral, our liquidity could be materially and adversely affected. It may be difficult to secure replacement financing in the current credit markets.

***Changes in interest rates could affect our business and profitability.***

Changes in interest rates are not predictable or controllable by us. The majority of our assets and liabilities are monetary in nature and are affected by changes in interest rates. Like most financial institutions, changes in interest rates affect our net interest income as well as the value of our assets and liabilities. A significant change in the general level of interest rates may adversely affect our net interest margin because our interest-bearing assets and liabilities do not necessarily reprice at the same time or in the same amounts. In addition, periodic and lifetime caps may limit interest rate changes on our mortgage-backed securities and loans that pay interest at adjustable rates.

Additionally, changes in interest rates affect the demand for our loan, deposit, and other financial products. An increase in interest rates may reduce the demand for loans and our ability to originate loans. A decrease in the general level of interest rates may affect us through increased prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in interest rates will likely affect our net interest income and our overall results.

***Declining real estate values, particularly in California, may cause borrowers to default on loans and leave us unable to fully recover our loans.***

A large portion of our loans are secured by real estate. Values of certain types of real estate, particularly undeveloped land, single-family residential lots, and new home construction have declined recently in certain parts of the country. When real estate prices decline, the value of real estate collateral securing our loans is reduced, increasing the probability we will not fully recover our loans. In California, single-family residential real estate values have decreased approximately 7% on average over the last year. At March 31, 2008, approximately 36% of our loans to homebuilders, and over 50% of our single-family mortgage loans, were secured by real estate in California. Approximately 70% of our non-performing homebuilder loans are secured by real estate in California. We will likely soon foreclose on some of the related collateral and charge off a portion of the related loans against our allowance for loan losses. Additionally, we may continue the development of some of the foreclosed real estate.

***Declining real estate values may cause borrowers to default on loans underlying mortgage-backed securities we own, reducing the likelihood of recoverability of our investments.***

Deterioration in the value of single-family homes may cause borrowers to default on the mortgages underlying the mortgage-backed securities we own. In the cash flow distribution from the underlying assets, our securities are generally senior to subordinated tranches intended to incur credit losses from the underlying loans before losses are allocated to our securities. However, if credit losses on the underlying loans were to exceed the subordinated tranches, we would not receive the full stated interest due on the securities or our full principal balance, or both. If we were to conclude unrealized losses on the mortgage-backed securities were other than temporary which we evaluate by considering estimates of recoverability, as well as the duration and severity of the unrealized loss we would be required under generally accepted accounting principles to reduce the cost basis of the security to fair value and record a corresponding charge to earnings, which would also reduce our regulatory capital.

Many of the loans underlying the non-agency mortgage-backed securities we own have one or more characteristics that increase the risk of default by the borrowers. These characteristics include various monthly

**Table of Contents**

payment options, referred to as Option ARMs, and limited underwriting documentation. At March 31, 2008, over 90% of the loans underlying the non-agency mortgage-backed securities are Option ARMs. Additionally, approximately 60% of the loans underlying the non-agency mortgage-backed securities are secured by real estate in California.

***If our allowance for loan losses is not sufficient to cover actual loan losses, our profitability could decrease.***

Our loan customers may fail to repay their loans according to the terms, and the collateral securing the payment of these loans may be insufficient to assure repayment. Such loan losses could have a material adverse effect on our operating results. Though we increased our allowance for loan losses to \$172 million at March 31, 2008 from \$65 million at December 31, 2006, our allowance for loan losses as a percentage of non-performing loans decreased from 253% to 66% over that same period. We make various assumptions, estimates, and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we rely on a number of factors, including third party appraisals and our own experience and our evaluation of current economic conditions. Our allowance for loan losses may not be sufficient to fully cover actual incurred losses in our loan portfolio. If our estimates are incorrect, or real estate values decline further, we will have to further increase our allowances for loan losses through provisions for loan losses, decreasing our future operating results.

***Our loan portfolio lacks diversity, which exposes us to a greater risk of loss from isolated events and individual market adjustments.***

Commercial real estate, homebuilder construction, multifamily, commercial and business, and energy loans, which represent three-fourths of our loan portfolio, generally expose a lender to greater risk of loss than single-family mortgage loans because such loans involve larger loan balances to single borrowers or multiple borrowers in specific industries. Thirteen of our borrowers comprise 10% of our commercial loan portfolio.

General economic trends often move individual markets in the same direction, and geographic concentrations of loans or borrowers that share common risk characteristics or sensitivities to economic, financial, or business downturns could be affected simultaneously. If economic conditions deteriorate in markets where we have higher degrees of exposure, we may be adversely affected to a disproportionate extent. Geographically, at March 31, 2008, approximately 36% of our homebuilder loan portfolio was secured by real estate in California, 9% by real estate in Texas, 9% by real estate in Florida, 6% by real estate in Arizona, 6% by real estate in Colorado, and 34% by real estate in other states.

Because we target our commercial lending to product types in which we have expertise, we may have concentrations of risk in certain industries. At March 31, 2008, approximately 21% of our commercial loans are commercial real estate, 21% are multifamily and senior housing, 17% energy, and 16% commercial and business. The repayment of commercial loans often depends on the successful operations and income streams of the borrowers and for commercial real estate loans. Repayment is also dependent on the completion and successful lease up, sale or refinancing of the property. Although the majority of our energy loans are collateralized by oil and gas reserves, significant changes in energy prices or unsuccessful hedge programs by our borrowers could affect collateral values.

***We have not acquired a significant amount of mortgage loans from our correspondent mortgage warehouse borrowers since we commenced this activity in 2007, and have experienced decreases in our mortgage-backed securities investments; if this continues, our earning assets and interest income could decrease.***

We have developed the capability to acquire mortgage loans from correspondent mortgage warehouse borrowers. The correspondent mortgage business is very competitive, and the current market environment is not generally conducive

to significant production of non-agency adjustable-rate mortgages, which we generally hold. Our single-family loan portfolio will decline in size if market conditions continue to inhibit our ability to

**Table of Contents**

acquire loans from our correspondent lending activities or if we choose not to acquire loans. Additionally, if we choose not to acquire additional mortgage-backed securities, our investment portfolio will decrease. The resulting decreases in total loans or securities would result in lower net interest income.

***Market conditions may limit our ability to raise additional regulatory capital in the future.***

We are required to maintain minimum levels of capital at Guaranty Bank under federal capital adequacy standards applicable to financial institutions. Under federal law, the Office of Thrift Supervision, or OTS, has broad authority to set and modify capital adequacy standards, to determine whether we have satisfied those standards, to require us to take remedial actions to meet the standards, and to take regulatory action if we do not comply. Acting pursuant to this broad authority, the OTS has wide powers to require us to take actions that it determines to be necessary to protect depositors of Guaranty Bank or the federal deposit insurance fund or to cause us to meet any capital standards that it imposes.

Additionally, we are party to credit arrangements that require that we meet specified capital levels in order to be in compliance with the terms of those credit arrangements. If we do not meet those capital levels, we could be in default under those credit arrangements, and our creditors could accelerate our payment obligations and require immediate repayment.

Following this rights offering, we may at some point need to raise additional capital as a result of regulatory requirements to improve our capital, to support our business as a result of losses, or to meet the capital requirements under our credit arrangements. We are currently actively exploring additional means of raising capital through offerings of our common stock, securities convertible into common stock, or rights to acquire such securities or common stock. We are also currently considering issuance of debt securities by Guaranty Financial Group Inc. or our subsidiary, Guaranty Bank. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance and prospects. Accordingly, we may not be able to raise additional capital if needed on terms acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and operate our business could be materially impaired, our creditors could exercise their remedies, or the OTS could exercise its broad regulatory powers described above.

***Some restrictions in our tax matters agreement with Temple-Inland may limit our ability to engage in desirable acquisitions and other strategic transactions.***

Our spin-off from Temple-Inland was completed on December 28, 2007. To preserve the tax-free treatment of the spin-off to Temple-Inland, under a tax matters agreement we entered into with Temple-Inland and Forestar, for the two-year period following the distribution, we may be prohibited, except in specified circumstances, from:

- issuing equity securities to satisfy financing needs;
- acquiring businesses or assets with equity securities; or
- engaging in mergers or asset transfers that could jeopardize the tax-free status of the distribution.

These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business.

Under the tax matters agreement, in order to engage in many transactions like the ones described above (including the rights offering and our recent private placements of common stock and our Series B Preferred Stock with TRT, Icahn

Partners and other institutional investors) during the two-year period following our spin off from Temple-Inland, we must obtain the consent of Temple-Inland or obtain a tax opinion reasonably acceptable to Temple-Inland. In connection with our recent private placement of common stock with TRT that closed on May 30, 2008, we were able to obtain a tax opinion that Temple-Inland indicated was reasonably acceptable to it. On or prior to the closing of our other recent private placements of our Series B Preferred Stock, we intend to obtain a tax opinion regarding those transactions, but have not done so yet, and Temple-



**Table of Contents**

Inland may not find those tax opinions reasonably acceptable. Even if we are able to obtain the consent of Temple-Inland or obtain a tax opinion reasonably acceptable to Temple-Inland regarding the recent private placements and the rights offering, the issuance of Series B Preferred Stock pursuant to the private placements or our common stock in this rights offering upon the exercise of subscription rights may further restrict the amount of equity securities that we may issue during this two-year period. These restrictions may limit our ability to pursue strategic transactions, engage in new business, raise capital, or pursue other transactions that may maximize the value of our business.

***Restrictions included in the tax matters agreement with our former parent corporation may restrict our ability to effect this offering or other offerings or strategic transactions undertaken unless our former parent corporation consents or we are able to obtain a favorable tax opinion.***

Our spin-off from our former parent corporation, Temple-Inland was completed on December 28, 2007. At the time of the spin-off, we entered into a tax matters agreement with Temple-Inland and Forestar that prohibits us from issuing any shares of our common stock (including common stock issued on the exercise of subscription rights) unless Temple-Inland consents or we obtain a tax opinion that is reasonably acceptable in form and substance to Temple-Inland. The tax opinion is required to state that the issuance of our common stock will not result in the spin-off being taxed. While we believe that we will be able to obtain a tax opinion that should be reasonably acceptable to Temple-Inland under the terms of the tax matters agreement, we may not be able to do so or may not be able to otherwise obtain Temple-Inland's consent. If we cannot obtain such an opinion, we may have to abandon this rights offering. If Temple-Inland takes the position that the tax opinion is not reasonably acceptable or if they otherwise do not consent, it could allege that we have breached our tax matters agreement by conducting this rights offering.

***If the spin-off is determined to be taxable for U.S. federal income tax purposes, we and our stockholders could incur significant U.S. federal income tax liabilities.***

Temple-Inland received a private letter ruling from the Internal Revenue Service, or IRS, that the spin-off, if completed as described in the ruling request, qualified for tax-free treatment under applicable sections of the Internal Revenue Code of 1986, as amended. In addition, Temple-Inland received an opinion from tax counsel that the spin-off so qualified. The IRS ruling and the opinion rely on certain representations, assumptions, and undertakings, including those relating to the past and future conduct of our business, and neither the IRS ruling nor the opinion would be valid if such representations, assumptions, and undertakings were incorrect. Moreover, the IRS private letter ruling does not address all the issues that are relevant to determining whether the spin-off qualifies for tax-free treatment. Notwithstanding the IRS private letter ruling and opinion, the IRS could determine that the spin-off should be treated as a taxable transaction if it determines that any of the representations, assumptions, or undertakings that were included in the request for the private letter ruling are false or have been violated or if it disagrees with the conclusions in the opinion that are not covered by the IRS ruling.

If the spin-off failed to qualify for tax-free treatment, Temple-Inland would be subject to tax as if it had sold our common stock in a taxable sale for its fair market value at the date of the spin-off, and our initial public stockholders would be subject to tax as if they had received a taxable distribution equal to the fair market value of our common stock that was distributed to them. Under the tax matters agreement between Temple-Inland and us, we would generally be required to indemnify Temple-Inland against any tax resulting from the distribution to the extent that such tax resulted from (1) an issuance of our equity securities, a redemption of our equity securities, or our involvement in other acquisitions of our equity securities, (2) other actions or failures to act by us, or (3) any of our representations or undertakings being incorrect or violating provisions of the tax matters agreement. Our indemnification obligations to Temple-Inland and its subsidiaries, officers, and directors are not limited by any maximum amount. If we are required to indemnify Temple-Inland or such other persons under the circumstances set forth in the tax matters agreement, we may be subject to substantial liabilities.



**Table of Contents**

***As a savings bank pursuant to the Home Owners Loan Act, or HOLA, Guaranty Bank is required to maintain a certain percentage of its total assets in HOLA-qualifying loans and investments, which limits our asset mix and could limit our ability to increase the yield on our earning assets.***

A savings bank or thrift differs from a commercial bank in that it is required to maintain 65% of its total assets in HOLA-qualifying loans and investments, such as loans for the purchase, refinance, construction, improvement, or repair of residential real estate. To maintain our thrift charter we have to pass the Qualified Thrift Lender test, or QTL test. The QTL test limits the extent to which we can grow our commercial loan portfolio. Accordingly, we may be limited in our ability to change our asset mix and increase the yield on our earning assets by growing our commercial loan portfolio.

In addition, if we continue to grow our commercial loan portfolio and our single-family loan portfolio declines, it is possible that in order to maintain our QTL status, we could be forced to buy mortgage-backed securities or other qualifying assets at times when the terms might not be attractive. Alternatively, we could find it necessary to pursue different structures, including changing Guaranty Bank's thrift charter to a commercial bank charter.

***The business segments in which we operate are highly competitive and competitive conditions may negatively affect our ability to maintain or increase our market share and profitability.***

Guaranty Bank engages in banking activities nationwide in over 30 markets, with a primary focus on California, Texas, and the southeast region. Guaranty Bank's consumer and business banking activities are carried out through banking centers in Texas and California. In addition, our insurance agency operates through offices in Texas and California. We believe the markets we operate in are among the most competitive in the financial services industry. We compete with commercial banks, savings and loan associations, credit unions, mortgage banks, other lenders, and insurance agencies, many of which are substantially larger and have greater resources. Any improvement in the cost structure or service of our competitors will increase the competition we face. Many competitors offer similar products and use similar distribution channels. The substantial expansion of banks' and insurance companies' distribution capacities and product features in recent years has intensified pressure on margins and production levels and has increased the level of competition in many of our business lines.

***We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.***

We are subject to regulation, supervision, and examination by federal banking and state insurance authorities. The regulations enforced by these authorities are intended to protect customers and federal deposit insurance funds, not creditors, stockholders, or other security holders. Regulations affecting banks and financial services companies are continuously changing, and any change in applicable regulations or federal or state legislation could have a negative effect on our operations. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by federal savings banks and their holding companies (including the power to appoint a conservator or receiver for such banks) or to require changes in various aspects of their operations at any time, including restrictions on the payment of dividends to the parent company. Any exercise of such regulatory discretion could have a negative effect on our financial condition or the results of our operations.

***We may not be able to pay dividends if we are not able to receive dividends from Guaranty Bank.***

Cash dividends from Guaranty Bank would be the principal source of funds for paying cash dividends on our common stock. Unless we receive dividends from Guaranty Bank, we may not be able to pay dividends. Guaranty Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. Additionally, we may choose for Guaranty Bank to retain its earnings in order to meet regulatory capital requirements.



**Table of Contents**

***Our information systems may experience an interruption or breach in security that could expose us to liability or loss.***

We rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in customer relationship management, general ledger, deposit, loan, insurance, and other systems. We have policies and procedures designed to prevent or limit the effect of any such failure, interruption, or security breach. However, such failures, interruptions, or security breaches may still occur, and, if they do occur, we may not be able to address them adequately. The occurrence of any failures, interruptions, or security breaches of information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

***We may be unable to achieve some or all of the benefits that we expect to achieve from being a stand-alone public company.***

We may not be able to achieve the full strategic and financial benefits that we expect as a stand-alone public company, or such benefits may be delayed or may not occur at all. Analysts and investors may not regard our corporate structure or business model as appropriate or competitive. Additionally, we will incur costs in excess of the amounts allocated to us by Temple-Inland, such as information technology costs, director and officer liability insurance costs, director fees, and corporate administrative costs.

***We have very little operating history as an independent, publicly-traded company upon which you can evaluate our performance and, accordingly, our prospects must be considered in light of the risks that any newly independent company encounters.***

We have very limited experience operating as an independent, publicly-traded company and performing various public company administrative functions, including human resources, tax administration, registrant filing responsibilities (including compliance with the Sarbanes-Oxley Act of 2002 and with the periodic reporting obligations of the Securities Exchange Act of 1934), investor relations, information technology, and telecommunications services, as well as the accounting for some items such as equity compensation and income taxes. We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent, publicly-traded company, and we may experience increased costs as an independent publicly traded company. Our prospects must be considered in light of the risks, expenses, and difficulties encountered by companies in the early stages of independent business operations, particularly companies such as ours in highly competitive markets.

***Our agreements with Temple-Inland and Forestar may not reflect terms that would have resulted from arm s-length negotiations among unaffiliated third parties.***

The agreements that we have entered into related to our spin-off from Temple-Inland, including the separation and distribution agreement, employee matters agreement, tax matters agreement and transition services agreement, were prepared in the context of our spin-off from Temple-Inland while we were still part of Temple-Inland and, accordingly, may not reflect terms that would have resulted from arm s-length negotiations among unaffiliated third parties. Arms-length negotiations between unaffiliated third parties might have resulted in terms more favorable to us. In many cases, these agreements extend into future periods, and relate to, among other things, future services provided by us to Temple-Inland and purchased by us from Temple-Inland, contractual rights, indemnifications, and other obligations between Temple-Inland, Forestar and us.

***Our historical financial information is not necessarily indicative of our results as a separate company and, therefore, may not be reliable as an indicator of our future financial results.***

Our historical financial information has been created using our historical results of operations and historical bases of assets and liabilities as part of Temple-Inland. This historical financial information is not

## **Table of Contents**

necessarily indicative of what our results of operations, financial position, and cash flows would have been if we had been a separate, stand-alone entity during the periods presented.

It is also not necessarily indicative of what our results of operations, financial position, and cash flows will be in the future. Our historical financial information does not reflect changes that may occur in our cost structure, financing, and operations as a result of the spin-off. These changes might include increased costs associated with reduced economies of scale and purchasing power.

***The ownership by our chairman, our executive officers and some of our other directors of common stock, options or other equity awards of Temple-Inland or Forestar may create, or may create the appearance of, conflicts of interest.***

Because of their former positions with Temple-Inland, our chairman, substantially all of our executive officers, including our Chief Executive Officer and our Chief Financial Officer, and some of our non-employee directors, own shares of common stock of Temple-Inland, options to purchase shares of common stock of Temple-Inland or other Temple-Inland equity awards. Additionally, as a result of Temple-Inland's distribution of shares of Forestar, these officers and non-employee directors also own shares of common stock, options to purchase shares of common stock and other equity awards in Forestar. The individual holdings of shares of common stock, options to purchase shares of common stock or other equity awards of Temple-Inland and Forestar may be significant for some of these persons compared to their total assets. In light of our continuing relationships with Temple-Inland and Forestar, these equity interests may create, or appear to create, conflicts of interest when these directors and officers are faced with decisions that could benefit or affect the equity holders of Temple-Inland or Forestar in ways that do not benefit or affect us in the same manner.

## **Risks Related to the Rights Offering**

***This rights offering may cause the trading price of our common stock to decrease immediately, and this decrease may continue.***

The number of shares we proposed to issue and ultimately do issue if we complete the rights offering, may result in an immediate decrease in the market value of the common stock. This decrease may continue after the completion of the rights offering.

***Since you cannot revoke the exercise of your subscription rights and the market price of our common stock is volatile and may decline after you elect to exercise the subscription rights, you could be committed to buying shares above the market price of our common stock.***

The market price of our common stock could be subject to wide fluctuations in response to numerous factors, some of which are beyond our control. These factors include, among other things, actual or anticipated variations in our costs of doing business, operating results and cash flow, the nature and content of our earnings releases and our competitors earnings releases, changes in financial estimates by securities analysts, business conditions in our markets and the general state of the securities markets and the market for other financial stocks, changes in capital markets that affect the perceived availability of capital to companies in our industry, governmental legislation or regulation, currency and exchange rate fluctuations, and general economic and market conditions, such as downturns in our economy and recessions.

Once you exercise your subscription rights, you may not revoke them. The market price of our common stock may decline after you elect to exercise your subscription rights. If you exercise your subscription rights and, afterwards, the public trading market price of our common stock decreases below the subscription price, you will have committed to

buying shares of our common stock at a price above the prevailing market price and could have an immediate unrealized loss. Our common stock is traded on The New York Stock Exchange under the ticker symbol GFG, and the closing sales price of our common stock on June 16, 2008 was \$5.82 per share. Moreover, following the exercise of your subscription rights you may not be able to sell your common stock at a price equal to or greater than the subscription price. Until shares are delivered upon expiration of the rights offering, you will not be able to sell or transfer the shares of our common stock that



**Table of Contents**

you purchase in the rights offering. We will not pay you interest on any funds delivered to the subscription agent pursuant to the exercise of subscription rights.

***If you do not fully exercise your subscription rights, your ownership interest could be diluted.***

Assuming we sell the full amount of common stock issuable in connection with the rights offering, we will issue approximately 29,013,539 shares of our common stock. If you choose not to fully exercise your subscription rights prior to the expiration of the rights offering, your relative ownership interest in our common stock could be diluted.

***The subscription rights are not transferable and there is no market for the subscription rights.***

You may not sell, transfer, or assign your subscription rights. The subscription rights are only transferable by operation of law. Because the subscription rights are non-transferable, there is no market or other means for you to directly realize any value associated with the subscription rights. You must exercise the subscription rights and acquire additional shares of our common stock to realize any value that may be embedded in the subscription rights.

***The subscription price determined for the rights offering is not an indication of the fair value of our common stock.***

In determining the subscription price, our board considered a number of factors, including: the price at which our stockholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the amount of proceeds desired, the potential need for liquidity and capital, potential market conditions, and the desire to provide an opportunity to our stockholders to participate in the rights offering. In conjunction with its review of these factors, our board also reviewed a range of discounts to market value represented by the subscription prices in various prior rights offerings by other public companies. The subscription price of \$5.17 per full share is not necessarily related to our book value, net worth, or any other established criteria of fair value and may or may not be considered the fair value of our common stock to be offered in the rights offering. Our common stock may trade at prices above or below the subscription price.

***Because our management will have broad discretion over the use of the net proceeds from the rights offering, you may not agree with how we use the proceeds, and we may not invest the proceeds successfully.***

We currently anticipate that we will use the net proceeds of the rights offering for general corporate purposes, including investments in our subsidiaries, and our management may allocate the proceeds among such purposes as it deems appropriate. In addition, market factors may require our management to allocate portions of the proceeds for other purposes. Accordingly, you will be relying on the judgment of our management with regard to the use of the proceeds from the rights offering, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that we may invest the proceeds in a way that does not yield a favorable, or any, return for us.

***We may cancel the rights offering at any time prior to the expiration of the rights offering, or may not close the rights offering if the recent transactions in which we have agreed to sell our Series B Preferred Stock and subordinated notes have not closed, and in such cases neither we nor the subscription agent will have any obligation to you except to return your exercise payments.***

We may, in our sole discretion, decide not to continue with the rights offering or cancel the rights offering prior to the expiration of the rights offering. In addition, the closing of the rights offering is conditioned upon the prior or simultaneous closing of the recent transactions in which we have agreed to sell shares of our Series B Preferred Stock and subordinated notes of Guaranty Bank entered into on June 7, 2008, which we refer to as the investment

transactions. See Prospectus Summary The Rights Offering Conditions to Closing. If the rights offering is cancelled, or if we do not close the rights offering because the investment

**Table of Contents**

transactions have not closed, all subscription payments that the subscription agent has received will be returned, without interest, as soon as practicable.

***If you do not act promptly and follow the subscription instructions, we will reject your exercise of subscription rights.***

If you desire to purchase shares in the rights offering, you must act promptly to ensure that the subscription agent actually receives all required forms and payments before the expiration of the rights offering at 5:00 p.m., New York City time, on July 21, 2008. If you are a beneficial owner of shares, you must act promptly to ensure that your broker, dealer, custodian bank, or other nominee acts for you and that all required forms and payments are actually received by the subscription agent before the expiration of the rights offering. We are not responsible if your broker, dealer, custodian bank, or nominee fails to ensure that the subscription agent receives all required forms and payments before the expiration of the rights offering. If you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to your exercise of your subscription rights prior to the expiration of the rights offering, the subscription agent will reject your subscription or accept it only to the extent of the payment received. Neither we nor our subscription agent undertake any action to contact you concerning an incomplete or incorrect subscription form or payment, nor are we under any obligation to correct such forms or payment. We have the sole discretion to determine whether a subscription exercise properly complies with the subscription procedures.

If you are a participant in the 401(k) plans, you must act promptly to ensure that the Plan Participant Election Form is received by the trustee and that the total amount of the funds required for an exercise of your subscription rights (the subscription price for each share of common stock subscribed for pursuant to the exercise of both the basic subscription rights and any over-subscription privilege you may elect to exercise) has been allocated to investment funds held in your account under the 401(k) plan. See The Rights Offering -Special Instructions for Participants in Our 401(k) Plan. If you fail to complete the Plan Participant Election Form correctly, the Trustee may be unable to follow your directions. Neither we, the 401(k) plans, the Investment Committee, nor the Trustee will be under any duty to notify you of any defect or irregularity in connection with your submission of the Plan Participant Election Form and we will not be liable for failure to notify you of any defect or irregularity.

***Our 401(k) plan, which is receiving subscription rights, is not permitted to acquire, hold or dispose of subscription rights absent an exemption from the U.S. Department of Labor***

Because the distribution of subscription rights is a dividend under the General Corporation Law of the State of Delaware, we are required to distribute subscription rights to all of our stockholders, including the 401(k) plan on behalf of its participants with shares of our common stock credited to their account under the plan, based upon ownership of our common stock as of 5:00 p.m., New York City time, on the record date. Accordingly, the 401(k) plan and its participants are receiving subscription rights in this rights offering even though 401(k) plans, such as ours, are not permitted to acquire, hold, or dispose of subscription rights absent an exemption from the DOL. We will submit a request to the DOL that an exemption be granted on a retroactive basis, effective to the commencement of the rights offering, with respect to the acquisition, holding, and disposition of the subscription rights by our 401(k) plan and participants in our 401(k) plan. The DOL may, however, deny our exemption application. If our exemption request is denied by the DOL, the DOL may require us to take appropriate remedial action.

**Table of Contents**

**Risks Related to Our Common Stock**

*Our common stock has limited trading history. The market price of our shares may fluctuate widely as a result of our short history as a stand-alone company.*

The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

a shift in our investor base because previous investors in Temple-Inland may not desire to continue their investments in a financial services related company;

actual or anticipated fluctuations in our operating results, particularly in light of recent market conditions for real estate and mortgage-backed securities;

announcements by us or our competitors of significant acquisitions or dispositions;

the failure of securities analysts to cover our common stock after the distribution;

the operating and stock price performance of other comparable companies;

overall market fluctuations; and

general economic conditions.

Stock markets in general have experienced volatility that has often been unrelated to the operating or financial performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

*Your percentage ownership in our common stock may be diluted in the future because of existing equity awards on our common stock, and future capital raising activities.*

Your percentage ownership in our common stock may be diluted in the future because of equity awards on our common stock to our directors and officers and directors and officers of Temple-Inland and Forestar as a result of conversion of Temple-Inland awards outstanding at the date of the spin-off. Additionally, we have an approved Stock Incentive Plan, which provides for the grant of equity-based awards, including restricted stock, restricted stock units, stock options, stock appreciation rights, phantom equity awards and other equity-based awards to our directors, officers and other employees. In the future, we may issue additional equity securities, subject to limitations imposed by the tax matters agreement, in order to fund working capital needs, regulatory capital requirements, capital expenditures and product development, or to make acquisitions and other investments, which may dilute your ownership interest.

*The conversion of the preferred stock will dilute your ownership interest in our existing common stock. If our stockholders do not approve the conversion feature of the preferred stock, the dividend rate will materially increase and the conversion price will materially decrease.*

Pursuant to an investment agreement with TRT Financial Holdings, LLC, referred to herein as TRT, and certain affiliates of TRT, we agreed to sell to TRT a number of shares of Series B Mandatory Convertible Perpetual Cumulative Preferred Stock, which we refer to as the Series B Preferred Stock, such that TRT will beneficially own 19.9% of our total outstanding common stock, assuming full conversion immediately following such issuance. In

addition, we have entered into additional investment agreements and a purchase agreement with several institutional investors, including TRT and Icahn Partners, regarding the sale of approximately 5.54 million shares of Series B Preferred Stock and units consisting of subordinated notes of Guaranty Bank and an additional 638,000 shares of Series B Preferred Stock.

Each share of Series B Preferred Stock initially will be convertible into ten shares of common stock. Approval by our stockholders is required before the conversion feature of the Series B Preferred Stock can be exercised, and we are required to call a stockholders meeting for this purpose as promptly as practicable following the issuance of the Series B Preferred Stock pursuant to the investment agreement. The conversion price per share of common stock will be subject to a scheduled price reduction of \$.50 per share semi-annually

**Table of Contents**

until such time as we obtain stockholder approval of the conversion feature of the Series B Preferred Stock, subject to a minimum conversion price per share of \$3.00. Dividends on the Series B Preferred Stock are cumulative and initially accrue at the rate of 14% per year. The dividend rate will increase 2% every six months following the initial stockholder meeting held to consider approval of the conversion feature of the Series B Preferred Stock if and until stockholder approval is obtained (subject to a maximum rate of 18% per year).

The Series B Preferred Stock will be mandatorily converted into shares of our common stock if and when stockholder approval is received, subject to anti-dilution adjustments. The conversion of the Series B Preferred Stock will dilute the ownership interest of our existing common shareholders.

***We may issue additional shares of our common stock or debt securities in the future, which would dilute your ownership or affect your investment if you did not, or were not permitted to, invest in the additional issuances.***

In the future, we may seek to raise additional capital through issuance of debt securities or our common stock, securities convertible into or exchangeable or exercisable for our common stock, or rights to acquire such securities or our common stock. If our subsidiaries were to issue debt securities in the future, the holders of such debt securities would have rights that are effectively senior to the rights of the security holders of Guaranty Financial Group Inc. Moreover, if our subsidiaries were to issue debt securities, the instruments evidencing such debt securities could contain provisions that restrict our ability to receive dividends or other distributions from our subsidiaries. Our amended and restated certificate of incorporation makes available additional authorized shares of common stock and preferred stock for issuance from time to time at the discretion of our board of directors, without further action by the stockholders, except where stockholder approval is required by law or New York Stock Exchange requirements. The terms of any preferred stock could prohibit or otherwise limit payment of dividends or other distributions to our common stockholders under certain conditions. The issuance of any additional shares of common stock or convertible securities could be substantially dilutive to stockholders of our common stock if they do not to invest in future offerings.

Moreover, to the extent that we issue restricted stock, restricted stock units, stock options, stock appreciation rights, options, or warrants to purchase our common stock in the future and those awards, rights, options, or warrants are exercised or as the restricted stock units vest, our stockholders may experience further dilution. Other than rights granted to TRT pursuant to its investment agreement, and to Icahn Partners under its letter agreement with us, holders of our shares of common stock have no preemptive rights that entitle them to purchase their pro-rata share of any offering of shares of any class or series and, therefore, our stockholders may not be permitted to invest in future issuances of our common stock and as a result will be diluted.

***The terms of our spin-off from Temple-Inland, anti-takeover provisions of our charter and bylaws, as well as Delaware law and our stockholder rights agreement, may reduce the likelihood of any potential change of control or unsolicited acquisition proposal that you might consider favorable.***

The terms of our spin-off from Temple-Inland could delay or prevent a change of control that you may favor. An acquisition or issuance of our common stock could trigger the application of Section 355(e) of the Internal Revenue Code of 1986, as amended. Under the tax matters agreement we have entered into with Temple-Inland and Forestar, we would be required to indemnify Temple-Inland and Forestar for the resulting tax in connection with such an acquisition or issuance and this indemnity obligation might discourage, delay, or prevent a change of control that you may consider favorable.

In addition, our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. Our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and may set the preferences, conversion

or other rights, voting powers, and other terms of the classified or reclassified shares. Our board of directors could establish a series of preferred stock that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our

**Table of Contents**

common stock or otherwise be considered favorably by our stockholders. Our certificate of incorporation and bylaws also provide for a classified board structure.

Our bylaws provide that nominations of persons for election to our board of directors and the proposal of business to be considered at a stockholders meeting may be made only in the notice of the meeting, by our board of directors or by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures of our bylaws. Also, under Delaware law, business combinations, including issuances of equity securities, between us and any person who beneficially owns 15% or more of our common stock or an affiliate of such person, are prohibited for a three-year period unless exempted by the statute. After this three-year period, a combination of this type must be approved by a super-majority stockholder vote, unless specific conditions are met or the business combination is exempted by our board of directors.

In addition, we have entered into a stockholder rights agreement with a rights agent that provides that in the event of an acquisition of or tender offer for 20% or more of our outstanding common stock, our stockholders will be granted rights to purchase our common stock at a significant discount. The stockholder rights agreement could have the effect of significantly diluting the percentage interest of a potential acquirer and make it more difficult to acquire a controlling interest in our common stock without the approval of our board of directors to redeem the rights or amend the stockholder rights agreement to permit the acquisition.



**Table of Contents****USE OF PROCEEDS**

Assuming all of the rights in the offering are subscribed for at the subscription price of \$5.17 per share, we estimate that the net proceeds to us from the sale of our common stock offered in the rights offering, after deducting estimated offering expenses, will be approximately \$147 million. We intend to use the net proceeds for general corporate purposes, including investments in our subsidiaries.

Our management will retain broad discretion in deciding how to allocate the net proceeds of this offering. Until we designate the use of net proceeds, we will invest them temporarily in liquid short-term securities. The precise amounts and timing of our use of the net proceeds will depend upon market conditions and the availability of other funds, among other factors.

**Market Information**

Shares of our common stock are traded on the New York Stock Exchange under the ticker symbol GFG. The following table sets forth, for the periods indicated, the high and low closing sales price as reported by the New York Stock Exchange for our common stock.

Our common stock began regular way trading on the New York Stock Exchange on December 31, 2007 following the completion of our spin-off from Temple-Inland. As such, the following table reflects the high and low trading price of our common stock on December 31, 2007 for the fourth quarter of 2007 and the fiscal year then ended December 31, 2007.

	<b>High</b>	<b>Low</b>
2007:		
Fourth Quarter (December 31, 2007)	\$ 16.58	\$ 14.38
Fiscal Year	16.58	14.38
2008:		
First Quarter	\$ 16.09	\$ 9.05
Second Quarter (through June 16, 2008)	12.53	5.11

As of June 16, 2008, we had 4,303 stockholders of record of our common stock, not including beneficial owners whose shares are held in record names of brokers or other nominees. For a recent closing sales price of our common stock on The New York Stock Exchange, see the cover page of this prospectus.

**Table of Contents****CAPITALIZATION**

The following table shows our capitalization as of March 31, 2008 on an actual basis and as adjusted to give pro forma effect to the rights offering and the private placement transactions contemplated by the initial TRT investment agreement, the subsequent investment agreements and the purchase agreement. The table should be read in conjunction with Selected Historical Consolidated Financial Data and with our consolidated financial statements and the notes to those financial statements included in the documents incorporated by reference in this prospectus.

	<b>March 31, 2008</b>				
	<b>Actual</b>	<b>Investment Transactions Adjustment(1)</b>	<b>As Adjusted following Investment Transactions(1)</b>	<b>Rights Offering Adjustment(2)</b>	<b>As Adjusted following Rights Offering(2)</b>
	<b>(In millions)</b>				
<b>Liabilities:</b>					
Deposits	\$ 9,248		\$ 9,248		\$ 9,248
Federal Home Loan Bank borrowings	5,732		5,732		5,732
Other liabilities	136		136		136
Subordinated notes payable to trust	314		314		314
Subordinated debentures and other borrowings	101	236	337		337
<b>Stockholders' equity:</b>					
Preferred stock(3)					
Common stock(4)	37	8	45	29	74
Additional paid-in capital	901	341	1,242	118	1,360
Retained earnings	226		226		226
Accumulated other comprehensive loss, net	(272)		(272)		(272)
<b>Total stockholders' equity</b>	<b>892</b>	<b>349</b>	<b>1,241</b>	<b>147</b>	<b>1,388</b>
<b>Total capitalization</b>	<b>\$ 16,423</b>	<b>\$ 585</b>	<b>\$ 17,008</b>	<b>\$ 147</b>	<b>\$ 17,155</b>

(1) Assumes the issuance of approximately 8 million shares of common stock pursuant to the initial TRT investment agreement and the issuance of approximately 6.2 million shares of Series B Preferred Stock pursuant to the subsequent investment agreements and the purchase agreement.

(2) Assumes that all subscription rights (including all over-subscription privileges) are exercised in full and the completion of the transactions contemplated by the subsequent investment agreements and the purchase agreement and the issuance of common stock to TRT pursuant to the initial TRT investment agreement.

- (3) Par value \$.01 per share, 25 million shares authorized; none issued or outstanding; approximately 6.2 million shares of Series B Preferred Stock issued and outstanding as adjusted (assuming closing of the subsequent investment transactions) following the investments transactions; approximately 6.2 million shares of Series B Preferred Stock issued and outstanding as adjusted following the rights offering.
- (4) Par value \$1.00 per share, 200 million shares authorized; 37.3 million shares issued and outstanding; approximately 45 million shares issued and outstanding as adjusted following the investment transactions including the issuance of approximately 7.4 million shares of common stock to TRT pursuant to the initial TRT investment agreement; approximately 73.7 million shares issued and outstanding as adjusted following the rights offering.

**Table of Contents**

**THE RIGHTS OFFERING**

*Before exercising any subscription rights, you should read carefully the information set forth under Risk Factors.*

**The Subscription Rights**

We are distributing to the record holders of our common stock as of the record date non-transferable subscription rights to purchase shares of our common stock. Each holder of record of our common stock will receive one subscription right for each full share of our common stock owned by such holder as of 5:00 p.m., New York City time, on June 18, 2008, the record date. Each subscription right will entitle you to purchase 0.6487 shares of our common stock which we refer to as the basic subscription right and, if you fully exercise your basic subscription rights and other stockholders do not fully exercise their basic subscription rights, you would be entitled to exercise an over-subscription privilege, to subscribe for, subject to limitations, a portion of the unsubscribed shares of our common stock. The subscription price will be \$5.17 per share.

**Basic Subscription Right**

With your basic subscription right, you may purchase 0.6487 shares of our common stock per subscription right, upon delivery of the required documents and payment of the subscription price of \$5.17 per full share, prior to the expiration date of the rights offering. You may exercise all or a portion of your basic subscription rights or you may choose not to exercise any of your subscription rights. If you do not exercise your basic subscription rights in full, you will not be entitled to purchase shares pursuant to your over-subscription privilege.

Fractional shares of our common stock resulting from the exercise of the basic subscription right will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. Any excess subscription payments that the subscription agent receives will be returned, without interest, as soon as practicable.

We will credit the account of your record holder with shares of our common stock purchased pursuant to the exercise of your basic subscription right as soon as practicable after the rights offering has expired.

**Over-Subscription Privilege**

If you purchase all of the shares of common stock available to you pursuant to your basic subscription rights, you may also choose to purchase a portion of any shares of our common stock that our other stockholders do not purchase through the exercise of their basic subscription rights. We will determine the maximum number of shares of our common stock that you can purchase pursuant to your over-subscription privilege (subject to the limitations described below) according to the following formula based on your percentage ownership of our outstanding common stock as of 5:00 p.m., New York City time, on the record date: total number of unsubscribed shares multiplied by a number equal to two times your ownership percentage of our outstanding common stock at the record date. For example, if you owned 2% of our outstanding common stock on the record date and you properly exercised your basic subscription rights in full, you may subscribe to purchase up to 4% of the unsubscribed shares with your over-subscription privilege.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment (at the subscription price of \$5.17 per full share of common stock) related to your over-subscription privilege before the expiration of the rights offering. Because we will not know the total number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your

over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock available to you, assuming that no stockholder other than you has purchased any shares of our common stock pursuant to their basic subscription rights.

We can provide no assurances that you will actually be entitled to purchase any shares of common stock upon the exercise of your over-subscription privilege at the expiration of the rights offering. You will not be

## **Table of Contents**

entitled to purchase shares pursuant to the over-subscription privilege if all of our stockholders exercise their basic subscription rights in full, and we will only honor an over-subscription privilege to the extent sufficient shares of our common stock are available following the exercise of the basic subscription rights.

To the extent the aggregate subscription price of the maximum number of unsubscribed shares available to you pursuant to the over-subscription privilege is less than the amount you actually paid in connection with the exercise of the over-subscription privilege, you will be allocated only the number of unsubscribed shares available to you, and any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

To the extent the amount you actually paid in connection with the exercise of the over-subscription privilege is less than the aggregate subscription price of the maximum number of unsubscribed shares available to you pursuant to the over-subscription privilege, you will be allocated the number of unsubscribed shares for which you actually paid in connection with the over-subscription privilege.

If sufficient shares of common stock are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the shares of common stock available, we will allocate the available shares of common stock among stockholders who over-subscribed by multiplying the number of shares requested by each stockholder through the exercise of their over-subscription privileges by a fraction that equals (x) the number of shares available to be issued through over-subscription privileges divided by (y) the total number of shares requested by all stockholders through the exercise of their over-subscription privileges.

Fractional shares of our common stock resulting from the exercise of the over-subscription privilege will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

We will credit the account of your record holder with shares of our common stock purchased pursuant to the exercise of your over-subscription privilege as soon as practicable after the expiration of the rights offering.

### **Limit on How Many Shares of Common Stock You May Purchase in the Rights Offering**

Unless we otherwise agree in writing, you, together with the following persons, may not exercise subscription rights (including over-subscriptions) to purchase shares of our common stock which, when aggregated with your existing ownership, would result in you, together with the following persons, owning in excess of 9.9% of our issued and outstanding shares of common stock following the closing of the transactions contemplated by this rights offering:

your spouse or relatives of you or your spouse living in your house;

companies, trusts, or other entities in which you are a trustee, have a controlling beneficial interest or hold a senior position; or

other persons who may be your associates or persons acting in concert with you.

The term "associate" is used above to indicate any of the following relationships with a person:

any corporation or organization, other than Guaranty or a subsidiary thereof, of which a person is a senior officer or partner, or beneficially owns, directly or indirectly, 10% or more of any class of equity securities of the corporation or organization;

any trust or other estate, if the person has a substantial beneficial interest in the trust or estate or is a trustee or fiduciary of the estate (although a person who has a substantial beneficial interest in one of our tax-qualified or non-tax-qualified employee plans, or who is a trustee or fiduciary of the plan is not an associate of the plan, and our tax-qualified employee plans are not associates of a person);

**Table of Contents**

any person who is related by blood or marriage to such person and:

- (i) who lives in the same house as the person; or
- (ii) who is a director or senior officer of Guaranty or a subsidiary thereof; and

any person acting in concert with the persons or entities specified above.

As used above, the term acting in concert means:

- (i) knowing participation in a joint activity or interdependent conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or
- (ii) a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement, or other arrangement, whether written or otherwise.

A person or company that acts in concert with another person or company ( other party ) shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that any of our tax-qualified employee plans will not be deemed to be acting in concert with its trustee or a person who serves in a similar capacity solely for the purpose of determining whether stock held by the trustee and stock held by the plan will be aggregated.

In addition, we will not issue shares of common stock pursuant to the exercise of basic subscription rights or over-subscription privileges to any stockholder who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own, or control such shares if, as of the expiration date of the rights offering, we determine that such clearance or approval has not been satisfactorily obtained and any required waiting period has not expired. If we elect not to issue shares in such case, such shares will become available to satisfy over-subscription by other stockholders pursuant to subscription rights.

**Reasons for the Rights Offering**

In authorizing the rights offering, our board of directors considered a number of factors including: the price at which our stockholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the amount of proceeds desired, the potential need for liquidity and capital, potential market conditions, and the desire to provide opportunity to our stockholders to participate in the rights offering. Our board of directors also considered the effects of the investment transactions prior to concluding that the rights offering was the appropriate option under the circumstances. We intend to use the net proceeds for general corporate purposes, including investments in our subsidiaries. We believe that the rights offering, together with the investment transactions, will strengthen our financial condition by generating additional cash and increasing our capital position; however, our board of directors is making no recommendation regarding your exercise of the subscription rights. We urge you to make your decision based on your own assessment of our business and financial condition, our prospects for the future, and the terms of the rights offering.

**Method of Exercising Subscription Rights**

The exercise of subscription rights is irrevocable and may not be cancelled or modified. You may exercise your subscription rights as follows:



***Subscription by Registered Holders***

You may exercise your subscription rights by properly completing and executing the rights certificate together with any required signature guarantees and forwarding it, together with your full subscription payment (at the subscription price of \$5.17 per share), to the subscription agent at the address set forth below under Subscription and Information Agent. These documents and the full subscription payment must be received by the subscription agent before 5:00 p.m., New York City time, on the expiration date of the rights offering.

**Table of Contents**

***Subscription by Beneficial Owners***

If you are a beneficial owner of shares of our common stock that are registered in the name of a broker, custodian bank, or other nominee, or if you hold our common stock certificates and would prefer to have an institution conduct the transaction relating to the subscription rights on your behalf, you should instruct your broker, custodian bank, or other nominee or institution to exercise your subscription rights and deliver all documents and payment (at the subscription price of \$5.17 per share) to the subscription agent on your behalf before 5:00 p.m., New York City time, on the expiration date of the rights offering. We will not consider your subscription rights exercised unless the subscription agent receives from you, your broker, custodian bank, nominee, or institution, as the case may be, all of the required documents and your full subscription payment before 5:00 p.m., New York City time, on July 21, 2008.

***Subscription by 401(k) Plan Participants***

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

**Payment Method**

Payments must be made in full in U.S. currency by:

check or bank draft payable to Computershare Trust Company, N.A., or the subscription agent, drawn upon a U.S. bank;

postal or express money order payable to the subscription agent; or

wire transfer of immediately available funds to accounts maintained by the subscription agent.

We will not honor payment received after the expiration date of the rights offering, and the subscription agent will return your payment to you, without interest, as soon as practicable. The subscription agent will be deemed to receive payment upon:

clearance of any uncertified check deposited by the subscription agent;

receipt by the subscription agent of any certified check or bank draft, drawn upon a U.S. bank;

receipt by the subscription agent of any postal or express money order; or

receipt of collected funds in the subscription agent's account.

If you elect to exercise your subscription rights, we urge you to consider using a certified or cashier's check, money order, or wire transfer of funds to ensure that the subscription agent receives your funds prior to the expiration of the rights offering. If you send an uncertified check, payment will not be deemed to have been received by the subscription agent until the check has cleared. If you send a certified check or bank draft, drawn upon a U.S. bank, a postal or express money order, or wire or transfer funds directly to the subscription agent's account, payment will be deemed to have been received by the subscription agent immediately upon receipt of such instruments and wire or transfer.

Any personal check used to pay for shares of our common stock must clear the appropriate financial institutions prior to 5:00 p.m., New York City time, on July 21, 2008, which is the expiration of the rights offering. The clearinghouse

may require five or more business days. Accordingly, holders that wish to pay the subscription payment by means of an uncertified personal check are urged to make payment sufficiently in advance of the expiration of the rights offering to ensure such payment is both received and cleared by such date.

You should read the instruction letter accompanying the rights certificate carefully and strictly follow it. **Do not send rights certificates or payments to Guaranty.** Except as described below under Guaranteed Delivery Procedures, we will not consider your subscription received until the subscription agent has received delivery of a properly completed and duly executed rights certificate and payment of the full subscription amount. You and your nominee bear the risk of delivery of all documents and payments and neither we nor the subscription agent have any responsibility for such deliveries.

## **Table of Contents**

The method of delivery of rights certificates and payment of the subscription amount to the subscription agent will be at the risk of the holders of subscription rights. If sent by mail, we recommend that you send those certificates and payments by overnight courier or by registered mail, properly insured, with return receipt requested, and that you allow a sufficient number of days to ensure delivery to the subscription agent and clearance of payment prior to the expiration of the rights offering.

Unless a rights certificate states that the shares of our common stock are to be delivered to the record holder of such rights or such certificate is submitted for the account of a bank or a broker, signatures on such rights certificate must be guaranteed by an eligible guarantor institution, as such term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended, subject to any standards and procedures adopted by the subscription agent.

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

## **Missing or Incomplete Subscription Information**

If you do not indicate the number of subscription rights being exercised, or the subscription agent does not receive the full subscription payment for the number of subscription rights that you indicate are being exercised, then you will be deemed to have exercised the maximum number of subscription rights that may be exercised with the aggregate subscription payment you delivered to the subscription agent. If the subscription agent does not apply your full subscription payment to your purchase of shares of our common stock, any excess subscription payment that the subscription agent receives will be returned, without interest, as soon as practicable.

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

## **Expiration Date and Amendments**

The subscription period, during which you may exercise your subscription rights, expires at 5:00 p.m., New York City time, on July 21, 2008, unless we extend the rights offering period. If you do not exercise your subscription rights prior to that time, your subscription rights will expire and will no longer be exercisable. We will not be required to issue shares of our common stock to you if the subscription agent receives your rights certificate or your subscription payment after that time, regardless of when you sent the rights certificate and subscription payment, unless you send the documents in compliance with the guaranteed delivery procedures described below. We have the option to extend the rights offering and the period for exercising your subscription rights. We intend to extend the rights offering to the extent necessary to accommodate the announcement of our financial results for the quarter ending June 30, 2008. We may extend the expiration of the rights offering by giving oral or written notice to the subscription agent prior to the expiration of the rights offering. If we elect to extend the expiration of the rights offering, we will issue a press release announcing such extension no later than 9:00 a.m., New York City time, on the next business day after the most recently announced expiration of the rights offering. We reserve the right to amend or modify the terms of the rights offering prior to the expiration of the offering.

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

## **Subscription Price**

The subscription price will be \$5.17 per share. In determining the subscription price of \$5.17 per full share, our board considered a number of factors, including: the price at which our stockholders might be willing to participate in the

rights offering, historical and current trading prices for our common stock, the amount of proceeds desired, the potential need for liquidity and capital, potential market conditions, and the desire to provide an opportunity to our stockholders to participate in the rights offering. In conjunction with its review of these factors, our board also reviewed a range of discounts to market value represented by the subscription prices in various prior rights offerings of public companies. The subscription price is not

## **Table of Contents**

necessarily related to our book value, net worth, or any other established criteria of value and may or may not be considered the fair value of our common stock offered in the rights offering.

We cannot assure you that the market price of our common stock will not decline during or after the rights offering. We also cannot assure you that you will be able to sell shares of our common stock purchased during the rights offering at a price equal to or greater than the subscription price. We urge you to obtain a current quote for our common stock before exercising your subscription rights and to make your decision based on your own assessment of our business and financial condition, our prospects for the future, and the terms of this rights offering.

## **Conditions, Withdrawal, and Termination**

We reserve the right to withdraw the rights offering prior to the expiration of the rights offering for any reason. We may, for example, terminate the rights offering, in whole or in part, if at any time before completion of the rights offering there is any judgment, order, decree, injunction, statute, law or regulation entered, enacted, amended, or held to be applicable to the rights offering that in the sole judgment and discretion of our board of directors would or might make the rights offering or its completion, whether in whole or in part, illegal, or otherwise restrict or prohibit completion of the rights offering. In addition, we have entered into investment agreements and a purchase agreement with several institutional investors regarding the sale of approximately 5.54 million of Series B Preferred Stock and units consisting of subordinated notes of our subsidiary, Guaranty Bank with an aggregate original principal amount of \$275 million and additional shares of Series B Preferred Stock, which we refer to as the private investment transactions. See Prospectus Summary Recent Developments Subsequent Private Placement. Our obligation to close the rights offering and to issue the shares of our common stock subscribed for in the rights offering is expressly conditioned on the prior or simultaneous closing of the private investment transactions. We may waive any of these conditions (other than the condition regarding the prior or simultaneous closing of private investment transactions, which we will not waive) and choose to proceed with the rights offering even if one or more of these events occur. If we terminate the rights offering, in whole or in part, all affected subscription rights will expire without value, and all excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

## **Cancellation Rights**

Our board of directors may cancel the rights offering at any time for any reason prior to the time the rights offering expires. If we cancel the rights offering, we will issue a press release notifying stockholders of the cancellation and all subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

## **Subscription and Information Agent**

The subscription agent for this offering is Computershare Trust Company, N.A. The address to which subscription documents, rights certificates, notices of guaranteed delivery, and subscription payments other than wire transfers should be mailed or delivered is:

By Mail:  
Computershare Trust Company, N.A.  
Attn: Corporate Actions  
P.O. Box 859208  
Braintree, MA 02185-9208

By Facsimile Transmission:  
For Eligible Institutions Only:  
(781) 930-4942  
For Confirmation Only Telephone:  
(781) 930-4900

By Overnight Delivery:  
Computershare Trust Company, N.A.  
Attn: Corporate Actions  
161 Bay State Drive  
Braintree, MA 02184

If you deliver subscription documents, rights certificates, or notices of guaranteed delivery in a manner different than that described in this prospectus, we may not honor the exercise of your subscription rights.

We have appointed D. F. King & Co., Inc. to act as information agent for the rights offering. You should direct any questions or requests for assistance concerning the method of subscribing for the shares of our

## **Table of Contents**

common stock or for additional copies of this prospectus to the information agent, D. F. King & Co., Inc., at (800) 290-6426 (toll-free) or (212) 269-5550 (collect).

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

## **Fees and Expenses**

We will pay all fees charged by Computershare Trust Company, N.A., the subscription agent, and D. F. King & Co., Inc., the information agent. We are not charging any fee or sales commission to issue subscription rights to you or to issue shares of common stock to you if you exercise your subscription rights (other than the subscription price). If you exercise your subscription rights through the record holder of your shares, you are responsible for paying any fees your record holder may charge you, as well as any commissions, fees, taxes, or other expenses you may incur in connection with the exercise of the subscription rights.

## **No Fractional Shares**

We will not issue fractional shares. Fractional shares of our common stock resulting from the exercise of the basic subscription rights and the over-subscription privileges will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. Any excess subscription payments that the subscription agent receives will be returned, without interest, as soon as practicable.

## **Medallion Guarantee May Be Required**

Your signature on each subscription rights certificate must be guaranteed by an eligible institution, such as a member firm of a registered national securities exchange or a member of the Financial Industry Regulatory Authority, Inc., or a commercial bank or trust company having an office or correspondent in the United States, subject to standards and procedures adopted by the subscription agent, unless:

your subscription rights certificate states that shares are to be delivered to you as record holder of those subscription rights; or

you are an eligible institution.

## **Notice to Nominees**

If you are a broker, custodian bank, or other nominee holder that holds shares of our common stock for the account of others on the record date, you should notify the beneficial owners of the shares for whom you are the nominee of the rights offering as soon as possible to learn their intentions with respect to exercising their subscription rights. You should obtain instructions from the beneficial owner, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner so instructs, you should complete the appropriate rights certificate and submit it to the subscription agent with the proper subscription payment. If you hold shares of our common stock for the account(s) of more than one beneficial owner, you may exercise the number of subscription rights to which all beneficial owners in the aggregate otherwise would have been entitled had they been direct holders of our common stock on the record date, provided that you, as a nominee record holder, make a proper showing to the subscription agent by submitting the form entitled Nominee Holder Certification, which is provided to you with your rights offering materials. If you did not receive this form, you should contact the subscription agent to request a copy.

## **Beneficial Owners**



If you are a beneficial rather than record owner of shares of our common stock or will receive your subscription rights through a broker, custodian bank, or other nominee, we will ask your broker, custodian bank, or other nominee to notify you of the rights offering. If you wish to exercise your subscription rights, you will need to have your broker, custodian bank, or other nominee act for you. If you hold certificates of our common stock directly and would prefer to have your broker, custodian bank, or other nominee act for you, you should contact your nominee and request it to effect the transactions for you. To indicate your

**Table of Contents**

decision with respect to your subscription rights, you should complete and return to your broker, custodian bank, or other nominee the form entitled Beneficial Owner Election Form. You should receive this form from your broker, custodian bank, or other nominee with the other rights offering materials. If you wish to obtain a separate subscription rights certificate, you should contact the nominee as soon as possible and request that a separate subscription rights certificate be issued to you. You should contact your broker, custodian bank, or other nominee if you do not receive this form, but you believe you are entitled to participate in the rights offering. We are not responsible if you do not receive the form from your broker, custodian bank, or nominee or if you receive it without sufficient time to respond.

If you are a participant in our 401(k) plan, please refer to the information set forth in Special Instructions for Participants in Our 401(k) Plan.

**Guaranteed Delivery Procedures**

If you wish to exercise subscription rights, but you do not have sufficient time to deliver the rights certificate evidencing your subscription rights to the subscription agent prior to the expiration of the rights offering, you may exercise your subscription rights by using the following guaranteed delivery procedures:

deliver to the subscription agent before 5:00 p.m., New York City time, on the expiration date of the rights offering the subscription payment (at the subscription price of \$5.17 per share) for each share of common stock you elected to purchase pursuant to the exercise of subscription rights in the manner set forth above under Payment Method ;

deliver to the subscription agent before 5:00 p.m., New York City time, on the expiration date of the rights offering the form entitled Notice of Guaranteed Delivery ; and

deliver the properly completed rights certificate evidencing your subscription rights being exercised and the related nominee holder certification, if applicable, with any required signatures guaranteed, to the subscription agent within three business days following the date you submit your Notice of Guaranteed Delivery.

Your Notice of Guaranteed Delivery must be delivered in substantially the same form provided with the Form of Instructions as to Use of Guaranty Financial Group Inc. Rights Certificates, which will be distributed to you with your rights certificate. Your Notice of Guaranteed Delivery must include a signature guarantee from an eligible institution, acceptable to the subscription agent. A form of that guarantee is included with the Notice of Guaranteed Delivery.

In your Notice of Guaranteed Delivery, you must provide:

your name;

the number of subscription rights represented by your rights certificate, the number of shares of our common stock for which you are subscribing under your basic subscription right, and the number of shares of our common stock for which you are subscribing under your over-subscription privilege, if any; and

your guarantee that you will deliver to the subscription agent a rights certificate evidencing the subscription rights you are exercising within three business days following the date the subscription agent receives your Notice of Guaranteed Delivery.

You may deliver your Notice of Guaranteed Delivery to the subscription agent in the same manner as your rights certificate at the address set forth above under Subscription and Information Agent. You may alternatively transmit your Notice of Guaranteed Delivery to the subscription agent by facsimile transmission at (718) 930-4942.

The information agent will send you additional copies of the form of Notice of Guaranteed Delivery if you need them. To request additional copies of the form of Notice of Guaranteed Delivery, please contact the information agent, D. F. King & Co., Inc., at (800) 290-6426 (toll-free) or (212) 269-5550 (collect).

## **Table of Contents**

### **Special Instructions for Participants in Our 401(k) Plan**

Our common stock is one of the investments available under the Guaranty Financial Group Inc. Savings and Retirement Plan, the Temple-Inland Savings Plan, the Temple-Inland Savings Plan for Union Employees, and the El Morro Corrugated Box Corp. Savings and Investment Plan (collectively, the Plan ). If shares of our common stock are held by the Plan in your account as of 5:00 p.m., New York City time, on the record date you will have the ability to direct the trustee to exercise some or all of the subscription rights allocable to you. You will receive a Plan Participant Election Form containing detailed instructions as to procedures for exercise, deadlines, payment requirements, and other procedures from the trustee of the Plan.

Neither we, the subscription agent, the information agent, nor the trustee under any 401(k) plan will be under any duty to notify you of any defect or irregularity in connection with your submission of the Plan Participant Election Form, and we will not be liable for failure to notify you of any defect or irregularity with respect to the completion of such form. We reserve the right to reject your exercise or instructions for sale of subscription rights if your exercise is not in accordance with the terms of this rights offering or in proper form. The trustee will not exercise your subscription rights if it concludes that such action would be a breach of its fiduciary duties under applicable law.

Participants in our 401(k) plan should also review the Letter To Participants in the Guaranty Financial Group Inc. Savings and Retirement Plan, the Temple-Inland Savings Plan, the Temple-Inland Savings Plan for Union Employees, and the El Morro Corrugated Box Corp. Savings and Investment Plan, including the Frequently Asked Questions Regarding the Rights Offering and the Guaranty Financial Group Inc. Savings and Retirement Plan, the Temple-Inland Savings Plan, the Temple-Inland Savings Plan for Union Employees, and the El Morro Corrugated Box Corp. Savings and Investment Plan. section of such letter, a copy of which have been provided to such participants along with this prospectus.

### **Transferability of Subscription Rights**

You may not sell, transfer, or assign your subscription rights. The subscription rights granted to you are only transferable by operation of law.

### **Validity of Subscriptions**

We will resolve all questions regarding the validity and form of the exercise of your subscription rights, including time of receipt and eligibility to participate in the rights offering. Our determination will be final and binding. Once made, subscriptions and directions are irrevocable, and we will not accept any alternative, conditional or contingent subscriptions or directions. We reserve the absolute right to reject any subscriptions or directions not properly submitted or the acceptance of which would be unlawful. You must resolve any irregularities in connection with your subscriptions before the subscription period expires, unless waived by us in our sole discretion. Neither we nor the subscription agent shall be under any duty to notify you or your representative of defects in your subscriptions. A subscription will be considered accepted, subject to our right to withdraw or terminate the rights offering, only when a properly completed and duly executed rights certificate and any other required documents and the full subscription payment have been received by the subscription agent. Our interpretations of the terms and conditions of the rights offering will be final and binding.

If you are a participant in our 401(k) plan, you will not receive a rights certificate, but you will be notified on a 401(k) Plan Participant Election Form of the estimated number of subscription rights that will be allocated to your account under our 401(k) plan. Please refer to the information set out under Special Instructions for Participants in Our 401(k) Plan.

**Escrow Arrangements; Return of Funds**

The subscription agent will hold funds received in payment for shares of our common stock in a segregated account pending completion of the rights offering. The subscription agent will hold this money in escrow until the rights offering is completed or is withdrawn and canceled. If the rights offering is canceled

## **Table of Contents**

for any reason, all subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

### **Stockholder Rights**

You will have no rights as a holder of the shares of our common stock you purchase in the rights offering, if any, until certificates representing the shares of our common stock are issued to you or your account at your record holder is credited with the shares of our common stock purchased in the rights offering. You will have no right to revoke your subscriptions after your rights certificate or the Beneficial Owner Election Form, the full subscription payment, and any other required documents have been delivered to the subscription agent.

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

### **Foreign Stockholders**

We will not mail this prospectus or rights certificates to stockholders with addresses that are outside the United States or that have an army post office or foreign post office address. The subscription agent will hold these rights certificates for their account. To exercise subscription rights, our foreign stockholders must notify the subscription agent prior to 11:00 a.m., New York City time, at least three business days prior to the expiration of the rights offering and demonstrate to the satisfaction of the subscription agent that the exercise of such subscription rights does not violate the laws of the jurisdiction of such stockholder.

### **No Revocation or Change**

Once you submit your rights certificate or Notice of Guaranteed Delivery to exercise any subscription rights, you are not allowed to revoke or change the exercise or request a refund of monies paid. All exercises of subscription rights are irrevocable. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at the subscription price. Once you exercise your subscription rights, you cannot revoke the exercise of your rights even if you later learn of information you consider to be unfavorable and even if the market price of our common stock is below the subscription price.

If you are a participant in our 401(k) plan, please refer to the information set out in Special Instructions for Participants in Our 401(k) Plan.

### **Regulatory Limitation**

We will not be required to issue to you shares of our common stock pursuant to the exercise of basic subscription rights or over-subscription privileges to any stockholder who is required to obtain prior clearance or approval from, or submit a notice to, any state or federal bank regulatory authority to acquire, own, or control such shares and if, as of the expiration date, we determine that such clearance or approval has not been satisfactorily obtained or any applicable waiting period has not expired.

### **Material U.S. Federal Income Tax Consequences of Rights Offering**

For U.S. federal income tax purposes, you should not recognize income, gain, or loss upon receipt or exercise or expiration of these subscription rights to purchase shares of our common stock for the reasons described below in Material U.S. Federal Income Tax Consequences.

**No Recommendation to Rights Holders**

Our board of directors is making no recommendation regarding whether you should exercise your subscription rights. You are urged to make your decision based on your own assessment of our business and financial condition, our prospects for the future and the terms of this rights offering. Please see [Risk Factors](#) for a discussion of some of the risks involved in investing in our common stock.

**Table of Contents****Listing**

The subscription rights will not be listed for trading on The New York Stock Exchange or any stock exchange or market or on the OTC Bulletin Board. The shares of our common stock issued upon exercise of the subscription rights will be listed on The New York Stock Exchange under the ticker symbol GFG.

**Shares of Our Common Stock Outstanding After the Rights Offering**

Assuming no stock options are exercised prior to the expiration of the rights offering we anticipate that we will have a maximum of 73,740,138 shares of common stock outstanding after consummation of the rights offering, without giving effect to the shares of common stock issuable upon the exercise or conversion of any outstanding securities, including the Series B Preferred Stock. The number of shares of common stock that we will issue in the rights offering will depend on the number of shares that are subscribed for by our stockholders in the rights offering.

**INFORMATION REGARDING RECENTLY APPOINTED DIRECTOR**

On May 30, 2008, Robert B. Rowling was appointed to our board of directors and as a member of the board of directors of our subsidiary, Guaranty Bank. As part of the investment agreement, dated May 26, 2008, with TRT Financial Holdings, LLC, referred to as TRT, TRT has the right to nominate one person to be elected or appointed to our board of directors for so long as TRT beneficially owns 10% of our issued and outstanding common stock. Mr. Rowling's appointment became effective on May 30, 2008, the closing date of the issuance of 7,423,333 shares of common stock to TRT pursuant to the investment agreement.

Mr. Rowling, 54, has served as the Chairman of the Board of TRT Holdings, Inc., a privately owned holding company with interests in businesses engaged in hospitality, energy, fitness and real estate, since 1996, and Mr. Rowling's principal occupation is directing the business operations of TRT Holdings, Inc. Mr. Rowling also serves on The University of Texas System Board of Regents and is the Chairman of the Board of The University of Texas Investment Management Company.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Security Ownership of Certain Beneficial Owners**

The name, address and stock ownership of each person or group of persons known by us to own beneficially more than five percent (5%) of the outstanding shares of our common stock as of June 11, 2008 follows (which does not reflect shares that will be issued pursuant to the investment transactions entered into on June 7, 2008):

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class(1)</b>
TRT Financial Holdings, LLC (2) c/o TRT Holdings, Inc. 600 East Colinas Rd. Ste 1900 Irving, Texas 75039	7,423,333	16.6%
Carl C. Icahn, et al (3)	3,455,493	7.73%



c/o Icahn Associates Corp.  
767 Fifth Avenue, 47<sup>th</sup> Floor  
New York, New York 10153

Franklin Mutual Advisers, LLC (4)  
100 John F. Kennedy  
Short Hills, NJ 07078

2,974,009 7.99%

Greenlight Capital, L.L.C., et al.(5)  
140 East 45<sup>th</sup> Street, 24<sup>th</sup> Floor  
New York, New York 10017

2,878,545 8.1%

**Table of Contents**

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Ironbound Capital Management LP (6) 902 Carnegie Center, Suite 300 Princeton, NJ 08540	2,006,386	5.7%
Janus Capital Management LLC (7) 151 Detroit Street Denver, Colorado 80206	1,878,026	5.3%
Vanguard Fiduciary Trust Company (8) 500 Admiral Nelson Blvd. Malvern, PA 19355	1,859,289	5.23%

- (1) There were 44,726,599 shares of common stock outstanding on June 11, 2008.
- (2) Based solely on information reported on Schedule 13D filed with the Securities and Exchange Commission on June 9, 2008 by TRT Financial Holdings, LLC ( TRT ) and Robert B. Rowling ( Mr. Rowling ). According to the Schedule 13D, TRT and Mr. Rowling have shared voting and dispositive power with respect to 7,423,333 shares of common stock and Mr. Rowling owns all of the voting membership interest of TRT.
- (3) Based solely on information reported on Amendment No. 1 to Schedule 13D (the Report ), filed with the Securities and Exchange Commission (SEC) on January 24, 2008 by High River Limited Partnership ( High River ), Hopper Investments LLC ( Hopper ), Barberry Corp., Icahn Partners Master Fund LP ( Icahn Master ), Icahn Partners Master Fund II LP ( Icahn Master II ), Icahn Partners Master Fund III LP ( Icahn Master III ), Icahn Offshore LP, Icahn Partners LP, Icahn Onshore LP, Icahn Capital LP, IPH GP LLC ( IPH ), Icahn Enterprises Holdings L.P. ( Icahn Enterprises Holdings ), Icahn Enterprises G.P. Inc. ( Icahn Enterprises GP ), Beckton Corp., and Carl C. Icahn. The Report indicates that High River has sole voting and dispositive power with respect to 802,481 shares of common stock; Hopper has shared voting and dispositive power with respect to 802,481 shares of common stock; Barberry Corp. has shared voting and dispositive power with respect to 802,481 shares of common stock; Icahn Master has sole voting and dispositive power with respect to 1,095,118 shares of common stock; Icahn Master II has sole voting and dispositive power with respect to 296,097 shares of common stock; Icahn Master III has sole voting and dispositive power with respect to 112,302 shares of common stock; Icahn Offshore LP has shared voting and dispositive power with respect to 1,503,517 shares of common stock; Icahn Partners has sole voting and dispositive power with respect to 1,149,495 shares of common stock; Icahn Onshore LP has shared voting and dispositive power with respect to 1,149,495 shares of common stock; Icahn Capital LP has shared voting and dispositive power with respect to 2,653,012 shares of common stock; IPH has shared voting and dispositive power with respect to 2,653,012 shares of common stock; Icahn Enterprises Holdings has shared voting and dispositive power with respect to 2,653,012 shares of common stock; Icahn Enterprises GP has shared voting and dispositive power with respect to 2,653,012 shares of common stock; Beckton Corp. has shared voting and dispositive power with respect to 2,653,012 shares of common stock; and Carl C. Icahn has shared voting and dispositive power with respect to 3,455,493 shares of common stock (collectively, the Record Holders ).
- (4) Based on information reported on Form 13F-HR for the quarter ended December 31, 2007 and filed with the SEC on February 14, 2008 by Franklin Resources, Inc., as reporting manager for Franklin Mutual Advisers, LLC

( Franklin ). According to the Form 13F-HR, Franklin has reported ownership with respect to 2,974,009 shares of common stock. Form 13F-HR does not represent the reported percentage of ownership in Guaranty common stock by Franklin. We have applied Regulation S-K Item 403, Instruction 3, in determining the number of shares of common stock beneficially owned. Percentage of ownership based on total shares of common stock outstanding on April 4, 2008.

- (5) Based solely on information reported on Schedule 13G, dated January 9, 2008 and filed with the SEC on January 22, 2008, by Greenlight Capital, L.L.C. ( Greenlight LLC ), Greenlight Capital, Inc. ( Greenlight Inc. ), DME Advisors, L.P. ( DME LP ), DME Advisors GP, L.L.C. ( DME GP ) (together with Greenlight LLC, Greenlight Inc. and DME LP, Greenlight ), and Mr. David Einhorn. According to the Schedule 13G, Greenlight LLC has sole voting and dispositive power with respect to 1,175,327 shares of

**Table of Contents**

common stock; Greenlight Inc. has sole voting and dispositive power with respect to 1,338,347 shares of common stock; DME LP has sole voting and dispositive power with respect to 364,871 shares of common stock; DME GP has sole voting and dispositive power with respect to 364,871 shares of common stock; and David Einhorn has sole voting and dispositive power with respect to 2,878,545 shares of common stock. Mr. Einhorn is principal of Greenlight and is deemed to beneficially own 2,878,545 shares owned by Greenlight's clients. Greenlight and Mr. Einhorn disclaim beneficial ownership of the securities owned by Greenlight's clients.

- (6) Based solely on information reported on Schedule 13G, dated March 28, 2008 and filed with the SEC on March 28, 2008 by Ironbound Capital Management LP ( Ironbound LP ), Ironbound Capital LLC ( Ironbound LLC ), Ironbound Associates LLC ( Ironbound Associates ) and Mr. Stephen I. Silverman. According to the Schedule 13G, Ironbound LP has shared voting and dispositive power with respect to 1,723,173 shares of common stock; Ironbound LLC has shared voting and dispositive power with respect to 1,723,173 shares of common stock; Ironbound Associates has shared voting and dispositive power with respect to 283,213 shares of common stock; and Mr. Silverman has shared voting and dispositive power with respect to 2,006,386 shares of common stock. According to the Schedule 13G, Mr. Silverman is the managing member of Ironbound LLC, which is the general partner of Ironbound LP, and is the managing member of Ironbound Associates; Ironbound LP, in its role as investment advisor, possesses voting and dispositive power with respect to the shares of common stock owned by its clients; and Ironbound Associates is the general partner of Ironbound Partners LP which owns less than 5% of the outstanding common stock. According to the Schedule 13G, Ironbound LP, Ironbound LLC, Ironbound Associates and Mr. Silverman disclaim beneficial ownership of these securities.
- (7) Based solely on information reported on Schedule 13G, dated December 31, 2007 and, filed with the SEC on February 14, 2008 by Janus Capital Management LLC ( Janus ). The Schedule 13G indicates that Janus has an indirect 86.5% ownership stake in Enhanced Investment Technologies LLC ( InTech ) and an indirect 30% ownership stake in Perkins, Wolf, McDonnell and Company, LLC ( Perkins Wolf ). Also according to the Schedule 13G, Janus, InTech and Perkins Wolf are registered investment advisors and furnish investment advice to various investment companies and individual and institutional clients and, as a result, InTech and Perkins Wolf may be deemed the beneficial owners of 963,985 and 914,041, respectively, shares of our common stock. Also according to the Schedule 13G, neither InTech nor Perkins Wolf have the right to receive any dividends from, or the proceeds from the sale of, the securities held in such companies and clients and disclaims ownership associated with such rights. According to the Schedule 13G, Janus has shared voting and dispositive power with respect to 1,878,026 shares of common stock.
- (8) Based solely on information reported on Schedule 13G dated December 31, 2007 and filed with the SEC February 7, 2008 by Vanguard Fiduciary Trust Company ( Vanguard ), in its capacity as trustee of certain employee benefit plans which hold shares of our common stock in trust for the benefit of the employees in the plans. According to the Schedule 13G, Vanguard has shared voting and dispositive power with respect to 1,859,289 shares of common stock. Vanguard disclaims beneficial ownership of all shares held in trust by the trustee that have been allocated to the individual accounts of participants in the plans for which directions have been received.

**Security Ownership of Management**

The following table sets forth information regarding the beneficial ownership of our common stock as of June 11, 2008 by:

each of our directors and nominees for director, including our President and Chief Executive Officer (CEO),

our Chief Financial Officer (CFO) and our three most highly compensated executive officers other than our CEO and CFO, and

all directors and executive officers as a group.

**Table of Contents**

We determined beneficial ownership as reported in the table in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. Unless otherwise indicated, beneficial ownership includes both sole voting and sole dispositive power. Even though Securities and Exchange Commission, or SEC, rules require reporting of certain shares listed in the table, the directors and executive officers do not claim beneficial ownership of all of these shares. For example, a director or executive officer might not claim ownership of shares owned by a relative. Unless otherwise indicated, the table does not include any shares that may be held by pension and profit-sharing plans of the corporations or endowment funds of educational and charitable institutions for which various directors and officers serve as directors or trustees.

Beneficial Owner (a)	Beneficial Ownership		Shares Issuable on Exercise of Options or after August 10, 2008 (d)	Additional Ownership(1)					Total Beneficial and Additional Ownership (b + i)
	Amount and Nature of Beneficial Ownership (b)	Beneficial Ownership Percent (c)		Performance Stock Units (2)	Restricted Stock Units (f)	Phantom Restricted Stock Units (3)	Deferred and Payable (4)	Additional Ownership (d + e + f + g + h)	
Natural gas (Mcf)	5,358	5,244	5,344	4,773	5,554	2,918	40		
Average Sales Prices:									
Natural gas (per Mcf)	3.80	3.19	3.01	4.01	2.51	2.01	1.47		

	As of June 30, 2007 (unaudited)	2006 (audited)	2005 (audited)	As of December 31, 2004 (audited)	2003 (audited)	2002 (audited)
<b>Balance Sheet Information:</b>						
<b>Current Assets</b>	3,625,503	2,366,081	1,718,893	1,579,388	2,967,626	832,255
<b>Total Assets</b>	40,560,691	39,061,478	25,014,826	22,771,411	18,875,981	13,652,187
<b>Current liabilities</b>	4,216,018	3,604,342	3,574,466	7,582,377	1,471,248	2,383,725
<b>Long-term liabilities</b>	51,226	48,842	26,641	24,705	5,242,554	4,853,409
<b>Deferred income taxes</b>						
<b>Accumulated Deficit</b>	(10,337,821)	(10,393,985)	(9,382,179)	(11,493,253)	(8,886,275)	(6,942,710)





**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

*The following discussion and analysis should be read in conjunction with accompanying financial statements and related notes included elsewhere in this prospectus. It contains forward looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for natural gas and oil, economic and competitive conditions, regulatory changes, estimates of proved reserves, potential failure to achieve production from development drilling projects, capital expenditures and other uncertainties, as well as those factors discussed below and elsewhere in this prospectus, particularly in Risk Factors and Cautionary Notes Regarding Forward Looking Statements, all of which are difficult to predict and which expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. In light of these risks, uncertainties and assumptions, the forward looking events discussed may not occur. We do not have any intention or obligation to update forward-looking statements included in this prospectus after the date of this prospectus, except as required by law.*

### **Overview**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We are an oil and gas company in the business of exploring and developing oil and natural gas reserves on a worldwide basis. Since inception, we have conducted leasehold acquisition, exploration and drilling activities on our North American, Australian and Indonesian prospects. These projects currently encompass approximately 1.03 million gross (236,170 net) acres, consisting of mineral leases, production sharing contracts and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Most of these properties are in the exploration, appraisal or development drilling phase and have not begun to produce revenue from the sale of oil and natural gas. Excluding minor interest and dividend income, our only significant cash inflows until 2003 were the recovery of capital invested in projects through sale or other divestiture of interests in oil and gas prospects to industry partners.

Since 2003, substantially all of our revenue has been generated from natural gas sales derived from the Magness #1, the Fannin#1, and the Mitchell#1 wells in the Madisonville Field in East Texas under spot gas purchase contracts at market prices. Natural gas sales from the Madisonville Field are expected to account for substantially all of our revenues for 2007. We expect the majority of our capital expenditures in 2007 to be the costs of drilling and completing wells in the Madisonville Field.

	Six Months Ended			For The Years Ended December 31,			
	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)	2006 (audited)	2005 (audited)	2004 (audited)	2003 (audited)	2002 (audited)
<b>Consolidated Statement of Operations:</b>							
<b>Revenues</b>	4,212,192	3,467,517	6,716,360	7,975,990	5,825,072	2,452,648	21,659
<b>Lease operating expense</b>	846,107	717,929	1,602,932	878,176	780,237	582,889	19,955
<b>General and administrative</b>	1,526,919	1,287,620	2,347,447	1,551,747	1,963,649	1,259,269	856,491
<b>Net profits expense</b>	428,588	360,471	632,708	856,837	579,590	225,869	
<b>Impairment expense</b>			38,849		2,038,422	473,496	
<b>Depreciation and depletion expense</b>	1,229,870	1,106,162	2,406,612	1,832,693	2,077,004	798,555	5,138
<b>Earnings (loss) from operations</b>	180,708	(4,665)	(312,188)	2,856,537	(1,613,830)	(887,430)	(859,925)
<b>Net income (loss)</b>	56,164	(60,092)	(482,406)	2,640,471	(2,077,615)	(1,684,692)	(1,284,480)
<b>Net income (loss) attributable to common shareholders</b>	56,164	(322,617)	(1,011,806)	2,111,074	(2,606,978)	(1,943,565)	(1,299,700)

### Revenue and Operating Trends in 2007

As discussed in the Properties Texas Madisonville Project section in this prospectus, in order to produce the gas reserves from the Rodessa Formation, we developed an onsite plan to treat and remove impurities from the Madisonville Project natural gas in order to meet pipeline-quality specifications. In 2003, the construction and installation of a natural gas treatment plant with a designed capacity of 18 million cubic feet of gas per day ( MMcf/d ) and associated pipeline and gathering facilities were completed. The treatment plant and associated pipeline and gathering facilities are owned by an unaffiliated third party.

In 2005 we secured a commitment from MGP to install and make operational additional treating facilities capable of treating 50 MMcf/d, which combined with the capacity of the current in-service treating facilities will represent a total designed treating capacity of 68 MMcf/d for the Madisonville treatment plant. In early October 2007, MGP completed the additional treating facilities and the additional treating capacity at such facilities is currently being phased in.

Upon completion of the phase-in, we expect to produce our Fannin Well and Mitchell Well at a higher rate as the well rate has previously been restricted due to capacity limitations in the gas treatment plant. The Mitchell Well was placed in production in June 2007. In addition, later in 2007 we expect to fracture stimulate the Wilson Well, and provided such stimulation is successful, we will place the Wilson Well on production.

In addition, our contract with MGP provides that for the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, MGP will receive a treating fee of \$1.50 per thousand cubic feet ( Mcf ) (this fee is presently \$1.55 per Mcf adjusted for inflation). For any gas volumes in excess of 18,000 Mcf/d of gas delivered to the inlet flange of the gas treatment plant, the treating fee received by MGP is reduced from \$1.50 to \$1.10 per Mcf (\$1.14 per Mcf adjusted for inflation). We record our revenues net of these treating fees. Thus, if we are able to increase our inlet production volumes over 18 MMcf/d on a sustained basis, we expect to experience a disproportionately higher increase in revenue due to lower average treating fees per Mcf.

While there can be no assurance, the higher production rates from our wells combined with the lower average treating fees per Mcf, may result in higher net production and increased revenue during later periods in 2007 as compared to the second quarter of 2007 and prior periods.

#### **Industry Overview for the six months ended June 30, 2007**

The six months ended June 30, 2007 saw strengthening natural gas prices. The Houston Ship Channel price, the index price prevailing in the locale of our Madisonville Project in Madison County, Texas, as quoted in Gas Daily as of June 29, 2007, was \$6.66 versus \$5.40 as of December 29, 2006. Natural gas prices improved during the quarter due to higher demand induced by cold temperatures experienced in many parts of the United States, among other factors.

#### **Comparison of Results of Operations for six months ended June 30, 2007 and 2006**

**During the six months ended June 30, 2007, we had oil and natural gas revenues of \$4,212,192. Our net production was 1,108,338 Mcf of natural gas at an average price of \$3.80 per Mcf. During the six months ended June 30, 2006, we had oil and natural gas revenues of \$3,467,517. Our net production for the six months ended June 30, 2006 was 1,084,684 Mcf at an average price of \$3.19 per Mcf. Revenues increased in the six months ended June 30, 2007 as compared to the prior year period due to higher gas prices and 2% higher production volumes. Prices were approximately 19% higher for the six months ended June 30, 2007 versus the same period in 2006.**





**During the six months ended June 30, 2007, we incurred lease operating expense of \$846,107. Our average lifting cost for the 2007 period was \$0.76 per Mcf. During the six months ended June 30, 2006, we incurred lease operating expense of \$717,929. Our average lifting cost for the 2006 period was \$0.66 per Mcf. The higher average lifting cost for the six months ended June 30, 2007 was due to a workover performed on the Magness well and higher production taxes attributable to the Fannin and Mitchell wells.**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

During the six months ended June 30, 2007, we incurred net profits interest expense of \$428,588 associated with the Magness, the Fannin, and the Mitchell wells as compared to \$360,471 during the six months ended June 30, 2006. The 19% increase resulted from higher gas prices as well as slightly higher production volumes in the six months ended June 30, 2007 versus 2006.

**General and administrative expenses for the six months ended June 30, 2007 were \$1,526,919 compared to \$1,287,620 for the six months ended June 30, 2006. This represents a \$239,299 increase over the prior year period due primarily to U.S. and Canada public company filing fees, and costs associated with our SEC registration statement, listing on the American Stock Exchange and ongoing filing requirements.**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Depreciation, depletion and amortization expense ( DD&A ) for the six months ended June 30, 2007 was \$1,229,870 as compared to \$1,106,162 in the same period of 2006, which amounts primarily represent amortization of the U.S. full cost pool for the six months ended June 30, 2007 and 2006, respectively. The increase was due to higher net production in the six months period of 2007 and an increase in the amount of capitalized cost in the U.S. full cost pool.

Earnings from operations totaled \$180,708 for the six months ended June 30, 2007 as compared to loss from operations of \$4,665 for the six months ended June 30, 2006. The increase in the income from operations was due primarily to higher gas prices as well as slightly higher production volumes in the six months ended June 30, 2007 versus 2006.

Other income for the six months ended June 30, 2007 and 2006 consisted of interest income in the amount of \$56,201 and \$91,894, respectively. The reason for the decreased interest income was lower average cash and cash equivalent balances during the 2007 period as compared to 2006 period.

During the six months ended June 30, 2007 and 2006, we incurred interest expense of \$178,445 and \$126,030, respectively. The higher interest expense in the current period was due to short-term borrowings which were incurred in 2007 to complete the Mitchell well as well as a workover performed on the Magness well.

Net income before taxes for the six months ended June 30, 2007 was \$58,464 as compared to net loss before taxes of \$38,801 for the six months ended June 30, 2006. The increase in net income during the six months ended June 30, 2007 was primarily due to higher gas prices as well as slightly higher production volumes in the six months ended June 30, 2007 versus 2006.

Income tax expense for the six months ended June 30, 2007 was \$2,300 compared to \$21,291 in the same period of 2006. Income tax expense in 2006 was more than 2007 due to estimated 2005 tax return recorded in 2006.

### **Industry Overview for the Year Ended December 31, 2006**

The year 2006 saw softening natural gas prices. The Houston Ship Channel price, the index price prevailing in the locale of our Madisonville Project in Madison County, Texas, as quoted in Gas Daily as of December 29, 2006, was \$5.40 versus \$7.80 as of December 31, 2005. In the year of 2005, the natural gas prices were strong as a result of hurricane related supply disruptions and generally tight supplies of natural gas in the United States. Availability of capital, particularly equity capital for junior oil and natural gas companies, continued to show improvement in 2006. As a result of the initial public offering in Canada in March 2006, we were able to drill two wells in our Madisonville Project during 2006.

### **Company Overview in 2006**

Our net loss after taxes for the year ended December 31, 2006 was \$1,011,806. From our inception, through mid-2003, we only received nominal revenues from our oil and natural gas activities, while incurring substantial acquisition and exploration costs and overhead expenses which have resulted in an accumulated deficit through December 31, 2006 of \$10,393,985. Commencing in May 2003, we placed our Madisonville Project into production. Substantially all of our oil and natural gas sales for the year ended December 31, 2006 were derived from our Madisonville Project, from two producing wells, the UMC Ruby Magness #1 well (the Magness Well ) and the Angela Farris Fannin #1 well (the Fannin Well ).



**Comparison of Results of Operations for the twelve months ended December 31, 2006 and 2005**

During the twelve months ended December 31, 2006, we had oil and natural gas revenues of \$6,716,360. Our net production was 2,229,059 thousand cubic feet (Mcf) of natural gas at an average price of \$3.01 per Mcf. During the twelve months ended December 31, 2005, we had oil and natural gas revenues of \$7,975,990. Our net production for the twelve months ended December 31, 2005 was 1,991,105 Mcf at an average price of \$4.01 per Mcf. Revenues decreased in the twelve months ended December 31, 2006 as compared to the prior year period due to lower gas prices in spite of 12% higher production volumes. Prices were approximately 25% lower for the twelve months ended December 31, 2006 versus the same period in 2005.

During the twelve months ended December 31, 2006, we incurred lease operating expenses of \$1,602,932. Our average lifting cost for the 2006 period was \$0.72 per Mcf. During the twelve months ended December 31, 2005, we incurred lease operating expenses of \$878,176. Our average lifting cost for the 2005 period was \$0.44 per Mcf. The higher average lifting cost in 2006 was due to higher lease operating costs and production taxes attributable to the Fannin #1 well. The primary reason for the increase in average lifting cost per Mcf were increases in production costs related to the Fannin #1 well which was placed in production in March 2006. The production for the Magness and the Fannin wells is at present limited to the current treatment plant's capacity of up to 18,000 Mcf/d. Therefore, the production from the Fannin #1 and the Magness #1 wells is limited to a rate that is below the combined productive flow capability of the wells. A majority of the lease operating costs are fixed costs such as chemical treatments for the wells, insurance, ad valorem tax, and salaries paid to the field personnel. During the twelve months ended December 31, 2006, the total lease operating costs for the Magness #1 well were \$752,924 versus \$878,176 in the same period of 2005. The net production of the Magness #1 well was 1,155,840 Mcf for the twelve months ended December 31, 2006 compared to 1,991,105 Mcf in same period of 2005. Some of the production decrease is attributable to natural declines and some of the decrease is attributable to the fact that the Magness #1 well shared the treating capacity of the treatment plant with the Fannin #1 well in 2006 whereas in the comparable 2005 period it did not. As a result, the average lifting cost for Magness #1 well was \$0.65 per Mcf for the twelve months ended December 31, 2006 versus \$0.44 per Mcf in the same period of 2005. The Fannin #1 well's average lifting cost was higher than the Magness #1 well due mainly to the severance tax of \$230,600 which was incurred on the Fannin #1 well for the twelve months ended December 31, 2006. The Magness #1 well is exempt from the severance tax. The average lifting cost for the Fannin #1 well was \$0.79 per Mcf for the twelve months ended December 31, 2006.

During the twelve months ended December 31, 2006, we incurred net profits interest expense of \$632,708 associated with the Magness and Fannin wells as compared to \$856,837 during the twelve months ended December 31, 2005. The 26% decrease resulted from lower net revenues from the wells in the twelve months ended December 31, 2006 versus 2005. The net profits interest is 12.5% of the net operating profits from our Magness and Fannin wells.

General and administrative expenses for the twelve months ended December 31, 2006 were \$2,347,447 compared to \$1,551,747 for the twelve months ended December 31, 2005. This represents a \$795,700 increase over the prior year period due to primarily to:

1. \$198,000 of stock based compensation,



2. a \$265,000 increase in directors and officers liability insurance,
3. \$48,000 in filing fees related to our public listing on the Toronto Stock Exchange; and
4. \$285,000 in legal, audit, printing and filing fees associated with the S-1 registration statement which was prepared for the resale of some of our common stock.

For the year ended December 31, 2006, impairment expense was incurred in amount of \$38,849 as compared to \$0 in the same period of 2005. The 2006 impairment write-downs were associated with the Canadian cost pool. The remaining costs of drilling a dry hole in Canada of \$38,849 were expensed in 2006.

Depreciation, depletion and amortization expense ( DD&A ) for the twelve months ended December 31, 2006 was \$2,406,612 as compared to \$1,832,693 in the same period of 2005, which amounts represent amortization of the U.S. full cost pool for the twelve months ended December 31, 2006 and 2005, respectively. The increase was due to higher net production in the twelve months period of 2006 and an increase in the amount of capitalized cost in the U.S. full cost pool.

Loss from operations totaled \$312,188 for the twelve months ended December 31, 2006 as compared to income from operations of \$2,856,537 for the twelve months ended December 31, 2005. The decrease in the income from operations was due primarily to lower gas prices, higher lease operating expenses, and higher G&A expenses.

Other income for the twelve months ended December 31, 2006 and 2005 consisted of interest income in the amount of \$198,050 and \$18,969, respectively. The reason for the increased interest income was higher average cash and cash equivalent balances during 2006 period as compared to 2005 period resulting from net proceeds received from common stock offerings completed by us in 2006.

During the twelve months ended December 31, 2006 and 2005, we incurred interest expense of \$306,682 and \$217,768, respectively. The higher interest expense in the current year period was due to \$194,691 in expense related to the amortization of debt issuance costs in connection with a debt financing in January 2006 consisting of: (i) the fair market value assigned to common stock warrants issued, and (ii) a loan origination fee paid.

Net loss before taxes for the twelve months ended December 31, 2006 was \$420,820 as compared to net income before taxes of \$2,657,738 for the twelve months ended December 31, 2005. The loss incurred during 2006 was primarily due to lower gas income, higher lease operating expenses as well as higher general and administrative costs.

Income tax expense for the twelve months ended December 31, 2006 was \$61,586 compared to \$17,267 in the same period of 2005. The increased income tax expense was due to 2005 alternative minimum tax paid in 2006.



**Industry Overview for the Year Ended December 31, 2005**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The year 2005 saw continued strong natural gas prices as a result of hurricane related supply disruptions and generally tight supplies of natural gas in the United States. The Houston Ship Channel price, the index price prevailing in the locale of our Madisonville Project in Madison County, Texas, as quoted in Gas Daily as of December 31, 2005, was \$7.80 versus \$5.82 as of December 31, 2004. Availability of capital, particularly equity capital for junior oil and natural gas companies, continued to show improvement in 2005, and in 2005, we raised \$4,727,824 net of issuance costs through equity financing transactions. As a result, and through the sale of one of our Indonesian property interests, we were able to repay our indebtedness of \$1.7 million to various creditors and improve our capital position during 2005.

**During 2005, we received a weighted average net price of \$4.01 per mcf of gas sold. As further discussed under Properties Texas Madisonville Project , we receive revenue for our gas sales net of certain costs to treat and transport the gas. The weighted average gross price during 2005, prior to the deduction of the treating and transportation costs, was \$6.81. This compares to \$7.80 which was the price prevailing on the last day of 2005.**

### Company Overview in 2005

Our net income for the year ended December 31, 2005 was \$2,640,471. From our inception to 2003, we only received nominal revenues from our oil and natural gas activities, while incurring substantial acquisition and exploration costs and overhead expenses which resulted in our sustaining an accumulated deficit through December 31, 2005 of \$9,382,179. We placed our Madisonville Project into production in May 2003. Substantially all of our oil and natural gas sales for the year ended December 31, 2005 were derived from our Madisonville Project, from one producing well, the Magness #1 well.

**Comparison of Results of Operations for the twelve months ended December 31, 2005 and 2004**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

During the year ended December 31, 2005, we had oil and natural gas revenues of \$7,975,990. Our net production was 1,991,105 thousand cubic feet (Mcf) of natural gas at an average price of \$4.01 per Mcf. During the year ended December 31, 2004, we had oil and natural gas revenues of \$5,825,072. Our net production for the year ended December 31, 2004 was 2,316,895 Mcf at an average price of \$2.51 per Mcf. Revenues increased in the year ended December 31, 2005 as compared to the prior period due to higher gas prices. Average prices in 2005 were 60% higher than 2004, more than offsetting the 14% drop in production from 2004 to 2005. Production was lower due to normal declines associated with the production of reserves from the Magness #1 well.

During the year ended December 31, 2005, we incurred lease operating expenses of \$878,176. Our average lifting cost for this period was \$0.44 per Mcf. During the year ended December 31, 2004, we incurred lease operating expenses of \$780,237. Our average lifting cost for this period was \$0.34 per Mcf. The primary reasons for the increase in average lifting cost per Mcf were increases in costs and lower net production. The increase in lease operating costs was due primarily to higher insurance premiums, approximately \$40,000, and higher costs of chemical treatments, approximately \$60,000 associated with the Magness #1 well.

During the year ended December 31, 2005, we incurred net profits interest expense of \$856,837 associated with the Magness Well compared to \$579,590 during the year ended December 31, 2004. The increase resulted from higher revenues associated with the Magness Well in 2005 versus 2004.



General and administrative expenses for the year ended December 31, 2005 were \$1,551,747 compared to \$1,963,649 for the year ended December 31, 2004. This represents a \$411,902 decrease over the prior year period due to stock based compensation incurred in 2004. During 2004 we issued 500,000 shares of our common stock for cash proceeds of \$500,000 in connection with the exercise of stock options by an officer and director. Concurrent with the exercise of stock options, the officer sold 117,647 shares of common stock to us at the estimated fair market value price prevailing at that time of \$4.25 per share. We recorded compensation expense of \$500,000 in connection with the purchase of stock.

Depreciation, depletion and amortization expense for the year ended December 31, 2005 was \$1,832,693 compared to \$2,077,004 in the year ended December 31, 2004, which amounts represent amortization of the U.S. full cost pool for the year ended December 31, 2005 and 2004, respectively. The decrease was due to lower net production in 2005 as well as an upward revision in net proved reserve estimates during the year.

For the year ended December 31, 2005, no impairment expense was incurred as compared to \$2,038,422 for the year ended December 31, 2004. The 2004 impairment write-downs were associated with the Canadian and Australian cost pools. We expensed the costs of drilling dry holes in those areas during 2004 while no such costs associated with unsuccessful wells were incurred in 2005.

Earnings from operations totaled \$2,856,537 for the year ended December 31, 2005 compared to a loss of \$1,613,830 for the year ended December 31, 2004. The increase in the earnings from operations was due primarily to higher revenues associated with the Magness Well.

Other income for the year ended December 31, 2005 and 2004 consisted of interest income in the amount of \$18,969 and \$6,548, respectively. The reason for the increase was higher average cash and cash equivalents balances for the 2005 period as compared to 2004.

During the year ended December 31, 2005 and 2004, we incurred interest expense of \$217,768 and \$402,958, respectively. The lower interest expense in the current year period was due to lower average debt levels. In March 2004, we incurred a cash finders fee of \$67,375 to a director associated with the negotiation of a reduction in debt through the conversion of \$1,347,500 of long-term debt to equity.

Net income after taxes for the year ended December 31, 2005 was \$2,640,471 compared to net loss of \$2,077,615 for the year ended December 31, 2004. The increase in net income was primarily due to higher revenues associated with the Magness Well and the impairments expense recorded in the previous period.

#### **Industry Overview for the Year Ended December 31, 2004**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The year 2004 saw continued strong natural gas prices as a result of tight supplies of natural gas in the United States. The Houston Ship Channel price, the index price prevailing in the locale of the Madisonville Project, as quoted in Gas Daily as of December 30, 2004, was \$5.82 versus \$5.76 as of December 31, 2003. Availability of capital, particularly equity capital for junior oil and natural gas companies, continued to show improvement in 2004, and in 2004, we raised \$3,479,899 net of issuance costs through equity financing transactions.

**Revenue Trend in 2004**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The results of operations for the year ended 2004 reflected a full year of production revenues from the Madisonville Project where we had one well on production. Substantially all of our oil and natural gas sales for the year ended December 31, 2004 were derived from our Madisonville Project in Madison County, Texas.

### **Comparison of Results of Operations for the Years ended December 31, 2004 and 2003**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

During the year ended December 31, 2004, we had oil and natural gas revenues of \$5,825,072. Our net production was 2,316,895 Mcf at an average price of \$2.51 per Mcf. During the year ended December 31, 2003, we had oil and natural gas revenues of \$2,452,648. Our net production was 1,217,327 Mcf at an average price of \$2.01 per Mcf for 2003.

During the year ended December 31, 2004, we incurred lease operating expenses of \$780,237. Our average lifting cost for this period was \$0.34 per Mcf. During the year ended December 31, 2003, we incurred lease operating expenses of \$582,889. Our average lifting cost for this period was \$0.48 per Mcf. The reason for the significant decrease in average lifting cost per Mcf was that the Magness Well experienced significantly higher production volumes in 2004 versus 2003.

During the year ended December 31, 2004, we incurred net profits interest expense of \$579,590 associated with the Magness Well compared to \$225,869 in 2003. This was due to higher revenues associated with the Magness Well in 2004 versus 2003.

General and administrative expenses for the year ended December 31, 2004 were \$1,963,649 compared to \$1,259,269 for 2003. This represents a \$704,380 or a 56% increase over the prior year period. The primary reason for the increase was a \$500,000 non-cash charge associated with stock-based compensation. During 2004 we issued 500,000 shares of our common stock for cash proceeds of \$500,000 in connection with the exercise of stock options by an officer and director. Concurrent with the exercise of stock options, the officer sold 117,647 shares of common stock to us at the estimated fair market value price at that time of \$4.25 per share. We recorded compensation expense of \$500,000 in connection with the purchase of stock. The balance of the increase was due to additional employees and salary increases.

Depreciation, depletion and amortization expense for the year ended December 31, 2004 was \$2,077,004 compared to \$798,555 for 2003, substantially all of which represents amortization of the U.S. full cost pool for the respective periods. The increase was due to higher depletion expense associated with the Magness Well due to higher production in 2004 versus 2003.

For the years ended December 31, 2004 and 2003, we incurred impairment expense of \$2,038,422 and \$473,496, respectively. The 2004 impairment write-downs were associated with the Canadian and Australian cost pools while the 2003 impairment write-down was due to the expiration of Permit #386 in Australia. We expensed the costs of drilling dry holes in Canada and Australia during 2004. The impairment charge in 2003 relates to the costs capitalized in connection with an exploration permit which expired during 2003.

Loss from operations totaled \$1,613,830 for the year ended December 31, 2004 compared to a loss of \$887,430 for 2003. The increase in the loss from operations was due to higher impairments and depletion expenses.



Other income for the year ended December 31, 2004 and 2003 consisted of interest income in the amount of \$6,548 and \$4,769, respectively. The reason for the increase was higher average cash and cash equivalents balances for the 2004 period as compared to 2003.

During the years ended December 31, 2004 and 2003, we incurred interest expense of \$402,958 and \$802,031, respectively. The higher interest expense in the prior year period was due to short-term borrowings which were incurred to drill and complete the injection well and equipment for production of the Magness Well. In 2004, we incurred debt conversion expense of \$67,375 associated with the conversion of \$1,347,500 of long-term debt to equity.

Net loss for the year ended December 31, 2004 was \$2,077,615 compared to a loss of \$1,684,692 for the year ended December 31, 2003. The increase in net loss was primarily due to higher impairments and depletion.

### **Recent Developments**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

On August 13, 2007, we sold, pursuant to a private placement, 2,002,599 units of our securities at a price of \$3.85 per unit for total gross proceeds of \$7,710,006. Each unit consists of one share of common stock and a warrant to purchase three-tenths of a common share. Each one whole warrant shall entitle the holder to acquire one share of common stock at a price of \$4.50 per share for a period of five years from the closing date. The units were purchased by a small number of accredited investors. We agreed to file a resale registration statement covering the common shares sold in the placement. The gross proceeds of the sale of common shares will be used to fund the Company's exploration and development program and for general working capital purposes.

Under the terms of a registration rights agreement in connection with the private placement, we must pay the holders of the registrable securities issued in the private placement liquidated damages if a registration statement is not filed in conjunction with the private placement with the U.S. Securities and Exchange Commission (SEC) within 60 days of the closing of the private placement (August 13, 2007). In addition, we must pay the holders of the registrable securities liquidated damages in the event a registration statement that was filed in conjunction with the private placement has not been declared effective by the U.S. Securities and Exchange Commission (SEC) within 180 days of the closing of the private placement (August 13, 2007). We must pay as liquidated damages a number of shares of common stock equal to 1.0% of the number of shares of our common stock (including common stock underlying warrants) that were issued to the holder for each 30-day period (pro rated on a daily pro-rata basis for periods shorter than 30 days) that the above conditions are not met, not to exceed 10% of the aggregate number of shares of common stock issued to such holder.

In February 2007, we borrowed \$900,000 pursuant to three promissory notes bearing interest at 8% per annum. The notes mature on October 31, 2007. In connection with these notes, we paid loan origination fees totaling \$27,000 and issued warrants to the Noteholders to purchase 45,000 shares of our common stock at \$3.50 per share through February 2009.

In February 2007, we received an extension of the maturity date of our promissory note for \$1,000,000 payable to Pine Hill Capital, LLC to October 31, 2007. In connection with the extension, we paid a loan extension fee of \$30,000 and issued a warrant to purchase 50,000 shares of our common stock at \$3.50 per share which expires in February 2009. If we do not repay the note by October 31, 2007, we are required to dedicate 5% of our net cash flow from the Madisonville Project located in Madison County, Texas, toward the unpaid principal and all accrued and unpaid interest on the note, until all such amounts are paid in full. Net cash flow for this purpose means gross revenues, less royalties, production taxes and net profits interest expense.

In February 2007, Stuart J. Doshi, President and CEO, loaned \$100,000 to us pursuant to a promissory note bearing interest at 8% per annum, payable upon demand. We repaid the note plus accrued interest on March 28, 2007.

On June 7, 2006, we loaned \$1,000,000 to G. Carter Sednaoui, a 5% shareholder at the time of the loan, evidenced by a full-recourse short-term promissory note with a maturity date of March 31, 2007. On March 30, 2007, we extended the maturity date of the note to June 30, 2007. On June 29, 2007, we received full payment of the note plus accrued interest.

On March 28, 2007, all 1,890,710 of our outstanding shares of our Series AA Stock automatically converted into 1,890,710 shares of our common stock. Under our Amended and

Restated Articles of Incorporation, the Series AA stock automatically converts into common shares on a one-for-one share basis effective the first trading day after the reported high selling price for our common shares is at least \$5.25 per share for any consecutive ten trading days, which condition was met on March 27, 2007. As a result of the conversion of our Series AA stock to common stock on March 28, 2007, dividends on the Series AA Stock ceased accruing on December 31, 2006. In 2006, dividends paid on the Series AA Stock totaled \$529,400.

On April 25, 2007, May 9, 2007, and June 13, 2007, J. Chris Steinhauser, an officer and director, exercised warrants to purchase 80,000, 70,000 and 33,333 shares of common stock at an exercise price of \$2.00, \$2.00 and \$4.00 per share, respectively. The warrants were granted on June 18, 2000 and had expiration dates of between June 18 and June 30, 2007.

On May 11 and May 14, 2007, we issued 12,357 and 25,000 shares of common stock at an exercise price of \$3.50 per share in connection with exercises of outstanding warrants.

On June 20, 2007, we agreed to sell and transfer all of our remaining property interests in Australia to an unrelated party for cash consideration and a Petroleum Sales Royalty Payment equal to 25% of the future annual earnings before interest, taxes, depreciation and amortization from the property interests. The agreement is subject to satisfaction of certain terms and conditions. Specifically, the agreement provides that we will be paid consideration for the sale and transfer of our property interests as follows:

1. Initial cash consideration of \$175,000 subject to certain closing conditions;
2. a second cash payment of \$175,000 upon a successful flow test of petroleum from a well located on the property interests. A successful flow test is defined for purposes of this agreement to be a test of at least 7 million standard cubic feet of natural gas for a continuous and uninterrupted 24 hour period (or an equivalent oil/condensate rate based on a conversion ratio of 6000 cubic feet of gas to a barrel of oil or condensate); and,
3. a Petroleum Sales Royalty Payment equal to 25% of the future annual earnings before interest, taxes, depreciation and amortization from the property interests up to a total amount of \$2,200,000.

On June 21, 2007, we entered into a participation agreement wherein we acquired a 50% non-operated working interest in the Goodwin Prospect, which is located in the Central Alberta Basin, Canada. We can earn a total of 12,000 acres by the drilling of wells. Subsequent to June 30, 2007, we advanced US \$494,677 to be applied toward the drilling and completion of the first well in the prospect, the Nexstar Goodwin 16-19-58-12 Well as well as US \$21,193 towards the acquisition of additional leases in the Goodwin Prospect.

#### **Liquidity and Capital Resources**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We had a working capital deficit of \$590,515 versus \$1,238,261 at June 30, 2007 and December 31, 2006, respectively. Our working capital increased during six months ended June 30, 2007 due primarily to higher oil and gas income for the six months ended June 30, 2007 in spite of increased costs associated with our SEC registration, our listing on the American Exchange and the Mitchell well s hookup costs.

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We have historically financed our business activities through June 30, 2007 principally through issuances of common shares, promissory notes and common stock purchase warrants in private placements. These financings, since 2004, are summarized as follows:

	Six Months Ended June 30, 2007 (unaudited)	2006	Years Ended December 31,	
			2005	2004
<b>Cash flows from Financing Activities:</b>				
Proceeds from sale of common shares, option and warrant exercises, net	620,644	16,717,604	4,727,824	3,479,899
Payments of preferred dividends		(529,400)	(529,397)	(529,363)
Proceeds from promissory notes, net	1,000,000	1,900,000		2,075,000
Payment of loan fee	(57,000)	(30,000)		
Repayments of promissory notes	(100,000)	(900,000)	(4,781,807)	(1,158,569)
Deferred offering costs		(1,213,789)	(730,906)	(150,255)
Purchase of treasury stock			(592,435)	
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 1,463,644</b>	<b>\$ 15,944,415</b>	<b>\$ (1,906,721)</b>	<b>\$ 3,716,712</b>

The net proceeds of our financings have been primarily invested in oil and natural gas properties totaling \$1,430,493, \$16,721,944, \$5,602,741, and \$9,171,589 for the six months ended June 30, 2007 and for the years ended December 31, 2006, 2005, and 2004, respectively.

On May 31, 2005, we paid the remaining balance of \$962,780 plus accrued but unpaid interest of \$4,431 on a note to G. Carter Sednaoui dated July 19, 2004. See Certain Relationships and Related Party Transactions.

In October 2005, we sold our 40% interest in C-G Yapen for cash proceeds of \$2.4 million. Our cost basis in C-G Yapen was \$698,000. The sale of the interest was recorded as a reduction of the capitalized cost pool for the Indonesian properties. We utilized the cash proceeds to repay indebtedness during the fourth quarter of 2005. On October 27, 2005, we repaid the remaining principal balance of \$1,260,292 plus accrued but unpaid interest of \$8,287 on the Rolling Hill Promissory Note dated October 18, 2002, as well as the unsecured promissory note dated September 30, 2004 with a remaining principal balance of \$475,000 and accrued but unpaid interest of \$9,058 to Patricia S. Cayce. See Certain Relationships and Related Party Transactions.

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our cash balance at June 30, 2007 was \$2,702,934 compared to a cash balance of \$734,561 at December 31, 2006. The change in the Company's cash balance is summarized as follows:

Cash balance at December 31, 2006	\$	734,561
Sources of cash:		
Cash provided by operating activities		941,103
Cash provided by financing activities		1,463,644
Cash provided by payment of notes receivable		1,000,000
<b>Total sources of cash including cash on hand</b>		<b>4,139,308</b>
Uses of cash:		
Cash used in investing activities:		
Oil and natural gas property expenditures		(1,430,493)
Furniture, fixtures and equipment		(5,881)
<b>Total uses of cash</b>		<b>(1,436,374)</b>
Cash balance at June 30, 2007	\$	2,702,934

During January and February 2006, we conducted a private placement of common shares to accredited investors. We issued 927,314 common shares at \$3.50 per share for gross cash proceeds of \$3,245,600 (net of \$3,123,408).

On January 31, 2006, we borrowed \$1,000,000 from Pinehill Capital Inc. pursuant to an 8% promissory note with a maturity date of January 31, 2007. We issued 150,000 shares at \$3.50 per share of no par voting common stock warrants, immediately exercisable with an expiration date on January 31, 2009 to Pinehill Capital Inc., as well as a \$30,000 loan origination fee. The fair market value of the warrants on the date of issuance, \$182,390, as well as the \$30,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. On February 1, 2007, the maturity date was extended to October 31, 2007. We paid \$80,000 accrued interest thru January 31, 2007. In connection with the extension, we paid a loan extension fee of \$30,000 and granted a three-year warrant exercisable to purchase 50,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$57,242, together with the \$30,000 loan extension fee, were recorded as a debt discount and are being amortized over the life of the promissory note. As of June 30, 2007, the unamortized debt discount was \$38,774. In the event this note is not repaid by the maturity date, and unless an extension thereof is mutually agreed to, then we have agreed that we shall dedicate 5% of our net cash flow from the Madisonville Field toward the unpaid principal amount and all accrued and unpaid interest thereon, until such amounts are paid in full. Net cash flow for purposes of this provision means gross revenues received by us less royalties, production taxes and net profits interest expense.

On March 30, 2006, we completed an initial public offering pursuant to a final prospectus under the securities laws of each of the provinces of Canada, which consisted of 3,730,021 common shares from our treasury at an issue price of \$3.50 per common share and 519,500 common shares issued on a flow-through basis under the *Income Tax Act* of Canada at an issue price of \$3.85 per common share for aggregate gross proceeds of \$15,055,149. We used the net proceeds of the offering to fund development drilling of proven and probable natural gas reserves associated with the Madisonville Project and to conduct exploration and appraisal activities on our other projects in the United States, Canada and Indonesia.

It is required that we expend \$2,000,075 of the proceeds realized from the Canadian offering from the issuance of 519,500 flow-through shares toward Canadian exploration expense pursuant to Canadian tax law. Canadian exploration expense generally means, but is not limited to, the drilling of exploratory wells in Canada. Pursuant to the terms of our agreement with the subscribers of the flow-through shares, we must renounce the tax deductions which would result from these expenditures and pass the deductions through to the holders of these shares. We must incur these expenditures by the end of our fiscal year ended December 31, 2007.





**Our current cash and cash equivalents and anticipated cash flow from operations may not be sufficient to meet our working capital, capital expenditures and growth strategy requirements for the foreseeable future. See Outlook for 2007 for a description of our expected capital expenditures for 2007. If we are unable to generate revenues necessary to finance our operations over the long-term, we may have to seek additional capital through the sale of our equity or borrowing. As noted in Recent Developments, we periodically borrow funds pursuant to short term promissory notes to finance our activities Contractual Obligations.**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

A summary of our contractual obligations as of December 31, 2006 is provided in the following table.

<b>Contractual Obligations at December 31, 2006</b>	<b>Payments Due By Period(6)</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Operating lease obligations(1)	\$ 168,256	\$ 76,856	\$ 91,400	\$ 0	\$ 0
Production sharing contract(2)	120,000	120,000	0	0	0
Madisonville Field drilling obligation(3)	10,000,000	0	10,000,000	0	0
Cook Inlet Alaska work program(4)	3,568,063	0	3,568,063	0	0
Canadian flow-through shares(5)	2,000,075	2,000,075	0	0	0
<b>Total</b>	<b>\$ 15,856,394</b>	<b>\$ 2,196,931</b>	<b>\$ 13,659,463</b>	<b>\$ 0</b>	<b>\$ 0</b>



- (1) Lease for our principal executive office located at One Maritime Plaza, Suite 700, San Francisco, CA 94111.
  
- (2) We have work program commitments associated with our participation net to our 12% working interest in the Bengara II PSC (production sharing contract) in Indonesia. These work program commitments must be met in order to maintain the production sharing contract in effect.
  
- (3) In order to facilitate the expansion of the gas treatment plant in our Madisonville Project, we are subject to a drilling commitment. The commitment, subject to events of force majeure, including, but not limited to rig availability, requires us to commence the drilling of a well sufficient to test the Smackover Formation (estimated to be encountered at approximately 18,000 feet) on or before September 30, 2008. The commitment is not discretionary. We have granted MGP a security interest in the Madisonville Field properties to secure the commitment. The security interest shall be subordinated to any third party lender in the event we secure future debt against the property. MGP granted us a security interest in the Madisonville Field Gas Treatment Plant to secure their obligation to expand the capacity of the facilities.
  
- (4) Within three years from the date of receipt of legally sufficient assignment of the 100% working interest in the leases in our Cook Inlet Alaska CBM Project, we have the option to conduct a \$2.5 million work program consisting of, but not limited to, a multiple test well drilling program on the leases over a three-year period, and, after completion of the work program and an evaluation of the results, to remit the final additional acreage consideration of \$10 per acre for the leases estimated at approximately \$1,068,000. The Cook Inlet Option provides that if we fail to pay the lease consideration when due, fail to perform the work program or otherwise default under the Cook Inlet Option, we shall forfeit our interest and reassign the leases to Pioneer with no further liability to us.
  
- (5) It is required that we expend \$2,000,075 of the proceeds realized from the Canadian offering from the issuance of 519,500 flow-through shares toward Canadian exploration expense pursuant to Canadian tax law. Canadian exploration expense generally means, but is not limited to, the drilling of exploratory wells in Canada. Pursuant to the terms of our agreement with the subscribers of the flow-through shares, we must renounce the tax deductions which would result from these expenditures and pass the deductions through to the holders of these shares. We must incur these expenditures by the end of our fiscal year ended December 31, 2007.
  
- (6) This table does not include the liability for dismantlement, abandonment and restoration costs of oil and gas properties. Effective with the adoption of SFAS No. 143, Accounting for Asset Retirement Obligations, we recorded a separate liability for the fair value of this asset retirement obligation. See Note 2 of the Notes to Consolidated Financial Statements for further discussion.

In addition to the above future commitments, our 12% owned subsidiary, C-G Bengara, is subject to prior work commitments for the ten-year period ended December 3, 2007 requiring total expenditures of \$25 million in the Indonesian contract area known as the Bengara Block. As of July 31, 2007, C-G Bengara had met approximately \$12.8 million of the \$25.0 million required expenditures, leaving an approximate \$12.2 million shortfall. BP Migas, the applicable governing authority, has granted a deferral of the prior years' commitments. On September 29, 2006, we sold to CNPC 70% of our shareholding in our C-G Bengara subsidiary and our interest in the Bengara Block, reducing our interest from 40% to 12%. Per the terms of the agreement, CNPC deposited an \$18.7 million earning obligation into a C-G Bengara account jointly controlled by CNPC, Continental and us. The funds are being used exclusively to pay for 2007 exploration appraisal drilling in the 900,000 Bengara Block in East Kalimantan, Indonesia. The earning obligation funds of \$18.7 million, together with the \$6.3 million previously spent prior to September 29, 2006, will satisfy all of the past and future work commitments on the Bengara Block.

Other than the above commitments, the timing of most of our capital expenditures is discretionary. We have no other material long-term commitments associated with our capital expenditure plans or operating agreements. Consequently, we have a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. The level of capital expenditures will vary in future periods depending on the success we experience on planned exploratory and appraisal drilling activities, natural gas and oil price conditions and other related economic and political factors. Accordingly, we have not yet prepared an estimate of capital expenditures for periods beyond 2007.

Consequently, we have a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. The level of capital expenditures will vary in future periods depending on the success we experience on planned exploratory and appraisal drilling activities, natural gas and oil price conditions and other related economic and political factors. Accordingly, we have not yet prepared an estimate of capital expenditures for periods beyond 2007.

#### **Income Taxes**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

As of December 31, 2006, we had net operating loss (NOL) carryforwards of approximately \$22,932,000 for federal income tax purposes beginning to expire in 2010 and \$10,926,000 for state income tax purposes which began to expire in 2006.

A significant change in our ownership may limit our ability to use these NOL carryforwards. Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, requires that the tax benefit of such net operating loss be recorded as an asset. At December 31, 2006, we had net deferred tax assets of approximately \$3.7 million related to the NOL and other temporary differences. We have recorded a full valuation allowance of \$3.7 million at December 31, 2006, due to uncertainties surrounding the realizability of the deferred tax asset.

Effective January 1, 2007, we adopted the provisions of FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, the detail of which is included in Note 5 to the Financial Statements.

### **Off Balance Sheet Arrangements**



We do not have any off-balance sheet arrangements.

**Financial Instruments**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We currently have no natural gas price financial instruments or hedges in place. Similarly, we have no financial derivatives. Our natural gas marketing contracts use spot market prices. Given the uncertainty of the timing and volumes of our natural gas production this year, we do not currently plan to enter into any long term fixed-price natural gas contracts, swap or hedge positions, other gas financial instruments or financial derivatives in 2007.

**Outlook for 2007**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Depending on capital availability, we are forecasting capital spending of up to approximately \$5.0 million during the remainder of 2007, allocated as follows:

1. Madisonville Project, Madison County, Texas. Approximately \$3.0 million will be expended in the Madisonville Field area as follows: \$2,000,000 toward the fracture stimulation and hook up costs of the Wilson Well and \$1,000,000 to be utilized for land acquisition, engineering and permitting.
2. Central Alberta Project. Up to approximately \$2.0 million will be expended to drill exploratory wells and acquire 3-D seismic data.

We may, in our discretion, decide to allocate resources towards other projects in addition to or in lieu of, those listed above should other opportunities arise and as circumstances warrant.

We expect commodity prices to be volatile, reflecting the current tight supply and demand fundamentals for North American natural gas and world crude oil. Political events around the world, which are difficult to predict, will continue to influence both oil and gas prices. Higher prices for oil and gas often lead to higher levels of drilling activity which in turn lead to higher costs to explore, develop and acquire oil and gas reserves due to greater competition for resources and supplies. These higher costs could affect the returns on our capital expenditures. Higher crude prices could also help keep natural gas prices high by keeping alternative fuels, such as heating oil and residual fuel, expensive.

### **Impact of Inflation & Changing Prices**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

As the following table illustrates, average sales prices of natural gas have been volatile in the past three years. This has created fluctuations in revenues and earnings from operations:

	<b>FOR THE YEARS ENDED DECEMBER 31</b>		
	<b>2006 (1)</b>	<b>2005</b>	<b>2004(2)</b>
Average Sales Prices per Mcf	3.01	4.01	2.51
Production volume Mcf	2,229,059	1,991,105	2,316,895
Revenues	\$ 6,716,360	\$ 7,975,990	\$ 5,825,072
Earnings (loss) from operations	\$ (312,188)	\$ 2,856,537	\$ (1,613,830)



- (1) Includes \$38,849 impairment expense
  
- (2) Includes \$2,038,422 impairment expense

We are highly dependent upon natural gas pricing. A material decrease in current and projected natural gas prices could impair our ability to raise additional capital on acceptable terms. Likewise, a material decrease in current and projected natural gas prices could also impact our revenues and cash flows. This could impact our ability to fund future activities.

Changing prices have had a significant impact on costs of drilling and completing wells, particularly in the Madisonville Field area where we are currently the most active. The estimated cost of drilling and completing a Rodessa formation well at approximately 12,300 feet of depth has increased from \$3.0 million to \$7.5 million in 2007 due to higher costs associated with tubular goods, well equipment, and day rates for drilling contracts, among other factors. These higher costs have impacted and will continue to impact our income from operations in the form of higher depletion expense.

**Quantitative and Qualitative Disclosures About Market Risk**



*Commodity Risk.* Our major commodity price risk exposure is to the prices received for our natural gas production. Realized commodity prices received for our production are the spot prices applicable to natural gas in the East Texas region. Prices received for natural gas are volatile and unpredictable and are beyond our control. For the year ended December 31, 2006, a 10% change in the prices received for natural gas production would have had an approximate \$700,000 impact on our revenues.

*Currency Translation Risk.* Because our revenues and expenses are primarily in U.S. dollars, we have little exposure to currency translation risk, and, therefore, we have no plans in the foreseeable future to implement hedges or financial instruments to manage international currency changes.

**Critical Accounting Estimates**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our consolidated financial statements have been prepared by management in accordance with U.S. GAAP.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Management believes the most critical accounting policies that may have an impact on our financial results relate to the accounting for oil and gas properties. Amortization, abandonment costs and full cost ceiling limitation write-downs are all based on numerous estimates, many of which are beyond management's control. Reserves valuation is central to much of the accounting for an oil and gas company as described below.

Significant accounting policies are contained in Note 2 to the consolidated financial statements. A summary of unaudited supplementary oil and gas reserve information is contained in Note 12 to the consolidated financial statements.

The following discusses the accounting estimates that are critical in determining the reported financial results:

*Oil and Gas Properties* We follow the full cost method of accounting for oil and gas producing activities as prescribed by U.S. GAAP and, accordingly, capitalize all costs incurred in the acquisition, exploration, and development drilling of proved oil and gas properties, including the costs of abandoned properties, dry holes, geophysical costs, and lease rentals. All general corporate costs are expensed as incurred. In general, sales or other dispositions of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded. Amortization of evaluated oil and gas properties is computed on the units of production method based on all proved reserves on a country by country basis. Unevaluated oil and gas properties are assessed for impairment either individually or on an aggregate basis. The net capitalized costs of evaluated oil and gas properties (full cost ceiling limitation) are not to exceed their related estimated future net revenues discounted at 10%, and the lower of cost or estimated fair value of unproved properties, net of tax considerations.

*Reserves* We engage independent petroleum engineering consultants to evaluate our reserves. Reserves, future production profiles, and net revenues are estimated by independent professional reservoir engineering firms. While we engage qualified reservoir engineering firms, their estimates are inherently uncertain, involve numerous assumptions that may not be realized, and predict asset values that may not be indicative of the true market value of the assets evaluated. As a result of the inherent uncertainties and changing technical and economic assumptions, reserve estimates are subject to revisions that can materially impact our results.

*Asset Retirement Obligation* We provide for the estimated site restoration and abandonment costs of tangible long-lived assets using a fair value method, which approximates the cost a third party would incur in performing the tasks necessary to retire such assets. The reported liability is a discounted amount. The amount of the liability is affected by factors such as the number of wells, the timing of the expected expenditures and the discount factor. These estimates will change and the revisions could impact the amortization rates.

*Stock Based Compensation* The Company has a stock- based compensation plan that allows employees to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were issued. Options granted under the plan are generally fully exercisable after

five years and expire five to ten years after the grant date. Under U.S. GAAP, prior to 2006, the Company elected not to expense compensation cost for stock-based employee compensation at fair value but did disclose the impact of the fair value accounting of employee stock options in Note 2 to the annual audited consolidated financial statements. GeoPetro adopted Statement of Financial Accounting Standards No. 123(R) ( Statement 123R ) on January 1, 2006, which is the beginning of its first interim period following the effective date of Statement 123R. GeoPetro has applied the modified prospective method of adoption, and accordingly, the financial statements for GeoPetro's prior interim periods and fiscal years will not reflect any restated amounts. GeoPetro has recorded \$69,870 of stock-based employee compensation for the six months ended June 30, 2007 in connection with the portion of previously granted employee stock options that vest on or after January 1, 2006. The impact of the fair value accounting of employee stock options is estimated on the date of grant using the Black-Scholes option pricing model with assumptions for: risk free interest rates, expected dividend yields, expected life of the options from the date of grant, and expected volatility.

### **Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which is effective for the Company beginning January 1, 2008 and provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for future transactions. We do not expect the adoption of this pronouncement to have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of SFAS No. 159 is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. Under SFAS No. 159, entities that elect the fair value option (by instrument) will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. We do not expect the adoption of this pronouncement to have a material impact on our financial position or results of operations.

### **BUSINESS**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We were incorporated in the State of Wyoming in August 1994 under the name GeoPetro Company as an oil and gas exploration, development drilling and production company. In June 1996, we merged with our wholly-owned subsidiary, GeoPetro Resources Subsidiary Company, a California corporation, and the resulting merged company is incorporated in the state of California under the California General Corporation Law under the name GeoPetro Resources Company.

Our principal and registered office is located at One Maritime Plaza, Suite 700, San Francisco, California, USA 94111.

### **Intercorporate Relationships**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We hold 100% of the shares of Redwood Energy Company, a Texas corporation, **Redwood**. Redwood is the general partner of, and holds a 5% interest in, Redwood Energy Production, L.P., **Redwood LP**, a Texas limited partnership. We are the sole limited partner of Redwood LP and own the remaining 95% partnership interest in Redwood LP.

In addition, we hold a 12% interest in Continental-GeoPetro (Bengara II) Ltd., **C-G Bengara** which is a British Virgin Islands company and a 50% interest in CG Xploration Inc., **CG Xploration**, which is a Delaware corporation.

We also hold 100% of the shares of GeoPetro Canada Ltd., **GeoPetro Canada**, an Alberta company, and 100% of the shares of GeoPetro Alaska LLC **GeoPetro Alaska**, an Alaska limited liability company.

### GENERAL DEVELOPMENT OF THE BUSINESS





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

During the past five years, we have conducted leasehold acquisition, exploration and drilling activities on our North American, Australian and Indonesian prospects. These projects currently encompass approximately 1.03 million gross (236,170 net) acres, consisting of mineral leases, production sharing contracts and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Most of these properties are in the exploration, appraisal or development drilling phase and have not begun to produce revenue from the sale of oil and natural gas. Excluding minor interest and dividend income, our only cash inflows until 2003 were the recovery of capital invested in projects through sale or other divestiture of interests in oil and gas prospects to industry partners.

In December 2000, we acquired working interests in oil and natural gas leases in the Madisonville Field in Madison County, Texas, including interests in the Rodessa Formation. Also included in the acquisition was the Magness Well, an existing well that had been drilled, cased and production tested in the Rodessa Formation. In October 2001, we re-completed and tested the Magness Well over a 12-day period. In October 2002, we drilled, completed and successfully tested an injection well to dispose of waste products resulting from the treating process for gas produced from the Rodessa Formation. The Madisonville Field gas treatment plant and associated pipelines, which were built specifically for this project, were placed into service in May 2003, and the Magness Well began production in late May 2003. Since 2003, substantially all of our revenue has been generated from

natural gas sales derived from the Madisonville Field. The Madisonville Project is expected to be our primary source of revenue in 2007. The first development well in the Madisonville Field, the Fannin Well, was drilled in 2004 and was tested at rates of up to 25.7 MMcf/d. In 2006, we drilled the Wilson and Mitchell wells. Presently, the Fannin, Mitchell and Magness wells are producing while the Wilson well is shut-in awaiting a fracture stimulation. We own a 100% working interest in the four wells. Historically, our wells have been production constrained by the gas treatment plant at the Madisonville Field, which had a treating capacity limit of approximately 18,000 Mcf per day. We entered into an agreement with the plant owner, MGP, an unaffiliated third party, which required, among other things, that MGP expand the treating capacity of the plant from 18,000 to 68,000 Mcf per day to treat additional volumes from our producing wells. In early October 2007, MGP completed the additional treating facilities and the additional treating capacity at such facilities is currently being phased in.

As of October 30, 2007 we have 31,583,007 shares of common stock outstanding as a result of raising approximately \$54 million of equity, net of offering costs, by way of private placements and a public offering in Canada. These funds have been used primarily to acquire, explore and develop our oil and natural gas prospects.

On March 30, 2006, we completed an initial public offering in Canada, which consisted of 3,730,021 shares of common stock at an issue price of \$3.50 per share and 519,500 shares of common stock issued on a flow-through basis under the *Income Tax Act* (Canada) at an issue price of \$3.85 per share for aggregate gross proceeds of \$15,055,149. The sale of our common stock was conducted (a) outside the United States pursuant to the exemption from registration provided by Regulation S, and (b) within the United States only in accordance with an applicable exemption from the registration requirements of the 1933 Securities Act. We used the net proceeds of the offering to fund development drilling of proven and probable natural gas reserves associated with the Madisonville Project and to conduct exploration and appraisal activities on our other projects in the United States, Canada and Indonesia.

On August 13, 2007, we sold, pursuant to a private placement, 2,002,599 units of our securities at a price of \$3.85 per unit, for total gross proceeds of \$7,710,006. Each unit consists of one share of our common stock and a warrant to purchase three-tenths of a common share. Each one whole warrant shall entitle the holder to acquire one share of common stock at a price of \$4.50 per share for a period of five years from the closing date. The units were purchased by a small number of accredited investors. We agreed to file a re-sale registration statement covering the common shares sold in such placement. The gross proceeds of the sale of common shares will be used to fund the Company's exploration and development program and for general working capital purposes.

## **Growth Strategy**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our strategy is to maximize shareholder value through the exploration and development drilling of oil and natural gas prospects. To carry out this philosophy we employ the following business strategies:

identify and pursue potential projects which individually have the potential to be company makers which we define as projects which could generate a minimum unrisks net present value of \$50 million net to our interest using a 10% discount factor;

perform geological, engineering and geophysical evaluations;

gain control of key acreage;

generate high quality drillable exploration and development drilling prospects;

retain a large working interest in those projects which involve low risk appraisal or development drilling, exploitation or appraisal of proven, probable and possible reserves; and

minimize early investment and exploration risk in higher risk exploratory prospects through farmouts to other oil and natural gas companies and maintain meaningful interests with a carry through the exploration phase.

**Risks Associated With Foreign Operations**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our business activities in Indonesia, Canada and the United States are subject to political and economic risks, including: loss of revenue, property and equipment as a result of unforeseen events like expropriation, nationalization, war, terrorist attacks and insurrection; risks of increases in import, export and transportation regulations and tariffs, taxes and governmental royalties; renegotiation of contracts with governmental entities; changes in laws and policies governing operations of foreign-based companies in Indonesia; exchange controls, and numerous other factors. While we expect these risks are greater in Indonesia, especially political risk, any one or more of such political or economic conditions could change in the United States or Canada to our detriment. For a related discussion of the risks attendant with foreign operations, see Risk Factors.

### **Regulations**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Domestic exploration for, and production and sale of, oil and gas are extensively regulated at both the federal and state levels. Our business is and will be directly or indirectly affected by numerous governmental laws and regulations applicable to the energy industry, including:

Federal environmental laws and regulations

State environmental laws and regulations

Local environmental laws and regulations

Conservation laws and regulations

Tax and other laws and regulations pertaining to the energy industry

Legislation, rules and regulations affecting the oil and gas industry are under constant review for amendment or expansion, frequently increasing the regulatory burden. Any changes in the existing legislation, rules or regulations could adversely affect our business. The regulatory burdens are often costly to comply with and carry substantial penalties for failure to comply.

As of October 2007, we have re-completed an existing production well and drilled three additional production wells and an injection well in the Madisonville Project as operator. In addition, we may drill oil, gas and disposal wells in the future as the operator and will be required to obtain local government and other permits to drill such wells. There can be no assurance that such permits will be available on a timely basis or at all. Texas and other states have statutes or regulations pertaining to conservation matters which, among other matters, regulate the unitization or pooling of gas properties and the spacing, plugging and abandonment of such wells and set limits on the maximum rates of natural gas that can be produced from gas wells.

Our operations and activities are subject to numerous federal, state and local environmental laws and regulations. These laws and regulations:

Require the acquisition of permits

Restrict the type, quantities and concentration of various substances that can be discharged into the environment

Limit or prohibit drilling and other activities on wetlands and other designated, protected areas

Regulate the generation, handling, storage, transportation, disposal and treatment of waste materials

Impose criminal or civil liabilities for pollution resulting from oil and natural gas operations

We expect that with the increase in our exploratory and development drilling activities, the impact of environmental laws and regulations on our business and operations will also increase. We may be required in the future to make substantial outlays of money to comply with environmental laws and regulations. Additional changes in operating procedures and expenditures to comply with future environmental laws cannot be predicted.

Other than our U.S. projects, we do not operate oil and gas properties in which we own an interest. In those instances, we are not in the position to exert direct control over compliance with most of the rules and regulations

discussed above. We are substantially dependent on the operators of our non-operated oil and gas properties to monitor, administer and oversee such compliance. The failure of the operator to comply with such rules and regulations could result in substantial liabilities to us.

As the operator of the Madisonville Project, among other various environmental laws and regulations, we will be subject to the U.S. Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) and any comparable legislation adopted by Texas which imposes strict, joint and several liability on owners and operators of properties and on persons who dispose or arrange for the disposal of hazardous substances found on or under the sites of such properties. Under CERCLA, one owner, lessee or other party, having responsibility for and an interest in a site requiring cleanup may, under certain circumstances, be required to bear a disproportionate share of liability for the cost of such cleanup if payments cannot be obtained from other responsible parties. The Resource Conservation and Recovery Act ( RCRA ) and comparable rules adopted by Texas and other states regulate the generation, management and disposal of hazardous oil and gas waste.

The Texas Railroad Commission has been delegated the responsibility and authority to regulate and prevent pollution from oil and gas operations, including the prevention of pollution of surface or subsurface water resulting from the drilling of oil and gas wells and the production of oil and gas. In addition to regulating the generation, management and disposal of hazardous oil and gas waste, the Texas Railroad Commission has been delegated authority to regulate underground hydrocarbon storage, saltwater disposal pits and injection wells.

The drilling of oil and gas wells in Texas requires operators to obtain drilling permits, file an organization report and a performance bond or other form of financial security, such as a letter of credit, and obtain a permit to maintain pits to store and dispose of drilling fluids, saltwater and waste as well as other types of pits for other purposes. The issuance of such permits is conditioned upon the Texas Railroad Commission's determination that these pits will not result in waste or pollution of surface or subsurface water.

Other states in which we have an interest in oil and gas properties may impose similar or more stringent regulations than imposed under CERCLA or RCRA.

In re-completing the existing well on the Madisonville Project, we were required to drill a well for injection or disposal of produced waste gas from wells. Injection wells are subject to regulation under the Safe Drinking Water Act ( SDWA ) and the regulations and procedures which have been adopted by the Environmental Protection Agency ( EPA ) under that Act. Generally, enforcement procedures under the SDWA are administered by the EPA unless such authority has been delegated by the EPA to a state which has primary enforcement responsibility based on the EPA's determination that the state has adopted drinking water regulations no less stringent than the national primary drinking water regulations and meets certain other criteria. Underground injection wells not used for the underground injection of natural gas for storage are generally unlawful and subject to penalties under the SWDA unless authorized by:

permit issued by the EPA or a state having primary enforcement responsibility, or

rule pursuant to an underground injection control program established by a state or the EPA.

The regulatory burden on the natural gas and oil industry increases our cost of doing business and affects our financial condition. Future developments, such as stricter requirements of environmental or health and safety laws and regulations affecting our business or more stringent interpretations of, or enforcement policies with respect to, such laws and regulations, could adversely affect us. To meet changing permitting and

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

operational standards, we may be required, over time, to make site or operational modifications at our facilities, some of which might be significant and could involve substantial expenditures. There can be no assurance that material costs or liabilities will not arise from these or additional environmental matters that may be discovered or otherwise may arise from future requirements of law.

### **Overseas Regulations**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We own a working interest and in oil and gas project located in Indonesia. We have farmed out our interest in this project to a third party who is the operator of this project. In exploring for, drilling and developing this property, this operator will be required to comply with the environmental, conservation, tax and other laws and regulations of Indonesia. To date we have farmed out our interest in 20 properties since our inception. This has

impacted our business from a financial point of view. In some instances, we have received cash consideration pursuant to the terms of a farmout which we typically record as a reduction of capitalized oil and gas properties. Often, the terms of the farmouts we negotiate require the third party farmee to expend a certain amount toward the exploration and/or development drilling of the property in order to earn an interest in the property. This lessens the demand on our own capital resources to perform the exploration and/or development drilling of the property. Conversely, when and if the property produces revenue, it also reduces our share of such revenue to the extent of the interest farmed out.

**Technology**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We participate in projects utilizing economically feasible exploration technology in our exploration and development drilling activities to reduce risks, lower costs, and more efficiently produce oil and gas. We believe that the availability of cost effective 2-D and 3-D seismic data makes its use in exploration and development drilling activities attractive from a risk management perspective in certain areas.

Briefly, through the use of a seismograph, a seismic survey sends pulses of sound from the surface down into the earth, and records the echoes reflected back to the surface. By calculating the speed at which sound travels through the various layers of rock, it is possible to estimate the depth to the reflecting surface. It then becomes possible to infer the structure of rock deep below the earth's surface. We evaluate substantially all of our exploratory prospects using 2-D seismic data. In addition, we own approximately 12 square miles of 3-D seismic data covering our leasehold and adjacent lands in the Madisonville Project.

The use of seismic technology does not entirely remove the risk of exploration and development drilling of oil and natural gas deposits. It is important to consider the following:

we may not recognize significant geological features due to errors in interpretation, processing limitations, the presence of certain geological environments that are out of our control or other factors; and

seismic generally becomes less reliable with increasing depth of the geological horizon; and

the use of this technology may increase our finding cost over that if it is not used.

### **Principal Products**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our principal products are the production of natural gas and crude oil from properties in which we own an interest. Since our inception, we have realized only limited production of natural gas and crude oil from the properties in which we own an interest. We have working interests in various undeveloped oil and gas properties. See [Properties](#) for a general description of these properties.

During the last three fiscal years, 100% of our revenues have been derived from the sale of natural gas. Substantially all of our natural gas sales, approximately 99%, have been generated by three producing wells, the Magness #1, Fannin #1 and Mitchell #1 wells, located in the Madisonville Field in East Texas. Natural gas produced by the wells is sold at the wellhead where it is delivered to a gathering pipeline and transported to a nearby gas treatment plant where it is treated to remove impurities. The gas is then transported nine miles to one of two common carrier pipelines from which point it is delivered to the greater Dallas, Texas area. The price received for the natural gas is the Houston Ship Channel price index less certain adjustments for the quality of the gas delivered. The adjustments for the quality of gas delivered at the wellsite as well as the gathering and transportation costs presently amount to approximately \$1.73 per Mcf of untreated gas delivered at the wellsite.

For financial information regarding our business activities by segment, please see our Financial Statements beginning on page F-1 of this prospectus. Substantially all of our revenue is produced from natural gas sales in the Madisonville Field located in East Texas.

**Reserves**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our proved reserves will decline as reserves are produced from our properties unless we are able to acquire or develop new reserves.

### **Acquisition of Producing Properties**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We may supplement our exploration efforts with acquisitions of producing oil and gas properties. We may seek to acquire producing properties that are underperforming relative to their potential.

### **Patents, Trademarks, Licenses, Franchises and Concessions Held**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Permits and licenses are important to our operations, since they allow the search for the extraction of any oil, gas and minerals discovered on the areas covered. See [Properties](#) for a general description of the permits and licenses under which we operate. Provided we establish a commercial discovery thereon, the Bengara PSC in Indonesia grants us the right to produce oil and gas from the PSC area until 2027.

### **Seasonality of Business**



Our business is not seasonal.

**Working Capital Items**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The majority of our current assets are in the form of cash and deposits in trust received from the sale of natural gas from our Madisonville Project in Texas and from the sale of common stock in private placements. We are required to use this cash to pay for the cost of our operations and activities. See further, Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Customers**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Substantially all of our revenues to date have been derived from sales by MGP to two customers, Atmos Pipeline-Texas, and ETC Katy Pipeline, Ltd., of natural gas produced from our Madisonville Project in Texas. We have not committed any forward sales of our natural gas. We contract to sell the gas with spot-market based contracts that vary with market forces on a monthly basis. No other customer accounts for in excess of 10% of the company's revenues.

### **Competition**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The natural gas and oil industry is intensely competitive and speculative in all of its phases. We encounter competition from other natural gas and oil companies in all areas of our operations. In seeking suitable natural gas and oil properties for acquisition, we compete with other companies operating in our areas of interest, including large natural gas and oil companies and other

independent operators, which have greater financial resources and in many instances, have been engaged in the exploration and production business for a much longer time than we have. Many of our competitors also have substantially larger operating staffs than we do. Many of these competitors not only explore for and produce natural gas and oil but also market natural gas and oil and other products on a regional, national or worldwide basis. These competitors may be able to pay more for productive natural gas and oil properties and exploratory prospects and define, evaluate, bid for and purchase a greater number of properties and prospects than us. In addition, these competitors may have a greater ability to continue exploration activities during periods of low market prices. Our ability to acquire additional properties and to discover reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

The prices of our natural gas production are controlled by market forces. However, competition in the natural gas and oil exploration industry also exists in the form of competition to acquire leases and obtain favorable transportation prices. We are relatively small and may have difficulty acquiring additional acreage and/or projects and may have difficulty arranging for the transportation of our production. We also face competition in obtaining natural gas and oil drilling rigs and in sourcing the manpower to run them and provide related services.

## **Employees**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Currently, we have 9 employees, all of whom are full time. We use the services of independent consultants and contractors to perform various professional services, including reservoir engineering, land, legal, environmental and tax services. On those properties where we are not the operator, we rely on outside operators to drill, produce and market our natural gas and oil.

### **PROPERTIES**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our principal executive office consists of 2,956 square feet and is located at One Maritime Plaza, Suite 700, San Francisco, CA 94111.

### **Description of the Properties**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our current oil and natural gas exploration, appraisal and development drilling activities are focused in three distinct project areas as follows:

**United States Texas** (onshore East Texas region), **Alaska** (onshore Cook Inlet area) and **California** (onshore San Joaquin basin);

**Canada Alberta** (central Alberta basin);

**Indonesia** onshore East Kalimantan Province; and

We do not fully insure against all business risks either because such insurance is not available or because premium costs are prohibitive. This is a common practice in the oil and gas industry. We believe our property is adequately insured in view of the nature of our operations and industry practices in this regard.

We previously owned an interest in two Australian exploration permits: (1) a 26.22% working interest in Exploration Permit #408 consisting of 200,895 gross (52,675 net) acres, and (2) a 32.588% working interest in Exploration Permit 381, both located in the South Perth basin,

Southwest Australia, consisting of 330,000 gross (107,540 net) acres. On June 20, 2007, we agreed to sell and transfer all of our property interests in Australia to an unrelated party.

*Texas*



*Madisonville Project*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We own and operate the interest in the Madisonville Project in Madison County, Texas. We own working interests in approximately 4,716 gross and net acres of leases in the Rodessa Formation interval, as well as approximately 4,589 gross and net acres of leases as to depths below the Rodessa Formation interval. We also own a license as to 12.5 square miles of 3-D seismic data over the Madisonville Field.

The Madisonville Field, located approximately 100 miles north of Houston, has produced oil and natural gas from four different horizons above the Rodessa Formation for over 50 years. The field was discovered in 1945 with the Boring No. 1 well, which was drilled to the Rodessa Formation. The well blew out at an uncontrolled rate for three days during a test; however, due to hydrogen sulphide, carbon dioxide and nitrogen in the Rodessa Formation natural gas, the gas reserves were never developed. Over 125 wells were drilled in the Madisonville Field to shallower intervals above the Rodessa Formation. In 1994, nearly 50 years after the initial discovery, United Meridian Corporation ( **UMC** ) drilled the Magness Well as the first follow-up well into the Rodessa Formation to the Boring No. 1 well. The Magness Well had 139 feet of net pay but the natural gas was found to contain 28% impurities.

UMC previously production tested the Magness Well in 1994 through perforations in the lower most ten feet of the indicated Rodessa Formation pay interval. The well tested at a rate of 12 MMcf/d from this limited interval on a 22/64ths inch choke with flowing wellhead pressures increasing from 3,915 to 3,919 pounds per square inch. In 2001, we re-entered and recompleted the Magness Well. A total of 139 feet of interval has been perforated in the Rodessa Formation at approximately 12,000 feet of depth for this well. The well was production tested over a 12-day period in 2001 on various choke sizes with flowing rates ranging up to approximately 20.8 MMcf/d. We own a 100% working interest (75.1333% net revenue interest) in the Magness Well located in the surrounding production unit consisting of 629 gross and net acres. The Magness Well commenced production in May of 2003.

The first development well, the Fannin Well, was drilled and completed in 2004. We own a 100% working interest (70.0719% net revenue interest) in the Fannin Well located in the surrounding production unit consisting of 704 gross (704 net) acres. A total of 146 feet of indicated pay was perforated in the well and a flow test of the well was completed in December 2004 from the Rodessa Formation at rates of up to 25.7 MMcf/d. We commenced production from the Fannin Well in early 2006.

In 2006, we drilled the Wilson and Mitchell wells. We own a 100% working interest (70% net revenue interest) in the Wilson and Mitchell wells.

The Madisonville Field is a geologic feature encompassing approximately 4,100 acres at the Rodessa limestone at about 11,800 feet of depth. A 3-D seismic program shot in early 1998 confirmed the size of the structure and slightly increased its size over earlier interpretations.

Our working interest covers the Rodessa Formation at approximately 12,000 feet of depth. The Rodessa reserves are being developed through the recompletion of the Magness Well and the drilling of additional proved and probable undeveloped locations. Production began in May 2003

and stabilized at a rate of 18 MMcf/d of raw gas from the Magness Well. Presently, the Fannin, Mitchell and Magness wells are producing while the Wilson well is shut-in awaiting a fracture stimulation. In addition, we own a working interest in certain leases and farmout rights which cover depths below the Rodessa Formation.

The hydrogen sulphide, carbon dioxide and nitrogen combined comprise about 28% of the gas content. As described below, an unaffiliated third party purchases the untreated natural gas from us at the well site point of delivery for a net price equal to the weighted average price per MMBTU that the third party receives for the natural gas delivered to the sales pipeline less certain gathering, treatment and transportation charges. As a result of the charges, we receive a net price that is substantially lower than we would otherwise receive if the gas did not contain the 28% of impurities. In addition, the high concentrations of hydrogen sulphide and carbon dioxide result in higher capital and operating costs for our wells. For example, the hydrogen sulphide and carbon dioxide are corrosive to the wellbores. This means we have to utilize higher grade specification well tubing and casing which is more expensive than what we would utilize absent the impurities. In addition, we continuously treat the well bores with chemicals designed to inhibit the corrosive effects of the impurities. We also maintain field personnel at or near the wellsites who monitor the wells on a twenty four hour basis and equip the wellsites with extensive safety equipment systems due to the toxic properties of the hydrogen sulphide and carbon dioxide. These factors and others result in higher capital and operating costs for our wells in the Madisonville Project.

*The Madisonville Gas Treatment Plant and Gathering Facilities*





In order to produce the proven gas reserves from the Rodessa Formation, we developed an onsite plan to treat and remove impurities from the Madisonville Project natural gas in order to meet pipeline-quality specifications. On June 15, 2001, we, through our subsidiary Redwood LP, entered into an agreement, which agreement was subsequently amended and restated, together with certain related agreements (collectively, the **Hanover Agreement**), with Hanover pursuant to which Hanover committed to fund, construct and operate a dedicated natural gas treatment plant capable of treating approximately up to 18 MMcf/d of inlet natural gas from the Rodessa Formation. The Hanover Agreement also provided for the installation by Gateway of field gathering pipelines and an approximately nine-mile sales pipeline with an estimated capacity of approximately 70 MMcf/d to transport the Madisonville Field natural gas to a major pipeline. By April of 2003, the construction and installation of Hanover's natural gas treatment plant and Gateway's associated pipeline and gathering facilities were completed. Gas production from the Magness Well commenced in May 2003. We received the first revenues from the sale of natural gas from the Madisonville Project in July 2003.

On July 25, 2005, MGP purchased the natural gas treatment plant from Hanover and purchased the gathering pipelines upstream of the gas treatment plant from Gateway. Concurrent with MGP's purchase of the gas treatment plant and gathering pipelines, we, through our subsidiary Redwood LP, Gateway and MGP terminated the Hanover Agreement and entered into a new agreement, (the **MGP Agreement**), to treat and transport our gas production from the Madisonville Project. As a result of the MGP Agreement, MGP committed to install and make operational additional treating facilities capable of treating 50 MMcf/d, which combined with the capacity of the original treating facilities represent a total treating capacity of 68 MMcf/d for the Madisonville treatment plant.

In early October 2007, MGP completed the additional treating facilities and the additional treating capacity at such facilities is currently being phased in.

The term of the MGP Agreement commenced August 1, 2005 and continues so long as we own any oil and gas leases in the Madisonville Field, provided that it shall terminate on July 31, 2035 unless extended. Under the terms of the MGP Agreement, we have committed all natural gas production from our interest in the Madisonville Project to MGP. MGP purchases the untreated natural gas from us at the well site point of delivery for a net price equal to the weighted average price per MMBTU that MGP receives for the natural gas delivered to the sales pipeline less certain gathering, treatment and transportation charges. The gathering, treatment and transportation price adjustments are described below. All proceeds from MGP's sale of Rodessa Formation gas are deposited in an escrow account and then disbursed in accordance with the joint direction of MGP and ourselves.

The MGP Agreement provides that certain gathering, treating and transportation fees shall be paid to MGP from the escrow account. The MGP Agreement provides that MGP will receive a gathering and marketing fee of \$0.07 and \$0.01 per Mcf, respectively, of gas measured and delivered to the natural gas treatment plant. In addition, for the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, MGP will receive a treating fee of \$1.50 per Mcf. This treating fee will remain in effect until September 30, 2010. For any gas volumes in excess of 18,000 Mcf/d of gas delivered to the inlet flange of the gas treatment plant, MGP will receive a treating fee of \$1.10 per Mcf. Beginning October 1, 2010, this fee of \$1.10 per Mcf shall be charged for all gas measured and delivered to the plant. One-quarter ( $\frac{1}{4}$ ) of the foregoing treating fees are adjusted using the Producer Price Index for Industrial Commodities ( **PPI** ) and one-quarter ( $\frac{1}{4}$ ) using the Consumer Price Index ( **CPI** ). One-half ( $\frac{1}{2}$ ) of the foregoing gathering and marketing fees are adjusted using the CPI. We have the right, upon giving 60 days' notice, to terminate the marketing fee whereupon we shall assume the sole responsibility of marketing the natural gas sold. The **PPI** and the **CPI** are price indices published by the U.S. Department of Labor.

For the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, Gateway will receive a transportation fee of \$0.10 per Mcf. This fee will remain in effect through July 31, 2008. Beginning August 1, 2008 and terminating on July 31, 2010, the fee shall be reduced to \$0.08 per Mcf for the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant. For any gas volumes in excess of 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, Gateway will receive a transportation fee of \$0.12 per Mcf measured and delivered from the outlet flange of the plant. This fee will remain in effect through July 31, 2008 and shall be reduced to \$0.10 per Mcf thereafter. After July 31, 2010, this transportation fee shall be \$0.10 per Mcf for all volumes delivered from the outlet flange of the plant.

The foregoing gathering, treatment and transportation price adjustments are inclusive of all costs and expenses to gather, separate, treat, dehydrate and transport natural gas produced and delivered from our well(s).

Our natural gas deliveries to the Madisonville gas treatment plant may be affected by third party demands for access to the plant. On July 20, 2005 Crimson Exploration Inc. ( **Crimson** ) filed a complaint with the Texas Railroad Commission ( **TRC** ) against Gateway and Hanover. The complaint alleged discrimination by Hanover and Gateway, and requested that the TRC issue an order requiring Hanover and Gateway to ratably process, take, transport, or purchase natural gas produced by Crimson into the Madisonville Field gas treatment plant. The complaint did not allege any wrongdoing by Redwood or Redwood LP; however, the complaint referred to the contractual relationship between each of Redwood LP, Hanover, and Gateway which was terminated July 25, 2005 as the basis for its discrimination complaint. Redwood received a subsequent notice

dated January 13, 2006 from the TRC informing Redwood that (i) Crimson had filed a request to docket its complaint against MGP for failure to ratably take gas pursuant to Texas regulations and (ii) a pre-hearing conference was held on January 25, 2006 relating to the complaint. Redwood withdrew from the proceeding.

On January 23, 2006, our counsel received a letter from counsel for MGP reaffirming that regardless of the outcome of the proceedings before the TRC, MGP nonetheless recognizes that it has a contractual obligation to treat 68 MMcf/d of natural gas produced by Redwood LP and delivered to the treatment plant. After consultation with legal counsel, we believe that our contract with MGP is fully enforceable.

On August 9, 2006, the Texas Railroad Commission issued an order requiring MGP to ratably process, take, transport or purchase natural gas produced by Crimson into the Madisonville gas treatment plant. The gas treatment plant is currently operating at capacity. There is no guarantee that we will be able to obtain full access to treatment capacity of up to 68 MMcf/d once the additional treating capacity of the gas treatment plant is phased in because, for example, Crimson now has the right to have its natural gas treated at the plant, which may reduce the plant's ability to treat all of our natural gas, unless the plant's capacity is further expanded.

To date, Crimson has permitted four wells to be drilled to the Rodessa Formation. The drilling of two of these wells has been completed to a depth of approximately 12,635 feet. One of these wells has been placed on production. Crimson has also drilled an injection well for disposal of waste products resulting from the treatment of their natural gas.

We committed to a three-well drilling program to facilitate the expansion of the gas treatment plant. We have drilled two of the three required wells to the Rodessa formation. The commitment requires us to commence the drilling of the third well sufficient to test the Smackover Formation (estimated to be encountered at approximately 18,000 feet) on or before September 30, 2008. We estimate the 18,000 foot well will cost \$10 million to drill and complete. We have granted MGP a security interest in the Madisonville Field properties to secure the three well commitment. The security interest shall be subordinated to any third party lender in the event we secure future debt against the property. MGP has granted us a similar security interest in the gas treatment plant to secure its obligation to expand the treatment plant on a timely basis.

*Other Interests in the Madisonville Project*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our working interest in the Madisonville Project is subject to a net profits interest in favor of the third party that sold us our working interests in the Madisonville Project. The net profits interest is 12.5% (proportionately reduced to our interest) of the net operating profits until payout is achieved. After payout, the net profits interest increases to 30% (proportionately reduced to our interest). Payout, for purposes of the net profits interest, is defined and achieved at such time as we have recouped from net operating cash flows our total net investment in the Madisonville Project plus a 33% cash on cash return.

*Alaska*









## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We entered into an agreement with Pioneer Oil Company, Inc. ( **Pioneer** ) dated April 20, 2005, wherein we secured the Cook Inlet Option to acquire a 100% working interest, 81% net revenue interest, in approximately 122,174 acres onshore in Cook Inlet, Alaska. We have since acquired 5,368 additional acres. We believe this acreage to be prospective for both coal bed methane and conventional gas production.

The 122,174 acre lease position consists of two separate target areas that have been selected for exploration. These areas are called the Point MacKenzie and Trading Bay Prospects, respectively.

The Point MacKenzie Prospect is located six miles northwest of Anchorage. The Trading Bay Prospect is located 50 miles west of Anchorage across the Cook Inlet. The Cook Inlet basin contains a thick section of terrestrial Tertiary rocks which includes shales, sandstones, and coals. The coals occur in seams which are commonly 20 feet thick and can be as thick as 70 feet. Accessible onshore areas have 200 to 300 feet of coal shallower than 5,000 feet. Gas content for these coals ranges from 80 to 250 standard cubic feet per ton, but testing is restricted to a very small number of bore holes and is almost completely unknown for most of the inlet.

Markets for natural gas in the Cook Inlet area include power generation, heating, fertilizer production and liquefied natural gas exports. An extensive pipeline system supplies these facilities and crosses the Point MacKenzie Prospect and Trading Bay Prospect lease blocks. These pipelines are only partially filled with gas and could accommodate additional production.

In addition to coal bed methane reserve potential, preliminary log analysis indicates the Point MacKenzie Prospect and Trading Bay Prospect lease blocks may also contain conventional accumulations of natural gas reserves in Tertiary sandstones.

The terms of the Cook Inlet Option provide for us to pay total consideration of \$20 per acre, or approximately \$2.3 million, for the leases. The Cook Inlet Option provides that we will pay the total lease consideration in two installments. We paid the first installment totaling \$1,068,063 on August 17, 2005 and we have received assignment of the 100% working interest in the leases. Within three years from the date of receipt of legally sufficient assignment of the 100% working interest in the leases, we have the option to conduct a \$2.5 million work program consisting of, but not limited to, a multiple test well drilling program on the leases over a three-year period, and, after completion of the work program and an evaluation of the results, to remit the final additional acreage consideration of \$10 per acre for the leases. The Cook Inlet Option provides that if we fail to pay the lease consideration when due, fail to perform the work program or otherwise default under the Cook Inlet Option, we shall forfeit our interest and reassign the leases to Pioneer, and we will have no further liability to Pioneer.

Approximately one to two miles of pipeline will be required to tie in any wells drilled at a currently preferred location at the Point MacKenzie Prospect, and approximately four to five miles of the pipeline will be required to tie in any wells drilled at a currently preferred location at the Trading Bay Prospect. We have not yet prepared an estimate of the cost to tie these wells in.

We are aware of two major pipelines which transverse the acreage blocks, the Enstar 20 line and the UnoCal-Marathon 16 line. We estimate the UnoCal-Marathon 16 line presently has available unused capacity of approximately 40 MMcf/d. In addition, we estimate the Enstar 20 line has available unused capacity of approximately 100 MMcf/d.

*California*



*Lokern Project*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We have a working interest in the Lokern Project, located in the southern San Joaquin basin, near Bakersfield, California. The primary exploration objective is the Miocene Stevens formation. The secondary objectives include the Miocene Reef Ridge and Pliocene Etchegoin sands. The Stevens formation is Upper Miocene age.

The Lokern Project is being developed in part as a result of positive results from the Machii-Ross Ackerman show well drilled in 1979 on acreage currently controlled by us. Based on log analysis, we believe that well had approximately 240 feet of potential net oil pay and an additional 150 feet of potential pay in the Stevens zone. The Machii-Ross Ackerman well was drilled to a depth of 15,078 feet by Machii-Ross Petroleum Company and was plugged and abandoned as a dry hole. We believe, based on our log analysis, that the well may have been a bypassed producer.

We expect that a well will be drilled, either by us or through a farmout arrangement with a third party, to a depth of 15,000 feet by 2008.

Based on our review of title information from public authorities and other publicly available sources, we believe that we have a 100% working interest in the Lokern Project. As is customary in the U.S. oil and gas industry, we will not conduct a thorough title review with respect to our interest in the Lokern Project until we have made a definitive decision to drill in a particular lease area.

*Alberta*





*Goodwin Prospect*

On June 21, 2007, we, through our wholly-owned subsidiary, GeoPetro Canada, entered into a participation agreement wherein we acquired a 50% non-operated working interest in the Goodwin Prospect, which is located in the Central Alberta Basin, Canada. A total of 12,000 acres can be earned by us through the drilling of wells. The primary exploration objective is the Lower Cretaceous Falher formation and the lower Jurassic Nordegg formation. Deeper Mississippian and Devonian leads have also been identified on 3-D seismic.

Subsequent to June 30, 2007, the Company has advanced US \$494,677 to be applied toward the drilling and completion of the first well in the prospect, the Nexstar Goodwin 16-19-58-12 Well. This well has been drilled to a total depth of 6,200 feet and production casing has been set. We have production tested this well and determined that it is non-commercial. We plan to plug and abandon this well.

*Other Central Alberta Projects*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our other Canadian project is located in Alberta, Canada, approximately 100 miles northeast of Calgary. The primary exploration objective is Leduc D3 Pinnacle Reefs. A Leduc D3 Pinnacle Reef refers to a certain type of reef complex within the Leduc formation. Secondary objectives will include the shallower Nisku formation and deeper Winnipegosis formation.

These formations are expected to be encountered at depths of less than 10,000 feet. We, through our wholly-owned subsidiary, GeoPetro Canada, have acquired seismic data and plan to participate in the drilling of test wells.

We have a 56.25% working interest in 2,560 leased acres.

*Indonesia*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

C-G Bengara owns 100% of the underlying rights to explore for and produce oil and natural gas within the contract area designated as the Bengara II Block, which rights have been granted under a production sharing contract dated December 4, 1997 (the **Bengara II PSC**) with Pertamina. Until recently, we owned 40% of CG Bengara and Continental Energy Corporation (Continental) owned the remaining 60% and, through it, the rights to the Bengara II PSC. On September 29, 2006, we executed a definitive agreement to sell 70% of our interest in C-G Bengara to CNPCHK (Indonesia) Limited (CNPC). We have retained a 12% stake in C-G Bengara and the Bengara II PSC. Continental has likewise sold its interest and retained an 18% interest in C-G Bengara and the Bengara II PSC.

The Bengara Block is located in the Tarakan Basin, mostly onshore but partially offshore astride the Bulungan River Delta in the Indonesian province of East Kalimantan. It originally covered a single contiguous area of approximately 1.2 million gross acres, of which 300,000 gross acres were relinquished in 2001 by C-G Bengara in accordance with the terms of the Bengara II PSC. A portion of our holdings in Indonesia was scheduled to be relinquished effective December 3, 2005. We have requested a postponement of the relinquishment from BP Migas; however, if the postponement is not granted, then a further 300,000 gross acres will be relinquished.

Geologically, the Bengara Block lies in the Tarakan Basin near major oilfields at Tarakan and Bunyu. More than 320 MMbbls and 96 bcf of natural gas have been produced from the Tarakan Basin according to records maintained by BP Migas. The Tarakan Basin is one of five sedimentary basins making up eastern Borneo on the eastern margin of the broad area of Southeast Asia and are some of the deepest in Indonesia, with seismic surveys indicating depths greater than 20,000 feet in the Tarakan Basin southeast of Bunyu Island.

*The Makapan Gas Field*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Since 1938, only two wells have been drilled in the Bengara Block, one of which resulted in the discovery of the Makapan Gas Field. The Muara Makapan No. 1 well was drilled in 1988 by P.T. Deminex Indonesia from a swamp barge positioned on one of the Bulungan River Delta mouth channel distributaries. The well was drilled to a total depth of 10,800 feet and tested 19.5 million cubic feet of gas per day together with 600 bbls of 54 degree API condensate per day from a 33 feet thick sandstone section near 6,000 feet. The well was plugged and abandoned as a natural gas discovery. Several other gas zones indicated on logs were not tested. The well was not produced nor were any confirmation wells drilled due to the lack of a local natural gas market at the time the well was drilled. The Makapan Gas Field gas is a Wet gas with a high LPG fraction which may be commercial to extract at the wellhead for a third revenue source in addition to the gas and condensate. The Makapan Gas Field lies mostly offshore in very shallow water, less than 10 feet, amidst numerous islands of the Bulungan River Delta.

*Exploration in the Bengara Block*





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We believe that the key to successful prospecting in the Bengara Block will be the identification of traps and understanding sand distribution.

A striking feature of the Bengara Block is the presence of a few old wellbores actively leaking oil into surface lakes. Site investigations with a wireline unit are planned to determine the depths of the existing wellbores and obtain rock and oil samples at depth if possible.

Nearly 2,200 line kilometres of 2-D seismic data available within the Bengara Block appear to be adequate for both detailed and reconnaissance interpretation purposes. Some localized areas may benefit from reprocessing. New seismic data is required in places where insufficient data exists and for prospect confirmation in other locations. Field geology surveys are expected to confirm initial drilling targets without the need for additional seismic data at this time.

Several separate and unique geologic plays within the Bengara Block as well as a number of prospects and leads have been identified. Some well-defined prospects present immediate drilling targets. Exploration within the Bengara Block is in its formative stages and it is premature to make meaningful resource or reserve estimates. However, the existing exploration work to date indicates that there may be potential petroleum accumulations in the Bengara Block. Analysis of source rocks indicates a propensity for both oil and natural gas.

*Terms of Participation in the Bengara Block*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The Bengara II PSC is a standard terms PSC employed by BP Migas for all oil and natural gas concessions in Indonesia. Generally, the joint venture participants are entitled to receive, from production proceeds, 100% of expenditures in the block as cost recovery. Once these costs are recovered, C-G Bengara is entitled to a production share of approximately 26.7% of oil produced and 62.5% of all natural gas produced. We will be entitled to 12% of C-G Bengara's share of any such production. Sharing terms for certain categories of oil vary slightly as defined in the Bengara II PSC.

The term of the contract is thirty years or a shorter period if C-G Bengara elects to terminate its obligations under the contract or if no commercial hydrocarbons are discovered within the contract area. At the end of six years, unless mutually extended by C-G Bengara and BP Migas, the contract expires if no commercially producible hydrocarbons have been discovered in the contract area.

C-G Bengara and BP Migas have mutually extended the early termination provisions until December 3, 2008. C-G Bengara may terminate the contract at any time by relinquishing all of its rights and obligations under the contract area.

C-G Bengara is required to relinquish 25% of the contract area within the first three years of the contract, a further 25% of the contract area within six years from the commencement of the contract and an additional area within the first ten years so that the area retained thereafter shall not be in excess of 970 square kilometres, or 20% of the original total contract area, whichever is less. C-G Bengara may designate which areas are to be relinquished subject to approval by BP Migas. C-G Bengara's obligation to relinquish parts of the original contract area under these provisions does not apply to the surface area of any field in which petroleum has been discovered. In 2001, C-G Bengara relinquished approximately 300,000 gross acres of the original 1.2 million gross acre contract area pursuant to the requirement to relinquish 25% of the contract area within the first three years of the PSC. The 300,000 gross acres relinquished were located in the western portion of the block which C-G Bengara considered to be the least prospective for oil and natural gas. C-G Bengara was required to relinquish an additional 25% of the contract area in December 2005. However, C-G Bengara received a one-year postponement of the relinquishment until December 3, 2006 from BP Migas. We have since tendered an additional 25% relinquishment comprising approximately 300,000 gross acres which we consider to be less geologically prospective than the remaining 600,000 acres. The relinquishment is pending approval by BP Migas.

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

C-G Bengara is required to pay to BP Migas specified amounts based on achieving certain cumulative production quantities of crude oil from the contract area when and if commercial production is established. These production bonuses are as follows:

Cumulative Production	Cash Bonus Due	
25,000,000 boe	\$	500,000
60,000,000 boe	\$	1,500,000
100,000,000 boe	\$	2,500,000

In order to maintain the Bengara II PSC in effect, C-G Bengara is required to complete the following work programs and expenditures during the first ten years of the contract, unless the requirement is extended or waived by BP Migas:

Contract Year	Work Program	Amount	Our 12% Share
1998	Geologic and geophysical studies	\$ 500,000	\$ 60,000
1999	Seismic reprocessing	500,000	60,000
2000	Drill two wells	6,000,000	720,000
2001	Geologic and geophysical studies	1,000,000	120,000
2002	Drill one well	5,000,000	600,000
2003	Acquire seismic	3,750,000	450,000
2004	Drill one well	5,250,000	630,000
2005	Evaluate well results	1,000,000	120,000
2006	Geologic and geophysical studies	1,000,000	120,000
2007	Geologic and geophysical studies	1,000,000	120,000
	<b>TOTAL</b>	<b>\$ 25,000,000</b>	<b>\$ 3,000,000</b>

To date, C-G Bengara has not fulfilled the minimum work and cash expenditure requirements described above. These work and expenditure requirements were extended by BP Migas until December 2006 and an additional deferral until December 2007 has been requested. In accordance with the terms of the contract and with BP Migas' consent, C-G Bengara may carry forward such yearly commitments to subsequent periods provided that BP Migas consents to any additional extensions. Failure of C-G Bengara to pay such commitments when due or to farm out its interest to an industry partner, which pays such obligation, may result in the forfeiture of its interest in, and rights to explore, drill and develop, the Bengara Block.

Upon establishing commercial production, if ever, C-G Bengara and BP Migas shall share ratably in the first 20% of oil and natural gas produced in the contract area within a given year according to the percentages specified below. After the first 20% of production, C-G Bengara is entitled to receive 100% of production until cost recovery has been achieved. Cost recovery generally includes 100% of the operating and drilling costs and depreciation of fixed assets applicable to oil and natural gas operations within the contract area. After C-G Bengara has received oil and natural gas production with a value sufficient to achieve cost recovery in a given year, C-G Bengara and BP Migas shall then share ratably in the production according to the percentages specified below:

Description	BP Migas	C-G Bengara	Our net share
Oil production	73.2143%	26.7857%	3.2143%
Gas production	37.5%	62.5%	7.5%

Thus, once we have achieved cost recovery, we will end up receiving approximately 3.2% and 7.5% of the proceeds from the sale of oil and gas, respectively.



Upon the completion of five years after commercial production commences, C-G Bengara is further subject to a domestic market obligation. This obligation requires C-G Bengara to sell and deliver to BP Migas, to meet Indonesia's domestic crude oil needs, a specified quantity of crude oil at a price which is only 15% of the market price of the oil. However, for new fields, for a period of five years starting on the month of the first delivery of crude oil produced from a new field, the fee per barrel for such crude oil supplied to the Indonesian domestic market shall be the market price, with the condition that the excess over the 15% of market price shall preferably be used to assist financing of continued exploration efforts in the contract area.

Upon the first commercial discovery of oil or natural gas in the contract area, BP Migas has the right to demand that 10% of C-G Bengara's undivided interest in the total rights and obligations under the Bengara II PSC be offered to itself or an entity owned by Indonesian nationals. The 10% interest shall be offered at a dollar amount equal to 10% of C-G Bengara's cumulative costs incurred in the contract area.

C-G Bengara is subject to work commitments, as previously described under "Terms of Participation in the Bengara Block", for the ten-year period ended December 3, 2007 requiring total expenditures of \$25 million. As of July 31, 2007, C-G Bengara had met approximately \$12.8 million of the \$25.0 million required expenditures, leaving an approximate \$12.2 million shortfall. BP Migas, the applicable governing authority, has granted a deferral of the prior years' commitments until December 2007. We expect to receive additional deferrals, if needed, beyond December 3, 2007.

*Current and Planned Activities in the Bengara Block*





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

In accordance with the terms of our agreement dated September 29, 2006 to sell 70% of our interest in C-G Bengara to CNPC, CNPC has:

1. Purchased 14,000 and 21,000 shares of C-G Bengara from us and Continental, respectively, at a cost of \$1 per share. As a result of the transaction, we and Continental own 6,000 and 9,000 C-G Bengara shares, respectively, retaining a 12% and 18% interest in C-G Bengara, respectively.
  
2. Paid the sum of \$18.7 million (the **Earning Obligation** ) into a special joint venture account at a Hong Kong international bank. The funds will be under joint signature control of CNPC, ourselves and Continental, and are being expended exclusively to pay for 2006 and 2007 exploration and/or appraisal drilling in the Bengara II PSC area.
  
3. Agreed to provide development loans to pay 100%, and thereby carry our share and Continental's share of all C-G Bengara's exploitation, drilling, and development expenditures attributable to the Bengara II PSC, after the Earning Obligation funds are expended, until an additional amount of U.S. \$41.3 million over and above the Earning Obligation funds has been expended.
  
4. Agreed to pay a cash bonus totaling \$5,000,000, in the proportions of \$2,000,000 to us and \$3,000,000 to Continental, respectively, contingent upon and within fourteen business days of the receipt by C-G Bengara of the written approval from governmental authorities approving the development of the first commercial oil or gas discovery within the Bengara II PSC contract area.

The Earning Obligation funds of \$18.7 million, together with the \$6.3 million previously spent as of September 29, 2006, will satisfy all of the past and future work commitments on the Bengara II PSC.

BP Migas previously waived the work program expenditure requirement provisions of the Bengara II PSC until December 2007. If we do not satisfy our work expenditure commitments by December 2007, and if BP Migas does not grant any further deferrals of those commitments, we may be compelled to relinquish our interest in the contract area. In the event we relinquish our interest, we will record an impairment expense equal to the costs which have been capitalized in connection with the contract area. As of June 30, 2007 we have capitalized costs totaling approximately \$879,000 in respect to the contract area.

C-G Bengara recently revised and accelerated its 2007 drilling program for the Bengara II PSC. The revised plan filed with Indonesian authorities increases the drilling program for 2007 from a total of four new exploration wells to a total of six new wells, two of which are classified as exploration wells and four of which are classified as appraisal wells.

Drilling on the company's first 2007 Bengara II PSC well, the Seberaba-#1, commenced in April 2007. Drilling on Seberaba #1 was terminated short of the planned 13,123 feet total depth after having reached a total depth of 9,665 feet. A 7" liner was set at 9,570 feet in the third sidetrack after the original hole and first two sidetrack holes were compromised due to encountering a zone of overpressure below 9,612 feet. A workover rig has arrived on location and will be deployed on the Seberaba-#1 to conduct a planned extensive formation flow testing program based on oil shows encountered in the drill cuttings and identified on well logs in sandstones below 6,500 feet.

A second drilling rig contracted by the company arrived in the Bengara II PSC in August and has commenced drilling on the Sebaraba #4 appraisal well, the second well of the planned six well program in 2007. The Sebaraba #4 well is approximately 1.5 miles southeast of the Sebaraba #1 well. The Seberaba-#4 is the first of 3 planned appraisal wells to further evaluate the seismically identified Seberaba structure. Drilling of the Seberaba-#4 is planned to a total depth of 9,186 feet.

The drilling rig used to drill the Seberaba #1 wildcat exploration well has been moved to the Seberaba #3 appraisal well location, the third well of the planned six well program in 2007. The Seberaba #3 well is located approximately 1.4 miles northwest of the Seberaba #1 well and approximately 3 miles northwest of the Seberaba #4 well. Drilling of the Seberaba-#3 is planned to a total depth of 9,186 feet.

A third rig has been transported to the Bengara II PSC to expedite the completion of the 2007 drilling program.

*CG Xploration*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

In November 2005, we and Continental formed CG Xploration to pursue new venture oil and gas exploration and production projects and obtain new exploration concessions in Indonesia. CG Xploration Inc. is incorporated in Delaware and is owned 50% by us and 50% by Continental. CG Xploration Inc. will actively pursue and may acquire new venture opportunities on behalf of ourselves and Continental. To date, CG Xploration has made no acquisitions.

### **Natural Gas Reserves**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our estimated total net proved reserves of natural gas and oil as of December 31, 2006, 2005 and 2004, and the present values of estimated future net revenues attributable to those reserves as of those dates, are presented in the following tables.

**Proved developed oil and gas reserves** means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

**Proved developed nonproducing reserves** means reserves expected to be recovered from zones behind casing in existing wells.

**Proved oil and gas reserves** means estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following:

(A) oil that may become available from known reservoirs but is classified separately as indicated additional reserves ;

(B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;



(C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and

(D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

**Proved undeveloped reserves** means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other

**undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimate for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.**

The 2006 estimates were prepared by MHA Petroleum Consultants, independent reservoir engineers, and are part of their reserve reports on our natural gas and oil properties. The 2005 and 2004 estimates were prepared by Sproule Associates Inc., independent reservoir engineers, and are part of their reserve reports on our natural gas and oil properties. MHA Petroleum Consultants and Sproule Associates Inc.'s estimates were based on a review of geologic, economic, ownership and engineering data that we provided. In estimating the reserve quantities that are economically recoverable, MHA Petroleum Consultants and Sproule Associates Inc. used end-of-period natural gas and oil prices. In accordance with U.S. Securities and Exchange Commission regulations, no price or cost escalation or reduction was considered. All of our proved reserves are attributable to our Madisonville Project in Madison County, Texas.

	AS OF DECEMBER 31,		
	2006 (MMcf)	2005 (MMcf)	2004 (MMcf)
Proved developed	12,235	4,645	4,448
Proved developed non-producing	12,365	8,903	7,037
Proved undeveloped		7,880	6,923
Total	24,600	21,428	18,408

In accordance with Securities and Exchange Commission regulations, estimates of our proved reserves and future net revenues are made using sales prices estimated to be in effect as of the date of such reserve estimates and are held constant throughout the life of the properties, except to the extent a contract specifically provides for escalation. Estimated quantities of proved reserves and future net revenues therefrom are affected by natural gas and oil prices, which have fluctuated significantly in recent years. We filed a report with the U.S. Department of Energy in July 2007 that included total proved reserves inclusive of royalties and net profits interests as of December 31, 2006 totaling 43,517 MMcf. The total net proved reserves, excluding royalties and net profits interests, as of December 31, 2006 was 24,600 MMcf. The difference between the two numbers represents proved reserves attributable to royalties and net profits interests. We filed a report with the Alberta Securities Commission on March 30, 2007 that included total proved reserves inclusive of royalties and net profits interests as of December 31, 2006 totaling 43,517 MMcf. The total net proved reserves, excluding royalties and net profits interests, as of December 31, 2006 was 24,600 MMcf. The difference between the two numbers represents proved reserves attributable to royalties and net profits interests.

*Standardized Measure of Discounted Future Net Cash Flows*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year-end prices to estimated annual future production from proved gas reserves. The average year-end prices for gas were as indicated below. Future development drilling and production costs were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income tax expenses were computed by applying, generally,

year-end statutory tax rates (adjusted for permanent differences, tax credits and allowances) to the estimated net future pre-tax cash flows. The discount was computed by application of a 10% discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results.

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(in thousands)		
Future cash inflows	\$ 101,867	\$ 162,459	\$ 90,815
Future production costs	(37,783)	(60,176)	(30,240)
Future development costs	(1,074)	(6,560)	(4,860)
Future income taxes	(8,128)	(18,941)	(9,609)
Future net cash flows	54,882	76,782	46,106
10% annual discount	(8,341)	(13,293)	(8,455)
Standardized measure of discounted future net cash flows	\$ 46,541	\$ 63,489	\$ 37,651

*Pricing Assumptions*

SEC regulations require that the gas and oil prices used in the MHA Petroleum Consultants and Sproule Associates Inc. reserve reports included herewith are the period-end prices for natural gas at December 31, 2006, 2005 and 2004, respectively. These prices are projected without inflation for the life of the wells included in the reserve reports. The pricing assumptions are listed below:

2006 REPORT Gas (\$ /MMBtu)	AVERAGE YEAR-END PRICE		
	2005 REPORT Gas (\$ /MMBtu)	2004 REPORT Gas (\$ /MMBtu)	
\$ 5.40	\$ 7.80	\$ 5.20	

**Drilling Activities**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following indicates the number of natural gas and oil wells drilled during the periods indicated.

	Productive		Dry		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
<b>Year ended December 31, 2006</b>						
Exploratory	0	0	0	0	0	0
Development	2	2	0	0	2	2
<b>Year ended December 31, 2005</b>						
Exploratory	0	0	0	0	0	0
Development	0	0	0	0	0	0
<b>Year ended December 31, 2004</b>						
Exploratory	0	0	1	0.75	1	0.75
Development	1	1	0	0	1	1



**Acreage and Productive Wells**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table sets forth our ownership interest in undeveloped acreage, developed acreage and productive wells in the areas indicated where we own a working interest as of December 31, 2006. Gross represents the total number of acres or wells in which we own a working interest. Net represents our proportionate working interest resulting from our ownership in gross acres or wells. Productive wells are wells in which we have a working interest and that are capable of producing natural gas or oil. Wells that are completed in more than one producing horizon are counted as one well.

	Undeveloped Acreage		Developed Acreage		Producing Wells		Non-Producing Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Indonesia	900,000	108,000						
Australia(1)	530,896	160,216					2	0.52
Texas	3,383	3,383	1,333	1,333	2	2.00	4	3.02
California	1,280	1,280						
Alaska	122,174	122,174						
<b>Total</b>	<b>1,557,733</b>	<b>395,053</b>	<b>1,333</b>	<b>1,333</b>	<b>2</b>	<b>2.00</b>	<b>6</b>	<b>3.54</b>

---

(1) Subsequent to December 31, 2006, we sold all of our interests in Australia to an unrelated party.



The following table sets forth as of December 31, 2006, the expiration periods of the gross and net undeveloped acreage:

	United States		Undeveloped Acreage Indonesia		Australia(1)	
	Gross	Net	Gross	Net	Gross	Net
Twelve months ended						
December 31, 2007	2,135	2,135	900,000	108,000		
December 31, 2008	123,691	123,691			530,896	160,216
December 31, 2009	526	526				
December 31, 2010	44	44				
December 31, 2011 and later	441	441				
Total	126,837	126,837	900,000	108,000	530,896	160,216

(2) Subsequent to December 31, 2006, we sold all of our interests in Australia to an unrelated party.



**Volumes, Prices and Production Costs**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Substantially all of our production is derived from our Madisonville Project in Madison County, Texas. The following table sets forth information with respect to our production volumes, average prices received and average production costs for the periods indicated:

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
<b>Production:</b>			
Natural gas (MMcf)	2,229	1,991	2,317
Natural gas (MMcfd)	6.11	5.46	6.35
<b>Average Sales Prices (1)</b>			
Natural gas (\$per Mcf)	\$ 3.01	\$ 4.01	\$ 2.51
<b>Lease Operating Expense</b>			
(\$per Mcf)	\$ 0.72	\$ 0.44	\$ 0.34

---

(1) Represents sales price realized net of treatment costs.

**Business Risks and Other Special Considerations**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Refer to Risk Factors on page 5 of this prospectus for a discussion of business risks and other special considerations.

### **LEGAL PROCEEDINGS**



*Litigation*

From time to time, we are party to litigation or other legal and administrative proceedings that we consider to be a part of the ordinary course of our business. Currently, we are not involved in

any legal proceedings nor are we party to any pending or threatened claims that could, individually or in the aggregate, reasonably be expected to have a material adverse effect on our financial condition, cash flow or results of operations.

*Crimson Complaint*





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Please see the discussion regarding Crimson Exploration Inc.'s complaint against Gateway Processing Company and Hanover Compression Limited Partnership regarding gas deliveries to the Madisonville Field gas treatment plant set forth in the Properties section under the heading Texas Madisonville Project The Madisonville Gas Treatment Plant and Gathering Facilities.

### **MANAGEMENT**



**Directors and Executive Officers**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table sets forth information, as of October 30, 2007 about our directors and executive officers.

<b>Name</b>	<b>Age</b>	<b>Position with GeoPetro(1)</b>
Stuart J. Doshi	62	Director, Chairman, President and Chief Executive Officer
David V. Creel	68	Director and Vice President of Exploration
J. Chris Steinhauser	48	Director, Chief Financial Officer, Principal Accounting Officer and Corporate Secretary
Kevin M. Delehanty	50	Director
Thomas D. Cunningham(2)(3)	58	Director
David G. Anderson(2)(3)	54	Director
Nick DeMare(2)(3)	52	Director



Notes:

(1) Each of the directors has been appointed to hold office until the next annual meeting of shareholders or until their successor is duly elected or appointed, unless their office is earlier vacated. Our bylaws permit the Board itself to fill vacancies and appoint additional directors, subject to shareholder approval at the next annual meeting. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of shareholders and until their successors have been elected and qualified. Our bylaws currently authorize a minimum of four and a maximum of seven directors to serve on the Board of Directors. We have held one special meeting of our shareholders.

(2) Member of the Audit Committee.

(3) Independent, in accordance with the rules of the American Stock Exchange.

**Stuart J. Doshi.** Mr. Doshi has been actively engaged in the oil and gas business since 1970. Mr. Doshi began his oil and gas career with Natomas Company in 1970. He held various positions of increasing responsibility in planning, corporate development and financial management with Natomas. After leaving Natomas in 1985, Mr. Doshi served as a Senior Vice President of Energy Sources Group until 1988. Mr. Doshi then served as Vice President of Pan Pacific Petroleum, Inc. from 1988 to 1991. Immediately prior to forming GeoPetro, Mr. Doshi was the Managing Director of Sierra Overseas Corporation. Mr. Doshi founded GeoPetro in 1994 and has served as a director and our President and Chief Executive Officer since our inception and as Chairman of the Board

since March 1998. Mr. Doshi is a graduate of the University of San Francisco with a Bachelor's Degree in Finance and the University of California, Santa Barbara with a Master's Degree in Economics.

**David V. Creel.** Mr. Creel has 41 years oil and gas experience as a petroleum exploration geologist. Mr. Creel held various geological and supervisory positions in Libya during his eleven-year career with AMOSEAS (the operator for CALTEX Petroleum). Mr. Creel was also the Exploration Manager of the Rocky Mountain Region and Canada for Ladd Petroleum Company; Exploration Manager of the Rocky Mountain Region for Kilroy Company of Texas; and President of Aztec Resources Corporation. Since 1995, Mr. Creel worked as an independent geologic consultant and in June 1998 he joined GeoPetro in his current role as Vice President of Exploration. Mr. Creel has served as a director of GeoPetro since October 2001. Mr. Creel is a graduate of the University of Notre Dame with a Bachelor's degree in Geology and the University of Tulsa with a Master's degree in Geology.

**J. Chris Steinhauser.** Mr. Steinhauser is an accountant with 23 years of experience in the energy and financial services industries. Mr. Steinhauser began his career with Peat, Marwick, Mitchell & Co. from 1981 through 1984. From September 1987 through January 1998, Mr. Steinhauser was employed by Sharon Energy Ltd. and Sharon Resources, Inc., its operating subsidiary, ultimately serving as Executive Vice President and Chief Financial Officer of the parent and President, Chief Operating Officer and Director of the subsidiary. From January 1998 until June 2000 Mr. Steinhauser was employed by Beta Oil & Gas, Inc. as a director and Chief Financial Officer where his primary activities included Beta's initial public offering and listing on the NASDAQ National Market System, business development and corporate acquisitions. Mr. Steinhauser joined GeoPetro in June 2000 as its Chief Financial Officer and Vice President of Finance. Mr. Steinhauser has served as a director of GeoPetro since October 2001. Mr. Steinhauser is a graduate of the University of Southern California with a Bachelor's degree in Business and conducted graduate studies at the University of Denver Graduate Tax Program and was a certified public accountant.

**Kevin M. Delehanty.** Mr. Delehanty has 22 years of experience in the commercial real estate business. Mr. Delehanty is currently a Senior Vice President with Colliers International Inc., an international real estate services firm. Prior to joining Colliers in March of 1996, Mr. Delehanty founded and operated Delehanty Commercial Brokerage (a sole proprietorship), a company which specialized in real estate leasing and investment transactions. Mr. Delehanty began his real estate career as a land specialist with Hayden & Smith Co. of Dallas, Texas. Mr. Delehanty has served as a director of GeoPetro since August 1997. Mr. Delehanty is a graduate of Southern Methodist University with a Bachelor's degree in Business Administration and a Bachelor's degree in Fine Arts.

**Thomas D. Cunningham.** Mr. Cunningham has 31 years of experience in general management, with expertise in mergers and acquisitions, foreign exchange, sales, financial analysis and personnel management. Since January 2003, he has served as Senior Vice President of OfficePower L.L.C., a privately owned company in the distributed generation business. Prior to joining OfficePower L.L.C., Mr. Cunningham served as Executive Vice President and Chief Financial Officer of Microban International, Ltd., a seller and licensor of branded additives from 2000 to 2003. From 1997 to 2000, Mr. Cunningham was a member of the Board and Executive Vice President of EMCOR Group, Inc. Prior to EMCOR, Mr. Cunningham was with Swiss Army Brands Inc. from 1994 to 1997, where he served on the Board of Directors and as Executive Vice President and Chief Financial Officer. Prior to that position, Mr. Cunningham spent 21 years with





J.P. Morgan & Co., in various positions of increasing responsibility and last served as Managing Director in the Corporate Banking Group. Mr. Cunningham has served as a director of GeoPetro since April 2000. Mr. Cunningham is a graduate of Harvard College with a Bachelor's degree in Economics and Columbia University with a Master's degree in Business Administration.

*David G. Anderson.* Mr. Anderson is a Senior Vice President and director of Dundee Securities Corporation where he has managed the firm's investment banking and capital markets activities since 1998. Mr. Anderson began his career with the National Energy Board of Canada in 1976 and later was employed by Amoco Production Company from 1978 to 1986 in its Calgary, Chicago and Houston offices. In 1987, Mr. Anderson returned to Canada with Midland Doherty and later joined BBN James Capel where he was the Managing Director from 1988 to 1995. From 1995 to 1998, Mr. Anderson was a partner and Managing Director with another investment dealer, Loewen, Ondaatje, McCutcheon Limited. Mr. Anderson has served as a director of GeoPetro since March 2006. Mr. Anderson is a graduate from the University of Manitoba with a Master's degree in Business Administration and Bachelor's degree in Arts.

*Nick DeMare.* Mr. DeMare is a member in good standing of the Institute of Chartered Accountants of British Columbia. Since May 1991, Mr. DeMare has been the President of Chase Management Ltd., a private company which provides a broad range of administrative, management and financial services to private and public companies engaged in mineral exploration and development, gold and silver production, oil and gas exploration and production and venture capital. Mr. DeMare indirectly owns 100% of Chase Management Ltd. Mr. DeMare currently serves as an officer and director of the following public companies: Rochester Resources Ltd., a mineral interest acquisition and exploration company, Centrasia Mining Corp., a base and precious metal exploration company, Halo Resources Ltd., a mineral exploration company, and Tumi Resources Limited, a mineral exploration company, each of which trades on the OTC Bulletin Board. Mr. DeMare has served as a director of GeoPetro since March 2006. Mr. DeMare is a graduate of the University of British Columbia with a Bachelor's degree in Commerce.

#### **Board of Directors**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

David Anderson, Thomas Cunningham and Nick DeMare are independent as defined by the rules of the American Stock Exchange. Stuart Doshi, David Creel, Chris Steinhauser and Kevin Delehanty are not independent. Our Board of Directors is not currently comprised of a majority of independent directors in reliance upon the phase-in period provided for by Section 809 of the American Stock Exchange Company Guide, which provides companies transferring from other markets that do not have substantially similar board independence requirements, one year from the date of listing to establish a Board of Directors consisting of a majority of independent directors.

### **Committees of the Board of Directors**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We currently have an Audit Committee of the Board of Directors which complies with the rules of the American Stock Exchange and the SEC. Our Audit Committee charter is available for viewing on our website, [www.geopetro.com](http://www.geopetro.com), under the investor relations section. The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus.

**Audit Committee**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our Audit Committee currently consists of three directors, Thomas Cunningham, Nick DeMare and David Anderson. Messrs. Cunningham, DeMare and Anderson are independent as defined by the rules of the American Stock Exchange and the SEC. Each member of the Audit Committee meets the financial literacy and experience requirements of the SEC and American Stock Exchange rules. Mr. Cunningham serves as the chairperson of the Audit Committee and Nick DeMare is an audit committee financial expert under applicable SEC rules. We have adopted an Audit Committee charter that satisfies applicable SEC and American Stock Exchange rules.

Our Audit Committee charter requires that the Audit Committee oversee our corporate accounting and financial reporting processes. The primary duties of our Audit Committee are to, among other things:

evaluate our independent auditors' qualifications, independence and performance;

determine the engagement and compensation of our independent auditors;

approve the retention of our independent auditors to perform any audit and permissible non-audit services;

monitor the rotation of partners of the independent auditors on our engagement team as required;

review our consolidated financial statements;

review our critical accounting policies;

meet with our management periodically to consider the adequacy of our internal controls and procedures for financial reporting;

establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters;

review on an ongoing basis and approve related party transactions;

prepare the reports required by the rules of the SEC to be included in our annual proxy statement;

discuss with our management and our independent auditors the results of our annual audit and the review of our quarterly consolidated financial statements.

**Compensation Committee**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We do not have a Compensation Committee. The Board of Directors believes that it is in the best interest of the company to permit all independent directors to fully participate in the compensation decisions for our officers including Stuart Doshi, our President and Chief Executive Officer, Chris Steinhauser, our Chief Financial Officer, and David Creel, our Vice President of Exploration, as well as our directors. In accordance with the rules of the American Stock Exchange, the compensation of our Chief Executive Officer and all other officers are determined, or recommended to the Board of Directors for determination by a majority of independent directors. In addition, the independent directors' duties include:

establishing overall employee compensation policies and recommending to our board of directors major compensation programs;

reviewing and approving the compensation of our corporate officers and directors, including salary, bonus awards and stock option grants;

administering our various employee benefit, pension and equity incentive programs;

reviewing executive officer and directors indemnification and insurance matters;

managing and reviewing employee loans; and

preparing a report on executive compensation for inclusion in our annual report and, as applicable, our proxy or information statement.

Our independent directors who participate in the consideration of executive officer and director compensation are David Anderson, Thomas Cunningham and Nick DeMare. In establishing compensation for our executive officers and directors, we do not rely on independent compensation consultants to analyze or prepare formal surveys for us. Our independent directors review executive compensation on an annual basis. In establishing compensation to our executives, we strive to provide compensation that will: (1) motivate and retain executives and reward performance; (2) encourage our long-term success; (3) encourage the long-term enhancement of shareholder value; and (4) encourage the application of prudent decision-making processes in an industry marked by volatility and high risk.

### **Nominating Committee**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We do not have a Nominating Committee. The Board of Directors believes that it is in the best interest of the company to permit all independent directors to fully participate in the director nomination process. In accordance with the rules of the American Stock Exchange, director nominees are selected, or recommended to the Board of Directors for selection by a majority of independent directors. In addition, the independent directors' duties include:

establishing standards for service on our board of directors and nominating guidelines and principles;

identifying individuals qualified to become members of our board of directors and recommending director candidates for election to our board of directors;

considering and making recommendations to our board of directors regarding its size and composition, committee composition and structure and procedures affecting directors;

establishing policies regarding the consideration of any director candidates recommended by our stockholders, and the procedures to be followed by stockholders in submitting such recommendations;

evaluating and reviewing the performance of existing directors; and

monitoring our corporate governance principles and practices and making recommendations to our board of directors regarding governance matters, including our articles of incorporation, bylaws and charters of our committees.

**Compensation of Directors**





*The following table sets forth the fees and awards paid to or earned by our directors (other than the named executive officers) for the fiscal year 2006.*



**Director Compensation Table**

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

<b>Name(3)</b>	<b>Period</b>	<b>Fees Earned or Paid in Cash (\$ )</b>		<b>Option Awards (\$ )</b>		<b>Total (\$ )</b>
David Anderson	2006	\$	-0-	\$	20,608(1)\$	20,608
Thomas D. Cunningham	2006	\$	-0-	\$	3,523(2)\$	3,523
	2005	\$	-0-	\$	3,523 \$	3,523
	2004	\$	-0-	\$	3,523 \$	3,523
Kevin Delehanty	2006	\$	-0-	\$	7,926(2)\$	7,926
	2005	\$	-0-	\$	7,926 \$	7,926
	2004	\$	-0-	\$	7,926 \$	7,926
Nick Demare	2006	\$	-0-	\$	20,608(1)\$	20,608



(1) Represents compensation cost recognized in 2006 associated with options granted in 2006 which vested during 2006. Assumptions made in the valuation of the modification are discussed in *Note 8. Common Stock Options* of the footnotes to the financial statements contained herein. Messrs. Anderson and DeMare joined the Board on March 30, 2006.

(2) Represents compensation cost recognized in 2006 associated with options granted in 2003 which vested during 2006. Assumptions made in the valuation of the option grants are discussed in *Note 8. Common Stock Options* of the footnotes to the financial statements contained herein.

(3) The following table details information with respect to all options to purchase our common stock held by our named executive officers and outstanding on December 31, 2006:

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price	Option Expiration Date
	Exercisable/Unexercisable (#)			
David Anderson	/	75,000	\$ 3.85	4/16/2011
Thomas D. Cunningham	50,000	/	\$ 2.00	12/29/2007
	80,000	/	\$ 2.10	5/13/2013
Kevin Delehanty	250,000	/	\$ 2.00	12/29/2007
	180,000	/	\$ 2.10	5/13/2013
Nick Demare	/	75,000	\$ 3.85	4/16/2011

(4) Mr. Cunningham also has a warrant to purchase 10,000 shares of our common stock, which is fully vested, as follows:

Name	Number of Securities Underlying Exercisable Warrants		Warrant Exercise Price	Warrant Expiration Date
	Exercisable Warrants (#)			
	10,000		\$ 2.00	12/31/2008

The grant date fair values of option grants to our directors in 2006 are as follows:

Name	Grant Date	Number of Securities Underlying Options		Exercise Price	Total Grant Date Fair Market Value of Option Awards (\$)
		#			
David Anderson	4/17/06	75,000	\$	3.85	\$ 137,389(1)
Nick DeMare	4/17/06	75,000	\$	3.85	\$ 137,389(2)





(1) Represents the total fair value on the date of grant related to the issuance of certain common stock options exercisable to purchase 75,000 common stock to Mr. Anderson. For accounting purposes, this amount will be recognized ratably over a five year period, which is the vesting period. Assumptions made in the valuation of the issuance are discussed in *Note 8. Common Stock Options* of the footnotes to the financial statements contained herein. We granted the options to Mr. Anderson on April 17, 2006. The options have an exercise price of \$3.85 per share. The closing price on the Toronto Stock Exchange on the day preceding the date of grant was \$3.50 per share.

(2) Represents the total fair value on the date of grant related to the issuance of certain common stock options exercisable to purchase 75,000 common stock to Mr. DeMare. For accounting purposes, this amount will be recognized ratably over a five year period, which is the vesting period. Assumptions made in the valuation of the issuance are discussed in *Note 8. Common Stock Options* of the footnotes to the financial statements contained herein. We granted the options to Mr. DeMare on April 17, 2006. The options have an exercise price of \$3.85 per share. The closing price on the Toronto Stock Exchange on the day preceding the date of grant was \$3.50 per share.

**Summary of Director Compensation**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We do not provide cash compensation to our directors for their services as members of the Board or for attendance at Board or audit committee meetings. However, our directors will be reimbursed for reasonable travel and other expenses incurred in connection with attending meetings of the Board and its committees. Under our Stock Option Plan, directors are eligible to receive stock option grants at the discretion of the Board of Directors.

On April 17, 2006, subsequent to their appointment to the Board effective March 30, 2006, Messrs. Anderson and DeMare were each granted options to purchase 75,000 shares of our common stock at an exercise price of \$3.85 per share. These options have a term of five years and vest in five equal annual installments beginning on April 17, 2007.

### **Compensation Committee Interlocks and Insider Participation**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

None of our executive officers has served as a director or member of a compensation committee (or board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of any other entity, any of whose executive officers served as one of our directors, or Compensation Committee members, or independent directors participating in compensation decisions, of our board of directors. In 2006, Stuart Doshi, our chief executive officer and president, served on the Compensation Committee of our board of directors.

**EXECUTIVE COMPENSATION**





**Compensation Discussion and Analysis**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We do not presently have a Compensation Committee. The Board of Directors believes that it is in the best interest of the company to permit all independent directors to fully participate in the compensation decisions for our executive officers. In accordance with the rules of the American Stock Exchange, the compensation of our President and Chief Executive Officer, Stuart Doshi, and all other officers including Chris Steinhauser and David Creel are determined, or recommended to the Board of Directors for determination, by a majority of independent directors. The independent directors also consider the input of our Mr. Doshi in making their recommendations for Messrs. Creel and Steinhauser.

Our independent directors are responsible for reviewing executive compensation on an annual basis. Compensation for our executive officers consists of three components:

base salaries;

stock option grants; and

cash bonuses.

In establishing the compensation paid to our executives, we emphasize providing compensation that will: (1) motivate and retain executives and reward performance; (2) encourage our long term success; (3) encourage the long term enhancement of shareholder value; and (4) encourage the application of prudent decision making processes in an industry marked by volatility and high risk.

Historically, we have evaluated compensation paid to our executive officers based upon the following factors:

the growth in our oil and gas reserves and production;

cash flow;

the extent to which our executive officers have been successful in finding and creating opportunities for us to participate in attractive oil and gas projects;

the ability of our executives to formulate and maintain sound budgets for drilling ventures and other business activities;

our overall financial condition;

the extent to which proposed business plans are met; and

by comparing the compensation packages of our executive officers with the compensation packages of executive officers of other companies in the oil and gas industry, which are similar to us in their size and operations among other factors.

We do not assign relative weights or rankings to these factors. Instead, we make subjective determinations based upon a consideration of all of these factors. While specific performance levels or benchmarks are not used to establish compensation, we do take into account our overall progress over time.

In establishing compensation for our executive officers, we do not rely on independent consultants to analyze or prepare formal surveys for us; however, we make informal comparisons of our executives' compensation with the compensation paid to executives of other publicly and privately held companies similar to ours. In addition, we take into account the fact that we do not provide significant perquisites and we provide no retirement plan or pension benefits to our executive officers.

In reviewing the overall compensation of Mr. Doshi, our Chief Executive Officer, in 2006 and previous periods, we took into account the fact that Mr. Doshi declined receiving an increase in his base salary since 2003 or an award of stock options since 2003. Throughout 2006, we were faced with intense competition in the oil and gas industry, including competition for oil and gas leases, and scarcity of available drilling rigs and goods and services related to the drilling, testing and completion of wells. While industry competition has intensified in the

past several years, particularly from competitors that have similar or greater financial and human resources than we do, we believe the insight, experience and leadership of Mr. Doshi has been instrumental in keeping us positioned to access sufficient capital and remain competitive. Additionally, Mr. Doshi, in his capacity as Chief Executive Officer, has been responsible for achieving a number of historical benchmarks for us, including, but not limited to:

Negotiating with Hanover and Gateway the installation and construction of a new gas treatment plant and related pipelines which became operational in 2003 in the Madisonville Project which was necessary in order to treat natural gas production from our wells in the Madisonville Field in Texas (See Properties Madisonville Project The Madisonville Gas Treatment Plant and Gathering Facilities).

Arranging the sale of the gas treatment plant by Hanover to MGP and the related commitment by MGP to expand the treating capacity of the plant from 18 MMcf/d to 68 MMcf/d (See Properties Madisonville Project The Madisonville Gas Treatment Plant and Gathering Facilities).

The drilling of additional wells at the Madisonville Project in an industry environment affected by intense competition and shortages of available drilling rigs and associated goods and services.

The acquisition of the Cook Inlet Project (See Properties Alaska The Cook Inlet Alaska CBM Project).

On March 30, 2006, we completed an initial public offering in Canada, which consisted of 3,730,021 shares of common stock at an issue price of \$3.50 per share and 519,500 shares of common stock issued on a flow-through basis under the Income Tax Act (Canada) at an issue price of \$3.85 per share for aggregate gross proceeds of \$15,055,149. (See Management's Discussion And Analysis).

On September 29, 2006 we sold 70% of our interest in C-G Bengara to CNPC-HK in exchange for a substantial financial commitment from CNPC-HK to conduct exploration, appraisal and development activities on the Bengara II PSC production sharing contract in Indonesia. We have retained a 12% stake in C-G Bengara and the Bengara II PSC. (See Properties Indonesia).

The sale of in October 2005 in another Indonesian production sharing contract for cash consideration of \$2,400,000 (See page F-19 in the footnotes to the financial statements).

The settlement in June 2006 of all of our pending litigation related to two lawsuits, titled the Miller Lawsuit and Redwood vs. George Mejlender (See Management's Discussion And Analysis).

Messrs. Doshi, Steinhauser and Creel are currently parties to employment agreements whereby their base salaries are fixed for the terms of their agreements, with the exception of Mr. Doshi's base salary, which is subject to an annual inflation adjustment based on the 1995 Consumer Price Index, per the terms of his employment agreement. We have amended Messrs. Doshi, Steinhauser and Creel's employment agreements in the past to provide for increases in base salary. When determining base salaries, we perform a subjective analysis of each executive officer's contributions and overall performance, consider the current compensation paid to executives of similar companies, and the officer's current salary.

During 2006, salaries accounted for approximately 84% of total compensation for the Chief Executive Officer and 79% on average for our other named executive officers.

When awarding stock options, we attempt to provide executives with an incentive compensation vehicle that could result in future additional compensation to them, but only if the value of our common stock increases for all stockholders. We perform a subjective analysis of each executive officer's contributions, and we consider the number of options granted on prior occasions and the length of time between option grants. All stock options are granted with exercise prices equal to or above the fair market value of the common stock on the date of grant.

We have not granted any options to our named executive officers since 2003. The option grants in 2003 were made pursuant to our 2001 Stock Incentive Plan and were granted with an exercise price that was above the estimated fair market value of our common stock at that time. The options were granted with a five year vesting schedule providing that 20% of the options would vest on each one year anniversary of the date of grant of May 13, 2003. We determined that the five year vesting schedule was appropriate to provide a long term

incentive to the named executive officers to remain employed with us and to work toward the long term best interests of all of our shareholders.

In 2004, we implemented a new 2004 Stock Option and Appreciation Rights Plan (the **Stock Option Plan**) providing for awards of incentive stock options, non-qualified stock options and stock appreciation rights. The Stock Option Plan replaced the 2001 Stock Incentive Plan as to new award grants effective in 2004 or thereafter to our directors, officers, employees and consultants. The terms of the Stock Option Plan will govern future grants to our named executive officers. The terms provide, among other things, that the exercise price of option grants shall be no less than 110% of the fair market value of the common stock on the date of grant and that such grant shall vest at a rate no less than twenty percent (20%) over five years from the date of grant. We do not have specific established criteria for determining the timing of option grants.

During 2006, stock option equity incentives accounted for approximately 14% of total compensation for the Chief Executive Officer and 16% on average for our other named executive officers. These amounts pertain to options and warrants that were granted in prior periods that either vested during 2006 or were modified during 2006. See the Summary Compensation Table below for an explanation of these items. There were no grants of stock options to our named executive officers in 2006. The Board determined that our named executive officers had a sufficient equity stake in GeoPetro, consisting of shares of common stock and/or existing options and warrants, to align their interests with ours and our stockholders.

Bonuses for each of our named executive officers are discretionary. During 2006, Mr. Doshi declined to receive a bonus and we awarded Messrs. Creel and Steinhauser a cash bonus of \$7,000 and \$10,000, respectively. In future periods, in considering whether to award bonuses, we will consider such factors as enumerated above in determining overall compensation, with a particular emphasis on our profitability and financial condition.

During 2006, cash bonus awards accounted for approximately 5% on average for our named executive officers other than the Chief Executive Officer, who declined to receive a bonus. In determining the bonus amounts, our Board took into consideration that our named executive officers have significant equity interests in us through direct ownership of shares or prior option grants, which already provide them with performance incentives.

We provide certain personal benefits to our Chief Executive Officer in the form of life and disability insurance. During 2006, personal benefits accounted for approximately 2% of total compensation for the Chief Executive Officer.

We do not have any established formal criteria to determine how decisions regarding one compensation element might affect decisions regarding other compensation elements or fit into our overall compensation objectives.

The employment agreements with our named executive officers provide for certain payments in the event of a change in control and/or termination. Mr. Doshi's employment agreement provides for substantial and immediate cash payments in the event of a change in control or termination. Messrs. Steinhauser and Creel are entitled to post employment compensation in the event of termination without cause. The amounts of, and the conditions precedent for, such payments are discussed in detail in this prospectus under Potential Payments Upon Termination or Change in Control.



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

It is our conclusion that the amount and types of compensation currently being paid to our executive officers are sufficient to retain and motivate them, reward their performance and encourage their efforts to increase the value of our common stock for all stockholders.

### **Compensation of Executive Officers**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table sets forth all compensation awarded to, earned by or paid to our Chief Executive Officer, Chief Financial Officer and our other most highly compensated executive officer whose annual salary and bonus exceeded \$100,000 for services rendered during our 2004, 2005 and 2006 fiscal years. These three officers are referred to as the named executive officers in this prospectus. No other executive officer received a combined salary and bonus of more than \$100,000 in the fiscal years ended December 31, 2004, 2005 and 2006.

**Summary Compensation Table**

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Name and Principal Position(1)	Year	Salary (\$)	Bonus (\$)	All Other Compensation (\$)	Option Awards (\$)	Total (\$)
Stuart J. Doshi	2006	407,565(2)		(2) 10,308(3)	69,888(4)	487,761
Chairman, President and Chief Executive Officer	2005	401,802	30,333	9,633	35,226	476,994
	2004	363,530		9,082	535,226(5)	907,838
David V. Creel	2006	125,000(6)	7,000		5,284(7)	137,284
Vice President of Exploration	2005	150,000	11,000		5,284	166,284
	2004	132,000			5,284	137,284
J. Chris Steinhauser	2006	150,000(8)	10,000		64,275(9)	224,275
Chief Financial Officer	2005	150,000	11,000	8,654(10)	5,284	174,938
(Principal Accounting Officer)	2004	132,000			5,284	137,284



- (1) None of the named executive officers received any compensation for their services as a director during 2006.
  
- (2) \$79,619 of Mr. Doshi's salary for 2006 consists of an annual inflation adjustment based on the 1995 Consumer Price Index, per the terms of his employment agreement. Mr. Doshi declined to receive a bonus award for 2006.
  
- (3) Represents life and disability insurance benefits paid on Mr. Doshi's behalf.
  
- (4) Includes \$35,226 of compensation cost recognized in 2006 associated with options granted in 2003 which vested during 2006. Assumptions made in the valuation of the option grants are discussed in *Note 8. Common Stock Options* of the Notes to Consolidated Financial Statements. Also includes the incremental fair value of \$34,992 related to the extension of the expiration date of an option to purchase 750,000 shares of our common stock which previously expired on April 30, 2006 and was extended to expire on April 30, 2008 and has an exercise price of \$0.50 per share. The extension was treated as a modification of the terms or conditions of an equity stock option or warrant award. Accordingly, the extension was treated as an exchange of the original award for a new award. Assumptions made in the valuation of the modification are discussed in *Note 8. Common Stock Options* of the Notes to Consolidated Financial Statements contained herein.
  
- (5) Includes \$500,000 of compensation cost recognized in 2004 associated with the exercise of stock options by Mr. Doshi. We issued 500,000 shares of our common stock for cash proceeds of \$500,000 pursuant to the exercise of stock options by Mr. Doshi. Concurrent with the exercise of the stock options, Mr. Doshi sold 117,647 shares of common stock to us at the estimated fair market value price prevailing at that time of \$4.25 per share. We recorded compensation expense of \$500,000 in connection with the purchase of stock. This transaction is discussed in *Note 8. Common Stock Options* of the Notes to Consolidated Financial Statements contained herein.
  
- (6) Mr. Creel's annual base salary during 2006 was \$150,000. He did not receive his full base salary during 2006 due to a temporary medical leave of absence. On December 18, 2006, the independent members of the board of directors acting on the recommendation of Mr. Doshi voted to increase Mr. Creel's annual salary to \$163,200 effective January 1, 2007.
  
- (7) Includes \$5,284 of compensation cost recognized in 2006 associated with options granted in 2003 which vested during 2006. Assumptions made in the valuation of the option grants are discussed in *Note 8. Common Stock Options* of the Notes to Consolidated Financial Statements contained herein.
  
- (8) Mr. Steinhauser's base salary during 2006 was \$150,000. On December 18, 2006, the independent members of the board of directors acting on the recommendation of Mr. Doshi voted to increase Mr. Steinhauser's annual salary to \$163,200 effective January 1, 2007.





(9) Includes \$5,284 of compensation cost recognized in 2006 associated with options granted in 2003 which vested during 2006. Assumptions made in the valuation of the option grants are discussed in *Note 8. Common Stock Options* of the Notes to Consolidated Financial Statements contained herein. Also includes the incremental fair value of \$58,991 related to the extension of the expiration dates of: (a) a warrant to purchase 150,000 shares of our common stock which previously expired on June 18, 2006 and was extended to expire on June 30, 2007 and has an exercise price of \$2.00; and (b) a warrant to purchase 33,333 shares of our common stock which previously expired on June 18, 2006 and was extended to expire on April 30, 2008 and has an exercise price of \$3.00. The extensions were treated as modifications of the terms or conditions of an equity stock option or warrant award. Accordingly, the extensions were treated as an exchange of the original award for a new award. Assumptions made in the valuation of the modification are discussed in *Note 8. Common Stock Options* of the Notes to Consolidated Financial Statements contained herein.

(10) Represents payment for cancellation of unused vacation time.

As indicated above, we extended the expiration dates of certain options and warrants to purchase our common stock which were previously granted to Messrs. Doshi and Steinhauser. The terms of the extensions are summarized below:

Name	Description	Underlying Option or Warrant	Exercise Price Per Share	Previous Expiration Date	Revised Expiration Date	Aggregate Value of Extension
Stuart J. Doshi	Common Stock Option	750,000	\$ 0.50	4/30/2006	4/30/2008	\$ 34,661.94
J. Chris Steinhauser	Common Stock Warrant	150,000	\$ 2.00	6/18/2006	6/30/2007	\$ 34,266.84
J. Chris Steinhauser	Common Stock Warrant	33,333	\$ 3.00	6/18/2006	4/30/2008	\$ 24,724.12
						\$ 93,652.90

The above listed options and warrants are fully vested.

#### Employment Agreements



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We entered into a contract of employment with Stuart J. Doshi, Founder, President, Chief Executive Officer and Chairman of the Board of Directors, dated July 28, 1997 (effective July 1, 1997) and amended on January 11, 2001, July 1, 2003, April 20, 2004, May 9, 2005, July 28, 2005 and January 30, 2006. The contract as amended currently provides for a five-year term which commenced May 1, 2005 which term is automatically extended for successive two-year renewal terms unless: (a) the Board of Directors elects not to renew the contract and we provide notice to Mr. Doshi of such non-renewal at least six months prior to the expiry of his employment term or any renewal term, (b) Mr. Doshi provides notice at any time prior to the expiry of his employment term or any renewal term that he elects not to renew the contract, or (c) Mr. Doshi attains age 75, in which case the term ends upon the completion of the calendar year in which he becomes 75 years old unless we and Mr. Doshi mutually agree to one-year extensions. The contract of employment provides for an annual base salary of \$300,000, subject to annual inflation adjustments based on the 1995 United States Department of Labor, Bureau of Labor Statistics Consumer Price Index of Urban Wage Earners and Clerical Workers. The contract also provided for options to purchase up to 750,000 shares of our common stock at an exercise price of \$0.50 per share which options, as amended, expire on April 30, 2008. See Note 11 to the financial statements on page F-34. The options are immediately exercisable. In the event that we file a registration statement under the 1933 Act, other than our initial registration statement, we have agreed to permit Mr. Doshi to include in the proposed registration the shares of our common stock that he would hold on exercise of his stock options and other securities issued to him, at no expense to him, subject to his payment of his own taxes, legal fees and underwriter's discounts, commissions and spreads.

We have entered into a contract of employment with David V. Creel, Vice President of Exploration, dated April 28, 1998 and amended on June 15, 2000, May 12, 2003 and January 1, 2005. The contract provides for a term of employment until June 1, 2009 at an annual salary of \$150,000 effective January 1, 2005. We issued options to Mr. Creel to acquire 100,000 shares of common stock at a price of \$2.00 per share pursuant to the original April 28, 1998 agreement. Mr. Creel exercised the option on May 31, 2005. The June 15, 2000

amendment provided that we would issue options to acquire an additional 100,000 shares of common stock at a price of \$2.00 per share. The options were issued with an effective grant date of May 31, 2000 and were subject to vesting over a five-year period with the first 20% vesting on the first anniversary of the date of grant and an additional 20% vesting on each of the four successive anniversaries. Mr. Creel exercised the option on May 31, 2005.

On December 18, 2006, the independent members of the board of directors, acting on the recommendation of Mr. Doshi, voted to increase Mr. Creel's annual base salary to \$163,200 effective January 1, 2007.

We have entered into a contract of employment with J. Chris Steinhauser, Vice President of Finance and Chief Financial Officer, dated June 19, 2000 and amended on December 12, 2002 and January 1, 2005. The contract provides for a term of employment until June 30, 2008 at an annual salary of \$150,000, effective January 1, 2005. The agreement with Mr. Steinhauser provided for a \$10,000 cash bonus payable upon execution of the agreement, which was paid in 2000. In addition, Mr. Steinhauser's employment agreement provided that we would issue warrants to purchase 250,000 shares of our common stock to Mr. Steinhauser. Such warrants, as amended, have terms expiring between June 2007 and April 2008, are fully vested, and as of December 31, 2006, remain outstanding. Each warrant entitles Mr. Steinhauser to purchase one share of our common stock as follows:

Exercise Price Per Common Share	No. of Common Shares Underlying Warrants	
\$ 2.00	2.00	150,000
\$ 3.00	3.00	33,333
\$ 4.00	4.00	33,333
\$ 5.00	5.00	33,334
<b>Total</b>		<b>250,000</b>

On December 18, 2006, the independent members of the board of directors, acting on the recommendation of Mr. Doshi, voted to increase Mr. Steinhauser's annual base salary to \$163,200, effective January 1, 2007.

#### GRANTS OF PLAN-BASED AWARDS



We did not grant any stock options or stock appreciation rights under any plan to any of our named executive officers during 2006.

**Stock Incentive and Option Plans**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Effective as of September 10, 2001, the Board of Directors approved the 2001 Stock Incentive Plan (the **Stock Incentive Plan**), providing for awards under the terms and provisions of such plan of incentive stock options, nonqualified stock options, stock appreciation rights and restricted stock to our officers, directors, employees and consultants. The purpose of the Stock Incentive Plan was to attract, motivate, reward and retain personnel and provide incentive compensation through participation in our growth. The awards available under the Stock Incentive Plan were exercisable for up to 5,000,000 shares of our common stock.

In 2004, we implemented a new 2004 Stock Option and Appreciation Rights Plan (the **Stock Option Plan**) providing for awards of incentive stock options, non-qualified stock options and stock appreciation rights. The Stock Option Plan replaced the Stock Incentive Plan as to new award grants effective in 2004 or thereafter to our directors, officers, employees and consultants. Outstanding awards issued under the Stock Incentive Plan will continue to be outstanding in accordance with their terms and the terms of the Stock Incentive Plan, but will count toward the limits in the number of shares of common stock available to be issued under the Stock Option Plan, which is 5,000,000.

Awards to purchase 1,750,000 shares of our common stock were issued under the Stock Incentive Plan, and to date, awards to purchase 170,000 shares of our common stock have been issued under the Stock Option Plan. 3,080,000 shares remain available for issuance pursuant to award grants under the Stock Option Plan.

The Stock Option Plan is administered by the Board of Directors or a committee designated by the Board. The Board of Directors or committee designated by the Board determines the number of shares of common stock which may be purchased pursuant to an award grant, the exercise price, vesting schedule, expiration date, and all other terms and conditions of the award grant, subject to the terms of the Stock Option Plan.

**The exercise price of stock options granted under the Stock Option Plan may not be less than 110% of the fair market value of our common stock on the date of grant. The maximum number of shares of common stock which may be reserved for issuance to insiders under the Stock Option Plan is 10% of our shares of common stock outstanding at the time of the grant, less any shares reserved for issuance to insiders under any other stock compensation arrangement. The maximum number of shares of common stock which may be issued to insiders under the Stock Option Plan is also subject to certain annual limits.**

**The following table sets forth information with respect to the options outstanding, under the Stock Option Plan and otherwise, as of October 30, 2007.**

<b>Group (Number)</b>	<b>Date Options Granted</b>	<b>Shares Underlying Option</b>	<b>Average Exercise Price(3)</b>	<b>Closing Price One Day Prior to Grant(3)</b>	<b>Expiry Date</b>	<b>Market Value of Options(4)</b>
Executive Officers(3)	various	2,950,000	\$ 1.66	N/A	various(2)	\$ 6,895,000
Directors(1)(3)(4)	various	775,000	\$ 2.40	N/A	various(2)	\$ 1,240,000
Employees(3)	various	185,000	\$ 2.42	N/A	various(2)	\$ 292,500
<b>Total</b>		3,910,000	\$ 1.84			\$ 8,427,500



Notes:

- (1) Directors who are not also executive officers.

(2) Options have expiry dates not more than 10 years following their date of grant. Currently outstanding options have expiry dates between February 28, 2007 and May 13, 2013.

(3) The stock options were issued prior to February of 2006 and therefore no public trading market existed for our common stock with the exception of the grant of options exercisable to purchase 75,000 common stock to each of David Anderson and Nick DeMare. We granted the options to Mr. Anderson and Mr. DeMare, 150,000 options in total, on April 17, 2006. The options have an exercise price of \$3.85 per share. The closing price on the Toronto Stock Exchange on the day preceding the date of grant was \$3.50 per share.

(4) Based on the closing price of our common stock on the American Stock Exchange on October 30, 2007.

**Outstanding Equity Awards at Fiscal Year-End 2006**



Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table details information with respect to all options and warrants to purchase our common stock held by our named executive officers and outstanding on December 31, 2006.

Name	Name of Securities Underlying Unexercised Options/Warrants		Option/Warrant Exercise Price	Option/Warrant Expiration Date
	Exercisable/	Unexercisable (#)		
Stuart J. Doshi	750,000	/	\$ 0.50	4/30/2008
President and Chief Executive Officer	750,000	/	\$ 2.00	12/29/2007
	800,000	/	200,000(1)\$ 2.10	5/13/2013
David V. Creel	100,000	/	\$ 2.00	12/29/2007
Vice President of Exploration	120,000	/	30,000(2)\$ 2.10	5/13/2013
J. Chris Steinhauser	50,000	/	\$ 2.00	12/29/2007
Chief Financial Officer	120,000	/	30,000(3)\$ 2.10	5/13/2013
	150,000	/	\$ 2.00	6/30/2007
	33,333	/	\$ 3.00	4/30/2008
	33,333	/	\$ 4.00	6/18/2007
	33,334	/	\$ 5.00	6/18/2007



(1) Mr. Doshi has 200,000 common stock options which are not yet vested. The unvested common stock options will vest on May 13, 2008. Mr. Doshi must still be employed by us on the vesting date in order to vest his options, subject to certain exceptions. See Potential Payments Upon Termination or Change in Control.

(2) Mr. Creel has 30,000 common stock options which are not yet vested. The unvested common stock options will vest on May 13, 2008. Mr. Creel must still be employed by us on the vesting date in order to vest his options. However, if Mr. Creel is terminated without cause, all unvested options shall immediately vest. See Potential Payments Upon Termination or Change in Control.

(3) Mr. Steinhauser has 30,000 common stock options which are not yet vested. The unvested common stock options will vest on May 13, 2008. Mr. Steinhauser must still be employed by us on the vesting date in order to vest his options.



**Option Exercises in 2006**



**There were no option exercises by the named officers during 2006. None of our named executive officers holds any shares of restricted stock or any other stock awards subject to vesting requirements.**

**Indebtedness of Directors and Officers**



**None of our directors or officers, nor any of their associates or affiliates, are or have been indebted to us, nor have any of the foregoing been the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by us.**

**Potential Payments Upon Termination or Change in Control**



**Messrs. Doshi, Steinhauser and Creel are currently parties to employment agreements which provide for payments upon the termination of their employment under certain circumstances.**

Mr. Doshi's employment contract provides that the Company has the right to terminate his employment at any time prior to the expiration of his employment term for cause and that he may voluntarily terminate his employment with the Company, in his sole discretion, prior to the expiration of his employment term. Upon termination for cause, Mr. Doshi may exercise any vested stock options within 30 days of his termination, and upon a voluntary termination by Mr. Doshi, he may exercise his vested stock options until such options expire. If Mr. Doshi's employment had been terminated by the Company for cause, or terminated by Mr. Doshi voluntarily on the last business day of the Company's last completed fiscal year (December 29, 2006), the in-the-money market value of Mr. Doshi's 2,100,000 vested stock options based on the \$2.60 closing market price of our common stock, as quoted on the Toronto Stock Exchange on December 29, 2006, would have been \$2,325,000.

Mr. Doshi's employment contract also provides that at any time prior to the expiration of his employment term: (a) the Company has the right to terminate his employment for any reason, in the sole discretion of the Board of Directors; and (b) Mr. Doshi has the right to terminate his employment if the Company materially breaches any material term of his employment agreement and fails to correct such breach for 30 days following written notice of such breach. Upon either of such events, or an Involuntary Termination (as herein defined), all unvested options issued by us to Mr. Doshi will vest and Mr. Doshi is entitled to receive:

(a) in exchange for all of his vested stock options and vested restricted shares, such number of shares of common stock having a market value equal to the difference between (x) the aggregate total market value of all vested restricted shares and shares of common stock he would receive upon exercise of all vested stock options less (y) the aggregate total exercise price for all of his vested stock options; provided, however, that if the common stock to be delivered to Mr. Doshi upon such change of control or termination have not been registered so as to permit immediate public resale, Mr. Doshi shall instead receive a cash payment equal to the market value on the date of termination of all vested stock options and restricted shares without any discount for liquidity or minority position against cancellation of such options and restricted shares,

(b) a cash payment equal to the greater of (i) his salary for the remainder of his term and the aggregate amount of his bonuses in respect of the last four fiscal years and (ii) four times his compensation in the current year and the aggregate amount of his bonuses for the last four fiscal years, and

(c) an additional cash payment representing his employment benefits equal to 20% of the amount of salary he is entitled to receive under (b)(i) or (b)(ii) above, as applicable.

Involuntary Termination means the Company's failure to renew Mr. Doshi's employment agreement at the end of its five-year initial term or any renewal term (except for the automatic termination which occurs as a result of Mr. Doshi turning 75) or Mr. Doshi's termination of his employment with the Company, if such termination occurs within 90 days of (a) a change of control of the Company, (b) a reduction in title, duties or authority to below Chief Executive Officer, or (c) Mr. Doshi ceasing to report directly to the Board of Directors.

**If the Company had terminated Mr. Doshi's employment for any reason, in the sole discretion of the Board of Directors, or Mr. Doshi had terminated his employment upon the Company's material breach of a material term of his employment agreement and failure to cure such breach for 30 days following written notice, as described above, or in the event an Involuntary Termination had occurred, in each instance on the last business day of the company's last completed fiscal year (December 29, 2006), the potential post-employment benefits payable to Mr. Doshi would have been as follows (estimates are based on the \$2.60 closing market price of our common stock as quoted on the Toronto Stock Exchange on December 29, 2006):**

a. Provided the shares so delivered were entitled to immediate resale, he would have received 971,154 shares of common stock based on the following:

Number of Options	Exercise Price	Market Price	# of Shares
750,000	\$ 0.50	\$ 2.60	605,769
750,000	\$ 2.00	\$ 2.60	173,077
1,000,000	\$ 2.10	\$ 2.60	192,308
Total			971,154



If the common stock to be delivered to him upon the triggering event had not been registered so as to permit immediate resale, he would have instead received an immediate cash payment equal to the market value of all vested stock options totaling \$2,525,000 as follows:

Number of Options	Exercise Price	Market Price	Market Value of Options
750,000	\$ 0.50	\$ 2.60	\$ 1,575,000
750,000	\$ 2.00	\$ 2.60	450,000
1,000,000	\$ 2.10	\$ 2.60	500,000
Total			\$ 2,525,000

b. A cash payment equal to four times his 2006 salary of \$407,565 and the aggregate amount of his bonuses of \$30,333 for the last four fiscal years, for a total of \$1,660,593, payable immediately.

c. And an additional cash payment representing employment benefits equal to 20% of the amount calculated in paragraph (b) or \$332,119, payable immediately.

Mr. Creel's employment contract provides that Mr. Creel has the right to terminate his employment prior to the expiration of his employment term upon a material breach by the Company of a material term of his employment contract which remains uncorrected for 30 days following his written notice of such breach to the Company. In such event, Mr. Creel is entitled to receive his base salary for the remainder of the term, paid out over the remainder of the term in accordance with the Company's standard payroll practices for currently employed employees. In addition, all of Mr. Creel's unvested options will become immediately vested and exercisable.

If Mr. Creel had terminated his employment due to a material breach by the Company of a material term of his employment contract on the last business day of the Company's last completed fiscal year (December 29, 2006), Mr. Creel would have received monthly payments of salary totaling \$362,500, through June 1, 2009, and the market value of Mr. Creel's 60,000 unvested options would have been \$30,000 based on the \$2.60 closing market price of our common stock as quoted on the Toronto Stock Exchange on December 29, 2006.

Mr. Creel's employment contract also provides that his employment may be terminated by the Company for cause, terminated as a result of his death, and as a result of his incapacity. In such event, Mr. Creel's vested stock options may be exercised by Mr. Creel or his representative, as applicable, for 30 days from the date of termination in the event of a termination for cause, or for 180 days from the date of termination in the event of a termination due to his death or incapacity. If Mr. Creel's employment contract had been terminated for cause or as a result of his death or incapacity on the last business day of the Company's last completed fiscal year (December 29, 2006), the market value of Mr. Creel's 190,000 vested options would have been \$105,000 based on the \$2.60 closing market price of our common stock as quoted on the Toronto Stock Exchange on December 29, 2006.

**Mr. Creel's employment contract provides that he may be terminated by us without cause upon the payment to Mr. Creel of cash payments equal to the lesser of three months' base salary or base salary during the remainder of the employment term, and, in the event of termination without cause, all unvested options issued by us to Mr. Creel will vest.**



Mr. Steinhauser's employment contract provides that he may be terminated by us without cause upon the making of cash payments equal to the lesser of three months' base salary or base salary during the remainder of the employment term, and, in the event of termination without cause, Mr. Steinhauser may retain all warrants issued to him pursuant to his employment agreement, whether or not vested.

If Messrs. Creel and Steinhauser's employment agreements had been terminated without cause on the last business day of the company's last completed fiscal year (December 29, 2006), the potential post-employment benefits payable would have been as follows:

- a. Messrs. Creel and Steinhauser would each be entitled to receive \$12,500 per month over a three month period for an aggregate amount of \$37,500.
- b. In addition, all of Mr. Creel's unvested options would become immediately vested and exercisable. As of December 29, 2006, Mr. Creel had a total of 60,000 unvested options to purchase common stock at an exercise price of \$2.10 and an expiration date of May 13, 2013. The market value of the in-the-money portion of these unvested options was \$30,000 and the market value of the in-the-money portion of Mr. Creel's 190,000 vested options was \$105,000 based on the \$2.60 closing market price of our common stock as quoted on the Toronto Stock Exchange on December 29, 2006.
- c. The market value of the in-the-money portion of Mr. Steinhauser's 140,000 vested options was \$75,000 and the market value of the in-the-money portion of Mr. Steinhauser's vested warrants was \$90,000 based on the \$2.60 closing market price of our common stock as quoted on the Toronto Stock Exchange on December 29, 2006.

Mr. Steinhauser's employment contract also provides that his employment may be terminated by the Company for cause, as a result of his death, and as a result of his disability. In the event Mr. Steinhauser's employment is terminated as a result of his death or disability, Mr. Steinhauser is entitled to the continued right to exercise any stock warrants granted to him pursuant to his employment contract, which have vested as of the date of termination. In the event Mr. Steinhauser's employment is terminated for cause, Mr. Steinhauser has the right to retain all warrants which are vested as of such date. Assuming Mr. Steinhauser's employment contract had been terminated for cause or as a result of his death or incapacity on the last business day of the Company's last completed fiscal year (December 29, 2006), the in-the-money market-value of Mr. Steinhauser's 250,000 vested warrants granted pursuant to his employment contract would have been \$90,000 based on the \$2.60 closing market price of our common stock as quoted on the Toronto Stock Exchange on December 29, 2006.

**We provide the foregoing post-employment payments in order to attract and retain an appropriate caliber of talent for the position. We believe that our severance and change in control provisions are consistent with the provisions and benefit levels of other companies disclosing such provisions as reported in public SEC filings.**

**The payment and benefit levels to Messrs. Creel and Steinhauser that were determined under the various circumstances that trigger post employment payments or provision of benefits were based on negotiations between them and us.**

The termination provisions of Mr. Doshi's employment contract were designed, in part, to impede and discourage a hostile takeover attempt and to protect the continuity of management. The termination provisions, including appropriate payment and benefit levels and the various

circumstances that trigger payments or provision of benefits, were determined through negotiations between Mr. Doshi, our directors and representatives of Dundee Securities Corporation, the lead underwriter in connection with a sale of common shares we completed on March 30, 2006.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table sets forth certain information about the beneficial ownership of common shares as of October 30, 2007 by:

Each of our directors;

Each of the named executive officers listed in the Summary Compensation table above;

All of our directors and executive officers as a group; and

Each person known to us to be the beneficial owner of more than 5% of our outstanding common shares.

For purposes of the following table, a person is deemed to be the beneficial owner of securities that can be acquired by that person within 60 days from October 30, 2007 upon the exercise of warrants or options or upon the conversion of convertible securities. Each beneficial owner's percentage is determined by assuming that options, warrants or conversion rights that are held by that person regardless of price, but not those held by any other person, and which are exercisable within 60 days from October 30, 2007 have been exercised.

The information in the following table is based upon information supplied by officers, directors, certain named individuals and principal shareholders. The percentage of beneficial ownership is based on 31,583,007 common shares outstanding on October 30, 2007, subject to adjustment for each beneficial owner as described above. Except as otherwise noted below, and subject to applicable community property laws, the persons named have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Unless otherwise indicated, the address of the following stockholders is c/o GeoPetro Resources Company, One Maritime Plaza, Suite 700, San Francisco, CA 94111.

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Name of Beneficial Owner	Shares Beneficially Owned	Approximate Percent of Class Before and After the Offering (1)
Stuart J. Doshi, President, CEO and Chairman (2)	5,042,957	14.9%
David V. Creel, Vice President and Director (3)	470,000	1.5%
J. Chris Steinhauser, Chief Financial Officer and Director (4)	236,666	*
David Anderson, Director (5)	382,700	1.2%
Thomas D. Cunningham, Director (6)	381,667	1.2%
Kevin Delehanty, Director (7)	1,210,880	3.8%
Nick DeMare, Director (8)	92,500	*
All executive officers, key persons and directors as a group, (7 persons)	7,817,370	22.6%
<u>5 percent or more shareholders:</u>		
Jeffrey C. Friedman 911 Moraga Ave., Suite 205 Laffayette, CA 94549	1,762,898	5.6%

\* Less than 1.0%

(1) For the purposes of calculating the percent of class beneficially owned by a holder, shares of common stock which may be issued to that holder within 60 days of October 30, 2007 are deemed to be outstanding. Assumes the sale by the selling stockholders of all shares of common stock available for resale under this prospectus, except for those shares of common stock which are issuable upon exercise of warrants.

(2) Includes direct ownership of 2,742,957 common shares and stock options to purchase 2,300,000 common shares that are exercisable within 60 days of October 30, 2007.

(3) Includes direct ownership of 250,000 common shares and stock options to purchase 220,000 common shares that are exercisable within 60 days of October 30, 2007.

(4) Includes direct ownership of 33,333 common shares and stock options and warrants to purchase 203,333 common shares that are exercisable within 60 days of October 30, 2007.

(5) Includes stock options to purchase 15,000 common shares that are exercisable within 60 days of October 30, 2007 and 367,700 shares of common stock held by Dundee Securities Corporation, over which Mr. Anderson exercises sole voting and investment control. Mr. Anderson is Executive Vice President of Dundee Securities Corporation.



(6) Includes direct ownership of 191,667 common shares, indirect ownership of 50,000 common shares and stock options and warrants to purchase 140,000 common shares that are exercisable within 60 days of October 30, 2007.

(7) Includes direct ownership of 779,880 common shares, indirect ownership of 1,000 common shares and stock options to purchase 430,000 common shares that are exercisable within 60 days of October 30, 2007.

(8) Includes indirect ownership of 77,500 common shares and stock options to purchase 15,000 common shares that are exercisable within 60 days of October 30, 2007.

**SELLING SHAREHOLDERS**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

This prospectus relates to the proposed resale by the selling shareholders of up to 2,002,599 shares of outstanding common stock and the resale of up to 780,857 shares of common stock issuable upon exercise of warrants.

Any or all of the common shares offered hereby may be offered for sale pursuant to this prospectus by the selling shareholders from time to time. Please see Plan of Distribution. Accordingly, no estimate can be given as to the number of shares of common stock that will be held by the selling shareholders upon consummation of any such sales.

Unless otherwise indicated and subject to community property laws where applicable, we believe that each selling shareholder has sole voting and investment power over all shares of common stock shown as beneficially owned by them.

*The following table sets forth as of October 30, 2007 certain information concerning the persons for whom we are registering the shares for resale to the public. We will not receive any of the proceeds from the sale of the shares by the selling shareholders. We prepared the table based on the information furnished to us by the selling shareholders named in the table below, and we have not sought to verify such information. Information concerning the selling shareholders may change from time to time and any changed information will be set forth in supplements to this prospectus if and when necessary; provided, however that the addition of any selling shareholders or other material changes will be set forth in a post-effective amendment to the registration statement.*



Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table contains information as of October 30, 2007 regarding:

the amount of our common stock beneficially owned by selling shareholders prior to the commencement of the offering described in this prospectus;

the amount of our common stock offered by selling shareholders by means of this prospectus;

the amount of our common stock beneficially owned by selling shareholders after completion of the offering described in this prospectus; and

the percentage of our common stock beneficially owned by selling shareholders after completion of the offering described in this prospectus.

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

For purposes of the following table, a person is deemed to be the beneficial owner of securities that can be acquired by that person within 60 days from October 30, 2007 upon the exercise of warrants or options. Each beneficial owner's percentage is determined by assuming that options, warrants or conversion rights that are held by that person regardless of price, but not those held by any other person, and which are exercisable within 60 days from October 30, 2007, have been exercised. There were 31,583,007 shares of our common stock outstanding as of October 30, 2007.

Name	Number of Shares of Common Stock Owned Before Offering	Number of Shares of Common Stock Offered Hereunder	Number of Shares of Common Stock Beneficially Owned After the Offering	Percentage of Class Beneficially Owned After Offering (1)
Black Rock Energy Opportunity Master Fund (2)	545,324	545,324	125,844	*
SSR Energy and Natural Resources Hedge Fund LLC (3)	487,995	487,995	112,614	*
Opus Select Strategies LLC (4)	8,840	8,840	2,040	*
Edison Sources Ltd. (5)	178,490	178,490	41,190	*
Black Rock Energy Opportunity Master Fund Employee (6)	130,000	130,000	30,000	*
ECS Capital Management, L.P. (7)	129,299	129,299	76,052	*
Ironman PI Fund (QP), L.P. (8)	506,494	506,494	116,883	*
Carlyle Multi-Strategy Master Fund, Ltd. (9)	650,000	650,000	150,000	*
Brad Nelson (10)	16,883	16,883	3,896	*
Christopher T. Czuppon (11)	10,131	10,131	2,338	*
Michael Ditzler (12)	70,500	25,000	70,500	*
Michael Karasik (13)	35,000	15,000	35,000	*
Kim Perich (14)	10,000	5,000	10,000	*
Rincon Energy, LLC (15)	25,000	25,000	25,000	*
Pine Hill Capital LLC (16)	200,000	50,000	200,000	*
<b>TOTAL</b>	<b>3,003,956</b>	<b>2,783,456</b>	<b>1,001,357</b>	

\* Indicates less than 1%

(1) Assumes the sale by the selling stockholders of all of the shares of common stock available for resale under this prospectus, except for those shares of common stock which are issuable upon exercise of warrants.

(2) Shares of common stock beneficially owned before and after the offering includes 125,844 shares issuable upon exercise of warrants owned by BlackRock Energy Opportunity Master Fund, L.P. BlackRock Capital Management, Inc. is the investment advisor for the BlackRock Energy Opportunity Master Fund, L.P. and, as such, has sole voting and investment control over these securities. Dan Rice is the Managing Director of BlackRock Capital Management, Inc. Number of shares offered hereby includes 125,844 shares issuable upon exercise of warrants.

(3) Shares of common stock beneficially owned before and after the offering includes 112,614 shares issuable upon exercise of warrants owned by SSR Energy and Natural Resources Hedge Fund LLC. State Street Research & Management Company is the investment advisor for the SSR Energy and Natural Resources Hedge Fund LLC and, as such, has sole voting and investment control over these securities. Dan Rice is the Managing Director of State Street

Research & Management Company. Number of shares offered hereby includes 112,614 shares issuable upon exercise of warrants.

(4) Shares of common stock beneficially owned before and after the offering includes 2,040 shares issuable upon exercise of warrants owned by Opus Select Strategies, LLC. BlackRock Capital Management, Inc. is the investment advisor for the Opus Select Strategies, LLC and, as such, has sole voting and investment control over these securities.



Dan Rice is the Managing Director of BlackRock Capital Management, Inc. Number of shares offered hereby includes 2,040 shares issuable upon exercise of warrants.

(5) Shares of common stock beneficially owned before and after the offering includes 41,190 shares issuable upon exercise of warrants owned by Edison Sources Ltd. State Street Research & Management Company is the investment advisor for the Edison Sources Ltd. and, as such, has sole voting and investment control over these securities. Dan Rice is the Managing Director of State Street Research & Management Company. Number of shares offered hereby includes 41,190 shares issuable upon exercise of warrants.

(6) Shares of common stock beneficially owned before and after the offering includes 30,000 shares issuable upon exercise of warrants owned by BlackRock Energy Opportunity (Employees) Fund, L.P. BlackRock Capital Management, Inc. is the investment advisor for the BlackRock Energy Opportunity (Employees) Fund, L.P. and, as such, has sole voting and investment control over these securities. Dan Rice is the Managing Director of BlackRock Capital Management, Inc. Number of shares offered hereby includes 30,000 shares issuable upon exercise of warrants.

(7) Shares of common stock beneficially owned before and after the offering includes 76,052 shares issuable upon exercise of warrants owned by ECS Capital Management, L.P. Russel Weinberg and Keith Behrens, General Partners, have shared voting and investment control over these securities. Messrs. Weinberg and Behrens are partners of Energy Capital Solutions, LP, a registered broker dealer. The number of shares being registered on behalf of ECS Capital Management, LP includes 60,078 shares underlying warrants which were issued as compensation for investment banking services. Number of shares offered hereby includes 76,052 shares issuable upon exercise of warrants.

(8) Shares of common stock beneficially owned before and after the offering includes 116,883 shares issuable upon exercise of warrants owned by Ironman PI Fund (QP), L.P. G. Bryan Dutt, Managing Director, has sole voting and investment control over these securities. Number of shares offered hereby includes 116,883 shares issuable upon exercise of warrants.

(9) Shares of common stock beneficially owned before and after the offering includes 150,000 shares issuable upon exercise of warrants owned by Carlyle Multi-Strategy Master Fund, Ltd. Carlyle-Blue Wave Partners Management, LP ( CBWPM ) is the investment manager for Carlyle Multi-Strategy Master Fund, Ltd. and has sole voting and investment control over these securities. Ralph Reynolds and Richard Goldsmith are the managing members of a managing member of the general partner of CBWPM, and each of Mr. Goldsmith, Mr. Reynolds, and CBWPM may thereby be deemed to have beneficial ownership of such securities. To the extent permitted by law, Mr. Goldsmith, Mr. Reynolds, CBWPM and any entities controlled by any of them, each disclaim beneficial interest in such securities. Number of shares offered hereby includes 150,000 shares issuable upon exercise of warrants.

(10) Shares of common stock beneficially owned before and after the offering includes 3,896 shares issuable upon exercise of warrants. Mr. Nelson is a partner with Energy Capital Solutions, LP, a registered broker dealer. Number of shares offered hereby includes 3,896 shares issuable upon exercise of warrants.

(11) Shares of common stock beneficially owned before and after the offering includes 2,338 shares issuable upon exercise of warrants. Mr. Czuppon is associated with Energy Capital Solutions, LP, a registered broker dealer. Number of shares offered hereby includes 2,338 shares issuable upon exercise of warrants.

(12) Shares of common stock beneficially owned before and after the offering includes 25,000 shares issuable upon exercise of warrants. Number of shares offered hereby includes 50,000 shares issuable upon exercise of warrants.

(13) Shares of common stock beneficially owned before and after the offering includes 15,000 shares issuable upon exercise of warrants. Number of shares offered hereby includes 15,000 shares issuable upon exercise of warrants.

(14) Shares of common stock beneficially owned before and after the offering includes 5,000 shares issuable upon exercise of warrants. Number of shares offered hereby includes 5,000 shares issuable upon exercise of warrants.

(15) Shares of common stock beneficially owned before and after the offering includes 25,000 shares issuable upon exercise of warrants. Thomas M. Skirvin, Principal, has sole voting and investment control over these securities. Number of shares offered hereby includes 25,000 shares issuable upon exercise of warrants.

(16) Shares of common stock beneficially owned before and after the offering includes 200,000 shares issuable upon exercise of warrants. James W. Fisher, has sole voting and investment control over these securities. Number of shares offered hereby includes 50,000 shares issuable upon exercise of warrants.

#### **PLAN OF DISTRIBUTION**

The selling security holders and any of their pledgees, donees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock being offered under this prospectus on any stock exchange, market or trading facility on which shares of our common stock are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling security holders may use any one or more of the following methods when disposing of shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resales by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

to cover short sales made after the date that the registration statement of which this prospectus is a part is declared effective by the Securities and Exchange Commission;

broker-dealers may agree with the selling security holders to sell a specified number of such shares at a stipulated price per share;

a combination of any of these methods of sale; and

any other method permitted pursuant to applicable law.

The shares may also be sold under Rule 144 under the Securities Act, if available, rather than under this prospectus. The selling security holders have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling security holders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling security holder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

Broker-dealers engaged by the selling security holders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling security holders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, which commissions as to a particular broker or dealer may be in excess of customary commissions to the extent permitted by applicable law.

If sales of shares offered under this prospectus are made to broker-dealers as principals, we would be required to file a post-effective amendment to the registration statement of which this prospectus is a part. In the post-effective amendment, we would be required to disclose the names of any participating broker-dealers and the compensation arrangements relating to such sales.

The selling security holders and any broker-dealers or agents that are involved in selling the shares offered under this prospectus may be deemed to be underwriters within the meaning of the Securities Act in connection with these sales. Commissions received by these broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Any broker-dealers or agents that are deemed to be underwriters may not sell shares offered under this prospectus unless and until we set forth the names of the underwriters and the material details of their underwriting arrangements in a supplement to this prospectus or, if required, in a replacement prospectus included in a post-effective amendment to the registration statement of which this prospectus is a part.

The selling security holders and any other persons participating in the sale or distribution of the shares offered under this prospectus will be subject to applicable provisions of the Exchange Act, and the rules and regulations under that act, including Regulation M. These provisions may restrict activities of, and limit the timing of purchases and sales of any of the shares by, the selling security holders or any other person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and other activities with respect to those securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

If any of the shares of common stock offered for sale pursuant to this prospectus are transferred other than pursuant to a sale under this prospectus, then subsequent holders could not use this prospectus until a post-effective amendment or prospectus supplement is filed, naming such holders. We offer no assurance as to whether any of the selling security holders will sell all or any portion of the shares offered under this prospectus.

We have agreed to pay all fees and expenses incident to the registration of the shares being offered under this prospectus. However, each selling security holder and purchaser is responsible for paying any discounts, concessions and similar selling expenses they incur.

We and certain of the selling security holders have agreed to indemnify one another against certain losses, damages and liabilities arising in connection with this prospectus, including liabilities under the Securities Act.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the ordinary course of our business and in connection with our financing activities, we have entered into a number of transactions with our directors, officers and 5% or greater stockholders. We believe that we have executed all of the transactions set forth below on terms no less favorable to us than we could have obtained from unaffiliated third parties.

We appointed David G. Anderson as a Director on March 30, 2006. See Management . Mr. Anderson is the Senior Vice President and a director of Dundee Securities Corporation, the lead underwriter in connection with a sale of common shares we recently completed on March 30, 2006. The sale of common shares was conducted (a) outside the United States pursuant to the exemption from registration provided by Regulation S, and (b) within the United States only in accordance with an applicable exemption from the registration requirements of the 1933 Securities Act. The decision to distribute the common shares and the determination of the terms of the distribution were made through arm's length negotiations primarily between us and Dundee Securities Corporation as lead underwriter. Mr. Anderson had some involvement in such negotiations solely in his capacity as a director and officer of Dundee Securities Corporation. Dundee Securities Corporation received an underwriters' fee totaling \$632,000 in connection with the offering.

On June 6, 2005 we purchased 139,396 shares of common stock from Stuart Doshi, our President and Chief Executive officer, at the estimated fair market value prices on that date of \$4.25 per share for a total of \$592,433. We believe the purchase price of \$4.25 per share was at least as favorable to us as could have been obtained through arm's length negotiations with unaffiliated third parties since we also sold 939,194 shares of our common stock for \$4.25 per share in 2005.

On August 27, 2004, Mr. Doshi exercised an option to purchase 500,000 shares of common stock at an exercise price of \$1.00 per share. The option was granted to Mr. Doshi on August 30, 1999 pursuant to his services as our Chief Executive Officer.

On February 12, 2007, Stuart J. Doshi, President and CEO, loaned \$100,000 to the Company. The note bears interest at 8% annually and is payable on demand. The note plus accrued interest was repaid on March 28, 2007.

On May 31, 2005, David Creel, an executive officer and a director, exercised options to purchase 200,000 shares of common stock at an exercise price of \$2.00 per share. The options were granted to Mr. Creel pursuant to his services as an executive officer as follows: (i) 100,000 options on June 1, 1998 and (ii) 100,000 options on June 1, 2000.

On April 29, 2005, Thomas Cunningham, a director, exercised an option to purchase 100,000 shares of common stock at an exercise price of \$2.00 per share. The option was granted to Mr. Cunningham on April 30, 2000 pursuant to his services as a director.

On March 25, 2004, Kevin Delehanty, a director, exercised an option to purchase 70,900 shares of common stock at an exercise price of \$1.00 per share. The option was granted to Mr. Delehanty on August 30, 1999 pursuant to his services as a director.



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

On August 25, 2004, Mr. Delehanty exercised a warrant to purchase 100,000 shares of common stock at an exercise price of \$1.00 per share. The warrant was granted to Mr. Delehanty on August 30, 1999 pursuant to his services as a director.

During 2004, we paid cash finders fees of \$165,670 to Mr. Delehanty in connection with our equity and debt financings as follows: (i) \$86,545 relating to the private placement issuances of 350,800 shares of our common stock at \$4.25 per share during July, August and September of 2004, and (ii) \$79,125 relating to the conversion into common stock of certain promissory notes and warrants held by a 5% shareholder as described below.

Effective March 22, 2004, we issued 539,000 shares of common stock to G. Carter Sednaoui and Rolling Hill Investors, LLC, an entity owned by Mr. Sednaoui, a 5% shareholder at the time of the transaction, pursuant to the exercise of warrants. Concurrently, Mr. Sednaoui and Rolling Hill Investors, LLC agreed to a \$1,347,500 reduction in the principal balance of certain of our promissory notes payable as consideration for the exercise of the warrants. The common stock warrants were exercisable at a price of \$2.50 and had an expiration date of December 31, 2008. The largest aggregate amount of principal outstanding on these promissory notes payable during 2004 was \$5,130,180. A total of \$2,508,948 in principal repayments were made toward the promissory notes during 2004. A total of \$334,358 of interest was paid toward the promissory notes during 2004 at interest rates between 8% and 11%. As of this date, the promissory notes have been repaid in their entirety.

Effective September 17, 2004, we issued 62,500 shares of common stock to Mr. Sednaoui pursuant to the conversion of a \$250,000 convertible note payable. The convertible note was issued on September 18, 2001 at an interest rate of 8% per annum for the purposes of funding our capital expenditures in the Madisonville Project in Texas. The largest aggregate amount of principal outstanding of this convertible note payable during 2004 was \$250,000. A total of \$14,262 of interest was paid toward the promissory note during 2004 at an interest rate of 8%. As indicated, the note was converted in 2004.

Effective September 30, 2004, we issued 117,648 shares of common stock to Mr. Sednaoui in exchange for a \$500,000 reduction in the principal balance of a promissory note payable dated July 19, 2004 as consideration. The largest aggregate amount of principal outstanding of this promissory note payable during 2004 was \$2,000,000. A total of \$500,000 in principal repayments were made toward the promissory note during 2004. A total of \$37,145 of interest was paid toward the promissory note during 2004 at an interest rate of 8%. As of this date, the promissory note has been repaid in its entirety.

During 2004, we sold 378,448 shares of common stock at a price of \$4.25 per share to Mr. Sednaoui and certain entities owned and controlled by him. We believe the purchase price of \$4.25 per share was at least as favorable to us as could have been obtained through arm's length negotiations with unaffiliated third parties since we sold 939,194 shares of our common stock for \$4.25 per share in the first half of 2005.

Previously, Eric Doshi, Stuart Doshi's son, was employed as our Manager of Planning. We paid Eric Doshi \$37,500, \$78,540 and \$105,689 during 2006, 2005 and 2004, respectively, for his services. Eric Doshi's compensation, based on industry comparables, was at least as favorable to us as could have been obtained through arm's length negotiations with unaffiliated third parties.

On January 23, 2007, our Board of Directors adopted a written Amended and Restated Audit Committee charter which provides that the Audit Committee shall review all related-party





transactions and potential conflict of interest situations involving amounts in excess of \$120,000 on an ongoing basis. Related party transactions include transactions between GeoPetro and:

Any of our directors or executive officers;

Any nominee for election as a director;

Any security holder who is known to us to own of record or beneficially more than five percent of any class of our voting securities; and

Any member of the immediate family of any of the foregoing persons.

The Audit Committee shall determine whether the terms of proposed related party transactions are at least as favorable to us as could be obtained through arm's length negotiations with unaffiliated third parties. In making such determinations, the Audit Committee shall consider, where practicable, some or all of the following factors:

Competitive bids;

Industry or market comparables;

Informal comparisons to similar transactions of other publicly and privately held companies similar to ours; and

Similar transactions entered into by the Company through arm's length negotiations with unaffiliated third parties.

The above described transactions that were entered into prior to the adoption of the Amended and our Restated Audit Committee charter on January 23, 2007, did not require approval or ratification by the Audit Committee. Since our adoption of the Amended and Restated Audit Committee charter, we have not entered into any related party transactions that have required approval or ratification by the Audit Committee.

#### **MATERIAL INCOME TAX CONSEQUENCES**



**United States Federal Income Tax Considerations**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following is a summary of the material U.S. federal income tax consequences relating to the purchase, ownership and disposition of our common shares applicable to non-U.S. holders (as defined below). This summary is based on the Internal Revenue Code of 1986 (the **Code**), and Treasury Regulations promulgated thereunder, administrative pronouncements and judicial decisions, changes to any of which, subsequent to the date of this prospectus, may affect the tax consequences described herein. We undertake no obligation to update this tax summary in the future. This summary applies only to non-U.S. holders that will hold our common shares as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to be a complete analysis of all the potential tax consequences that may be material to a non-U.S. holder based on his, her or its particular tax situation. This summary also does not address tax consequences applicable to non-U.S. holders that may be subject to special tax rules, such as controlled foreign corporations, passive foreign investment companies, persons liable for the

alternative minimum tax, certain former citizens and long-term residents of the United States or corporations that accumulate earnings to avoid U.S. federal income tax. Such persons should consult with their own tax advisors to determine the U.S. federal tax consequences that may be relevant to them. In addition, this discussion does not address the tax treatment of partnerships or persons who hold their common shares through partnerships or other pass-through entities. A partner in a partnership that will hold our common shares should consult his or her tax advisor regarding the tax consequences of the ownership and disposition of our common shares. Moreover, this discussion does not consider the effect of any applicable state, local, foreign or other tax laws, including gift and estate tax laws.

References to a non-U.S. holder mean a beneficial owner of our common shares that for U.S. federal income tax purposes is other than:

an citizen or individual resident of the United States, as determined for U.S. federal income tax purposes;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust that is subject to the primary supervision of a U.S. court and to the control of one or more U.S. persons, or that was in existence on August 20, 1996, and has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

#### **Taxation of Distributions and Dispositions**





*Distributions on Common Shares*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

In general, if distributions are made with respect to our common shares, such distributions will be treated as dividends to the extent of our current and accumulated earnings and profits as determined under the Code and be subject to withholding as discussed in the following paragraph. Any portion of a distribution that exceeds our current and accumulated earnings and profits will first be applied to reduce the non-U.S. holder's basis in the common shares and, to the extent such portion exceeds the non-U.S. holder's basis, the excess will be treated as gain from the disposition of the common shares, the tax treatment of which is discussed below under Dispositions of Common Shares. In addition, if we are a U.S. real property holding corporation ( **USRPHC** ), and any distribution exceeds our current and accumulated earnings and profits, we will need to choose to satisfy our withholding requirements either by treating the entire distribution as a dividend, subject to the withholding rules in the following paragraph (and withhold at a minimum rate of 10%), or by treating only the amount of the distribution equal to our reasonable estimate of our current and accumulated earnings and profits as a dividend, with the excess portion of the distribution subject to withholding as if such excess were the result of a sale of shares in a USRPHC (discussed below under Dispositions of Common Shares ).

Generally, dividends paid to a non-U.S. holder will be subject to U.S. withholding tax at a 30% rate, subject to the two following exceptions:

Dividends effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States or, if a tax treaty applies, dividends effectively connected

with the conduct by the non-U.S. holder of a trade or business within the United States and attributable to a U.S. permanent establishment (or a fixed base in the case of an individual) maintained by the non-U.S. holder, generally will not be subject to withholding if the non-U.S. holder complies with applicable certification requirements of the Internal Revenue Service ( IRS ) and generally will be subject to U.S. federal income tax on a net income basis at regular graduated rates. In the case of a non-U.S. holder that is a corporation, such effectively connected dividends also may be subject to the branch profits tax at a 30% rate (or such lower rate as may be prescribed by an applicable tax treaty).

The withholding tax might not apply, or might apply at a reduced rate, under the terms of an applicable tax treaty. In the case of a non-U.S. holder entitled to the benefits of the income tax treaty between the U.S. and Canada, the tax rate is reduced to 15%. Under applicable Treasury Regulations, to obtain a reduced rate of withholding under a tax treaty, a non-U.S. holder generally will be required to satisfy applicable certification and other requirements prescribed by such Treasury Regulations. A non-U.S. holder of our common shares eligible for a reduced rate of U.S. withholding tax may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

*Dispositions of Common Shares*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Generally, a non-U.S. holder will not be subject to U.S. federal income tax with respect to gain recognized upon the disposition of such non-U.S. holder's common shares unless:

We are or have been a USRPHC for U.S. federal income tax purposes at any time during the five-year period ending on the date of disposition or such shorter period that such common shares were held and certain trading requirements described below are not met;

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States or, if a tax treaty applies, the gain is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States and is attributable to a U.S. permanent establishment (or a fixed base in the case of an individual) maintained by the non-U.S. holder.

An individual non-U.S. holder described in the second bullet point above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by U.S. source capital losses (even though the individual is not considered a resident of the United States). A non-U.S. holder described in the third bullet point above will be subject to tax on the gain derived from the sale under regular graduated U.S. federal income tax rates and, if it is a corporation, may be subject to the branch profits tax at a rate equal to 30% (or such lower rate as may be prescribed by an applicable tax treaty).

As to matters described in the first bullet point above, we believe we are currently a USRPHC for U.S. federal income tax purposes. Therefore, unless certain trading requirements described below are met, the sale of our common shares by a non-U.S. holder will be subject to U.S. federal income tax at normal graduated rates with respect to gain recognized. In addition, the purchaser of our common shares will be required to withhold tax at the rate of 10% of the amount realized from the sale and to report and remit such tax to the IRS within 20 days of the purchase. Such withheld amount is not an additional tax but is a credit against the non-U.S. holder's U.S. federal income tax

liability arising from the sale. If our common shares are regularly traded on an established securities market, however, the common shares will not be treated as an interest in a USRPHC (and therefore gain recognized on disposition will not be subject to U.S. federal income tax) with respect to non-U.S. holders who do not hold, actually or constructively, more than 5% of our outstanding common shares at any time during the five-year period ending on the date of disposition or such shorter period that such common shares were held. In addition, the purchaser of our common shares will not be required to withhold tax if our common shares are regularly traded on an established securities market (regardless of whether the selling non-U.S. holder held more than 5% of our outstanding common shares).

An established securities market consists of any of the following: (a) a United States national securities exchange which is registered under Sec. 6 of the Securities Exchange Act of 1934; (b) a non-United States national securities exchange which is officially recognized, sanctioned, or supervised by a governmental authority; or (c) any over-the-counter market. Presently, our common shares are traded on the American Stock Exchange ( AMEX ) which is a United States national securities exchange registered under Section 6 of the Securities Exchange Act of 1934. Thus our shares are presently traded on an established securities market.

Under temporary Treasury Regulations, for so long as 100 or fewer persons own 50% or more of our common shares (which is the case now and which we anticipate will continue to be the case for some period of time), the common shares will be regularly traded on an established securities market for a calendar quarter only if the established securities market is located in the United States and the common shares are regularly quoted by more than one broker or dealer making a market in the common shares. A broker or dealer makes a market in a class of stock only if the broker or dealer holds himself out to buy or sell shares of such class of stock at the quoted price.

At such time that it is no longer the case that 100 or fewer persons own 50% or more of our common shares, under temporary Treasury Regulations, our common shares would also be regularly traded on an established securities market for a calendar quarter if: (a) our common shares trade, other than in de minimis quantities, on at least 15 days during the calendar quarter; (b) the aggregate number of our common shares traded during the calendar quarter is at least 7.5% of the average number of our common shares outstanding during such calendar quarter (reduced to 2.5% if there are 2,500 or more record shareholders); and (c) in the event that our common shares are traded on an established securities market located outside the United States, either (x) the common shares are registered under Sec. 12 of the Securities Exchange Act of 1934, or (y) we attach a statement to our U.S. federal income tax return providing the following information:

a caption stating The following information concerning certain shareholders of this corporation is provided in accordance with the requirements of § 1.897-9T ;

the name and state in which we are incorporated, our principal place of business, and our employer identification number;

the identity of each person who, at any time during our tax year, was the beneficial owner of more than 5% of our common shares;

the total number of common shares issued; and

with respect to each beneficial owner of more than 5% of our common shares, the number of our common shares owned, the percentage of our common shares represented thereby, and the nature of the beneficial ownership of our common shares so owned.



Because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property interests relative to the fair market value of our foreign real property interests and other business assets, we may not be a USRPHC in the future. Even if and when we are no longer a USRPHC, however, generally only after we have not been a USRPHC for five consecutive years will the income tax and withholding requirements terminate.

**Information Reporting and Backup Withholding**



*Information Reporting*



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We must report annually to the IRS and to each non-U.S. holder the entire amount of any distribution irrespective of any estimate of the portion of the distribution that represents a taxable dividend paid to such non-U.S. holder, and the tax withheld with respect to such distribution. Copies of the information returns reporting such distributions and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

The payment of proceeds from the sale of our common shares by a broker to a non-U.S. holder which is not subject to the USRPHC withholding and reporting rules discussed above is generally not subject to information reporting if:

the beneficial owner of our common shares certifies its non-U.S. status under penalties of perjury, or otherwise establishes an exemption; or

the sale of our common shares is effected outside the United States by a foreign office, unless the broker is:

a U.S. person as defined in the Code;

a foreign person that derives 50% or more of its gross income for certain periods from activities that are effectively connected with the conduct of a trade or business in the United States;

a controlled foreign corporation for U.S. federal income tax purposes; or

a foreign partnership, if, at any time during its tax year, one or more of its partners are U.S. persons as defined in Treasury Regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership or if, at any time during its tax year, the foreign partnership is engaged in a U.S. trade or business.

### ***Backup Withholding***



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Dividends paid to a non-U.S. holder of our common shares generally will be exempt from backup withholding if the non-U.S. holder provides a properly executed IRS Form W-8BEN or otherwise establishes an exemption. The payment of proceeds from a disposition of our common shares effected by a non-U.S. holder outside the United States by or through a foreign office of a broker generally will not be subject to backup withholding. Payment of the proceeds from a disposition by a non-U.S. holder of our common shares made by or through the U.S. office of a broker is generally not subject to backup withholding if the non-U.S. holder provides a properly executed IRS Form W-8BEN or otherwise establishes an exemption. Notwithstanding the foregoing, backup withholding may apply if either we, our paying agent or the broker had actual knowledge, or reason to know, that the non-U.S. holder is a U.S. person.

Backup withholding is not an additional tax. Any amount withheld under these rules from a payment to a non-U.S. holder will be allowed as a credit against such non-U.S. holder's U.S. federal income tax liability and may entitle such non-U.S. holder to a refund provided the required information is furnished timely to the IRS.

*The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a non-U.S. holder's particular situation. Anything contained in this summary concerning any U.S. federal tax issue is not intended or written to be used, and it cannot be used, for the purpose of avoiding federal tax penalties under the Code. This summary was written to support the promotion or marketing of the transactions or matters addressed by this prospectus. Potential investors should consult their own tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of our common shares, including the tax consequences under U.S. federal, state, local, foreign and other tax laws, including gift and estate tax laws, and the possible effects of changes in federal or other tax laws.*

## **DESCRIPTION OF SECURITIES**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our articles of incorporation authorize the issuance of up to 100,000,000 common shares, and 50,000,000 shares of blank check convertible preferred stock, which may be issued from time to time in one or more series and with such rights, preferences and limitations as the Board of Directors may designate.

### **Common Shares**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The holders of our common shares, no par value per shares, are entitled to one vote per share. The holders of common stock are entitled to cumulative voting rights with respect to the election of directors. Subject to the dividend preferences on outstanding preferred stock, the holders of our common shares are entitled to receive ratably on a share-for-share basis such dividends as may be declared by the Board of Directors. In the event of a liquidation, the holders of our common shares are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock.

### **Series AA Stock**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

On March 28, 2007, all 1,890,710 of our outstanding shares of Series AA Stock 8% Convertible Preferred automatically converted into 1,890,710 shares of our common stock, no par value per share. Under our Amended and Restated Articles of Incorporation the Series AA ( Series AA Stock ) stock automatically converted into common shares on a one-for-one share basis effective the first trading day after the reported high selling price for our common shares was at least \$5.25 per share for any consecutive ten trading days, which condition was met on March 27, 2007. Dividends accrued on the Series AA Stock at a rate of \$0.28 per annum, per share, while the Series AA Stock was outstanding. In 2006, dividends paid on the Series AA Stock totaled \$529,400. Pursuant to the terms of the Series AA Stock, no dividends were payable for the first quarter of 2007.

### **Shareholder Action**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

According to our Articles of Incorporation and Bylaws, concerning any act or action required of or by the shareholders, the affirmative vote of the holders of a majority of the issued and outstanding common stock is sufficient to authorize, affirm, ratify or consent to such act or action,



except as otherwise provided by law. Officers, directors and holders of 5% or more of our outstanding common stock do not constitute a majority and thus do not control the voting upon all actions required or permitted to be taken by our shareholders, including the election of directors.

**Possible Anti-Takeover Effects of Authorized but Unissued Stock**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our authorized but unissued capital stock consists of 68,416,993 shares of common stock. One of the effects of the existence of authorized but unissued capital stock may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of GeoPetro by means of a merger, tender offer, proxy contest or otherwise, and to protect the continuity of GeoPetro's management. If in the due exercise of its fiduciary obligations, for example, the Board of Directors were to determine that a takeover proposal was not in GeoPetro's best interests, such shares could be issued by the Board of Directors without shareholder approval in one or more private placements or other transactions that might prevent or render more difficult or costly the completion of the takeover transaction by diluting the voting or other rights of the proposed acquiring or insurgent shareholder or shareholder group, by creating a substantial voting block in institutional or other hands that might undertake to support the position of the incumbent Board of Directors, by effecting an acquisition that might complicate or preclude the takeover, or otherwise.

### **Undesignated Preferred Stock**

Our undesignated preferred stock enables the board of directors to render more difficult or to discourage an attempt to obtain control of our company by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of management. The issuance of shares of the preferred stock pursuant to the board of directors' authority described above may adversely affect the rights of the holders of common stock. For example, preferred stock that we may rank prior to the common stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of common stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the common stock or may otherwise adversely affect the market price of the common stock.

### **Other Anti-Takeover Provisions**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We executed a contract of employment with Stuart J. Doshi, our President, Chief Executive Officer and Chairman of the Board of Directors, dated July 28, 1997, as amended. The contract currently provides for a five-year term which commenced May 1, 2005, which term is automatically extended for successive two-year renewal terms unless the Board of Directors or Mr. Doshi elects not to renew, or Mr. Doshi attains age 75. The contract provides for an annual salary of \$300,000, subject to annual inflation adjustments. The contract also provided for options to purchase up to 750,000 shares of our common stock at an exercise price of \$0.50 per share which options were to expire on April 30, 2006. The expiration dates of the options have been extended to April 30, 2008. In the event of a change of control, or if we do not renew Mr. Doshi's agreement, or if Mr. Doshi is terminated without cause, or under certain circumstances, with cause, he is entitled to receive (a) in exchange for all of his vested stock options and vested restricted shares, such number of shares of common stock having a market value equal to the difference between (x) the aggregate total market value of all vested restricted shares and shares of common stock he would receive upon exercise of all vested stock options less (y) the aggregate total exercise price for all of his vested stock options; provided, however, that if the common stock to be delivered to Mr. Doshi upon such change of control or termination have not been registered so as to permit immediate public resale, Mr. Doshi shall instead receive a cash payment equal to the market value on the date of termination of all vested stock options and restricted shares without any discount for liquidity or minority position

against cancellation of such options and restricted shares, (b) a cash payment equal to the greater of (i) his salary for the remainder of his term and the aggregate amount of his bonuses in respect of the last four fiscal years and (ii) four times his compensation in the current year and the aggregate amount of his bonuses for the last four fiscal years, and (c) an additional cash payment representing his employment benefits equal to 20% of the amount of salary he is entitled to receive under (b)(i) or (b)(ii) above, as applicable. In addition, in the event of a change of control or termination without cause, all unvested options issued by us to Mr. Doshi will vest.

The termination provisions of this employment contract were designed, in part, to impede and discourage a hostile takeover attempt and to protect the continuity of management.

**Certain Charter and Bylaws Provisions**



Limitation of Liability

Our Articles of Incorporation and Bylaws limit the liability of directors and provide that directors and officers shall be indemnified to the fullest extent permitted by California law. Section 317 of the California Corporations Code permits indemnification to be authorized by either: (a) a majority vote of disinterested directors constituting a quorum of the board of directors; (b) if such a quorum of directors is not obtainable, by independent legal counsel in a written opinion; (c) a vote of the shareholders; or (d) a court. The California Corporations Code states, generally, that to the extent a director or officer is successful on the merits in defense of a proceeding, he or she has the right to be indemnified against expenses actually and reasonably incurred in connection therewith.

We have obtained a directors and officers liability insurance policy for the purposes of indemnification which shall cover all of our elected and appointed directors and officers up to \$15,000,000 for each claim and \$15,000,000 in the aggregate. We believe that the limitation of liability provision in our Articles of Incorporation, and the directors and officers liability insurance will facilitate our ability to continue to attract and retain qualified individuals to serve as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers, and controlling persons, we have been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. Except for our payment of expenses incurred or paid by a director, officer, or controlling person in the successful defense of any action, suit or proceeding, if a claim for indemnification against such liabilities is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issues.

**Shareholder Meetings and Other Provisions**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Under our Bylaws, special meetings of the our shareholders may be called only by a majority of the members of the Board of Directors, the Chairman of the Board, the President, or by one or more shareholders holding shares in the aggregate entitled to cast not less than 10% of the votes at any such meeting. The annual meeting shall be held on such date and at such place as may be determined each year by our Board of Directors.

**Listing**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Our common stock is listed on the American Stock Exchange under the symbol "GPR" and on the Toronto Stock Exchange under the symbol "GEP.s". United States persons and persons in the United States may not purchase our stock on the Toronto Stock Exchange. Non-United States persons holding stock listed on the Toronto Stock Exchange may sell such stock on the American Stock Exchange subject to compliance with SEC Rule 144.

### **Transfer Agent and Registrar**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The registrar and transfer agent for our common shares is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario.

### **LEGAL MATTERS**





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The validity of our shares of common stock offered hereby will be passed upon by Greene Radovsky Maloney Share & Hennigh LLP.

### **EXPERTS**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The unaudited supplementary oil and gas reserve information included in this prospectus has been included in reliance of the report of, and on the authority of, Sproule Associates Inc., and MHA Petroleum Consultants.

**The consolidated financial statements set forth herein have been audited by Hein & Associates LLP, an independent registered public accounting firm as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.**

### WHERE YOU CAN FIND MORE INFORMATION



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

We have filed with the SEC a Registration Statement on Form S-1 (including the exhibits and amendments thereto) under the Securities Act with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all the information set forth in the registration statement. For further information regarding us and our shares of common stock to be sold in this offering, please refer to the registration statement.

You may read and copy all or any portion of the registration statement or any other information that we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplication fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our SEC filings, including the Registration Statement, are also available to you on the SEC's website ([www.sec.gov](http://www.sec.gov)).

We are subject to the information and reporting requirements of the Exchange Act, and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC.

**GEOPETRO RESOURCES COMPANY**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 AND THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006	
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2006 and 2005 and as of June 30, 2007</u>	F-3
<u>Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004 and the six months ended June 30, 2007 and 2006</u>	F-5
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004 and for the six months ended June 30, 2007</u>	F-6
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004 and the six months ended June 30, 2007 and 2006</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-9

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**





Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

March 29, 2007,

To the Shareholders and Board of Directors

GeoPetro Resources Company

San Francisco, California

We have audited the accompanying consolidated balance sheets of GeoPetro Resources Company and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GeoPetro Resources Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment.

(Signed) *HEIN & ASSOCIATES LLP*

Irvine, California

**GROPETRO RESOURCES COMPANY**

**CONSOLIDATED BALANCE SHEETS**

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

	June 30, 2007 (Unaudited)	2006	December 31, 2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 2,702,934	\$ 734,561	\$ 914,826
Trade accounts receivable - oil and gas sales	702,527	394,337	691,564
Accounts receivable - other	70,400	115,770	8,392
Related party note receivable		1,000,000	
Prepaid expenses	149,642	121,413	104,111
Total current assets	3,625,503	2,366,081	1,718,893
<b>Oil and gas properties, at cost (full cost method):</b>			
Unevaluated properties	4,905,942	4,503,481	3,636,504
Evaluated properties	44,762,076	43,701,510	27,846,543
Less - accumulated depletion and impairment	(12,776,804)	(11,557,257)	(9,130,869)
Net oil and gas properties	36,891,214	36,647,734	22,352,178
<b>Furniture, fixtures and equipment, at cost, net of depreciation</b>	37,105	41,547	56,013
<b>Other assets - deposits and other noncurrent assets</b>	6,869	6,116	6,583
<b>Deferred offering costs</b>			881,159
<b>Total Assets</b>	\$ 40,560,691	\$ 39,061,478	\$ 25,014,826
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Trade payables	\$ 562,143	\$ 654,427	\$ 1,928,169
Short term notes payable	1,827,581	982,301	
Interest payable	61,940	73,205	
Dividends payable		133,438	133,438
Production taxes payable	221,590	662,905	310,186
Other taxes payable	6,207	9,206	24,766
Royalty owners payable	1,204,001	951,271	865,244
Net profits interest payable	332,556	137,589	312,663
Total current liabilities	4,216,018	3,604,342	3,574,466

*The accompanying notes are an integral part of these consolidated financial statements.*

	June 30, 2007 (Unaudited)	2006	December 31, 2005
<b>Asset Retirement Obligations</b>	51,226	48,842	26,641
<b>Commitments and Contingencies (Notes 1, 4, and 10)</b>			
<b>Shareholders Equity:</b>			
Series A preferred stock, no par value; 1,000,000 shares authorized 0 shares outstanding at six months ended June 30, 2007 and December 31, 2006 after the conversion on March 30, 2006, 1,000,000 shares issued and outstanding at December 31, 2005			674,425
Series AA preferred stock, no par value; 5,000,000 shares authorized; 0 shares after conversion on March 28, 2007 and 1,890,710 shares issued and outstanding at December 31, 2006 and 2005, respectively. Liquidation value was \$6,750,923 at December 31, 2006 and 2005		5,924,068	5,924,068
Common stock, no par value; 100,000,000 shares authorized; 29,580,408, 27,423,758, and 21,171,923 shares issued and outstanding at June 30, 2007, December 31, 2006, and 2005, respectively	46,656,977	40,112,265	24,815,184
Additional paid-in capital	1,126,726	918,381	534,656
Treasury stock, at cost, 1,257,043 shares held at June 30, 2007, December 31, 2006, and 2005	(1,152,435)	(1,152,435)	(1,152,435)
Accumulated deficit	(10,337,821)	(10,393,985)	(9,382,179)
Total shareholders equity	36,293,447	35,408,294	21,413,719
<b>Total Liabilities and Shareholders Equity</b>	\$ 40,560,691	\$ 39,061,478	\$ 25,014,826

*The accompanying notes are an integral part of these consolidated financial statements.*

*GEOPETRO RESOURCES COMPANY*

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

	Six Months Ended		2006	Years Ended December 31,	
	June 30, 2007 (Unaudited)	June 30, 2006 (Unaudited)		2005	2004
<b>Revenues</b>					
Oil and gas sales	\$ 4,212,192	\$ 3,467,517	\$ 6,716,360	\$ 7,975,990	\$ 5,825,072
<b>Costs and Expenses:</b>					
Lease operating expense	846,107	717,929	1,602,932	878,176	780,237
General and administrative	1,526,919	1,287,620	2,347,447	1,551,747	1,963,649
Net profits interest	428,588	360,471	632,708	856,837	579,590
Impairment expense			38,849		2,038,422
Depreciation and depletion expense	1,229,870	1,106,162	2,406,612	1,832,693	2,077,004
Total costs and expenses	4,031,484	3,472,182	7,028,548	5,119,453	7,438,902
<b>Earnings (Loss) from Operations</b>	180,708	(4,665)	(312,188)	2,856,537	(1,613,830)
<b>Other Income and (Expense):</b>					
Interest expense	(178,445)	(126,030)	(306,682)	(217,768)	(402,958)
Debt conversion expense					(67,375)
Interest income	56,201	91,894	198,050	18,969	6,548
Total other expense	(122,244)	(34,136)	(108,632)	(198,799)	(463,785)
<b>Net income (Loss) Before Taxes</b>	58,464	(38,801)	(420,820)	2,657,738	(2,077,615)
Income tax expense	(2,300)	(21,291)	(61,586)	(17,267)	
<b>Net income (Loss) After Taxes</b>	56,164	(60,092)	(482,406)	2,640,471	(2,077,615)
Preferred stock dividend		(262,525)	(529,400)	(529,397)	(529,363)
<b>Net income (Loss) Available to Common Shareholders</b>	\$ 56,164	\$ (322,617)	\$ (1,011,806)	\$ 2,111,074	\$ (2,606,978)
<b>Earnings (Loss) per Common Share:</b>					
Basic	\$ 0.00	\$ (0.01)	\$ (0.04)	\$ 0.10	\$ (0.14)
Diluted	\$ 0.00	\$ (0.01)	\$ (0.04)	\$ 0.09	\$ (0.14)
<b>Weighted Average Number of Common Shares Outstanding:</b>					
Basic	28,510,691	24,609,367	25,990,868	20,890,841	18,901,607
Diluted	30,897,006	24,609,367	25,990,868	24,001,888	18,901,607

*The accompanying notes are an integral part of these consolidated financial statements.*





**GROPETRO RESOURCES COMPANY**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, 2004 AND SIX MONTHS ENDED  
JUNE 30, 2007 (UNAUDITED)**

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

	Preferred Stock Series A		Preferred Stock Series AA		Common stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total Shareholders Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, December 31, 2003	1,000,000	\$ 674,425	1,890,710	\$ 5,924,068	17,656,950	\$ 14,509,961	\$	\$ (60,000)	\$ (8,886,275)	\$ 12,162,179
Issuance of common stock for cash and services					1,609,822	3,479,899				3,479,899
Conversion of notes payable					719,147	2,097,500				2,097,500
Treasury shares purchased					(117,647)			(500,000)		(500,000)
Stock compensation expense							500,000			500,000
Fair value of warrants issued with notes payable							31,729			31,729
Net loss									(2,077,615)	(2,077,615)
Dividends on Series AA Preferred									(529,363)	(529,363)
Balances, December 31, 2004	1,000,000	674,425	1,890,710	5,924,068	19,868,272	20,087,360	531,729	(560,000)	(11,493,253)	15,164,329
Issuance of common stock for cash					1,443,047	4,727,824				4,727,824
Treasury shares purchased					(139,396)			(592,435)		(592,435)
Fair value of warrants issued with notes payable							2,927			2,927
Net Income									2,640,471	2,640,471
Dividends on Series AA Preferred									(529,397)	(529,397)
Balances, December 31, 2005	1,000,000	674,425	1,890,710	5,924,068	21,171,923	24,815,184	534,656	(1,152,435)	(9,382,179)	21,413,719
Issuance of common stock for cash					5,251,835	14,622,656				14,622,656
Series A preferred stock conversion	(1,000,000)	(674,425)			1,000,000	674,425				
Fair value of warrants issued with notes payable							182,390			182,390
Fair market value of the options							201,335			201,335
Net income									(482,406)	(482,406)
Dividends on Series AA Preferred									(529,400)	(529,400)
Balances, December 31, 2006			1,890,710	5,924,068	27,423,758	40,112,265	918,381	(1,152,435)	(10,393,985)	35,408,294
Issuance of common stock for cash					265,940	620,644				620,644
Series AA preferred stock conversion			(1,890,710)	(5,924,068)	1,890,710	5,924,068				

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Fair value of warrants issued with notes payable			138,475					138,475			
Fair market value of the options			69,870					69,870			
Net income							56,164	56,164			
Balances, June 30, 2007 (Unaudited)	\$	\$	29,580,408	\$	46,656,977	\$	1,126,726	\$ (1,152,435)	\$ (10,337,821)	\$	36,293,447

*The accompanying notes are an integral part of these consolidated financial statements.*

*GEOPETRO RESOURCES COMPANY*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

	Six Months Ended		Years Ended December 31,		
	June 30, 2007 (Unaudited)	June 30, 2006 (Unaudited)	2006	2005	2004
<b>Cash Flows from Operating Activities:</b>					
Net income (loss)	\$ 56,164	\$ (60,092)	\$ (482,406)	\$ 2,640,471	\$ (2,077,615)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and depletion	1,229,870	1,106,162	2,406,612	1,832,693	2,077,004
Stock compensation expense	69,870	140,624	201,335	2,927	531,729
Non-cash interest expense	108,223	88,496	194,691		(17,304)
Impairment expense			38,849		2,038,422
Asset retirement obligations	1,430	1,300	2,664	1,936	1,237
<b>Changes in operating assets and liabilities:</b>					
(Increase) decrease in accounts receivable	(308,189)	108,735	297,226	(239,195)	179,159
(Increase) decrease in other receivables	45,370	(15,901)	(107,378)	81,608	(90,000)
(Increase) decrease in prepaid expenses	(28,229)	(188,293)	(17,302)	(77,752)	(15,945)
(Increase) decrease deposits and other noncurrent assets	(750)	466	466	(794)	4,625
Increase (decrease) in trade payables	(92,289)	2,103,477	(1,273,742)	662,791	1,013,524
Increase (decrease) in settlement payable		1,100,000			
Increase (decrease) in interest payable	(11,266)	37,534	73,205	(88,388)	29,034
Increase (decrease) in dividends payable	(133,438)	(1,451)		361	20,769
Increase (decrease) in production taxes payable	(441,315)	(73,068)	352,720	(27,794)	337,980
Increase (decrease) in other taxes payable	(2,999)	(16,730)	(15,561)	(21,522)	46,288
Increase (decrease) in royalty owners payable	252,730	107,366	86,027	157,251	74,211
Increase(decrease) in net profits interest payable	194,968	(55,912)	(175,074)	91,197	57,518
Increase in asset retirement obligations	953		19,537		11,094
Net cash provided by (used in) operating activities	941,103	4,382,713	1,601,869	5,015,790	4,221,730
<b>Cash Flows from Investing Activities:</b>					
Oil and gas property expenditures	(1,430,493)	(14,425,098)	(16,721,944)	(5,602,741)	(9,171,589)
Proceeds from sale of oil and gas interest				2,400,000	
Acquisition of furniture, fixtures & equipment	(5,881)	(1,580)	(4,605)	(2,162)	(81,876)
(Increase) decrease in related party note receivable	1,000,000	(1,000,000)	(1,000,000)		
Net cash used in investing activities	(436,374)	(15,426,678)	(17,726,549)	(3,204,903)	(9,253,465)

F-7

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

	Six Months Ended		2006	Years Ended December 31,	
	June 30, 2007 (Unaudited)	June 30, 2006 (Unaudited)		2005	2004
<b>Cash Flows from Financing Activities:</b>					
(Increase) in restricted cash	\$	\$ (2,000,075)	\$	\$	\$
Proceeds from sale of common shares, option and warrant exercises, net	620,644	16,531,667	16,717,604	4,727,824	3,479,899
Payments of preferred dividends		(262,525)	(529,400)	(529,397)	(529,363)
Proceeds from promissory notes, net	1,000,000	1,900,000	1,900,000		2,075,000
Payments of loan fee	(57,000)	(30,000)	(30,000)		
Repayments of promissory notes	(100,000)		(900,000)	(4,781,807)	(1,158,569)
Deferred offering costs		(1,213,789)	(1,213,789)	(730,906)	(150,255)
Purchase of treasury stock				(592,435)	
Net cash provided by (used in) financing activities	1,463,644	14,925,278	15,944,415	(1,906,721)	3,716,712
Net Increase (Decrease) in Cash and Cash Equivalents	1,968,373	3,881,313	(180,265)	(95,834)	(1,315,023)
<b>Cash and Cash Equivalents:</b>					
Beginning of period	734,561	914,826	914,826	1,010,660	2,325,683
End of period	\$ 2,702,934	\$ 4,796,139	\$ 734,561	\$ 914,826	\$ 1,010,660
<b>Supplemental Disclosure of Cash Flow Information:</b>					
Cash paid for interest	\$ 70,222	\$	\$ 38,682	\$ 291,731	\$ 297,266
Cash paid for income taxes	\$ 1,500	\$	\$ 61,586	\$	\$
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>					
Issuance of common stock for conversion of notes payable and cancellation of common stock purchase warrants	\$	\$	\$	\$	\$ 2,097,500

*The accompanying notes are an integral part of these consolidated financial statements.*





**GROPETRO RESOURCES COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Information subsequent to December 31, 2006 is unaudited)**

**1. ORGANIZATION AND NATURE OF OPERATIONS:**

*GeoPetro* GeoPetro Resources Company ( *GeoPetro* or the *Company* ) was originally incorporated as GeoPetro Company under the laws of the State of Wyoming in 1994 to participate in the oil and gas acquisition, exploration, development and production business in the United States and internationally. GeoPetro Company was subsequently merged into GeoPetro Resources Subsidiary Company, a California corporation, on June 28, 1996. GeoPetro's name was then changed to GeoPetro Resources Company. GeoPetro's corporate offices are in San Francisco, California. The accompanying consolidated financial statements include the accounts of GeoPetro and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Operations* Although GeoPetro is not a development stage enterprise, the company has a limited operating history upon which an evaluation of its business prospects can be based. The risks, expense, and difficulties encountered by early stage companies must be considered when evaluating GeoPetro's business prospects. GeoPetro recorded net income of \$56,164 for the six months ended June 30, 2007 and \$2,111,074 in 2005 but incurred net losses of \$1,011,806 and \$2,606,978 in 2006 and 2004 respectively, and had an accumulated deficit at June 30, 2007 of \$10,337,821. GeoPetro expects to make significant capital expenditures in the foreseeable future. Management believes that GeoPetro will be successful in obtaining adequate sources of cash to fund its anticipated capital expenditures through the end of 2007 and to follow through with plans for continued investments in oil and gas properties. GeoPetro's success, in part, depends on its ability to generate additional financing, farm-out certain of its projects and manage its relations with the companies that provide exploration and development services. GeoPetro's success also depends on its ability to effectively manage growth and develop proven reserves. Additionally, GeoPetro's operations are subject to all of the environmental and operational risks normally associated with the oil and gas industry. GeoPetro maintains insurance that is customary in the industry.

Since its inception, GeoPetro has participated as a working interest owner in the acquisition of undeveloped leases, seismic options, lease options and foreign concessions and has participated in seismic surveys and the drilling of test wells on its undeveloped properties. Further leasehold acquisitions and seismic operations are planned for 2007 and future periods. In addition, exploratory and development drilling is scheduled during 2007 and future periods on GeoPetro's undeveloped properties. It is anticipated that these exploration activities together with others that may be entered into may impose financial requirements which may exceed the existing working capital of GeoPetro. Management may raise additional equity and/or debt capital, and has farmed-out certain of its projects to finance its continued participation in planned activities. However, if additional financing is not available, GeoPetro may be compelled to reduce the scope of its business activities. If GeoPetro is unable to fund planned expenditures, it may be necessary to:

1. forfeit its interest in wells that are proposed to be drilled;
2. farm-out its interest in proposed wells;

3. sell a portion of its interest in prospects and use the sale proceeds to fund its participation for a lesser interest; and
4. reduce general and administrative expenses.

In order for GeoPetro to maintain its interest in the Indonesian contract area, certain work and expenditure commitments must be met or an extension must be granted by the applicable governing authority. In the event that GeoPetro does not meet the commitments and no extensions are granted for meeting the commitments, GeoPetro will forfeit its interest in the contract area requiring an impairment write-down equal to the capitalized costs recorded for the area forfeited. This could have a material adverse impact on GeoPetro's results of operations in future periods.

In July 2005, GeoPetro entered into agreements with unaffiliated companies that have purchased and are operating a dedicated gas treatment plant and related pipelines to process and transport GeoPetro's gas from the Madisonville Project in Madison County, Texas. These agreements are discussed in detail in Note 10. In connection with the Madisonville Project, GeoPetro re-completed an existing well for production from the Rodessa formation interval at approximately 11,800 feet of depth and completed an injection well for disposal of waste gasses from the production well. GeoPetro initiated gas sales from the Madisonville Project in May 2003. A second well (the Fannin #1 well) was drilled, tested and completed during 2004. Two additional development wells (the Wilson #1 and the Mitchell #1 well) were drilled during 2006. The Fannin #1 and the Mitchell#1 well are presently producing on a restricted rate awaiting a planned expansion of the gas treatment plant. Another well is planned for drilling during late 2007 or 2008 in the Madisonville Project.

Other than the above work and expenditure commitments, the timing of most of GeoPetro's capital expenditures is discretionary. GeoPetro has no material long-term commitments associated with its capital expenditure plans or operating agreements. Consequently, GeoPetro has a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. The level of capital expenditures will vary in future periods depending on the success of exploratory drilling activities, gas and oil price conditions and other related economic factors. See Note 11 for discussion of financing received subsequent to year end.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

U.S. GAAP The Company's financial statements have been prepared in accordance with accounting principles generally accepted within the United States of America ( U.S. GAAP ).

Use of Estimates and Significant Estimates Certain amounts in GeoPetro's financial statements are based upon significant estimates, including oil and gas reserve quantities which form the basis for the calculation of depreciation, depletion, amortization and impairment of oil and gas properties. Actual results could materially differ from those estimates.

Oil and Gas Properties GeoPetro follows the full cost method of accounting for oil and gas producing activities and, accordingly, capitalizes all costs incurred in the acquisition,



exploration, and development of proved oil and gas properties, including the costs of abandoned properties, dry holes, geophysical costs, and annual lease rentals. All general corporate costs are expensed as incurred. In general, sales or other dispositions of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded. Amortization of evaluated oil and gas properties is computed on the units of production method based on all proved reserves on a country by country basis. Unevaluated oil and gas properties are assessed for impairment either individually or on an aggregate basis. The net capitalized costs of evaluated oil and gas properties (full cost ceiling limitation) are not to exceed their related estimated future net revenues discounted at 10%, and the lower of cost or estimated fair value of unproved properties, net of tax considerations.

Joint Ventures Some exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only GeoPetro's proportionate interest in such activities.

Revenue Recognition Revenue is recognized upon delivery of oil and gas production and is shown net of applicable royalty payments, processing and transportation fees. In addition, the Company recognizes revenue from the Madisonville Field net of applicable fees to gather, treat and transport the Company's natural gas production. The applicable fees are paid to unrelated third parties. Revenue from the Madisonville Field is recognized when the price for gas delivered becomes fixed and determinable. The price for gas delivered to the purchaser, Madisonville Gas Processing LP (MGP), becomes fixed and determinable after the gas has been gathered, treated, and transported to a common carrier pipeline where it is then resold by MGP to the common carrier pipeline on a spot market basis. The proceeds from the sale of the gas are deposited directly into an escrow account under the joint signature control of the Company and MGP. The fees to gather, treat and transport the gas are distributed to MGP in accordance with agreements between them and the Company. The remaining net proceeds are distributed to the Company. See Note 10 for a more detailed discussion of the fees under the MGP Agreement.

Asset Retirement Obligation In accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ( SFAS 143 ), the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. GeoPetro recorded an asset retirement obligation to reflect GeoPetro's legal obligations related to future plugging and abandonment of its oil and gas wells. GeoPetro estimated the expected cash flow associated with the obligation and discounted the amount using a credit-adjusted, risk-free interest rate. At least annually, GeoPetro reassesses the obligation to determine whether a change in the estimated obligation is necessary. GeoPetro evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should those indicators suggest the estimated obligation has materially changed, GeoPetro will accordingly update its assessment.

	June 30, 2007 (Unaudited)	2006	December 31, 2005	2004
Asset retirement obligations, beginning of period	\$ 48,842	\$ 26,641	\$ 24,705	\$ 12,374
Liabilities incurred	954	19,537		11,094
Accretion expense	1,430	2,664	1,936	1,237
Asset retirement obligations, end of period	\$ 51,226	\$ 48,842	\$ 26,641	\$ 24,705

Furniture, Fixtures and Equipment Furniture, fixtures and equipment are stated at cost. Depreciation is provided on furniture, fixtures and equipment using the straight-line method over an estimated service life of three to seven years.

Income Taxes GeoPetro accounts for income taxes using the asset and liability method wherein deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Because management has determined that realization of deferred tax assets is not more likely than not, the net deferred tax assets are fully reserved.

Concentrations of Credit Risk Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions described below. The credit risk amounts for cash and accounts receivable do not take into account the value of any collateral or security.

GeoPetro maintains several cash accounts with three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of June 30, 2007, the uninsured bank balance was \$3,057,166. GeoPetro has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

During the six months ended June 30, 2007 and the years ended December 31, 2006, 2005 and 2004, the Company had sales to customers exceeding 10% of total sales as follows:

	June 30, 2007	2006	2005	2004
Customer A	82%	79%	99.7%	99.6%
Customer B	18%	21%		

At June 30, 2007, December 31, 2006, 2005 and 2004, the Company had accounts receivable balances from Customer A of \$702,527 or 91%, \$394,337 or 77%, \$691,564, or 100%, and \$449,947, or 99.5% of total accounts receivable respectively.

Allowance for Doubtful Accounts Trade accounts receivable are recorded at net realizable value. If the financial condition of GeoPetro's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Delinquent trade accounts receivable are charged against the allowance for doubtful accounts once uncollectibility has been determined. The allowance is determined through an analysis of the past-due status of accounts receivable and assessments of risk that are based on historical trends and an evaluation of the impact of current and projected economic conditions. There was no activity in the allowance for doubtful accounts as of June 30, 2007, December 31, 2006 and 2005.

Fair Value of Financial Instruments The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. For certain of GeoPetro's financial instruments, including cash, accounts receivable, accounts payable and current portion of notes payable, the carrying amounts approximate fair value due to their maturities.

Stock-Based Compensation Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), encourages, but does not require, companies to record compensation cost for stock-based employee compensation at fair value. Prior to January 1, 2006, GeoPetro elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 ( APB 25 ), *Accounting for Stock Issued to Employees*, and related interpretations.

In accordance with SFAS 123, GeoPetro discloses the impact of the fair value accounting of employee stock options. Transactions in equity instruments with non-employees for goods or services have been accounted for using the fair value method as prescribed by SFAS 123.





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table illustrates the effect on GeoPetro's net loss and loss per share as if GeoPetro had applied the fair value recognition provisions of SFAS 123 to its stock-based employee compensation awards granted in 2003 and in 2005, and recognized expense over the applicable award vesting period. There were no stock-based employee compensation awards granted in 2004.

	As of and for the Years Ended December 31,		
	2005	2004	2003
Net income (loss) available to common shareholders as reported	\$ 2,111,074	\$ (2,606,978)	\$ (1,943,565)
Compensation FAS 123	(98,870)	(63,655)	(94,495)
Pro forma income (loss)	\$ 2,012,204	\$ (2,670,633)	\$ (2,038,060)
Income (loss) per share as reported	\$ 0.09	\$ (0.14)	\$ (0.12)
Pro forma income (loss) per share	\$ 0.08	\$ (0.14)	\$ (0.12)

The assumptions made for purposes of estimating the fair value of the stock options are included in Note 8.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard 123(R) *Share-Based Payment* ( SFAS 123(R) ) using the modified prospective transition method. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 *Share-Based Payment* ( SAB 107 ) in March, 2005, which provides supplemental SFAS 123(R) application guidance based on the views of the SEC. Under the modified prospective transition method, compensation cost recognized in the six month period ended June 30, 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with the modified prospective transition method, results for prior periods have not been restated.

The adoption of SFAS 123(R) resulted in stock compensation expense for the six months period ended June 30, 2007 of \$69,870 to income from continuing operations and income before income taxes, of which the entire amount was recorded to general and administrative expenses. The Company did not recognize a tax benefit from the stock compensation expense because the Company considers it is more likely than not that the related deferred tax assets, which have been reduced by a full valuation allowance, will not be realized.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003 and 2005 for all periods presented: risk-free, weighted-average interest rates ranging from 2.52 to 3.75% based on the U.S. Treasury yield curve in effect at the time of grant, expected

dividend yield of 0%, expected life of 5 years from the date of grant, and expected volatility of 10 and 25%. After the initial public offering on March 30, 2006, an expected volatility factor of 58% was used for the newly issued common stock options and the extension of common stock warrants and options. A newly issued stock option is an option that was granted on or after March 30, 2006 or a previously granted stock option that is modified on or after March 30, 2006. The fair value of all newly issued stock options grants is estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants and modifications of prior grants made on or after March 30, 2006 for the six months ended June 30, 2007: risk-free, weighted average interest rate of 4.9% based on the U.S. Treasury yield curve in effect at the time of grant, expected dividend yield of 0%, expected life of 5 years from the date of grant (the remaining term of the option in the case of option extensions), and expected volatility of 58%. GeoPetro has selected 10 publicly traded small cap companies whose primary business is oil and gas exploration and production. Small cap, for purposes of this analysis, is defined as companies with a market capitalization under \$1 billion. From this peer group of similar companies, GeoPetro randomly selected 10 companies and derived expected volatility factors for the most recent completed fiscal years for each entity as reported in their recently filed 10K or 10KSB Annual Reports with the Securities and Exchange Commission. Where the expected volatilities were expressed as a range, a simple average of the range is used as an expected volatility for that entity.

The options outstanding as of June 30, 2007 have the following contractual lives:

<b>Number of Options Outstanding</b>	<b>Number of Exercisable</b>	<b>Exercise Prices</b>	<b>Weighted Average Remaining Contractual Life</b>
750,000	750,000	0.50	0.84
1,290,000	1,290,000	2.00	0.50
1,750,000	1,380,000	2.10	5.93
150,000	30,000	3.85	3.80
10,000	4,000	4.25	2.51
10,000	4,000	6.25	2.95
3,960,000	3,458,000		

As of June 30, 2007, there are 3,458,000 options which are exercisable. The remaining 502,000 options will become exercisable ratably over the next four years.

**Earnings (Loss) Per Common Share** Basic earnings per share excludes dilution and is calculated by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared from the earnings of the entity. Potential common shares for the periods ended June 30, 2006, December 31, 2006 and 2004 were excluded from the earnings per share computation because the Company incurred a net loss and were anti-dilutive. There were 196,375 and 1,506,064 outstanding common stock warrants at June 30, 2007 and December 31, 2005, respectively, as well as 20,000 outstanding common stock options on June 30, 2007 and December 31, 2005, that were not included in the diluted EPS calculation because the warrants and options exercise prices were greater than the average market price of the common shares. 1,890,710 shares of Series AA Stock were not included in the diluted EPS calculation at December 31, 2005 because they were anti-dilutive.

	Six Months Ended June 30,		For the Years Ended December 31,		
	2007	2006	2006	2005	2004
Net Income (Loss) and Adjustments:					
Net Income (Loss) Available to Common Shareholders	\$ 56,164	\$ (322,617)	\$ (1,011,806)	\$ 2,111,074	\$ (2,606,978)
Adjustments		Anti-dilutive	Anti-dilutive	Anti-dilutive	Anti-dilutive
Net Earnings (Loss) for Diluted Calculation	\$ 56,164	\$ (322,617)	\$ (1,011,806)	\$ 2,111,074	\$ (2,606,978)
Shares:					
Weighted Average Shares Outstanding	28,510,691	24,609,367	25,990,868	20,890,841	18,901,607
Outstanding Options	2,123,329	Anti-dilutive	Anti-dilutive	1,927,660	Anti-dilutive
Series A Preferred Stock Conversion				1,000,000	Anti-dilutive
Outstanding Warrants	262,986	Anti-dilutive	Anti-dilutive	183,387	Anti-dilutive
Average Number of Shares for Diluted Calculation	30,897,006	24,609,367	25,990,868	24,001,888	18,901,607
Diluted EPS	\$ 0.00	\$ (0.01)	\$ (0.04)	\$ 0.09	\$ (0.14)

**Segment Reporting** GeoPetro has oil and gas exploration, development and production operations in the United States, Canada, Australia and Indonesia. All revenues and related costs are associated with operations in the United States. A summary of assets and capital expenditures by geographical segment is included in Note 3.

**Cash and Cash Equivalents** Cash and cash equivalents include cash on hand, amounts held in banks and highly liquid investments purchased with an original maturity of three months or less.

**Interim Financial Statements** The interim consolidated financial statements have been prepared by the Company's management, without audit, in accordance with accounting principles generally accepted in the United States and in the opinion of management, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the periods presented. The condensed consolidated results of operations, financial position, and cash flows for the interim periods presented herein are not necessarily indicative of future financial results.

**Recently Issued Accounting Pronouncements** In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which is effective for the Company beginning January 1, 2008 and provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for future transactions. The Company does not expect the adoption of this pronouncement to have a material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of SFAS No. 159 is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. Under SFAS No. 159, entities that elect the fair value option (by instrument) will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. The Company does not expect the adoption of this pronouncement to have a material impact on its financial position or results of operations.

### 3. SUMMARY OF OIL AND GAS OPERATIONS:

Capitalized costs at year end and costs incurred relating to GeoPetro's oil and gas activities are summarized as follows:

Capitalized costs as of December 31, 2006 are as follows:

	United States	Australia	Indonesia	Canada	Totals
Evaluated properties	\$ 40,835,432	\$ 2,388,051	\$	\$ 478,027	\$ 43,701,510
Unevaluated properties	1,955,252	1,697,718	759,885	90,626	4,503,481
Less accumulated depletion and impairment	(8,691,179)	(2,388,051)		(478,027)	(11,557,257)
Net capitalized costs	\$ 34,099,505	\$ 1,697,718	\$ 759,885	\$ 90,626	\$ 36,647,734

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Costs incurred for the year ended December 31, 2006 are as follows:

Property acquisition	\$	351,803	\$		\$		\$	351,803
Exploration		(42,834)			576,296	20,561		554,023
Development		15,816,118						15,816,118
Total costs incurred	\$	16,125,087	\$		576,296	20,561	\$	16,721,944

F-17

---

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

Capitalized costs as of December 31, 2005 are as follows:

	United States	Australia	Indonesia	Canada	Totals
Evaluated properties	\$ 25,019,314	\$ 2,388,051	\$	\$ 439,178	\$ 27,846,543
Unevaluated properties	1,646,282	1,697,718	183,589	108,915	3,636,504
Less accumulated depletion and impairment	(6,303,640)	(2,388,051)		(439,178)	(9,130,869)
Net capitalized costs	\$ 20,361,956	\$ 1,697,718	\$ 183,589	\$ 108,915	\$ 22,352,178

Costs incurred for the year ended December 31, 2005 are as follows:

	United States	Australia	Indonesia	Canada	Totals
Property acquisition	\$ 1,220,150	\$	\$	\$	\$ 1,220,150
Exploration	1,246,550		(2,090,089)	26,564	(816,975)
Development	2,799,567				2,799,567
Total costs incurred	\$ 5,266,267	\$	\$ (2,090,089)	\$ 26,564	\$ 3,202,742

Generally, sales or dispositions of oil and gas properties, including sales of partial interests in prospects, are treated as adjustments to capitalized costs, with no gain or loss recorded.

Evaluated Oil and Gas Properties In periods prior to 2004 it was determined that the total net costs in the U.S. and Australian evaluated cost pool exceeded their net realizable value. Accordingly, impairment write-downs of \$2,426,526 were recorded in the prior periods. During 2004 it was determined that the total net costs in the Australian evaluated cost pool exceeded their net realizable value. Accordingly, impairment write-downs of \$1,599,244 were recorded for the years ended December 31, 2004. In addition, an impairment write-down associated with the Canadian evaluated cost pool of \$439,178 was recorded for the year ended December 31, 2004 and \$38,849 was recorded for the year ended December 31, 2006.

Unevaluated Oil and Gas Properties - United States As GeoPetro's properties are evaluated through exploration, they will be included in the amortization base. Costs of unevaluated properties in the United States at December 31, 2006 and 2005 represent exploration costs in connection with GeoPetro's California and Alaska prospects. The prospects and their related costs in unevaluated properties have been assessed individually and no impairment charges were considered necessary for the United States properties for any of the periods presented. The current status of these prospects is that seismic data is being interpreted on an on-going basis on the subject lands within the prospects.

Drilling in California prospects is expected to commence as early as 2008 and will continue in future periods. As the prospects are evaluated through drilling in future periods, the property





acquisition and exploration costs associated with the wells drilled will be transferred to evaluated properties where they will be subject to amortization.

Unevaluated Oil and Gas Properties - Australia Unevaluated costs incurred in Australia represent costs in connection with the exploration of two exploration permit areas in Australia. The prospects and their related costs in unevaluated properties have been assessed individually and no impairment charges were considered necessary for the Australian properties for any of the periods presented. The current status of these prospects is that appraisal wells have been drilled and are being evaluated for commerciality on the subject lands within the prospects. Subsequent to December 31, 2006, the Company has entered into a contract to sell its Australian Properties to an unaffiliated third party, See Note 10.

Unevaluated Oil and Gas Properties - Indonesia Unevaluated costs incurred in Indonesia represent costs in connection with one production sharing contract area in Indonesia. The prospect and its related costs in unevaluated properties have been assessed individually and no impairment charges were considered necessary for the Indonesian property for any of the periods presented. The current status of this prospect is that seismic data is being interpreted on an on-going basis to identify drilling locations on the subject lands within the prospect. In October 2005, the Company sold its interest in another Indonesian production sharing contract for cash consideration of \$2,400,000. The proceeds realized were credited to the Indonesian unevaluated cost pool.

Drilling is expected to commence on the prospect as early as 2007 and is expected to continue in future periods. As the prospect is evaluated through drilling in future periods, the property acquisition and exploration costs associated with the wells drilled will be transferred to evaluated properties where they will be subject to amortization.

The Company's interest in one of the production sharing contract areas is subject to prior work commitments, for the ten-year period ended December 3, 2007, requiring total expenditures of \$3,000,000 net to the Company's 12% working interest in the contract area. The Company has met approximately \$1,536,000 of the \$3,000,000 required expenditures. The applicable governing authority has granted the Company a deferral of prior years' commitments until December 2007. The Company may request additional deferral of the commitments from the applicable governing authority beyond December 2007.

The Company retains a carried 12% stake in the Bengara (II) Block PSC through its subsidiary, Continental-GeoPetro (Bengara-II) Ltd. ( CGB2 ), the operator company of the project with offices in Jakarta, Indonesia. GeoPetro's partner, Continental Energy Corporation likewise retains an 18% interest in the Bengara (II) Block. CNPCHK (Indonesia) Limited owns the remaining 70% in the Bengara (II) Block and has agreed to pay 100% of the cost of drilling certain exploratory and appraisal wells.

In the event that the Company does not meet the work program commitments and provided that no extensions are granted for meeting the commitments, the Company must forfeit its interest in the production sharing contract. If the Company forfeits its interest, it will be necessary to record an impairment write-down equal to the capitalized costs recorded for the area forfeited.



***Breakdown of Unevaluated Oil and Gas Properties*** The following table sets forth a summary of oil and gas property costs not being amortized at December 31, 2006, by the period in which the costs were incurred:

	Totals	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	2003 and Prior Years
Unproved property acquisition	\$ 1,853,945	\$ 351,803	\$	\$ 13,475	\$ 1,488,667
Exploration	2,649,536	515,174	(816,974)	(68,144)	3,019,480
Total	\$ 4,503,481	\$ 866,977	\$ (816,974)	\$ (54,669)	\$ 4,508,147

Management expects that planned activities for the year 2007 will enable the evaluation of approximately 5% of the costs as of December 31, 2006. Evaluation of 30% of the remaining costs is expected to occur in 2008 with the remaining 65% in 2009 and beyond.

#### 4. SHORT TERM DEBT:

Short-term non-convertible debt at June 30, 2007 (unaudited) and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006
<b>Amounts Due Unrelated Parties:</b>		
Promissory note dated January 31, 2006, payable to Pinehill Capital; collateralized with an undivided 5% of the net cash flow in GeoPetro's Madisonville Project; payable on or before October 31, 2007 (a)	\$ 1,000,000	\$ 1,000,000
Promissory note dated February 1, 2007 payable on or before October 31, 2007 (b)	500,000	
Promissory note dated February 6, 2007 payable on or before October 31, 2007 (c)	300,000	
Promissory note dated February 1, 2007 payable on or before October 31, 2007 (d)	100,000	
	1,900,000	1,000,000
Less discount on promissory notes	(72,419)	(17,699)
	\$ 1,827,581	\$ 982,301

(a) The Company issued a \$1,000,000 short term promissory note on January 31, 2006 with a maturity date of January 31, 2007. The note may be repaid at any time without penalty. In the event the note is not repaid by the maturity date, the Company has agreed to dedicate 5% of the net cash flow from the Madisonville Project in Texas toward the repayment of the note and any accrued interest thereon. In connection with the note, the Company paid a loan origination fee of \$30,000 and granted a three-year warrant exercisable to purchase 150,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$182,390, as well as the \$30,000 loan origination fee,

was recorded as a debt discount and is being amortized over the life of the promissory note. On February 1, 2007, the maturity date was extended to October 31, 2007. The Company has paid \$80,000 accrued interest thru January 31, 2007. In connection with the extension, the Company paid a loan extension fee of \$30,000 and granted a three-year warrant exercisable to purchase 50,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$57,242, together with the \$30,000 loan extension fee, were recorded as a debt discount and are being amortized over the life of the promissory note. As of June 30, 2007, the unamortized debt discount was \$38,774.

(b) The Company issued a \$500,000 short term promissory note payable on February 1, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$15,000 and granted a three-year exercisable warrant to purchase 25,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$27,072, as well as the \$15,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of June 30, 2007, the unamortized debt discount was \$18,699.

(c) The Company issued a \$300,000 short term promissory note payable on February 6, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$9,000 and granted a three-year exercisable warrant to purchase 15,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$16,214, as well as the \$9,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of June 30, 2007, the unamortized debt discount was \$11,206.

(d) The Company issued a \$100,000 short term promissory note payable on February 1, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$3,000 and granted a three-year exercisable warrant to purchase 5,000 Common Shares at \$3.50 per share. The fair value of the warrants on the date of issuance, \$5,414, as well as the \$3,000 loan origination fee, was recorded as a debt discount and is being amortized over the life of the promissory note. As of June 30, 2007, the unamortized debt discount was \$3,740.

## 5. INCOME TAXES:

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the adoption of FIN 48, the Company has unrecognized tax benefits of \$86,000 as of the date of adoption. No



corresponding interest and penalties have been accrued as the Company is in a net operating loss position.

The Company files income tax returns in the U.S. federal jurisdiction and various states. There is currently a federal income tax audit for the 2004 tax year in progress. There are currently no other federal or state income tax examinations underway for these jurisdictions. Furthermore, the Company is no longer subject to U.S. federal income tax examinations by the Internal Revenue service for tax years before 2003 and for state and local tax authorities for years before 2002. The Company does, however, have net operating losses generated in tax years 1995 and after, which remain open for examination.

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ( SFAS 109 ). SFAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of the assets and liabilities. Where it is more likely than not that a tax benefit will not be realized, a valuation allowance is recorded to reduce the deferred tax asset to its realizable value.

A valuation allowance has been provided against the Company's net deferred tax assets as the Company believes that it is more likely than not that the net deferred tax assets will not be realized. As a result of this valuation allowance, the effective tax rate for the six months ended June 30, 2007 and for the year ended December 31, 2006 is zero percent.

The provision for income taxes consist of the following:

	2006	2005
Current		
Federal	\$ 59,500	\$ 16,000
State	2,500	1,000
Total	62,000	17,000
Deferred		
Federal		
State		
Total		
Total Income Tax Provision	\$ 62,000	\$ 17,000

The actual income tax benefit (expense) differs from the expected tax benefit (expense) as computed by applying the US Federal corporate income tax rate of 35% for each period as follows:

	2006	2005
Amount of expected tax benefit (expense)	\$ (169,000)	\$ 930,000
Non-deductible expenses	5,000	5,000
Alternative minimum tax		17,000
Expiration of net operating loss		(49,000)
Utilization of NOL	630,000	
Other	(10,000)	5,000
Valuation allowance adjustments	(394,000)	(891,000)
	\$ 62,000	\$ 17,000

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets (liabilities) are as follows:

	2006	2005
Deferred tax assets (liabilities):		
Net operating loss carry forwards	\$ 8,654,000	\$ 6,061,000
Oil and gas property basis differences	(5,069,000)	(2,018,000)
Credit carryforwards		16,000
Stock compensation	74,000	
Other	13,000	6,000
Total deferred tax assets	3,672,000	4,065,000
Valuation allowance	(3,672,000)	(4,065,000)
Total net deferred taxes	\$	\$

As of December 31, 2006, GeoPetro had net operating loss (NOL) carryforwards of approximately \$22,932,000 for federal beginning to expire in 2010 and \$10,926,000 for state which began to expire in 2006. A significant change in ownership of GeoPetro may limit GeoPetro's ability to use these NOL carryforwards.

## 6. RELATED PARTY TRANSACTIONS:

On April 25, 2007, May 9, 2007, and June 13, 2007, an officer and director, exercised warrants to purchase 80,000, 70,000 and 33,333 shares of common stock at an exercise price of \$2.00, \$2.00 and \$4.00 per share, respectively. The warrants were granted on June 18, 2000 and had an expiration dates of between June 18 and June 30, 2007.

On February 12, 2007, Stuart J. Doshi, President and CEO, loaned \$100,000 to the Company. The note bore interest at 8% annually and was payable on demand. The note plus accrued interest was repaid on March 28, 2007.





## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

On June 7, 2006, the Company loaned \$1,000,000 to G. Carter Sedanoui ( Borrower ), a shareholder, evidenced by a short term promissory note payable to the Company with a maturity date on March 31, 2007. On March 30, 2007, the Company extended the maturity date of the note to June 30, 2007. The note plus the accrued interest was paid in full on June 29, 2007.

The Company appointed David G. Anderson as a Director on March 30, 2006. Mr. Anderson is the Senior Vice President and a director of Dundee Securities Corporation, the lead underwriter in connection with a sale of common shares the Company completed on March 30, 2006. The decision to distribute the common shares and the determination of the terms of the distribution were made through arm's length negotiations primarily between the Company and Dundee Securities Corporation as lead underwriter. Mr. Anderson had some involvement in such negotiations solely in his capacity as a director and officer of Dundee Securities Corporation. Dundee Securities Corporation received an underwriters' fee totaling \$632,000 in connection with the offering.

On June 6, 2005 the Company purchased 139,396 shares of common stock from Stuart Doshi, the Company's President and Chief Executive officer, at the estimated fair market value prices on that date of \$4.25 per share for a total of \$592,433. The Company believes the purchase price of \$4.25 per share was at least as favorable to the Company as could have been obtained through arm's length negotiations with unaffiliated third parties since the Company also sold 939,194 shares of common stock for \$4.25 per share in 2005.

On May 31, 2005, David Creel, Vice President of Exploration and a director, exercised options to purchase 200,000 shares of common stock at an exercise price of \$2.00 per share. The options were granted to Mr. Creel pursuant to his services as Vice President of Exploration as follows: (i) 100,000 options on June 1, 1998 and (ii) 100,000 options on June 1, 2000.

On April 29, 2005, Thomas Cunningham, a director, exercised an option to purchase 100,000 shares of common stock at an exercise price of \$2.00 per share. The option was granted to Mr. Cunningham on April 30, 2000 pursuant to his services as a director.

Effective September 17, 2004, the Company issued 62,500 shares of common stock to Mr. Sednaoui pursuant to the conversion of a \$250,000 convertible note payable. The convertible note was issued on September 18, 2001 at an interest rate of 8% per annum for the purposes of funding the Company's capital expenditures in the Madisonville Project in Texas. The largest aggregate amount of principal outstanding of this convertible note payable during 2004 was \$250,000. A total of \$14,262 of interest was paid toward the promissory note during 2004 at an interest rate of 8%. As indicated, the note was converted in 2004.

Effective September 30, 2004, the Company issued 117,648 shares of common stock to Mr. Sednaoui in exchange for a \$500,000 reduction in the principal balance of a promissory note payable dated July 19, 2004 as consideration. The largest aggregate amount of principal

outstanding of this promissory note payable during 2004 was \$2,000,000. A total of \$500,000 in principal repayments were made toward the promissory note during 2004. A total of \$37,145 of interest was paid toward the promissory note during 2004 at an interest rate of 8%. The promissory note has been repaid in its entirety.

On August 27, 2004, Mr. Doshi exercised an option to purchase 500,000 shares of common stock at an exercise price of \$1.00 per share. The option was granted to Mr. Doshi on August 30, 1999 pursuant to his services as Chief Executive Officer of the Company.

On August 25, 2004, Mr. Delehanty exercised a warrant to purchase 100,000 shares of common stock at an exercise price of \$1.00 per share. The warrant was granted to Mr. Delehanty on August 30, 1999 pursuant to his services as a director.

March 25, 2004, Kevin Delehanty, a director, exercised an option to purchase 70,900 shares of common stock at an exercise price of \$1.00 per share. The option was granted to Mr. Delehanty on August 30, 1999 pursuant to his services as a director.

During 2004, the Company paid cash finders fees of \$165,670 to Mr. Delehanty in connection with the Company's equity and debt financings as follows: (i) \$86,545 relating to the private placement issuances of 350,800 shares of common stock at \$4.25 per share during July, August and September of 2004, and (ii) \$79,125 relating to the conversion into common stock of certain promissory notes and warrants held by a 5% shareholder as described below.

Effective March 22, 2004, the Company issued 539,000 shares of common stock to G. Carter Sednaoui and Rolling Hill Investors, LLC, an entity owned by Mr. Sednaoui, a 5% shareholder, pursuant to the exercise of warrants. Concurrently, Mr. Sednaoui and Rolling Hill Investors, LLC agreed to a \$1,347,500 reduction in the principal balance of certain of the Company's promissory notes payable as consideration for the exercise of the warrants. The common stock warrants were exercisable at a price of \$2.50 and had an expiration date of December 31, 2008. The largest aggregate amount of principal outstanding on these promissory notes payable during 2004 was \$5,130,180. A total of \$2,508,948 in principal repayments were made toward the promissory notes during 2004. A total of \$334,358 of interest was paid toward the promissory notes during 2004 at interest rates between 8% and 11%. The promissory notes have been repaid in their entirety.

During 2004, the Company sold 378,448 shares of common stock at a price of \$4.25 per share to Mr. Sednaoui and certain entities owned and controlled by him. The Company believes the purchase price of \$4.25 per share was at least as favorable to the Company as could have been obtained through arm's length negotiations with unaffiliated third parties since the Company sold 939,194 shares of its common stock for \$4.25 per share in the first half of 2005.

## **7. SHAREHOLDERS EQUITY:**

GeoPetro's articles of incorporation allow for the issuance of 100,000,000 shares of common stock, 1,000,000 shares of Series A preferred stock (Series A Stock), 5,000,000 shares of



Series AA preferred stock ( Series AA Stock ), and an additional 44,000,000 shares of preferred stock which may be issued from time to time in one or more series.

Common Stock The holders of common stock are entitled to one vote per share. Subject to preferences on outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors. In the event of a liquidation, the holders of common stock and Series A preferred stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock.

Conversion of Series A Stock Upon completion of the Company's initial public offering on March 30, 2006, all of the 1,000,000 shares of Series A Stock automatically converted into a like number of common shares.

Preferred Stock Significant rights and preferences attaching to the Series AA Stock are as follows:

Dividends The holders of Series AA Stock are entitled to receive ratably such cash dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefore and when declared, dividends shall be paid at the rate of \$0.07 per share each calendar quarter. Any quarterly dividends not paid when due shall be accrued and shall accumulate until paid.

Preference in Liquidation In the event of a liquidation, dissolution or winding up of GeoPetro, the holders of Series AA Stock are entitled to receive, prior and in preference to any distribution of any assets or surplus funds to the holders of Series A Stock and common stock, an amount equal to \$3.50 per share plus any dividends declared but unpaid on such shares, but no more.

Voting Rights The holders of Series AA Stock are entitled to the number of votes equal to the number of shares of common stock into which each share of preferred stock is convertible on the record date for the vote.

Conversion Each share of Series AA Stock is convertible, at the option of the holder, into fully paid and nonassessable shares of common stock on a one-for-one basis, subject to certain adjustments. If GeoPetro's common stock is listed on a national or regional exchange, including the NASD Over-the-Counter Bulletin Board, the Series AA Stock will automatically convert into shares of GeoPetro common stock on a one-for-one share basis effective the first trading day after the reported high selling price for GeoPetro's common stock is at least \$5.25 per share for any consecutive ten trading days. If an automatic conversion occurs within one year after issuance of the Series AA Stock, a holder will receive, on the one year anniversary date of the issuance of the Series AA Stock, a final cash dividend equivalent to a full year of dividends less any dividends paid before such conversion.



**8. COMMON STOCK OPTIONS:**

Effective as of September 10, 2001, the board of directors approved an incentive stock plan, providing for awards under the terms and provisions of such plan of incentive stock options, stock appreciation rights and restricted stock awards to officers, directors and employees of GeoPetro and its consultants (the Stock Incentive Plan ). The plan provides, among other provisions, the following:

The maximum number of Common Shares which may be awarded, optioned and sold under the plan is 5,000,000 (subject to adjustment for stock splits, stock dividends and certain other adjustments to GeoPetro's common stock); and the per share exercise price for Common Shares to be issued pursuant to the exercise of an option shall be no less than the fair market value of GeoPetro's Common Shares as of the date of grant.

The Stock Incentive Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, and for the granting of non-statutory stock options to directors who are not employees and consultants. In the case of employees who receive incentive stock options which are first exercisable in a particular calendar year and the aggregate fair market value of which exceeds \$100,000, the excess of the \$100,000 limitation shall be treated as a nonstatutory stock option under the Stock Incentive Plan.

The Stock Incentive Plan is being administered by the Board of Directors. The Board of Directors determines the terms of the options granted, including the number of Common Shares subject to each option, the exercisability and vesting requirements of each option, and the form of consideration payable upon the exercise of such option (i.e., whether cash or exchange of existing Common Shares in a cashless transaction or a combination thereof).

The Stock Incentive Plan will continue in effect for 10 years from September 10, 2001 (i.e., the date first adopted by the Board), unless sooner terminated by the board of directors. The Company has implemented a new 2004 Stock Option and Appreciation Rights Plan (the Stock Option Plan ) for the issuance of options to purchase Common Shares and/or stock appreciation rights in 2004 or thereafter to directors, officers, employees and consultants of the Company and its subsidiaries. The Stock Option Plan has replaced the Stock Incentive Plan. Outstanding options issued under the Stock Incentive Plan will continue to be outstanding in accordance with their terms and the terms of the Stock Incentive Plan, but will count toward the limits in the amount of Common Shares available to be issued under the Stock Option Plan.

During 2004 no options were issued to employees or directors. No stock-based compensation was recognized for the years ended December 31, 2005. Effective January 1, 2006, the Company adopted SFAS 123 ( R ) resulting in stock compensation expense for the twelve months period ended December 31, 2006 of \$201,335. During 2004, the Company issued 500,000 shares of our common stock for cash proceeds of \$500,000 in connection with the

exercise of stock options by an officer and director. Concluded with the exercise of stock options, the officer sold 117,647 shares of common stock to the Company at the estimated fair market value prevailing at that time of \$4.25 per share. We recorded compensation expense of \$500,000 in connection with the purchase of stock. During 2006, 150,000 stock options were issued to directors and during 2005, 20,000 stock options were issued to employees pursuant to the Stock Option Plan.

A summary of the status of GeoPetro's stock option plan is as follows:

	Options	Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2003	4,839,750	\$0.50 to \$3.00	\$ 1.66
Granted			
Exercised	(584,500)	\$1.00 to \$1.25	1.00
Expired	(100,000)	\$1.00	1.00
Outstanding at December 31, 2004	4,155,250	\$0.50 to \$3.00	1.77
Granted	20,000	\$4.25 to \$6.25	5.25
Exercised	(300,000)	\$2.00	2.00
Outstanding at December 31, 2005	3,875,250	\$0.50 to \$6.25	1.77
Granted	150,000	\$3.85	3.85
Exercised			
Expired	(20,000)	\$3.00	3.00
Outstanding at December 31, 2006	4,005,250	\$0.50 to \$6.25	\$ 1.84

The weighted average fair value of options granted during the year ended December 31, 2005, as calculated under the Black-Scholes pricing model is \$0.70 and for the weighted average fair value of options granted in 2006, as calculated under the same method is \$1.83 per share.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2005 and 2006: risk-free, weighted-average interest rates ranging from 3.75 to 4.9 percent based on the U.S. Treasury yield curve in effect at the time of grant, expected dividend yield of 0 percent, expected life of 5 years from the date of grant, and expected volatility of 10 and 58 percent .

The options outstanding as of December 31, 2006 have the following contractual lives:

Number of Options Outstanding	Number of Options Exercisable	Exercise Prices	Weighted Average Remaining Contractual Life
750,000	750,000	0.50	1.33
45,250	45,250	1.25	0.16
1,290,000	1,290,000	2.00	0.99
1,750,000	1,050,000	2.10	6.43
150,000	20,000	3.85	4.29
10,000	4,000	4.25	3.01
10,000	2,000	6.25	3.44
4,005,250	3,161,250		

As of December 31, 2006, there are 3,161,250 options which are exercisable. The remaining 844,000 options will become exercisable ratably over the next four years.

## 9. COMMON STOCK WARRANTS:

In conjunction with the finance with a short term note payable during 2006, GeoPetro issued warrants to purchase 150,000 shares of GeoPetro's common stock at exercise prices of \$3.50 per share. The purchase rights under the warrants have expiration date of January 31, 2009 unless terminated earlier in accordance with the stock warrant purchase agreement. The fair value of the warrants issued on the date of the grant, \$182,390, was recorded as a discount to notes payable and is being amortized as interest expense over the term of the note. As of December 31, 2006, the unamortized amount is \$17,966.

The following table summarizes the number of shares reserved for the exercise of common stock purchase warrants as of December 31, 2006:



Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

	Expiration Date	Exercise Price	12/31/2005 Shares	Warrants Exercised	Warrants Granted	Warrants (Expired)	12/31/2006 SHARES
Common Stock	06/30/06	\$ 5.00	10,000			(10,000)	
Common Stock	11/01/06	\$ 3.00	20,000			(20,000)	
Common Stock	12/31/06	\$ 4.00	10,000			(10,000)	
Common Stock	12/31/06	\$ 2.00	75,000	(75,000)			
Common Stock	05/01/07	\$ 5.25	5,000				5,000
Common Stock	02/28/08	\$ 5.00	27,000				27,000
Common Stock	03/31/08	\$ 3.50	25,000				25,000
Common Stock	07/19/08	\$ 5.00	50,000				50,000
Common Stock	09/30/08	\$ 5.00	14,375				14,375
Common Stock	12/15/08	\$ 3.50	1,131,355				1,131,355
Common Stock	03/31/09	\$ 5.25	100,000				100,000
Common Stock	01/31/09	\$ 3.50			150,000		150,000
<b>Related party:</b>							
Common Stock	06/18/07	\$ 2.00	150,000				150,000
Common Stock	04/30/08	\$ 3.00	33,333				33,333
Common Stock	12/31/06	\$ 4.00	66,667			(66,667)	
Common Stock	06/18/07	\$ 4.00	33,333				33,333
Common Stock	06/18/07	\$ 5.00	33,334				33,334
Common Stock	12/31/08	\$ 2.00	185,125				185,125
			1,969,522	(75,000)	150,000	(106,667)	1,937,855

In conjunction with the issuance of units of equity securities during 2005, GeoPetro issued warrants to purchase 37,000 shares of GeoPetro's common stock at exercise prices of \$5.00 per share. The purchase rights under the warrants have expiration dates from June 30, 2006 to February 28, 2008 unless terminated earlier in accordance with the stock warrant purchase agreement. The Company agreed to extend the warrants by a period of one year for a total of 143,334 shares. The fair value of the warrants on the date of extension, \$32,404, was disclosed and combined with compensation expense, FAS 123 in Note 2 and \$2,927 was recorded as consulting expense.

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

The following table summarizes the number of shares reserved for the exercise of common stock purchase warrants as of December 31, 2005:

	Expiration Date	Exercise Price	12/31/04 Shares	Warrants Exercised	Warrants Granted	Warrants Extended (expired)	12/31/05 Shares
Common Stock	03/31/05	\$ 2.00	37,500	(37,500)			
Common Stock	03/31/05	\$ 3.00	10,000	(10,000)			
Common Stock	04/30/05	\$ 2.50	10,000	(10,000)			
Common Stock	07/31/05	\$ 2.00	37,500	(37,500)			
Common Stock	07/31/05	\$ 3.00	10,000			(10,000)	
Common Stock	12/31/05	\$ 5.00	50,000			(50,000)	
Common Stock	06/30/06	\$ 5.00			10,000		10,000
Common Stock	11/01/06	\$ 3.00	20,000				20,000
Common Stock	12/31/06	\$ 4.00	10,000				10,000
Common Stock	12/31/06	\$ 2.00	75,000				75,000
Common Stock	05/01/07	\$ 5.25	5,000				5,000
Common Stock	02/28/06	\$ 5.00			27,000		27,000
Common Stock	03/31/08	\$ 3.50	25,000				25,000
Common Stock	07/19/08	\$ 5.00	50,000				50,000
Common Stock	09/30/08	\$ 5.00	14,375				14,375
Common Stock	12/15/08	\$ 3.50	1,161,356	(30,000)		(1)	1,131,355
Common Stock	03/31/09	\$ 5.25	100,000				100,000
<b>Related Party:</b>							
Common Stock	06/18/06	\$ 2.00	150,000				150,000
Common Stock	06/18/06	\$ 3.00	33,333				33,333
Common Stock	12/31/06	\$ 4.00	66,667				66,667
Common Stock	06/18/07	\$ 4.00	33,333				33,333
Common Stock	06/18/07	\$ 5.00	33,334				33,334
Common Stock	12/31/08	\$ 2.00	185,125				185,125
			2,117,523	(125,000)	37,000	(60,001)	1,969,522

In conjunction with the issuance of units of equity securities during 2004, GeoPetro issued warrants to purchase 155,000 shares of GeoPetro's common stock at exercise prices ranging from \$5.00 to \$5.25 per share. The purchase rights under the warrants have expiration dates from December 31, 2005 to March 31, 2009 unless terminated earlier in accordance with the stock warrant purchase agreement.

During 2004, in conjunction with the issuance of promissory notes, GeoPetro issued warrants to purchase 64,375 shares of GeoPetro's common stock at an exercise price of \$5.00 per share. The purchase rights under the warrants have expiration dates from July 19 to September 30, 2008, unless terminated earlier in accordance with the stock warrant purchase agreement. The

fair value of the warrants on the date of issuance, \$31,729, was recorded as a debt discount and is being amortized over the life of the promissory notes.

The following table summarizes the number of shares reserved for the exercise of common stock purchase warrants as of December 31, 2004:

	Expiration Date	Exercise Price	12/31/03 Shares	Warrants Exercised	Warrants Granted	Warrants Extended (canceled)	12/31/04 Shares
Common Stock	09/17/04	\$ 2.50	100,000			(100,000)	
Common Stock	03/31/05	\$ 2.00	37,500				37,500
Common Stock	03/31/05	\$ 3.00	10,000				10,000
Common Stock	04/30/05	\$ 2.50	10,000				10,000
Common Stock	07/31/05	\$ 2.00	37,500				37,500
Common Stock	07/31/05	\$ 3.00	10,000				10,000
Common Stock	12/31/05	\$ 4.00	10,000				10,000
Common Stock	12/31/05	\$ 5.00			50,000		50,000
Common Stock	11/01/06	\$ 3.00	20,000				20,000
Common Stock	12/31/06	\$ 2.00	75,000				75,000
Common Stock	05/01/07	\$ 5.25			5,000		5,000
Common Stock	03/31/08	\$ 3.50	25,000				25,000
Common Stock	07/19/08	\$ 5.00			50,000		50,000
Common Stock	09/30/08	\$ 5.00			14,375		14,375
Common Stock	12/15/08	\$ 3.50	1,161,356				1,161,356
Common Stock	12/31/08	\$ 2.50	439,000			(439,000)	
Common Stock	03/31/09	\$ 5.25			100,000		100,000
<b>Related Party:</b>							
Common Stock	08/30/04	\$ 1.00	100,000	(100,000)			
Common Stock	06/18/06	\$ 2.00	150,000				150,000
Common Stock	06/18/06	\$ 3.00	33,333				33,333
Common Stock	12/31/06	\$ 4.00	66,667				66,667
Common Stock	06/18/07	\$ 4.00	33,333				33,333
Common Stock	06/18/07	\$ 5.00	33,334				33,334
Common Stock	12/31/08	\$ 2.00	185,125				185,125
			2,537,148	(100,000)	219,375	(539,000)	2,117,523

## 10. COMMITMENTS AND CONTINGENCIES:

**Employment Agreements** The Company entered into a contract of employment with Stuart J. Doshi, Founder, President, Chief Executive Officer and Chairman of the Board of Directors, dated July 28, 1997 (effective July 1, 1997) and amended on January 11, 2001, July 1, 2003, April 20, 2004, May 9, 2005, July 28, 2005 and January 30, 2006. The contract as amended provides for a five-year term commencing May 1, 2005 which term is automatically extended for successive two-year renewal terms unless: (a) the board of directors elects not to renew the

contract and the Company provides notice to Mr. Doshi of such non-renewal at least six months prior to the expiry of his employment term or any renewal term, or (b) Mr. Doshi attains age 75, in which case the term ends upon the completion of the calendar year in which he becomes 75 years old unless the Company and Mr. Doshi mutually agree to one-year extensions. The contract of employment currently provides for an annual base salary of \$300,000 and further provides that in the event of a change of control of the Company or if Mr. Doshi is terminated without cause, he is entitled to receive (a) in exchange for all of his vested stock options and vested restricted shares, such number of Common Shares having a market value equal to the difference between (x) the aggregate total market value of all vested restricted shares and Common Shares he would receive upon exercise of all vested stock options less (y) the aggregate total exercise price for all of his vested stock options; provided, however, that if the Common Shares to be delivered to Mr. Doshi upon such change of control or termination have not been registered so as to permit immediate public resale, Mr. Doshi shall instead receive a cash payment equal to the market value on the date of termination of all vested stock options and restricted shares without any discount for liquidity or minority position against cancellation of such options and restricted shares, (b) a cash payment equal to the greater of (i) his compensation for the remainder of his term, including salary and the aggregate amount of his bonuses in respect of the last four fiscal years and (ii) four times his compensation in the current year, including his then-current salary and the average amount of his bonuses for the last four fiscal years, and (c) an additional cash payment representing his employment benefits equal to 20% of the amount of salary he is entitled to receive under (b)(i) or (b)(ii) above, as applicable. In addition, in the event of a change of control or termination without cause, all unvested options issued by the Company to Mr. Doshi will vest.

GeoPetro has executed an employment contract dated April 28, 1998 and amended on June 15, 2000, May 12, 2003 and January 1, 2005 with its Vice President of Exploration, David V. Creel. The contract provides an annual salary of \$150,000 and may be terminated by GeoPetro without cause upon the payment to Mr. Creel of cash payments equal to the lesser of three months' base salary or base salary during the remainder of the employment term, and, in the event of termination without cause, all unvested options issued by GeoPetro to Mr. Creel will vest.

GeoPetro has executed an employment contract dated June 19, 2000 and amended on December 12, 2002 and January 1, 2005 with its Vice President of Finance and Chief Financial Officer, J. Chris Steinhauser. The contract provides for an annual salary of \$150,000 and may be terminated by GeoPetro without cause upon the making of cash payments equal to the lesser of three months' base salary or base salary during the remainder of the employment term, and, in the event of termination without cause, all unvested warrants issued by GeoPetro to Mr. Steinhauser will vest.

Office Lease Effective March 1, 2004, GeoPetro is committed under an office sublease which provides for a sixty month term. The sublease is cancelable by either party after thirty-six months. The sublease provides for minimum monthly lease payments of \$5,788 during the first thirty-six months of the lease term and \$6,527 per month from the thirty-seventh month to the sixtieth month. Minimum annual rentals due under this agreement are as follows:

Year	Amount
2007	76,856
2008	78,334
2009	13,056

Rent expense for the years ended December 31, 2006, 2005 and 2004, was approximately \$69,466, \$69,466, and \$67,138, respectively, and is included in general and administrative expenses in the accompanying statements of operations.

Madisonville MGP Agreement GeoPetro owns a 100% working interest in leases located in Madisonville (Rodessa) Field in Madison County, Texas. GeoPetro's working interest covers the Rodessa formation interval at approximately 11,800 feet of depth. The Rodessa reserves are being developed through the re-entry and recompletion of the Ruby Magness No. 1 well (originally drilled in 1994) and the drilling of additional well locations. The natural gas in the Rodessa formation contains 28% impurities which must be removed in order to meet pipeline quality specifications.

In this connection, GeoPetro entered into agreements with a subsidiary of a NYSE listed company, Hanover Compressor Company ( Hanover ), that funded, constructed, installed and operated a dedicated gas treatment plant to process the Rodessa gas. The gas treatment plant is presently capable of treating and bringing up to pipeline specifications approximately 18 million cubic feet of inlet gas per day. Gateway Processing Company ( Gateway ) has installed field gathering pipelines and a sales pipeline with an estimated capacity of at least 70 million cubic feet of gas per day to transport the treated natural gas to a major pipeline in the area.

Effective July 25, 2005, Madisonville Gas Processing, LP ( **MGP** ) purchased the natural gas treatment plant from Hanover. Concurrent with MGP's purchase of the gas treatment plant, the Company, Gateway and MGP terminated the Hanover/Gateway agreements and entered into a new agreement, (the **MGP Agreement** ), to treat and transport the Company's gas production from the Madisonville Project. As a result of the MGP Agreement, MGP has committed to install and make operational additional treating facilities capable of treating 50 MMcf/d, which combined with the capacity of the current in-service treating facilities will represent a total treating capacity of 68 MMcf/d for the Madisonville treatment plant.

The term of the MGP Agreement commenced August 1, 2005 and continues so long as the Company owns any oil and gas leases in the Madisonville Field, provided that it shall terminate 30 years from the effective date unless extended. Under the terms of the MGP Agreement, the Company has committed all natural gas production from its interest in the Madisonville Project

to MGP. MGP purchases the untreated natural gas from the Company at the well site point of delivery for a net price equal to the weighted average price per MMBTU that MGP receives for the natural gas delivered to the sales pipeline less certain gathering, treatment and transportation charges. The gathering, treatment and transportation price adjustments are described below. All proceeds from MGP's sale of Rodessa Formation gas are deposited in an escrow account and then disbursed in accordance with the joint direction of the Company and MGP.

The MGP Agreement provides that certain gathering, treating and transportation fees shall be paid to MGP from the escrow account. The MGP Agreement provides that MGP will receive a gathering and marketing fee of \$0.07 and \$0.01 per Mcf, respectively, of gas measured and delivered to the natural gas treatment plant. In addition, for the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, MGP will receive a treating fee of \$1.50 per Mcf. This treating fee will remain in effect until September 30, 2010. For any gas volumes in excess of 18,000 Mcf/d of gas delivered to the inlet flange of the gas treatment plant, MGP will receive a treating fee of \$1.10 per Mcf. Beginning October 1, 2010, this fee of \$1.10 per Mcf shall be charged for all gas measured and delivered to the plant. One-quarter (1/4) of the foregoing treating fees will be adjusted using the Producer Price Index for Industrial Commodities ( PPI ) and one-quarter (1/4) using the Consumer Price Index ( CPI ) commencing January 1, 2006. One-half (1/2) of the foregoing gathering and marketing fees will be adjusted using the Consumer Price Index ( CPI ) commencing January 1, 2006. The Company has the right, upon giving 60 days' notice, to terminate the marketing fee whereupon it shall assume the sole responsibility of marketing the natural gas sold.

For the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, Gateway will receive a transportation fee of \$0.10 per Mcf. This fee will remain in effect for 36 months from the effective date of the MGP Agreement. Beginning in the 37<sup>th</sup> month and terminating at the end of the 60<sup>th</sup> month from the effective date of the MGP Agreement, the fee shall be reduced to \$0.08 per Mcf for the first 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant. For any gas volumes in excess of 18,000 Mcf/d of gas measured and delivered to the inlet flange of the gas treatment plant, Gateway will receive a transportation fee of \$0.12 per Mcf measured and delivered from the outlet flange of the plant. This fee will remain in effect 36 months from the effective date of the MGP Agreement and shall be reduced to \$0.10 per Mcf thereafter. After 60 months, this transportation fee shall be \$0.10 per Mcf for all volumes delivered from the outlet flange of the plant.

The foregoing gathering, treatment and transportation price adjustments are inclusive of all costs and expenses to gather, separate, treat, dehydrate and transport natural gas produced and delivered from the Company's well(s).

The Company has committed to a three-well drilling program to facilitate the expansion of the gas treatment plant. The Company has drilled two of the three required wells to the Rodessa formation. The commitment requires the Company to commence the drilling of the third well sufficient to test the Smackover Formation (estimated to be encountered at approximately 18,000 feet) on or before September 30, 2008. It is estimated that the 18,000 foot well will cost

\$10 million to drill and complete. The Company has granted MGP a security interest in the Madisonville Field properties to secure the three well commitment. The security interest shall be subordinated to any third party lender in the event the Company secures future debt against the property. MGP has granted the Company a similar security interest in the gas treatment plant to secure its obligation to expand the treatment plant on a timely basis.

Madisonville Net Profits Interest Redwood LP's 95.3125% to 100% working interest is subject to a net profits interest in favor of an unrelated third party. The net profits interest is 12.5% (proportionately reduced) of the net operating profits until payout is achieved. After payout, the net profits interest increases to 30% (proportionately reduced). Payout, for purposes of the net profits interest, is defined and achieved at such time as Redwood LP has recouped from net operating cash flows its total net investment in the project plus a 33% cash on cash return.

The Cook Inlet Alaska CBM Project The Company entered into an agreement with Pioneer Oil Company, Inc. ( Pioneer ) dated April 20, 2005, wherein it acquired a 100% working interest (81% net revenue interest) in approximately 117,000 acres onshore in Cook Inlet, Alaska. The Company has subsequently acquired an additional 5,000 acres in this project. The terms provide for the Company to pay total consideration of \$20 per acre, or approximately \$2.3 million, for the leases. The Option provides that the Company will pay the total lease consideration in two installments. The Company paid the first installment totaling \$1,068,063 on August 17, 2005 and has received assignment of the 100% working interest in the leases. Within three years from the date of receipt of legally sufficient assignment of the 100% working interest in the leases, the Company has the option to conduct a \$2.5 million work program consisting of, but not limited to, a multiple test well drilling program on the leases over a three-year period, and, after completion of the work program and an evaluation of the results, to remit the final additional acreage consideration of \$10 per acre for the leases. The agreement provides that if the Company fails to pay the lease consideration when due, fails to perform the work program or otherwise defaults under the agreement, it shall forfeit its interest and reassign the leases to Pioneer with no further liability to GeoPetro.

Salary Increases On December 18, 2006, the independent members of the board of directors, acting on the recommendations of Stuart J. Doshi, the President and CEO, voted to increase the salaries of Messrs. Creel and Steinhauser, officers of the Company, to \$163,200 annually effective January 1, 2007.

Sale of Australian Interests, EP 381 & EP 408 - On June 20, 2007, the Company agreed to sell and transfer all of its remaining property interests in Australia to an unrelated party for cash consideration and a Petroleum Sales Royalty Payment equal to 25% of the future annual earnings before interest, taxes, depreciation and amortization from the property interests. The agreement is subject to satisfaction of certain terms and conditions. Specifically, the agreement provides that the Company will be paid consideration for the sale and transfer of its property interests as follows:

1. Initial cash consideration of \$175,000 subject to certain closing conditions;
  
2. a second cash payment of \$175,000 upon a successful flow test of petroleum from a well located on the property interests. A successful flow test is defined for purposes of this agreement to be a test of at least 7 million standard cubic feet of natural gas for a continuous and uninterrupted 24 hour period (or an equivalent oil/condensate rate based on a conversion ratio of 6000 cubic feet of gas to a barrel of oil or condensate); and,
  
3. a Petroleum Sales Royalty Payment equal to 25% of the future annual earnings before interest, taxes, depreciation and amortization from the property interests up to a total amount of \$2,200,000.

Goodwin Prospect, Central Alberta, Canada On June 21, 2007, the Company entered into a participation agreement wherein it acquired a 50% non-operated working interest in the Goodwin Prospect, which is located in the Central Alberta Basin, Canada. A total of 12,000 acres can be earned by the Company by the drilling of wells. On July 2, 2007, the Company advanced US \$477,050 to be applied toward the drilling and completion of the first well in the prospect, the Nexstar Goodwin 16-19-58-12 Well.

#### 11. SUBSEQUENT EVENTS:

Proceeds from Notes The Company issued three promissory notes in February 2007 as the following:

The Company issued a \$500,000 short term Note payable on February 1, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$15,000 and granted a three-year exercisable warrant to purchase 25,000 Common Shares at \$3.50 per share.

The Company issued a \$300,000 short term Note payable on February 6, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$9,000 and granted a three-year exercisable warrant to purchase 15,000 Common Shares at \$3.50 per share.

The Company issued a \$100,000 short term Note payable on February 1, 2007 with a maturity date of October 31, 2007. The note may be repaid at any time without penalty. The principal plus accrued interest on the note are due on the maturity date. In connection with the note, the Company paid a loan origination fee of \$3,000 and





granted a three-year exercisable warrant to purchase 5,000 Common Shares at \$3.50 per share.

Note Extension On February 1, 2007, the Company received an extension of its note payable to Pine Hill Capital, LLC and the new maturity date is October 31, 2007. Under the agreement, the Company agreed to repay the entire remaining principal balance plus accrued interest on October 31, 2007. In the event this Note is not repaid by the maturity date, and unless an extension thereof is mutually agreed to, per the terms of the Note, the Company agreed that it shall dedicate 5% of its net cash flow from the Madisonville Project located in Madison County, Texas toward the unpaid Principal Amount and all accrued and unpaid interest thereon, until such amounts are paid in full. Net cash flow for purposes of this provision shall mean gross revenues received by the Company less royalties, production taxes and net profits interest expense. The Company has paid \$80,000 accrued interest thru January 31, 2007. In connection with the extension, the Company paid a loan extension fee of \$30,000 and granted a three-year exercisable warrant to purchase 50,000 Common Shares at \$3.50 per share.

Related Party Promissory Note On February 12, 2007, Stuart J. Doshi, President and CEO, loaned \$100,000 to the Company. The note bears interest at 8% annually and is payable on demand. The note plus accrued interest was repaid on March 28, 2007.

Note Receivable Extension On June 7, 2006, the Company loaned \$1,000,000 to G. Carter Sedanoui, a 5% shareholder, evidenced by a short term promissory note payable to the Company with an original maturity date of March 31, 2007. On March 30, 2007, the Company extended the maturity date of the note to June 30, 2007. The Company received the full payment of the note plus accrued interest on June 29, 2007.

Warrants Issued On February 12, 2007, the Company issued a two-year exercisable no par voting common stock warrant to purchase 20,000 Common Shares at \$3.50 per share to an unaffiliated third party for geophysical services. The purchase rights under the warrant has an expiration dates of February 12, 2009 unless terminated earlier in accordance with the stock warrant purchase agreement.

On February 28, 2007, the Company issued a two-year exercisable no par voting common stock warrant to purchase 5,000 Common Shares at \$4.51 per share to the same party as above for geophysical services. The purchase rights under the warrant has an expiration date of February 28, 2009 unless terminated earlier in accordance with the stock warrant purchase agreement.

Warrants Exercises On April 25, 2007, May 9, 2007, and June 13, 2007, an officer and director, exercised warrants to purchase 80,000, 70,000 and 33,333 shares of common stock at an exercise price of \$2.00, \$2.00 and \$4.00 per share, respectively. The warrants were granted on June 18, 2000 and had an expiration dates of between June 18 and June 30, 2007.

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

On May 11 and May 14, 2007, 12,357 and 25,000 shares of common stock, respectively, were issued for gross and net proceeds of \$130,750 pursuant to the exercise of warrants.

Conversion of Series AA Preferred Stock On March 28, 2007, all 1,890,710 of the Company's outstanding shares of Series AA Stock automatically converted into 1,890,710

F-38

---

shares of our common stock, no par value per share. Under the Company's Amended and Restated Articles of Incorporation, and as more fully described in Note 7, the Series AA stock automatically converts into common shares on a one-for-one share basis effective the first trading day after the reported high selling price for our common shares is at least \$5.25 per share for any consecutive ten trading days, which condition was met on March 27, 2007. Dividends accrued on the Series AA Stock at a rate of \$0.28 per annum, per share, while the Series AA Stock was outstanding. In 2006, dividends paid on the Series AA Stock totaled \$529,400. Pursuant to the terms of the Series AA Stock, no dividends are payable for the first quarter of 2007.

Common Stock Offering On August 13, 2007, the Company entered into agreements to sell, pursuant to a private placement, 2,002,599 units of the Company at a subscription price of \$3.85 per Unit for total gross proceeds of \$7,710,006. Each unit consists of one share of common stock of the Company and three-tenths common share purchase warrant of the Company. Each one whole warrant shall entitle the holder to acquire one share of common stock at a price of \$4.50 per share for a period of five years from the closing date. The units have been purchased by a group of private investors, subject to customary closing conditions on August 13, 2007. The Company will file a registration statement covering the common shares. The gross proceeds of the sale of common shares will be used to fund the Company's exploration and development program and for general working capital purposes.

Under the terms of a registration rights agreement in connection with the offering, the Company must pay the holders of the registrable securities issued in the private placement liquidated damages if a registration statement is not filed in conjunction with the private placement with the U.S. Securities and Exchange Commission (SEC) within 60 days of the closing of the private placement (August 13, 2007). In addition, the Company must pay the holders of the registrable securities liquidated damages in the event a registration statement that was filed in conjunction with the private placement has not been declared effective by the U.S. Securities and Exchange Commission (SEC) within 180 days of the closing of the private placement (August 13, 2007). The Company must pay as liquidated damages a number of shares of common stock equal to 1.0% of the number of shares of common stock (including common stock underlying warrants) that were issued to the holder for each 30-day period (pro rated on a daily pro-rata basis for periods shorter than 30 days) that the above conditions are not met, not to exceed 10% of the aggregate number of shares of common stock issued to such holder.

## **12. UNAUDITED SUPPLEMENTARY OIL AND GAS RESERVE INFORMATION:**

The following supplementary information is presented in compliance with United States Securities and Exchange Commission regulations and is not covered by the report of GeoPetro's independent registered public accountants. The information required to be disclosed for the years ended 2006, 2005 and 2004 in accordance with FASB Statement No. 69, "Disclosures about Oil and Gas Producing Activities," is discussed below and is further detailed in the following tables.

The reserve quantities and valuations for fiscal 2006 are based upon estimates by MHA Petroleum Consultants. The reserve quantities and valuations for fiscal 2005 and 2004 are based upon estimates by Sproule Associates Inc. The proved reserves presented herein are located entirely within the United States. Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Reservoirs are considered proved if economic productivity is supported by either actual production or a conclusive formation test. The area of a reservoir considered proved includes

(A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (B) the immediately adjoining portions not yet drilled, but which can reasonably be judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

The estimates included in the following tables are by their nature inexact and are subject to changing economic, operating and contractual conditions. At December 31, 2006, all of GeoPetro's reserves are attributable to two producing wells, two shut-in wells and an undeveloped location. Other than the one producing well which has been on production since May 2003 and the shut-in well which was placed on production in March 2006, there is no other production history as of or subsequent to that date. Reserve estimates for these wells are subject to substantial upward or downward revisions after production commences and a production history is obtained. Accordingly, reserve estimates of future net revenues from production may be subject to substantial revision from year to year. Reserve information presented herein is based on reports prepared by independent petroleum engineers.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect GeoPetro's expectations for actual revenues to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these are the basis for the valuation process.

FACTORS	December 31, 2006 (MMcf)	December 31, 2005 (MMcf)	December 31, 2004 (MMcf)
<b>Beginning of period</b>	21,428	18,408	25,238
Extensions			
Improved Recovery			
Technical Revisions	5,122	4,762	(4,803)
Discoveries			
Acquisitions			
Dispositions			
Economic Factors			
Production	(1,950)	(1,742)	(2,027)
<b>Year ended December 31,</b>	<b>24,600</b>	<b>21,428</b>	<b>18,408</b>

**PROVED RESERVES PRESENTED HEREIN ARE LOCATED  
ENTIRELY WITHIN THE UNITED STATES**

	AS OF DECEMBER 31,		
	2006 (MMcf)	2005 (MMcf)	2004 (MMcf)
Proved developed	12,235	4,645	4,448
Proved developed non-producing	12,365	8,903	7,037
Proved undeveloped		7,880	6,923
<b>Total</b>	<b>24,600</b>	<b>21,428</b>	<b>18,408</b>

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year-end prices to estimated annual future production from proved gas reserves. The average year-end prices for gas were as indicated below. Future development and production costs were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income tax expenses were computed by applying, generally, year-end statutory tax rates (adjusted for permanent differences, tax credits and allowances) to the estimated net future pre-tax cash flows. The discount was computed by application of a 10% discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results.

**STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS  
RELATING TO PROVED PETROLEUM AND NATURAL GAS RESERVES (UNAUDITED)**

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(in thousands)		
Future cash inflows	\$ 101,867	\$ 162,459	\$ 90,815
Future production costs	(37,783)	(60,176)	(30,240)
Future development costs	(1,074)	(6,560)	(4,860)
Future income taxes	(8,128)	(18,941)	(9,609)
Future net cash flows	54,882	76,782	46,106
10% annual discount	(8,341)	(13,293)	(8,455)
Standardized measure of discounted future net cash flows	\$ 46,541	\$ 63,489	\$ 37,651

**AVERAGE YEAR-END PRICE**

<b>2006 REPORT</b>			<b>2005 REPORT</b>			<b>2004 REPORT</b>
<b>Gas (\$/MMBtu)</b>			<b>Gas (\$/MMBtu)</b>			<b>Gas (\$/MMBtu)</b>
\$	5.40	\$	7.80	\$	5.82	

The following are the principal sources of changes in the standardized measure of discounted future net cash flows:



**CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS FROM PROVED PETROLEUM AND NATURAL GAS RESERVE QUANTITIES (Unaudited)**  
**PROVED RESERVES ARE LOCATED ENTIRELY WITHIN THE UNITED STATES**

	2006	2005 (in \$ thousands)	2004
Standardized measure of discounted future net cash flows, beginning of period	\$ 63,489	\$ 37,651	\$ 41,031
Sales of Oil and Natural Gas and NGLs Produced, Net of Production Costs, Taxes and Royalties	(4,480)	(6,228)	(4,454)
Net Change in Prices, Production Costs and Royalties Related to Future Production	(39,067)	20,399	6,335
Changes in Previously Estimated Development Costs Incurred During the Period	6,545	2,800	7,187
Changes in Estimated Future Development Costs	(1,075)	(4,410)	(4,382)
Net Change Resulting from Revisions in Quantity Estimates	1,074	18,524	(12,535)
Extensions	6,740		
Accretion of discount	8,019	3,765	4,103
Other	(4,656)	(1,296)	(2,868)
Net Change in Income Taxes	9,952	(7,716)	3,234
Standardized measure of discounted future net cash flows, end of period	\$ 46,541	\$ 63,489	\$ 37,651

**13. UNAUDITED SUPPLEMENTAL QUARTERLY FINANCIAL DATA:**

2007	First	Second
Revenues	\$ 1,823,342	\$ 2,388,850
Income (loss) from operations	\$ (124,437)	\$ 305,145
Earnings (loss) per share from operations:		
Basic	\$ (0.00)	\$ 0.01
Diluted	\$ (0.00)	\$ 0.01
Net income (loss)	\$ (182,614)	\$ 238,778
Earnings (loss) per common share:		
Basic	\$ (0.01)	\$ 0.01
Diluted	\$ (0.01)	\$ 0.01

Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

2006	First	Second	Third	Fourth
Revenues	\$ 1,498,453	\$ 1,969,064	\$ 1,705,140	\$ 1,543,703
Income (loss) from operations	\$ 119,566	\$ (124,231)	\$ (267,975)	\$ (39,548)
Earnings (loss) per share from operations:				
Basic	\$ 0.01	\$ (0.00)	\$ (0.01)	\$ (0.00)
Diluted	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.00)
Net income (loss)	\$ (73,077)	\$ (249,540)	\$ (489,224)	\$ (199,965)
Earnings (loss) per common share:				
Basic	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Diluted	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.01)

2005	First	Second	Third	Fourth
Revenues	\$ 1,588,204	\$ 1,621,750	\$ 2,824,093	\$ 1,941,943
Income (loss) from operations	\$ 240,023	\$ 371,942	\$ 1,357,935	\$ 886,637
Earnings (loss) per share from operations:				
Basic	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.04
Diluted	\$ 0.01	\$ 0.02	\$ 0.05	\$ 0.04
Net income (loss)	\$ 12,543	\$ 177,035	\$ 1,189,929	\$ 731,567
Earnings (loss) per common share:				
Basic	\$ 0.00	\$ 0.01	\$ 0.06	\$ 0.04
Diluted	\$ 0.00	\$ 0.01	\$ 0.05	\$ 0.03

The sum of the individual quarterly net income per common share amounts may not agree with year-to-date net income per common share because each period's computation is based on the weighted average number of shares outstanding during that period.



**GLOSSARY**



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

In this prospectus, unless the context otherwise requires, the following terms shall have the indicated meanings. A reference to an agreement means the agreement as it may be amended, supplemented or restated from time to time.

**1933 Act** means the United States *Securities Act* of 1933, as amended.

**Bengara II PSC** means the PSC dated December 4, 1997 between C-G Bengara and Pertamina.

**Bengara Block** means the contract area in the Indonesian province of East Kalimantan designated as the Bengara (II) PSC Block.

**BP Migas** means Badan Pelaksana Minyak Dan Gas Muni, a new executive board established by the government of Indonesia in 2002 for oil and gas upstream operations and an implementing body created to assume the role of Pertamina's regulatory functions and responsibilities in managing oil and gas contractors.

**CBM** means coal bed methane, which is methane found in coal seams. It is produced by non-traditional means, and therefore, while it is sold and used the same as traditional natural gas, its production is different. CBM is generated either from a biological process as a result of microbial action or from a thermal process as a result of increasing heat with depth of the coal. Often a coal seam is saturated with water, with methane held in the coal by water pressure.

**C-G Bengara** means Continental-GeoPetro (Bengara II) Ltd., a British Virgin Islands corporation owned 12% by GeoPetro.

**CG Xploration** means CG Xploration Inc., a Delaware corporation owned 50% by GeoPetro.

**C-G Yapen** means Continental-GeoPetro (Yapen) Ltd., a British Virgin Islands corporation formerly owned 40% by GeoPetro.

**CNPC** means CNPCHK (Indonesia) Limited. CNPC is a wholly owned subsidiary of CNPC (Hong Kong) Limited, a publicly held company based in Hong Kong where its shares trade on the Hong Kong Stock Exchange under the listing number 0135.HK.

**Company** or **GeoPetro** means GeoPetro Resources Company, a corporation incorporated under the laws of the State of California and its wholly-owned subsidiaries.

**Condensate** means a low-density, high-API gravity liquid hydrocarbon product that is generally produced in association with natural gas. Condensate is mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

**Continental** means Continental Energy Corporation.

**Cook Inlet Option** means the option granted to GeoPetro by Pioneer to acquire a 100% working interest (81% net revenue interest) in approximately 122,000 acres in Cook Inlet, near Anchorage, Alaska.

**CRA** means the Canada Revenue Agency.

**Earning Obligation** means \$18.7 million paid by CNPC into a special joint venture account at a Hong Kong international bank, which funds are under joint signature control of CNPC ourselves and Continental, and will be expended to pay for 2007 exploration drilling in the Bengara II PSC area.

**EIA** means the United States Energy Information Administration.

**EP 408** means the approximately 201,000 gross (52,675 net) acre permit area including the Whicher Range gas field in the South Perth basin of Western Australia designated as Exploration Permit 408 which we transferred to an unrelated party in June 2007.

**Evaluated Properties** means those properties that are producing oil or gas or on which, based on known geological and engineering data, oil and gas reserves are reasonably certain to exist.

**Fannin Well** means the Angela Farris Fannin No. 1 well located at the Madisonville Field.

**Farmout** means an agreement whereby a third party agrees to pay for the drilling of a well on one or more of GeoPetro's properties in order to earn an interest therein with GeoPetro retaining a residual interest in such properties.

**Flow-Through Share** means a share of common stock issued as a flow-through share within the meaning of Canadian tax law.

**Gateway** means Gateway Processing Company, a Texas corporation that has constructed pipeline facilities at the Madisonville Field.

**GeoPetro Alaska** means GeoPetro Alaska LLC, an Alaska limited liability company, which is a wholly-owned subsidiary of GeoPetro.

**GeoPetro Canada** means GeoPetro Canada Ltd., an Alberta corporation, which is a wholly-owned subsidiary of GeoPetro.

**Hanover** means Hanover Compression Limited Partnership, a Delaware limited partnership that has constructed and previously operated treatment facilities at the Madisonville Field.

**Hanover Agreement** means, collectively, the First Amended and Restated Master Agreement, dated as of September 12, 2002 among Redwood, Hanover and Gateway, as amended, providing for the processing of natural gas from the Madisonville Field, and the agreements related thereto, which agreements were in effect prior to August 2005.

**LPG** means liquefied petroleum gas.

**Madisonville Field** means the Madisonville (Rodessa) field in Madison County, Texas.

**Madisonville Project** means the oil and natural gas exploration, development and production project at the Madisonville Field.

**Magness Well** means the UMC Ruby Magness No. 1 well located at the Madisonville Field.

**Makapan Gas Field** means the Makapan gas field in East Kalimantan, Indonesia.



**MGP** means Madisonville Gas Processing, LP, a Colorado Limited Partnership that has purchased from Hanover and currently operates the treatment facilities at the Madisonville Field, and is jointly owned by JPMorgan Partners and Bear Cub Investments LLC.

**MGP Agreement** means, collectively, the Termination and Release Agreement, Madisonville Field Development Agreement, Gas Purchase Contract between Redwood LP as Seller, and MGP as Buyer, Escrow Agreement and Dedication Agreement, all effective as of August 1, 2005 among Redwood LP, MGP, Gateway and Gateway Pipeline Company, providing for the termination of the Hanover Agreement, the expansion of the treatment facilities and the provision of the gathering, processing, transportation and sale of natural gas from the Madisonville Field.

**Mitchell Well** means the Mitchell No. 1 well located at the Madisonville Field.

**Pertamina** means Perusahaan Pertambangan Minyak Dan Gas Bumi Negara, the previous Indonesian state-owned oil and natural gas company established in 1971 which had exclusive authority to explore, drill for, and produce oil and natural gas minerals in Indonesia. In accordance with the new Indonesian Oil and Gas Law, its corporate form has been changed to become a state-owned limited liability company established under Indonesian Company Law, and all rights and obligations of Pertamina under existing PSCs shall pass to BP Migas.

**Pioneer** means Pioneer Oil Company, Inc.

**Proved developed oil and gas reserves** means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the

application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

**Proved developed nonproducing reserves** means reserves expected to be recovered from zones behind casing in existing wells.

**Proved oil and gas reserves** means estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or a conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following:

(A) oil that may become available from known reservoirs but is classified separately as indicated additional reserves ;

(B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;

(C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and

(D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

**Proved undeveloped reserves** means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates, for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

**PSC** means a production sharing contract, being a contract with Pertamina whereby Pertamina contracts with a petroleum company to explore for, develop and extract petroleum substances from a particular license area, on Pertamina's behalf, at the risk and expense of the petroleum company, in exchange for a share of the production.

**Redwood** means Redwood Energy Company, a Texas corporation, which is a wholly-owned subsidiary of GeoPetro and which is the general partner of, and holds a 5% interest in, Redwood LP.

**Redwood LP** means Redwood Energy Production, L.P., a Texas limited partnership, the sole limited partner of which is GeoPetro and which is 100% owned, directly or indirectly, by GeoPetro.

**Rodessa Formation** means the geological formation at the Madisonville Field existing at a depth of approximately 12,000 feet.

**Seismic** means data collected that uses reflected seismic waves to produce images of the Earth's subsurface. The method requires a controlled seismic source of energy, such as dynamite or a specialized air gun. By noting the time it takes for a reflection to arrive at a receiver, it is possible to estimate the depth of the feature that generated the reflection.

**Series A Stock** means the preferred stock of GeoPetro designated as Series A preferred stock, all of which converted to GeoPetro's common stock on March 30, 2006.

**Series AA Stock** means the preferred stock of GeoPetro designated as Series AA preferred stock, as described under "Description of Share Capital".

**Tertiary Sandstones** means sandstones which were deposited during a geologic time period ranging from 2 to 63 million years ago.

**TSX** means the Toronto Stock Exchange.

**Unevaluated Properties** means properties not yet evaluated through exploration and drilling as to whether or not they have proved reserves.

**U.S. GAAP** means the accounting principles generally accepted in the United States.

**Wilson Well** means the Wilson No. 1 well located at the Madisonville Field.

**Working interest** means the percentage of undivided interest held by a party in the oil and/or natural gas or mineral lease granted by the mineral owner, which interest gives the holder the right to work the property (lease) to explore for, develop, produce and market the leased substances.

## ABBREVIATIONS AND CONVERSIONS



## Edgar Filing: Guaranty Financial Group Inc. - Form S-1/A

In this prospectus, the following abbreviations have the meanings set forth below:

API	American Petroleum Institute
bbl and bbls	barrel and barrels, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent converting 6 mcf of natural gas to one barrel of oil equivalent and one barrel of natural gas liquids to one barrel of oil equivalent. Measures of boes may be misleading, particularly if used in isolation. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead, but is a commonly used industry benchmark.
boe/d	barrels of oil equivalent per day
degree API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28 degree API or higher is generally referred to as light crude oil.
LPG	liquefied petroleum gas
mbbls	one thousand barrels
mboe	one thousand barrels of oil equivalent
mcf	one thousand cubic feet
mcf/d	one thousand cubic feet per day
mmbbls	one million barrels
MMBTU	one million British Thermal Units
MMcf	one million cubic feet
MMcf/d	one million cubic feet per day
NGLs	natural gas liquids
Psig	Pounds per square inch gauge
TCF	trillion cubic feet

**2,783,456 Shares**





**GeoPetro Resources Company**



**Common Shares**





**PROSPECTUS**



October 31, 2007





