

HERITAGE FINANCIAL CORP /WA/
Form S-4
March 31, 2006
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As filed with the Securities and Exchange Commission on March 31, 2006.

Registration No. 333-

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

HERITAGE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

6022
(Primary Standard Industrial
Classification Code Number)

91-1857900
(I.R.S. Employer
Identification No.)

201 5th Avenue, S.W.
Olympia, Washington 98501

(360) 943-1500

(Address, including ZIP code, and telephone number, including area code, of registrant's principal executive office)

Robert L. Ducklo III, Esq.

Gerrish McCreary Smith, PC

700 Colonial Road, Suite 200

Memphis, Tennessee 38117

(901) 767-0900

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

with a copy to:

Glen P. Garrison, Esq.

Keller Rohrback L.L.P.

1201 Third Avenue, Suite 3200

Seattle, Washington 98201-3052

(206) 623-1900

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement and the satisfaction or waiver of all other conditions to the merger as described in the enclosed Proxy Statement/Prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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, 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. "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities	Amount to be	Proposed Maximum	Proposed Maximum	Amount of
Being Registered	Registered (1)	Offering Price	Aggregate Offering	Registration Fee (2)
		Per Share (2)	Price (2)	
Common Stock, no par value	390,166	\$ 22.09	\$ 4,040,040	\$ 432.32

(1) Represents the maximum number of shares of common stock, no par value, estimated to be issuable by Heritage Financial Corporation (Heritage) upon consummation of the acquisition of Western Washington Bancorp, (WWB) by Heritage, including shares to be issued with respect to WWB options.

(2) Calculated in accordance with Rules 457(c) and 457(f) under the Securities Act of 1933, the proposed maximum offering price is computed by multiplying (A) the book value of WWB common stock on December 31, 2005 (\$22.09) by (B) 182,890 (the maximum number of shares of WWB expected to be exchanged for the common stock being registered, including shares to be issued with respect to WWB options).

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 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PROXY STATEMENT/PROSPECTUS

MERGER PROPOSED

YOUR VOTE IS VERY IMPORTANT

Dear Shareholders:

You are cordially invited to attend a special meeting of shareholders of Western Washington Bancorp, Inc. (WWB), to be held on _____, 2006, at _____:00 p.m., at WWB s main office located at 32303 Pacific Highway South, Federal Way, Washington 98003.

At the special meeting, you will be asked to vote upon a proposal to approve the Agreement and Plan of Mergers dated as of January 24, 2006 (the Merger Agreement), by and among Heritage Financial Corporation (Heritage), and its wholly owned subsidiary Heritage Bank, and WWB and its wholly owned subsidiary Washington State Bank, NA under which WWB will merge into Heritage, and WSB will merge into Heritage Bank.

Under the terms of the Merger Agreement, WWB shareholders will receive 1.2530 shares of Heritage common stock and \$20.36 in cash for each of their shares of WWB common stock, pending adjustment. Based on the closing price of Heritage common stock on March 23, 2006 (\$27.90), the implied value of one shares of WWB common stock on that date was \$55.32. The actual value will fluctuate, reflecting any fluctuation in the value of Heritage common stock between March 23, 2006 and the date of closing. As a result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement, WWB stockholders will receive an additional \$0.50 per share, which shall be paid, at the discretion of Heritage, in cash, stock or a combination thereof. Heritage s common stock trades on the NASDAQ National Market under the symbol HFWA.

If the merger is completed, WWB shareholders will own approximately 3.2% of the outstanding common stock of Heritage. We cannot complete the merger unless we obtain approval from WWB shareholders by the affirmative vote of at least two-thirds of the outstanding shares, in addition to regulatory approvals and certain other conditions described in this Proxy Statement/Prospectus. As a result, YOUR VOTE IS VERY IMPORTANT. We urge you to complete, sign, and date the enclosed proxy card and return it promptly in the enclosed postage-prepaid envelope whether or not you plan to attend the special meeting. If you attend the meeting, you may vote in person even if you previously returned your proxy card. If you do not vote or if you abstain from voting, your actions will have the same effect as a vote against the merger.

No vote of Heritage shareholders is required to complete the merger.

This Proxy Statement/Prospectus gives you detailed information about the merger and includes a copy of the Merger Agreement. You should read both carefully. This document is a proxy statement that WWB is using to solicit proxies for use at its special meeting of shareholders. It is also a prospectus relating to Heritage s issuance of its shares of common stock in connection with the merger. Before you make a decision on how to vote on the merger, you should consider the Risk Factors beginning on page 16 of this Proxy Statement/Prospectus.

Your board of directors has approved the merger and believes it is in the best interests of WWB and its shareholders.

The board of directors unanimously recommends that you vote FOR the merger proposal.

Sincerely,

/s/ L. ANTHONY TEBEAU

L. Anthony Tebeau

President and CEO

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Heritage common stock to be issued in the merger or determined if this prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

These securities are not savings or deposit accounts, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

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This Proxy Statement/Prospectus is dated _____, 2006, and was first mailed to shareholders on or about _____, 2006.

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REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about Heritage from documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request.

You can obtain documents related to Heritage that are incorporated by reference in this document (including any exhibits that are incorporated by reference in such documents) by requesting them in writing or by telephone from:

Heritage Financial Corporation

201 5th Avenue, S.W.

Olympia, Washington 98501

Attn: Edward Cameron, Chief Financial Officer

(360) 943-1500

Only limited financial information is required to be provided about Western Washington Bancorp in this document under the rules of the Securities & Exchange Commission. Additional financial information about Western Washington Bancorp including copies of financial statements, is available to you without charge upon your written or oral request to:

Western Washington Bancorp

32303 Pacific Highway South

Federal Way, Washington 98003

Attn: Paula A. Vinson, Chief Financial Officer

(253) 941-8541

If you would like to request documents please do so by _____, 2006, in order to receive them before the special meeting of shareholders.

See [Where You Can Find More Information](#) on page 68.

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WESTERN WASHINGTON BANCORP

32303 Pacific Highway South

Federal Way, Washington 98003

(235) 941-8541

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD , 2006

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Western Washington Bancorp (WWB) will be held at the company s main office located at 32303 Pacific Highway South, Federal Way, Washington 98003, on , 2006 at :00 p.m., for the following purpose:

1. MERGER AGREEMENT.

To consider and vote upon a proposal to approve the Agreement and Plan of Mergers dated as of January 24, 2006, by and among Western Washington Bancorp (WWB), Washington State Bank, NA (WSB), Heritage Financial Corporation (Heritage) and Heritage Bank, a copy of which is attached as Appendix A to the accompanying Proxy Statement/Prospectus, pursuant to which WWB will merge into Heritage and WSB will merge into Heritage Bank on the terms and subject to the conditions contained in the Merger Agreement.

2. OTHER MATTERS.

If necessary, to consider and act upon a proposal to adjourn the meeting to permit us to solicit additional proxies if we do not have sufficient votes to approve the merger as of the date of the meeting.

The proposed merger transaction is discussed more fully in the Proxy Statement/Prospectus attached to this notice. We urge you to read this document and its appendices carefully.

We have fixed the close of business on , 2006, as the record date for establishing shareholders entitled to notice of, and to vote at, the meeting or any adjournment thereof. We cannot complete the merger unless the holders of a majority of the shares of WWB common stock outstanding on the record date vote to approve the Merger Agreement.

WWB shareholders have the right to dissent from the merger and obtain payment of the fair value of their WWB shares under Washington law. A copy of the applicable Washington statutory provisions regarding dissenters rights is attached as Appendix B to the accompanying Proxy Statement/Prospectus. For details of your dissenters rights and applicable procedures, please see the discussion under the heading The Merger Dissenters Rights beginning on page 36 of the attached proxy statement/prospectus.

THE BOARD OF DIRECTORS OF WWB UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE MERGER AGREEMENT.

By Order of the Board of Directors,

/s/ Paula Vinson

Paula Vinson, Secretary

Your vote is important regardless of the number of shares you own. Whether or not you expect to attend the meeting, please sign, date and promptly return the accompanying proxy card using the enclosed postage-prepaid envelope. If for any reason you should desire to revoke your proxy, you may do so at any time before it is voted at the meeting.

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QUESTIONS AND ANSWERS

ABOUT THE MERGER AND SPECIAL MEETING

What is the proposed transaction?

WWB has agreed to merge with Heritage, with Heritage being the surviving corporation. Immediately thereafter, WSB will merge with Heritage Bank, with Heritage Bank being the surviving bank.

What will I receive in the merger?

Under the Merger Agreement, unless you perfect your statutory dissenters' rights, you will receive 1.2530 shares of Heritage common stock, \$20.36 in cash for each of your WWB shares and additional consideration equal to \$0.50 per share (which may be paid in cash, stock, or a combination thereof, at the election of Heritage) as a result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement. You also may receive additional Heritage stock and/or cash if Heritage's stock price falls below \$21.25 per share. Cash will be paid for fractional shares. The value of the stock you receive will vary depending on the market price of Heritage common stock upon completion of the merger.

When will the merger occur?

We presently expect to complete the merger in the second quarter of 2006. The merger will occur after approval of the shareholders of WWB is obtained and the other conditions to the merger are satisfied or waived. Heritage and WWB are working toward completing the merger as quickly as possible.

When should I send in my stock certificates?

Please DO NOT send in your stock certificates with your proxy card. YOU SHOULD FOLLOW THE INSTRUCTIONS IN THE LETTER OF TRANSMITTAL WHEN SENT REGARDING HOW AND WHEN TO SURRENDER YOUR STOCK CERTIFICATES.

What are the tax consequences of the merger to me?

We expect that for United States federal income tax purposes, the merger will be considered a tax-free reorganization, which means that you will not recognize any taxable gain or loss with respect to the exchange of your shares of WWB common stock for Heritage common stock and will have a carry-over basis and holding period from your WWB shares. To the extent you receive cash in the merger, you will recognize gain or loss. We urge you to consult your tax advisor to fully understand the tax consequences of the merger to you.

When and where will the special meeting take place?

WWB will hold a special meeting of its shareholders on _____, 2006, at _____:00 p.m., at the company's main office at 32303 Pacific Highway South, Federal Way, Washington 98003.

How do I vote?

To vote, please indicate on the enclosed proxy card how you want to vote and then sign, date, and mail your proxy card in the enclosed envelope as soon as possible so that your shares will be represented at the special meeting.

Why is my vote important?

Approval of the Merger Agreement requires the affirmative vote of at least two-thirds of WWB's shares. Therefore, if you fail to vote, that will have the same effect as voting against approval of the Merger Agreement.

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If my shares are held in street name by my broker, will my broker vote my shares for me?

Yes, but only if you give your broker instructions on how to vote your shares. Consequently, it is important that you follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you fail to instruct your broker on how to vote your shares, the effect will be the same as if you voted against the merger.

What happens if I return my proxy but do not indicate how to vote my shares?

If you sign and return your proxy card, but do not provide instructions on how to vote your shares, your shares will be voted FOR approval of the Merger Agreement.

Can I change my vote after I have mailed my signed proxy card?

Yes. You may change your vote at any time before your proxy is voted at the special meeting. If your shares are held in your own name, you may change your vote as follows:

You may send a written notice stating that you would like to revoke your proxy and provide new instructions on how to vote;

You may complete and submit a new proxy card; or

You may attend the meeting and vote in person. If you intend to vote in person and your shares are held by a broker, you should contact your broker for instructions.

If you choose either the first or second method above, you must submit your notice of revocation or your new proxy card to WWB's secretary prior to or at the special meeting.

If your shares are held in street name by a broker and you have instructed the broker to vote your shares, you must follow instructions received from your broker to change your vote.

Who may vote at the meeting?

The board of directors of WWB has set _____, 2006, as the record date for the meeting. If you were the owner of WWB common stock at the close of business on _____, 2006, you may vote at the meeting.

How soon after the merger is completed can I expect to receive my Heritage common stock?

Heritage will work with its exchange agent to issue shares and pay cash as promptly as practicable following the completion of the merger.

What do I need to do now?

You should carefully read this Proxy Statement/Prospectus, including the appendices, for important information about the merger, the companies and the special meeting of shareholders. Additional information about Heritage that may be important to you is incorporated by reference into this document from documents separately filed by Heritage with the Securities and Exchange Commission (SEC). This means that important disclosure obligations to you are satisfied by referring you to one or more documents separately filed with the SEC. You can find those documents online on the SEC website at <http://www.sec.gov>.

Following review of this Proxy Statement/Prospectus, please complete, sign, and date the enclosed proxy card and return it in the enclosed envelope as soon as possible so that your shares can be voted at WWB's special meeting of shareholders.

What if I choose not to read the incorporated documents?

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Information contained in a document that is incorporated by reference is part of this Proxy Statement/Prospectus, unless it is superseded by information contained directly in this Proxy Statement/Prospectus or in

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documents filed with the SEC after the date of this Proxy Statement/Prospectus. Information that is incorporated from another document is considered to have been disclosed to you WHETHER OR NOT YOU CHOOSE TO READ THE DOCUMENT.

What risks should I consider?

You should review carefully our discussion of Risk Factors beginning on page 16. You should also review the factors considered by WWB's board of directors in approving the Merger Agreement. See The Merger Background of the Merger beginning on page 22 and The Merger Reasons of WWB for the Merger beginning on page 23.

Who can help answer my questions?

You may write or call L. Anthony Tebeau or Paula A. Vinson at 32303 Pacific Highway South, Federal Way, Washington 98003 (253) 941-8541, with any questions about the merger or WWB's special meeting of shareholders.

This Proxy Statement/Prospectus does not cover any resale of the securities to be received by shareholders of WWB upon consummation of the proposed merger, and no person is authorized to make any use of this Proxy Statement/Prospectus in connection with any such resale.

The date of this Proxy Statement/Prospectus is _____, 2006.

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SUMMARY

This summary, together with the preceding section entitled Questions and Answers, highlights selected information about this Proxy Statement/Prospectus. We urge you to read carefully the entire Proxy Statement/Prospectus and any other documents to which we refer to fully understand the merger. The Agreement and Plan of Mergers is attached as Appendix A to this proxy statement/prospectus. Each item in the summary refers to the page in this Proxy Statement/Prospectus where that subject is discussed in more detail.

Information About Heritage and WWB (see page 41).

Heritage Financial Corporation

201 Fifth Avenue SW

Olympia, Washington 98501

(360) 943-1500

Heritage is a bank holding company headquartered in Olympia, Washington, that engages in a general banking business primarily through its banking subsidiaries, Heritage Bank and Central Valley Bank.

Heritage Bank is a Washington state-chartered commercial bank that engages in a general banking business through thirteen locations in Pierce, Thurston and Mason Counties in the South Puget Sound-region of Washington. Heritage Bank provides a variety of financial products and services for both business and individual customers, including deposit, loan and mortgages designed to meet the financial needs of its customers. Deposits of Heritage Bank are insured by the FDIC.

Central Valley Bank is a Washington state-chartered commercial bank that engages in a general banking business through six locations in Yakima and Kittitas Counties in central Washington. Central Valley Bank provides a variety of financial products and services for both business and individual customers, including deposit, loan and mortgages designed to meet the financial needs of its customers. Deposits of Central Valley Bank are insured by the FDIC.

As of December 31, 2005, Heritage had total assets of approximately \$751 million, total net loans receivable and loans held for sale of approximately \$644 million, total deposits of approximately \$637 million and approximately \$66 million in shareholders' equity. Heritage's common stock trades on the NASDAQ National Market under the symbol HFWA.

Western Washington Bancorp

32303 Pacific Highway South

Federal Way, Washington 98003

(253) 941-8541

WWB is a bank holding company headquartered in Federal Way, Washington, that engages in a general banking business through its banking subsidiary, WSB.

WSB is a nationally-chartered commercial bank headquartered in Federal Way, Washington, that provides banking services to businesses and to individuals through its one location in Federal Way. As of December 31, 2005, WWB had total assets of approximately \$56.8 million, total loans receivable of approximately \$43.5 million, total deposits of approximately \$47.8 million and approximately \$3.7 million in shareholders' equity. Deposits of WSB are insured by the FDIC.

WWB Will Merge into Heritage (see page 20).

The Merger Agreement provides for the merger of WWB into Heritage and the merger of WSB into Heritage Bank. In the merger, your shares of WWB common stock will be exchanged for shares of Heritage

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common stock and cash. After the merger, you will no longer own shares of WWB, and the separate existence of WWB will cease. The directors of Heritage and Heritage Bank before the merger will continue to serve as the directors of Heritage and Heritage Bank.

The Merger Agreement is attached as Appendix A to this document. We encourage you to read the Merger Agreement in its entirety.

WWB Special Meeting (see page 19).

The special meeting of shareholders of WWB will be held at WWB's main office at 32303 Pacific Highway South, Federal Way, Washington 98003, on _____, 2006, at _____:00 p.m., local time. At the meeting you will be asked to consider and vote upon a proposal to approve the Merger Agreement and, if necessary, to consider and act upon a proposal to adjourn the meeting to permit us to solicit additional proxies if we do not have sufficient votes to approve the merger as of the date of the meeting.

You will be entitled to vote at the WWB special meeting if you owned WWB common stock at the close of business on _____, 2006. As of that date there were _____ shares of WWB common stock entitled to be voted at the special meeting.

Approval of the Merger Agreement Requires the Affirmative Vote of Two-Thirds the Outstanding Shares of WWB Common Stock (see page 19).

In order to approve the Merger Agreement, at least two-thirds of the outstanding shares of WWB common stock as of the record date must be voted at the special meeting in favor of approval. Heritage shareholders do not have to vote on the transaction.

As of the record date for the meeting, directors, executive officers and 10% shareholders of WWB, owned approximately 43% (including shares issuable upon exercise of outstanding options) of the outstanding shares of WWB common stock. The directors, executive officers and principal shareholders of WWB have agreed to vote their shares in favor of adoption of the Merger Agreement.

What WWB Shareholders Will Receive in the Merger (see page 20).

WWB shareholders will receive 1.2530 shares of Heritage common stock and \$20.36 in cash for each share of WWB common stock upon completion of the merger. We sometimes refer to this ratio as the exchange ratio. Heritage will not issue any fractional shares. WWB shareholders entitled to a fractional share will instead receive an additional amount in cash equal to 1.2530 times the average closing price of Heritage common stock on the NASDAQ National Market for the 30-trading day period ending on the third day prior to the effective date of the merger multiplied by the fractional share they are entitled to receive.

Example: If you hold 1,025 shares of WWB common stock, you will receive 1,284 shares of Heritage common stock, a cash payment of \$20,869 plus an additional cash payment of \$6.62 instead of the 0.3250 of a share that you otherwise would have received (i.e., $1,025 \text{ shares} \times 1.2530 = 1,284.3250 \text{ shares}$).

WWB shareholders will also receive additional consideration equal to \$0.50 per share (which may be paid in cash, stock, or a combination thereof, at the election of Heritage) as a result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement. WWB shareholders may also receive additional shares of Heritage stock and/or cash in the event Heritage's average stock price falls below \$21.25. See The Merger Possible Adjustment to Per Share Consideration Paid. on page 21.

The actual value of Heritage common stock received will depend on the market price of Heritage common stock on the NASDAQ National Market at the time of the merger.

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WWB's Reasons for the Merger (see page 23).

In reaching its determination to approve the Merger Agreement, the WWB board of directors consulted with WWB's management and its financial and legal advisors, and considered a number of factors, including:

The value of the exchange ratio;

The dividends and liquidity available to WWB shareholders if they received Heritage stock in exchange for their shares of WWB stock;

The information presented by McAdams Wright Ragen, Inc. (MWRI) to the WWB board with respect to the merger and the opinion of MWRI that, as of the date of that opinion, the exchange ratio was fair to the holders of WWB common stock from a financial point of view (see "The Merger Opinion of WWB's Financial Advisor" on page 25);

The benefits to WWB and its customers of operating as a larger organization, including enhancements in products and services, higher lending limits, and greater financial resources;

The continued rapid consolidation in the financial services industry and competitive effects of the increased consolidation on smaller financial institutions such as WWB; and

The expected impact of the merger on the constituencies served by WWB, including its customers, depositors, employees and communities.

These factors and others are more fully discussed under the heading "The Merger Reasons of WWB for the Merger" beginning on page 23.

Certain Federal Income Tax Consequences (see page 29).

We expect to receive a tax opinion from tax counsel for Heritage opining that the merger will be treated as a reorganization for federal income tax purposes. If the merger is so treated, WWB shareholders generally will not recognize any gain or loss on the conversion of shares of WWB common stock into shares of Heritage common stock although the receipt of cash for WWB shares will be a taxable event. This tax treatment may not apply to some WWB shareholders. You should consult your own tax advisor for a full understanding of the merger's tax consequences to you.

The WWB Board of Directors Unanimously Recommends Shareholder Approval of the Merger (see page 23).

WWB's board of directors believes that the merger is in the best interests of the WWB shareholders and has unanimously approved the Merger Agreement. WWB's board of directors recommends that WWB shareholders vote FOR approval of the Merger Agreement.

WWB's Financial Advisor Says the Exchange Ratio is Fair, from a Financial Point of View, to WWB Shareholders (see page 25).

MWRI has served as financial advisor to WWB in connection with the merger and has given an opinion to WWB's board of directors that, as of January 24, 2006 (the date WWB's board of directors voted to approve the merger) and as of the date of this Proxy Statement/Prospectus, the exchange ratio that WWB shareholders will receive is fair to WWB shareholders from a financial point of view. A copy of the opinion delivered by MWRI is attached to this document as Appendix C. WWB shareholders should read the opinion carefully to understand the assumptions made, matters considered and limitations of the review undertaken by MWRI in providing its opinion.

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WWB's Officers and Directors Have Interests in the Merger that Are Different from or in Addition to Their Interests as Shareholders (see page 28).

In addition to their interests as shareholders, the directors and executive officers of WWB each have interests in the merger that are different from your interests, including stock options and certain other compensatory arrangements discussed under the heading "Interests of Certain Persons in the Merger" beginning on page 28 of this Proxy Statement/Prospectus. WWB's board of directors was aware of these interests and took them into account in its decision to approve the Merger Agreement.

As of the record date, the directors, executive officers and principal shareholders of WWB owned and are entitled to vote 47,389 shares of WWB common stock, which, when added to the 12,832 options owned by these WWB insiders, represents approximately 33% of the outstanding shares of WWB common stock.

The Merger Is Expected to Occur in the Second Quarter of 2006 (see page 22).

The merger is expected to occur as soon as practicable after all the conditions to its completion under the Merger Agreement have been satisfied or waived. Currently, we anticipate that the merger will occur in the second quarter of 2006. However, we cannot assure you when or if the merger will occur.

Completion of the Merger Is Subject to Satisfaction or Waiver of Certain Conditions (see page 32).

Completion of the merger is subject to the satisfaction or waiver of several conditions including, but not limited to:

compliance by WWB and WSB with Section 3.12 of the Merger Agreement prohibiting WSB, subsequent to the execution of the Merger Agreement, from making any new loan outside of its trade territory of King and Pierce Counties, Washington, extend credit or account for loans and leases other than in accordance with existing lending policies and accounting practices, or make any new loan, a loan extension or renewal in a principal amount which exceeds \$250,000, other than in accordance with the loan reporting process agreed to by the Parties;

compliance by WWB with Section 6.2(L) of the Merger Agreement requiring that on the Effective Date WWB have no less than \$3,609,000 in minimum consolidated equity capital;

receipt by Heritage of agreements from each affiliate of WWB relating to restrictions on disposition of Heritage shares received by such affiliates;

the number of shares of WWB common stock for which dissenters' rights of appraisal are perfected as of the effective date or payable in cash for fractional shares shall not exceed 15% of the outstanding shares;

compliance by WWB with Section 6.2(M) of the Merger Agreement requiring that prior to the Effective Date written confirmation be delivered to Heritage by WWB stating that WWB has redeemed and paid off its outstanding trust preferred securities and that all tax returns for the statutory trust have been filed with no further current or potential liability to Heritage;

compliance by WWB with Section 6.2(N) of the Merger Agreement requiring that prior to the Effective Date Heritage shall have received written agreement from the landlord of WWB's and WSB's main office building permitting Heritage to assume the existing lease and the existing extension (authorizing continued occupation through 2017) with no assumption fee;

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compliance by WWB with Section 6.2(O) of the Merger Agreement requiring that as of the effective date, WSB's lease on its second office site be terminated at no cost and with no penalty to Heritage or to WWB or WSB, the building at that site be removed from the books of WWB, WSB and Washington State Bank Real Estate Holdings, Inc. (Holdings) at a loss after tax not exceeding \$101,640, and that the building is to be sold for cash with no financing provided by WWB or WSB;

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compliance by WWB with Section 6.2(P) of the Merger Agreement requiring that the cost of certain recommended improvements to the main office of WSB shall be borne by WSB, which costs shall not exceed \$25,000;

receipt of noncompetition and nonsolicitation agreements from each director of WWB and WSB, and from its President and Chief Executive Officer, L. Anthony Tebeau;

approval of the Merger Agreement by shareholders holding two-thirds or more of the outstanding shares of WWB common stock;

approval of the merger by federal and state regulatory authorities;

the absence of any material adverse change in (i) the business, property, assets (including loan portfolios), liabilities, or financial or other condition of WWB or Heritage, or (ii) the ability of WWB or Heritage to complete the merger; and

receipt by Heritage and WWB of legal and tax opinions.

We May Not Complete the Merger Without All Required Regulatory Approvals (see page 35).

The merger must be approved by the Federal Deposit Insurance Corporation (FDIC) and the Washington Department of Financial Institutions, and a waiver obtained from the Federal Reserve pursuant to its regulations. We filed the applications with the FDIC and the Department of Financial Institutions, seeking such approval on March 31, 2006, and will request the Federal Reserve's waiver upon obtaining FDIC approval. We expect to obtain all such regulatory approvals, although we cannot be certain if or when we will obtain them.

Termination of the Merger Agreement (see page 38).

Heritage and WWB can mutually agree to abandon the merger (and terminate the Merger Agreement) at any time prior to the time the merger is completed, even after shareholder approval. Also, either WWB or Heritage can decide, without the consent of the other, to abandon the merger in a number of situations, including:

The other party breaches a representation, warranty or covenant in the Merger Agreement, and the breach is not cured within 30 days following receipt by the breaching party of written notice of the breach (or the breach, by its nature, cannot be cured prior to the closing), provided that in the case of a representation or warranty, the breach would have a material adverse effect on the breaching party;

There has been a material adverse change in the business, property, liabilities, prospects, or condition (financial or otherwise) of the other party, or in its ability to complete the merger;

The merger has not been completed by June 30, 2006; or

A regulatory authority denies a necessary approval or issues an order preventing the merger.

Subject to certain conditions, WWB's board of directors may terminate the Merger Agreement if (i) WWB receives an unsolicited acquisition proposal from a third party that the WWB board determines in good faith, consistent with its fiduciary duties upon advice of its counsel, to be more favorable to WWB and its shareholders than the Heritage transaction, or (ii) its financial advisor, MWRI, withdraws its fairness opinion.

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Heritage may also terminate the Merger Agreement if, prior to the effective date of the merger, the average closing price of Heritage common stock during the 30 day trading period ending three trading days prior to the effective date of the merger is less than \$19.00. See The Merger Termination of the Merger Agreement-General beginning on page 38.

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WWB and Heritage Must Pay a Termination Fee to the Other Party Under Certain Circumstances (see page 39).

Under the Merger Agreement, WWB must pay Heritage a termination fee of \$500,000 if WWB terminates the Merger Agreement in order to accept a superior acquisition proposal. WWB would also have to pay the \$500,000 termination fee if either:

WWB's board of directors fails to recommend approval of the transaction by its shareholders or MWRI withdraws its fairness opinion, the Merger Agreement is terminated and WWB enters into an acquisition agreement with a third party on or before June 30, 2007.

A third party makes an acquisition proposal with respect to WWB that is known to WWB and has been publicly announced or otherwise become public, and thereafter, both of the following occur:

(1) the Merger Agreement is terminated by WWB because WWB shareholders fail to approve the merger, and

(2) WWB consummates an acquisition agreement with a third party on or before June 30, 2007.

Heritage and WWB are required to pay a \$500,000 termination fee to the other party if the merger is terminated because that party materially breaches the Merger Agreement or fails to timely perform its obligations under the Merger Agreement.

Effect of Merger on Rights of WWB Shareholders (see page 63).

The rights of WWB shareholders are governed by Washington law, as well as WWB's articles of incorporation and bylaws. After completion of the merger, the rights of the former WWB shareholders receiving Heritage common stock in the merger will still be governed by Washington law, but subject to Heritage's articles of incorporation and bylaws. Although Heritage's articles of incorporation and bylaws are similar in many ways to WWB's articles of incorporation and bylaws, there are some substantive and procedural differences that will affect the rights of WWB shareholders.

Dissenters' Rights of Shareholders (see page 36).

WWB shareholders have the right under Washington law to dissent from the merger, obtain an appraisal of the fair value of their WWB shares, and receive cash equal to the appraised fair value of their WWB shares instead of receiving the merger consideration. To exercise dissenters' rights, among other things, a WWB shareholder must (i) notify WWB prior to the vote of its shareholders on the transaction of the shareholder's intent to demand payment for the shareholder's shares, and (ii) not vote in favor of the Merger Agreement. Submitting a properly signed proxy card that is received prior to the vote at the special meeting (and is not properly revoked) that does not direct how the shares of WWB common stock represented by proxy are to be voted will constitute a vote in favor of the Merger Agreement and a waiver of such shareholder's statutory dissenters' rights. A shareholder electing to dissent from the merger must strictly comply with all procedures required under Washington law. These procedures are described more fully beginning on page 36 of this Proxy Statement/Prospectus, and a copy of the relevant Washington statutory provisions regarding dissenters' rights is included in this Proxy Statement/Prospectus as Appendix B.

Restrictions on the Ability to Sell Heritage Shares Received in the Merger (see page 40).

Unless you are considered to be an affiliate of WWB under federal securities laws, upon the effectiveness of the S-4 Registration Statement being filed by Heritage, the Heritage shares you receive in the merger will be freely transferable. If you are considered to be an affiliate, upon the effectiveness of the S-4 Registration Statement being filed by Heritage, you can sell the Heritage shares you receive in the merger only pursuant to a

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registration statement or an exemption from registration under the Securities Act of 1933 or as permitted under the rules of that Act (including rule 145). Generally, you are considered an affiliate if you are an executive officer, director or 10% shareholder of WWB. As a practical matter, the rules of the Securities Act would generally permit an affiliate to sell the Heritage shares received in the merger if the shares are sold through a broker or dealer. This Proxy Statement/Prospectus does not cover resales of Heritage common stock received in the merger by affiliates of WWB.

Treatment of WWB Stock Options (see page 22).

Upon closing of the merger, unexercised WWB options to purchase WWB common stock held by each employee and each director will be converted into a cash payment based on the exchange ratio of 1.2530 shares of Heritage common stock multiplied by the average closing price of Heritage common stock over the 30 day trading period ending three trading days prior to the effective date of the merger plus \$20.36 in cash for each WWB option less the exercise price of the unexercised option. As of March 28, 2006, the 10% shareholders, executive officers and directors of WWB held options to acquire 12,832 shares of WWB common stock, all of which will be 100% vested and exercisable upon closing. If any of the outstanding options remain unexercised at closing, the options will be converted into a cash payment equal to the difference between the per share consideration and the exercise price of the outstanding options.

Share Information and Market Prices (see page 15).

The following table sets forth the closing sale price per share of Heritage common stock and the most recent sale price per share of WWB common stock known to the company, and the equivalent per share price for WWB common stock, as of January 24, 2006 (the last full trading day before the public announcement of the merger). The Equivalent Price Per Share column is calculated by valuing the Heritage common stock at \$24.657 per share, and multiplying this value by the exchange ratio of Heritage shares being issued in the merger and adding the \$20.36 cash per share being paid by Heritage for each outstanding WWB share.

	Heritage Common Stock	WWB Common Stock	Equivalent Price Per Share
January 24, 2006	\$ 24.657	\$ 23.00	\$ 51.18

The market prices of Heritage common stock may fluctuate prior to the merger. You should obtain current market quotations for Heritage common stock.

Listing of Heritage Shares (see page 40)

The Heritage shares to be issued in the merger will be listed on the NASDAQ National Market and trade under the symbol HFWA .

Heritage to Use Purchase Method of Accounting (see page 40)

Heritage will account for the merger under the purchase method of accounting for business combinations under accounting principles generally accepted in the United States of America. Accordingly, using the purchase method of accounting, the assets and liabilities of WWB will be recorded by Heritage at their respective fair values at the time of the merger. The excess of Heritage's purchase price over the net fair value of assets acquired including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Intangible assets with definitive lives will be amortized, and intangible assets without definitive lives and goodwill must be tested for impairment periodically and such amortization and any impairment will be applied against the combined company's earnings following completion of the merger.

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CAUTIONARY WARNING REGARDING FORWARD-LOOKING STATEMENTS

This document, including information included or incorporated by reference in this document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (ii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; and (iii) other statements identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond Heritage's and WWB's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

our businesses may not be combined successfully, or such combination may take longer to accomplish than expected;

the anticipated growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

operating costs, customer losses and business disruption following the merger, including adverse developments in relationships with employees, may be greater than expected;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the risks associated with continued diversification of assets and potential adverse changes in credit quality;

increased loan delinquency rates;

competition from other financial services companies in our markets; and

the risk of an economic slowdown adversely affecting credit quality and loan originations.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed below under Risk Factors, and in Heritage's reports filed with the SEC.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to Heritage or WWB or any person acting on behalf of Heritage or WWB are expressly qualified in their entirety by the cautionary statements above. Neither Heritage nor WWB undertake any obligation to update any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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The following table sets forth selected historical consolidated financial data for Heritage, Heritage Bank and Central Valley Bank. The financial data below should be read in conjunction with the respective financial statements and notes thereto, incorporated by reference in this Proxy Statement/Prospectus. See [Where You Can Find More Information](#).

	For the years ended December 31,				
	2005	2004	2003	2002	2001
(Dollars in thousands, except per share data)					
Operations Data:					
Net interest income	\$ 33,881	\$ 31,727	\$ 29,817	\$ 30,203	\$ 26,632
Provision for loan losses	810	645	1,125	1,835	1,193
Noninterest income	6,630	6,498	7,164	6,181	5,925
Noninterest expense	24,183	23,270	22,223	20,254	20,624
Federal income tax expense	5,042	4,725	4,729	4,871	3,778
Net income	10,476	9,585	8,904	9,424	6,962
Earnings per share					
Basic	1.69	1.53	1.31	1.25	0.83
Diluted	1.65	1.49	1.26	1.21	0.82
Dividend payout ratio (1)	42.0%	40.4%	41.6%	37.4%	46.9%
Performance Ratios:					
Net interest spread	4.75%	4.91%	5.14%	5.17%	4.33%
Net interest margin (2)	5.08%	5.13%	5.40%	5.53%	4.98%
Efficiency ratio (3)	59.69%	60.88%	60.09%	55.67%	63.35%
Return on average assets	1.46%	1.44%	1.49%	1.58%	1.19%
Return on average equity	16.13%	15.80%	13.03%	12.18%	8.52%
Balance Sheet Data:					
	2005	2004	At December 31, 2003	2002	2001
Total assets	\$ 751,152	\$ 697,267	\$ 640,920	\$ 594,587	\$ 609,643
Loans receivable, net	643,538	591,085	512,647	455,277	486,679
Loans held for sale	263	381	1,018	8,113	6,275
Deposits	636,504	587,278	541,832	517,116	515,080
Federal Home Loan Bank advances	39,900	40,900	31,100		8,000
Stockholders' equity	66,120	60,944	62,232	72,397	78,528
Book value per share (4)	\$ 10.57	\$ 9.76	\$ 9.57	\$ 10.13	\$ 9.92
Equity to assets ratio	8.80%	8.74%	9.71%	12.18%	12.88%
Asset Quality Ratios:					
Nonperforming loans to loans	0.13%	0.05%	0.06%	0.42%	0.39%
Allowance for loan losses to loans	1.30%	1.38%	1.49%	1.46%	1.15%
Allowance for loan losses to nonperforming loans	1,016.27%	2,603.60%	2,611.97%	346.05%	293.12%
Nonperforming assets to total assets	0.16%	0.05%	0.11%	0.38%	0.49%
Other Data:					
Number of banking offices	18	18	18	18	18
Number of full-time equivalent employees	211	196	206	195	198

- (1) Dividend payout ratio is declared dividends per share (excluding stock dividends) divided by basic earnings per share.
- (2) Net interest margin is net interest income divided by average interest earning assets.
- (3) The efficiency ratio is recurring noninterest expense divided by the sum of net interest income and noninterest income.
- (4) Per share amounts have been properly restated to reflect the 5% stock dividend declared by the Heritage Board of Directors on September 15, 2005 for shareholders of record on September 30, 2005 and distributed on October 14, 2005.

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**COMBINED AND CONSOLIDATED HISTORICAL
AND PRO FORMA PER SHARE FINANCIAL INFORMATION**

The table set below presents the historical earnings, book value and cash dividends per share as of December 31, 2005, and the year then ended, and as of December 31, 2004, and the year then ended, for Heritage together with the pro forma amounts after giving effect to the merger. This data should be read in conjunction with the Heritage financial statements and other financial information included elsewhere in this document. The pro forma data are not necessarily indicative of future operating results or financial position.

The table below also presents the closing prices per share for Heritage and WWB common stock, respectively, on the day prior to the announcement of the merger, and as of _____, 2006, the most recent practicable trading date prior to the printing of this document, together with the pro forma equivalent market value of WWB shares after giving effect to the merger. The pro forma equivalent per share data for WWB is calculated by multiplying the historical per share data for Heritage by the exchange ratio of 1.2530 shares used to calculate the merger consideration. See the discussion under the heading **Comparative Stock Price and Dividend Information** on the next page for important information about the limited trading in stock of WWB and the effect that may have on the reliability of the share price data.

	Heritage		WWB	
	Historical	Pro Forma Combined	Historical	Pro Forma Equivalent
Basic Earnings Per Share:				
Year ended December 31, 2005	\$ 1.69	\$ 1.70	\$ 2.57	\$ 2.12
Diluted Earnings Per Share:				
Year ended December 31, 2005	\$ 1.65	\$ 1.65	\$ 2.57	\$ 2.06
Book Value Per Share At:				
December 31, 2005	\$ 10.57	\$ 11.09	\$ 22.09	\$ 13.86
Cash Dividends Per Share Paid:				
Year ended December 31, 2005	\$ 0.71	\$ 0.71	\$ 0	\$ 0
Market Value Per Share at January 24, 2006	\$ 24.657	N/A	\$ 23.00	\$
Market Value Per Share at _____, 2006	\$	N/A	\$	\$

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Heritage. Heritage common stock is quoted on the NASDAQ National Market under the symbol HFWA. The table below sets forth the high and low sales prices of Heritage common stock as reported on NASDAQ and cash dividends paid for each quarterly period during the three most recent fiscal years.

Heritage Common Stock

2005	High	Low	Cash Dividends Paid Per Share
Fourth Quarter	\$ 25.02	\$ 24.03	\$ 0.185
Third Quarter	\$ 24.20	\$ 20.49	\$ 0.171
Second Quarter	\$ 21.57	\$ 20.22	\$ 0.167
First Quarter	\$ 21.43	\$ 19.91	\$ 0.162
2004			Cash Dividends Paid Per Share
	High	Low	
Fourth Quarter	\$ 22.50	\$ 19.67	\$ 0.157
Third Quarter	\$ 21.20	\$ 18.40	\$ 0.152
Second Quarter	\$ 21.37	\$ 18.17	\$ 0.148
First Quarter	\$ 22.14	\$ 20.26	\$ 0.143
2003			Cash Dividends Paid Per Share
	High	Low	
Fourth Quarter	\$ 23.00	\$ 21.10	\$ 0.138
Third Quarter	\$ 22.26	\$ 20.74	\$ 0.133
Second Quarter	\$ 22.47	\$ 21.16	\$ 0.129
First Quarter	\$ 22.98	\$ 17.41	\$ 0.124

* Heritage also declared a dividend of \$0.19 per share on December 15, 2005 to stockholders of record on January 16, 2006. This dividend was distributed on January 30, 2006.

The timing and amount of future dividends, if any, paid by Heritage is subject to determination by the board of directors of Heritage in its discretion and will depend on earnings, cash requirements and the financial condition of Heritage and its subsidiaries, applicable government regulations and other factors deemed relevant by the board of directors. Per share amounts have been properly restated to reflect the 5% stock dividend declared by Heritage's board of directors on September 15, 2005 for shareholders of record on September 30, 2005 and distributed on October 14, 2005.

As of December 31, 2005, the 6,255,921 outstanding shares of Heritage common stock were held by approximately 1,300 holders of record.

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WWB. WWB common stock is not listed either on the New York Stock or NASDAQ stock exchanges. WWB common stock has occasionally been sold or transferred in private transactions. The following table sets forth the high and low sales prices per share of WWB common stock in such transactions known to WWB management for each quarterly period during the three most recent fiscal years. Due to the limited information available and the absence of any trading market, such transactions may not accurately reflect the actual market value of WWB common stock.

Quarter Ended	High	Low	
2005			
First Quarter	\$ 23.00	\$ 18.00	
Second Quarter	\$ 21.50	\$ 20.00	
Third Quarter	\$ 21.50	\$ 20.00	No Sales
Fourth Quarter	\$ 22.00	\$ 22.00	
2004			
First Quarter	\$ 22.50	\$ 18.00	
Second Quarter	\$ 20.00	\$ 20.00	
Third Quarter	\$ 20.00	\$ 18.00	
Fourth Quarter	\$ 20.00	\$ 18.00	No Sales
2003			
First Quarter	\$ 20.00	\$ 20.00	
Second Quarter	\$ 23.00	\$ 22.00	
Third Quarter	\$ 23.00	\$ 22.00	No Sales
Fourth Quarter	\$ 23.00	\$ 22.00	No Sales

As of March 28, 2006 there were 170,058 outstanding shares of WWB common stock held by approximately 287 holders of record.

WWB has not paid cash dividends since its incorporation.

Recent Stock Price Data. The following table sets forth the closing prices per share for Heritage common stock, as reported on NASDAQ, and WWB common stock, based on the private transactions set forth above, and the equivalent pro forma per share price for WWB common stock on January 24, 2006, the last full trading day prior to the public announcement of the execution of the Merger Agreement, and on _____, 2006, which is the most recent date for which it was practicable to obtain market price data prior to the printing of this Proxy Statement/Prospectus. Holders of WWB common stock are urged to obtain current market quotations for shares of Heritage common stock.

	January 24, 2006	_____, 2006
Closing price per share:		
Heritage	\$ 24.66	\$ _____
WWB	\$ 23.00	\$ _____
Equivalent pro forma price per share of WWB common stock	\$ 51.26(1)	\$ _____ (2)

- (1) Computed by multiplying the Heritage closing price on January 24, 2006 (\$24.66) by 1.2530 shares of Heritage stock and adding \$20.36 in cash.
- (2) Computed by multiplying the Heritage closing price on _____, 2006 by the 1.2530 shares of Heritage common stock and \$20.36 in cash being issued in the merger and dividing the total consideration by the number of shares of WWB common stock outstanding as of _____, 2006 (170,058 shares), excluding shares issued upon the exercise of stock options after _____, 2006 for which additional consideration is payable under the Merger Agreement.

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RISK FACTORS

In addition to the other information contained in or incorporated by reference into this document, including the matters addressed under the caption Cautionary Warning Regarding Forward-Looking Statements on page 11, you should consider the matters described below carefully in determining whether to approve the Merger Agreement and the transactions contemplated by the Merger Agreement.

Because of the closing conditions in the Merger Agreement and the possibility that either WWB or Heritage may terminate the Merger Agreement in specific instances, there can be no assurance when or even if the merger will be completed.

The completion of the merger is subject to the satisfaction or waiver of a number of closing conditions, including, among others, that:

WWB obtain approval of the Merger Agreement by holders of two-thirds or more of the outstanding shares of WWB common stock as of the record date;

Representations and warranties in the Merger Agreement be true and correct as of the closing date to the extent that any inaccuracy would individually or in the aggregate have a material adverse effect on the party providing the representation;

During the period from the date of execution of the Merger Agreement through the effective date of the merger, no change relative to (i) the business, property, assets (including loan portfolios), liabilities, prospects, or financial or other condition of either party that is reasonably likely individually or in the aggregate to have a material adverse effect on such party, has occurred or been threatened other than transaction costs and certain occurrences that would affect the banking industry or businesses generally, as described in the Merger Agreement or (ii) the ability of either party to complete the merger;

There be no claim, action, investigation, or other proceeding pending or threatened which presents a substantial risk of restraining or prohibiting the merger or resulting in material damages or other relief;

There be no order, decree or injunction of any court or agency that prohibits completion of the merger;

The parties obtain all necessary regulatory consents and approvals; and

Heritage and WWB have received an opinion from Gerrish McCreary Smith, PC, counsel to Heritage, that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Further, completion of the merger is subject to:

compliance by WWB and WSB with Section 3.12 of the Merger Agreement prohibiting WSB, subsequent to the execution of the Merger Agreement, from making any new loan outside of its trade territory of King and Pierce Counties, Washington, extend credit or account for loans and leases other than in accordance with existing lending policies and accounting practices, or make any new loan, a loan extension or renewal in a principal amount which exceeds \$250,000, other than in accordance with the loan reporting process agreed to by the Parties;

compliance by WWB with Section 6.2(L) of the Merger Agreement requiring that on the Effective Date WWB have no less than \$3,609,000 in minimum consolidated equity capital;

compliance by WWB with Section 6.2(M) of the Merger Agreement requiring that prior to the Effective Date written confirmation be delivered to Heritage by WWB stating that WWB has redeemed and paid off its outstanding trust preferred securities and that all tax returns for the statutory trust have been filed with no further current or potential liability to Heritage;

compliance by WWB with Section 6.2(N) of the Merger Agreement requiring that prior to the Effective Date Heritage shall have received written agreement from the landlord of WWB's and WSB's main office building permitting Heritage to assume the existing lease and the existing extension (authorizing continued occupation through 2017) with no assumption fee;

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receipt of voting agreements from each director and executive officer of WWB;

compliance by WWB with Section 6.2(O) of the Merger Agreement requiring that as of the effective date, WSB's lease on its second office site be terminated at no cost and with no penalty to Heritage or to WWB or WSB, the building at that site be removed from the books of WWB, WSB and Washington State Bank Real Estate Holdings, Inc. (Holdings) at a loss after tax not exceeding \$101,640, and that the building is to be sold for cash with no financing provided by WWB or WSB; and

compliance by WWB with Section 6.2(P) of the Merger Agreement requiring that the cost of certain recommended improvements to the main office of WSB shall be borne by WSB, which costs shall not exceed \$25,000.

There can be no assurance that the parties will be able to satisfy the closing conditions of the Merger Agreement or that closing conditions that are beyond their control, such as the absence of pending or threatened litigation or events that could reasonably be expected to have a material adverse effect on their respective businesses, will be satisfied or waived. If WWB and Heritage are unable to satisfy all the conditions or such conditions are otherwise not satisfied, either party will not be required to complete the merger.

The Merger Agreement limits WWB's ability to pursue other transactions and provides for payment of termination fees if we do so.

While the Merger Agreement is in effect and subject to very narrow exceptions, WWB and its directors, officers and agents are prohibited from initiating or encouraging inquiries with respect to alternative acquisition proposals. The prohibition limits WWB's ability to seek offers that may be superior from a financial point of view from other possible acquirers. If WWB receives an unsolicited proposal from a third party that is superior from a financial point of view to that made by Heritage and the Merger Agreement is terminated, WWB would be required to pay a \$500,000 termination fee. This fee makes it less likely that a third party will make an alternative acquisition proposal.

You cannot be sure of the value of the merger consideration that you will receive, because the market price of Heritage common stock may fluctuate.

Upon completion of the merger, each share of WWB common stock will be converted into merger consideration consisting of shares of Heritage common stock as provided in the Merger Agreement. The value of the merger consideration to be received by WWB shareholders will depend on the market price of Heritage common stock upon completion of the merger. This market price may vary from the price of Heritage common stock on the date the merger was announced, the date that this document is mailed to WWB shareholders, or the date of the special meeting of WWB shareholders. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond our control.

Accordingly, at the time of the WWB special meeting, you will not be able to determine the value of the shares of Heritage stock you would receive upon completion of the merger. We urge you to obtain current market quotations for Heritage common stock.

We may fail to achieve the revenue increases or realize the cost savings we estimate for the merger.

The success of the merger will depend, in part, on our ability to achieve the revenue increases and realize the estimated cost savings from combining the businesses of Heritage and WWB. Heritage's management originally estimated that approximately \$900,000 of annual pre-tax (or \$585,000 after-tax) cost savings would be realized from the merger in the first full year of operation. While we continue to be comfortable with these estimates as of the date of this document, it is possible that our estimates of the potential cost savings could turn out to be incorrect. Our cost savings estimates also depend on our ability to combine the businesses of Heritage

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and WWB in a manner that permits those cost savings to be realized. If our estimates turn out to be incorrect or we are not able to combine our two companies successfully, the anticipated cost savings may not be realized fully, or at all, or may take longer to realize than expected.

Combining our two companies may be more difficult, costly or time-consuming than we expect.

Heritage and WWB have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger. As with any merger of banking institutions, there also may be disruptions that cause us to lose customers or cause customers to take their deposits out of our banks.

The market price of Heritage common stock may be affected by factors different from those affecting WWB common stock.

Upon completion of the merger, the holders of WWB common stock will become holders of Heritage common stock. Some of Heritage's current businesses and markets differ from those of WWB and, accordingly, the results of operations of Heritage after the merger may be affected by factors different from those currently affecting the results of operations of WWB. For a discussion of the businesses of Heritage and WWB and of certain factors to consider in connection with those businesses, see the documents incorporated by reference into this document and referred to under "Where You Can Find More Information," on page 68.

Future results of the combined companies may differ materially from the pro forma financial information presented in this document.

Future results of the combined company may be materially different from those shown in the unaudited pro forma selected combined per share financial information (see page 13). We have estimated that the combined company will record approximately \$1.4 million pre-tax (or \$900,000 after-tax) of merger-related expenses. Merger-related expenses consist of change in control, severance and other employee-related payments, investment banking, legal and accounting fees, and costs associated with data conversion. The charges may be higher or lower than we have estimated, depending upon how costly or difficult it is to integrate our two companies. Furthermore, those charges may decrease capital of the combined company that could be used for profitable, income-earning investments in the future.

Heritage has various anti-takeover measures that could impede a takeover of Heritage.

Heritage has various anti-takeover measures in place, some of which are listed below. Any one or more of these measures may impede the takeover of Heritage without the approval of Heritage's board of directors and may prevent you from taking part in a transaction in which you could realize a premium over the current market price of Heritage common stock. See "Comparison of Shareholders' Rights" on page 63. The anti-takeover measures include charter provisions providing for, among other things, a staggered board of directors; the removal of directors only for cause; and restrictions on the calling of special shareholder meetings, the nomination of directors and shareholder proposals.

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THE SPECIAL MEETING

Place, Time and Date

WWB's special meeting of shareholders will be held on _____, 2006, at _____:00 a.m., local time, at WWB's main office at 32303 Pacific Highway South, Federal Way, Washington 98003. This Proxy Statement/Prospectus is being sent to holders of WWB common stock and is accompanied by a form of proxy that is being solicited by the WWB board of directors for use at the special meeting and any adjournment or postponement thereof.

Purpose

The purpose of the special meeting is: (i) to consider and vote upon a proposal to approve the Merger Agreement described herein and (ii) if necessary, to consider and act upon a proposal to adjourn the meeting to another time and/or place for the purpose of soliciting additional proxies.

Record Date; Shares Entitled to Vote

The WWB board of directors has fixed the close of business on _____, 2006 as the record date for determining shareholders entitled to notice of and to vote at the special meeting. Only those holders of WWB common stock of record on the record date will be entitled to notice of and to vote at the special meeting. Each share of WWB common stock will be entitled to one vote. At the record date, there were _____ shares of WWB common stock outstanding and entitled to be voted at the special meeting.

Vote Required

Approval of the Merger Agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of WWB common stock. A majority of the shares entitled to vote, represented in person or by proxy, will constitute a quorum of WWB shareholders at the special meeting. Valid proxies that are marked "Abstain," and proxies without instructions submitted by brokers that are the record owners of shares (so-called "broker non-votes"), will be considered present for purposes of determining whether a quorum exists. Abstentions and broker non-votes will have the same effect as votes cast against approval of the Merger Agreement.

As of March 28, 2006, the directors, executive officers and 10% shareholders of WWB owned and have the right to vote an aggregate of 65,340 shares of WWB common stock, which represents 34.42% (excluding 12,832 shares issuable upon the exercise of outstanding options) of the shares entitled to be voted at the special meeting. Each of the directors and executive officers of WWB has agreed to vote his or her shares for approval of the Merger Agreement.

Proxies

Holders of WWB common stock may vote either in person or by properly executed proxy. Shares of WWB common stock represented by a properly executed proxy received prior to or at the special meeting will, unless such proxy is revoked, be voted in accordance with the instructions indicated on such proxy. If no instructions are indicated on a properly executed proxy, the shares covered thereby will be voted FOR the proposal to approve the Merger Agreement. Failure to return the proxy or to vote in person at the special meeting will have the effect of a vote against the Merger Agreement. If any other matters are properly presented at the special meeting for consideration, including, among other things, a motion to adjourn the special meeting to another time and/or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the proxy and acting thereunder will have discretion to vote on such matters in accordance with their best judgment; provided, however, that no proxy which is voted against the proposal to approve the Merger Agreement will be voted in favor of any such adjournment or postponement. As of the date hereof, the board of directors of WWB knows of no such other matters.

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Any proxy may be revoked by the record holder of the shares at any time before it is voted by delivering to the Corporate Secretary of WWB, on or before the taking of the vote at the special meeting, a written notice of revocation bearing a later date than the proxy or a later dated proxy relating to the same shares of WWB common stock, or by attending the special meeting and voting in person. Attendance at the special meeting will not in itself constitute revocation of a proxy. If your shares are held in street name, you must contact your broker if you wish to revoke your proxy or change your vote, and you will not be permitted to revoke your proxy at the meeting.

The proxies for the special meeting are being solicited on behalf of the board of directors of WWB. The expense of soliciting proxies for the special meeting will be borne by WWB. All other costs and expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby are to be paid by the party incurring such expenses. Proxies will be solicited principally by mail, but may also be solicited by the directors, officers and other employees of WWB in person or by telephone, facsimile or other means of communication. Directors, officers and employees will receive no compensation for these activities in addition to their regular compensation, but may be reimbursed for out-of-pocket expenses in connection with such solicitation. Brokers and others who hold WWB common stock on behalf of another will be asked to forward proxy material and related documents to the beneficial owners of such stock, and WWB will reimburse them for their expenses in doing so.

THE MERGER

The descriptions in this Proxy Statement/Prospectus of the terms and conditions of the merger and related transactions are qualified in their entirety by reference to the Merger Agreement, a copy of which is attached as Appendix A to this Proxy Statement/Prospectus and is incorporated herein by reference.

Transaction Structure

The Merger Agreement provides for the merger of WWB with and into Heritage, in which WWB's shareholders will receive Heritage common stock and cash for their WWB common stock, as described below. The separate existence of WWB will cease upon completion of the merger. In addition, WSB will merge with and into Heritage Bank. After the merger, WSB's office will operate and be known as a branch of Heritage Bank.

The Heritage articles of incorporation will be the articles of incorporation of the combined company after completion of the merger, and the Heritage bylaws will be the bylaws of the combined company.

Exchange Ratio

The Merger Agreement provides that as of the effective date of the merger each share of WWB common stock issued and outstanding immediately prior to the effective date will be converted into 1.2530 shares of Heritage common stock and \$20.36 in cash, pending certain potential adjustments pursuant to Section 1.3(B) of the Merger Agreement. In addition, WWB shareholders will received consideration equal to \$0.50 per share (which may be paid in cash, stock or a combination thereof at the election of Heritage) as the result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement. In our discussion we refer to the number of shares of Heritage common stock and the cash to be received for each share of WWB common stock being converted into Heritage stock as the exchange ratio .

It is anticipated that Heritage will issue approximately 213,083 shares of Heritage common stock and \$3,408,101 in cash (subject to adjustment if the average closing price is less than \$21.25) to WWB shareholders in the merger in exchange for all the shares of WWB common stock outstanding as of January 24, 2006, the date of the Merger Agreement. With respect to shares of WWB common stock issued after January 24, 2006, upon exercise of outstanding stock options, Heritage will issue cash payments equal to the difference between the

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implied value of each share of WWB common stock and the exercise price of the outstanding options. See [Exercised WWB Options](#) and [Treatment of Unexercised Options](#) above.

The value of the shares of Heritage common stock to be exchanged for each share of WWB common stock may fluctuate during the period up to and including the completion of the merger. Based on the closing price of Heritage common stock on March 23, 2006, the trading day prior to the announcement of the proposed merger, WWB shares of common stock had an implied value of approximately \$51.18 per share. Based on the \$27.90 closing price of Heritage common stock on March 23, 2006, WWB shares of common stock had an implied value of approximately \$55.32 per share. In addition, WWB shareholders will receive consideration equal to \$0.50 per share (which may be paid in cash, stock or a combination thereof at the election of Heritage) as the result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement.

No assurance can be given that the current fair market value of Heritage common stock will be equivalent to the fair market value of Heritage common stock on the date that stock is received by a WWB shareholder or at any other time. The fair market value of Heritage common stock received by a WWB shareholder may be greater or less than the current fair market value of Heritage common stock due to numerous market factors.

Possible Adjustment to Per Share Consideration Paid.

In the event that Heritage's average closing price over the 30 day trading period ending three trading days prior to the effective date of the merger is less than \$21.25 but greater than \$18.99, then the aggregate consideration that Heritage will pay shall be increased by an amount representing 75% of the difference between \$21.25 per share and the average closing price multiplied by the total number of Heritage shares to be issued. See [Termination of the Merger Agreement](#).

Heritage may terminate the Merger Agreement if, prior to the effective date of the merger, the average closing price of Heritage common stock for the 30 trading days ending on the third trading day immediately prior to the effective date of the merger (the average closing price) is less than \$19.00 unless Heritage agrees to increase the merger consideration (in shares of Heritage stock or cash) by 50% of the difference between \$19.00 and the average closing price, multiplied by the total number of Heritage shares to be issued. See [Termination of the Merger Agreement](#).

If, between the date of the Merger Agreement and the effective date of the merger, the shares of Heritage common stock are changed into a different number or class of shares by reason of reclassification, split-up, combination, exchange of shares or readjustment, or a stock dividend is declared with a record date within that period, appropriate adjustments will be made to the exchange ratio.

No fractional shares of Heritage common stock will be issued to any holder of WWB common stock in the merger. For each fractional share that would otherwise be issued, Heritage will pay cash in an amount equal to the fraction multiplied by the average of the closing sale prices of Heritage common stock on the NASDAQ National Market for the 30 trading days ending on the third trading day immediately prior to the effective date of the merger. No interest will be paid or accrued on cash payable in lieu of fractional shares of Heritage common stock.

Letter of Transmittal.

Soon after the completion of the merger, Heritage will send a letter of transmittal to each person who was a WWB shareholder at the effective time of the merger. This mailing will contain instructions on how to surrender shares of WWB common stock in exchange for the Heritage shares the holder is entitled to receive under the Merger Agreement based on the exchange ratio.

All shares of Heritage common stock issued to the holders of WWB common stock pursuant to the merger will be deemed issued as of the effective date. Until you surrender your WWB stock certificates for exchange,

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you will accrue, but will not be paid, any dividends or other distributions declared after the effective date with respect to Heritage common stock into which any of your shares may have been converted. When you surrender your certificates, Heritage also will pay you \$20.36 for each of your shares of WWB stock, any unpaid dividends or other distributions, as well as any cash for fractional shares, without interest. After the effective date, there will be no transfers on the stock transfer books of WWB of any shares of WWB common stock. If certificates representing shares of WWB common stock are presented for transfer after the completion of the merger, they will be cancelled and exchanged for the merger consideration into which the shares of WWB common stock represented by those certificates shall have been converted.

If a certificate for WWB common stock has been lost, stolen or destroyed, Heritage will issue the consideration properly payable under the Merger Agreement upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, bond or indemnity satisfactory to Heritage, and appropriate and customary identification.

Exercised WWB Options

WWB had employee and director stock options outstanding for 12,832 shares of WWB common stock, as of March 28, 2006. All 12,832 options will be automatically 100% vested and exercisable upon the completion of the merger. Any WWB shares issued with respect to any WWB options exercised prior to closing will receive 1.2530 shares of Heritage stock and \$20.36 in cash for each share of WWB stock that they own, in addition to consideration equal to \$0.50 per share as the result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement. This \$0.50 per share of additional consideration may be paid by Heritage in cash, stock or a combination thereof.

Treatment Of Unexercised Options

Each outstanding option to acquire WWB common stock granted under WWB's stock option plans will be converted automatically at the effective date of the merger into the right to receive cash in the amount of the per share consideration less the exercise price of the option.

See "Interests of Certain Persons in the Merger - Stock Options" at page 28, for information about the exercise prices, and implied values resulting from the merger, of options and warrants held by the directors and executive officers of WWB.

Effective Date of the Merger

Subject to the conditions to the obligations of the parties to complete the merger as set forth in the Merger Agreement, the effective date of the merger will occur as soon as practicable after such conditions have been satisfied or waived. Subject to the foregoing, it is currently anticipated that the merger will be consummated in June of 2006. Either Heritage or WWB may, subject to certain conditions, terminate the Merger Agreement if the effective date does not occur on or before June 30, 2006.

Background of the Merger

WSB was organized in 1992 as a Washington state-chartered bank headquartered in Federal Way, Washington. WWB was formed in 1992. From its inception, WWB and WSB have sought to differentiate themselves from its larger competitors by emphasizing timely, local decision-making and by providing the highest level of personal banking service.

In October 2005, the board of directors retained MWRI to serve as its financial advisor in the sale of WWB. In reply to questions from some of the WWB directors, MWRI recommended that WWB seek expressions of interest from a select list of potential acquirers, including community and regional banks and thrifts. After

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discussion, the board of directors authorized MWRI to approach 18 potential acquirers and solicit written expressions of their interest in acquiring WWB with a proposed price range and structure.

MWRI contacted these parties about their interest in a possible business combination without identification of WWB. Each party was asked to execute a confidentiality agreement to permit the sharing of identity of WWB and nonpublic information on WWB. 12 parties executed confidentiality agreements in October-November 2005.

On November 18, 2005, Heritage and one other party submitted significant, nonbinding indications of interest to MWRI. The WWB board held a special meeting on November 21, 2005 to review the nonbinding indications of interest. Following extensive discussion among the directors concerning the potential advantages and risks of the proposed business combination, the Board unanimously authorized management to move forward with negotiations and due diligence regarding the two offers. Revised proposals were made and discussed by the WWB at a special meeting on November 30, 2005. The decision was made to pursue further the Heritage proposal exclusively.

Following due diligence of WWB by Heritage on December 10, 2005 and of Heritage by WWB and MWRI on December 20, 2005, the parties continued arm's length negotiations regarding the consideration to be received by WWB shareholders in the merger, and other issues raised by the proposed transaction.

During the period from December 20, 2005 to January 24, 2006, counsel for WWB and Heritage negotiated the precise wording of the terms of the Merger Agreement, the directors' voting and noncompete agreements, and other ancillary documents in light of the parties' negotiations. All substantive issues regarding the business combination transaction were resolved by January 20, 2006, and draft disclosure schedules were exchanged by the parties on that date.

On January 24, 2006, the WWB board held a special meeting to review the definitive Merger Agreement and the fairness opinion delivered by MWRI. Mr. Tebeau, legal counsel, and a representative of MWRI again reviewed the reasons for and the potential benefits of the business combination with Heritage, the MWRI representative made a presentation regarding the financial terms of the transaction and the fairness, from a financial point of view, of the consideration to be paid by Heritage in the merger to the shareholders of WWB, and management updated the directors regarding the merger timeline and communication plan. After discussion and detailed consideration of the Merger Agreement and of the factors discussed below under "Reasons of WWB for the Merger," the WWB directors, all of whom were present, unanimously approved and authorized the execution of the Merger Agreement. The Merger Agreement was executed and a press release was issued on January 25, 2006.

Reasons of WWB for the Merger

The WWB Board of Directors believes the merger is in the best interests of WWB and the WWB shareholders. The WWB Board unanimously recommends that WWB shareholders vote for the approval of the Merger Agreement and the consummation of the transactions contemplated by that agreement.

In reaching its determination to adopt the Merger Agreement, the Board consulted with WWB's management and its financial and legal advisors, and considered a number of factors. Following is a description of each of the material factors that the WWB board believes favor the merger:

the WWB Board's assessment, based in part on presentations by MWRI, WWB's financial advisor, and its management and the results of the due diligence investigation of Heritage conducted by WWB's management and financial and legal advisors, of the business, operations, capital level, asset quality, financial condition and earnings of Heritage on an historical and a prospective basis, and of the combined company on a pro forma basis including anticipated cost savings;

the WWB Board's knowledge of Heritage's business, operations, financial condition, earnings, asset quality and prospects;

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the financial and growth prospects for WWB and its shareholders of a business combination with Heritage as compared to continuing to operate as a stand-alone entity;

the information presented by MWRI to the WWB Board with respect to the merger and the opinion of MWRI that, as of the date of that opinion, the merger consideration was fair to the holders of WWB common stock from a financial point of view (see "Opinion of WWB's Financial Advisor" on page 25);

the benefits to WWB and its customers of operating as a larger organization, including enhancements in products and services, higher lending limits, and greater financial resources;

the WWB board's belief that the two companies share a common vision of the importance of customer service and local decision-making and that management and employees of WWB and Heritage possess complementary skills and expertise;

the current and prospective economic and competitive environment facing the financial services industry generally, and WWB in particular, including the continued rapid consolidation in the financial services industry and the competitive effects of the increased consolidation on smaller financial institutions such as WWB;

the increasing importance of operational scale and financial resources in maintaining efficiency and remaining competitive over the long term and in being able to capitalize on technological developments which significantly impact industry competitive conditions;

the expected social and economic impact of the merger on the constituencies served by WWB, including its borrowers, customers, depositors, employees, suppliers and communities;

the employee and severance benefits to be provided to WWB employees and career opportunities in a larger organization;

the fact that Heritage has existing resources to fund the cash portion of the merger consideration; and

the WWB Board's assessment, with the assistance of counsel, concerning the likelihood that Heritage would obtain all regulatory approvals required for the merger.

In the course of its deliberations regarding the merger, the WWB Board also considered the following information that the WWB board determined did not outweigh the benefits to WWB and its shareholders expected to be generated by the merger:

the federal income tax consequences to WWB shareholders who receive cash in exchange for their shares of WWB common stock in the merger;

that the directors and officers of WWB have interests in the merger in addition to their interests generally as WWB shareholders (see "Interests of Certain Persons in the Merger" on page 28); and

the effect of the termination fee in favor of Heritage and recognizing that the termination fee was a condition to Heritage's willingness to enter into the Merger Agreement.

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The foregoing discussion of the information considered by the WWB board is not intended to be exhaustive but includes all of the material factors considered by the WWB board. In the course of its deliberations with respect to the merger, the WWB board discussed the anticipated impact of the merger on WWB, its shareholders, and its various other constituencies, and determined that the benefits to WWB and its constituencies expected to result from the merger would likely outweigh any disadvantages identified during the board's deliberations. In reaching its determination to approve and recommend the merger, the WWB board did not assign any relative or specific weights to the factors considered in reaching that determination, and individual directors may have given differing weights to different factors.

Reasons of Heritage for the Merger

The merger with WWB will allow Heritage to expand its commercial banking franchise into the fast-growing King County market. This is consistent with Heritage's strategy to expand into areas contiguous with its

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South Puget Sound locations. See *Businesses of the Parties to the Merger Heritage Business Strategy* at page 42. Heritage and WWB share similar customer banking strategies and philosophies and have compatible deposit and loan products.

In approving the Merger Agreement, Heritage's board of directors also considered, among other things:

the attractiveness of the Federal Way and King County market areas;

the expectation that the transaction will be accretive to Heritage's earnings per share for 2007;

information concerning the financial performance and condition, business operations, capital level and asset quality of WWB and projected results and prospects of Heritage and WWB on a combined basis, including anticipated revenue increases and cost savings;

the terms of the Merger Agreement, including the mutual covenants and conditions and the circumstances under which Heritage would receive or pay a termination fee; and

the likelihood of obtaining the regulatory approvals required to consummate the merger.

Opinion of WWB's Financial Advisor

MWRI has delivered a written opinion to the WWB Board to the effect that, as of the date of this Proxy Statement/Prospectus, the Consideration to be received by WWB common stockholders pursuant to the terms of the Merger Agreement is fair to the WWB stockholders from a financial point of view. Heritage and WWB determined the exchange ratio of 1.2530 shares of Heritage common stock and cash of \$20.36 for each WWB share through negotiations. The MWRI Opinion is directed only to the fairness, from a financial point of view, of the Consideration to be received and does not constitute a recommendation to any WWB stockholder as to how such shareholder should vote at the Special Meeting. As negotiated, a \$24.3740 Heritage stock price was used to calculate the purchase price per share of approximately \$50.90 per share (adjusted to \$51.40 per share as the result of an adjustment pursuant to Section 1.3(C) of the Merger Agreement).

WWB retained MWRI as its exclusive financial advisor pursuant to an engagement letter dated October 13, 2005 in connection with the Merger. MWRI is a regionally recognized investment banking firm that is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions. The WWB Board selected MWRI to act as WWB's exclusive financial advisor based on MWRI's experience in mergers and acquisitions and in securities valuation generally.

On January 24, 2006, MWRI issued its Opinion to the WWB Board that, in its opinion as investment bankers, the terms of the Merger as provided in the Merger Agreement are fair, from a financial view point, to WWB and its shareholders. **The full text of the MWRI Opinion, which sets forth the assumptions made, matters considered, and limits on its review, is attached hereto as Appendix C. The summary of the MWRI Opinion in this Proxy Statement/Prospectus is qualified in its entirety by reference to the full text of such opinion. WWB SHAREHOLDERS ARE URGED TO READ THE ENTIRE MWRI OPINION.**

In rendering its opinion to WWB, MWRI reviewed, among other things, historical financial data of Heritage, certain internal financial data and assumptions of Heritage prepared for financial planning and budgeting purposes furnished by the management of Heritage and, to the extent publicly available, the financial terms of certain change of control transactions involving Northwest community banks. MWRI discussed with the management of Heritage the financial condition, current operating results, and business outlook for Heritage. MWRI also reviewed certain publicly available information concerning WWB and certain financial and securities data of WWB. MWRI discussed with WWB's management the financial condition, the current operating results, and business outlook for WWB and WWB's plans relating to Heritage. In rendering its opinion, MWRI relied, without independent verification, on the accuracy and completeness of all financial and other information reviewed by it and did not attempt to verify or to make any independent evaluation or appraisal of the assets of Heritage or WWB nor was it furnished any such appraisals. WWB did not impose any limitations on the scope of the MWRI investigation in arriving at its opinion.

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MWRI analyzed the total Purchase Price on a fair market value basis using standard evaluation techniques (as discussed below) including the market approach (or comparable merger multiples), the income approach (or net present value analysis), relative contribution analysis, earnings per share accretion analysis and the cost approach (or net asset value analysis) based on certain assumption of projected growth of earnings and dividends and a range of discount rates from 16% to 18%.

The Cost Approach is the net asset value or the net equity of a bank, including adjustments for every kind of property on the balance sheet that can be valued. This approach normally assumes the liquidation on the date of appraisal with the recognition of the investment securities gains or losses, real estate appreciation or depreciation, adjustments to the loan loss reserve, discounts to the loan portfolio and changes in the net value of other assets. As such, it is not the best evaluation approach when valuing a going concern because it is based on historical costs and varying accounting methods. Even if the assets and liabilities are adjusted to reflect prevailing market prices and yields (which is often of limited accuracy due to the lack of readily available data), it still results in a liquidation value. In addition, since this approach fails to account for the values attributable to the going concern such as the interrelationship among WWB's assets and liabilities, customer relations, market presence, image and reputation, staff expertise and depth, little weight is given by MWRI to the net asset value approach to valuation.

Market Value is generally defined as the price, established on an arms-length basis, at which knowledgeable, unrelated buyers and sellers would agree. The hypothetical market value for a bank with a thin market for its common stock is normally determined by comparable change of control transactions using financial ratios such as the average price to stockholders equity, price to earnings, and price to total assets, adjusting for significant differences in financial performance criteria and for any lack of marketability or liquidity of the buyer. The market value in connection with the evaluation of control of a bank is determined by previous sales of small banks in the state or region. In valuing a business enterprise, when sufficient comparable trade data are available, the market value approach deserves greater weighting than the net asset value approach and similar weight as the investment value approach as discussed below.

MWRI maintains a comprehensive database concerning prices paid for banking institutions in the Northwest, particularly Washington, Idaho, Montana and Oregon banking institutions, during 1998 through 2006. This database provides comparable pricing and financial performance data for banking institutions sold or acquired. Organized by different peer groups, these data present medians of financial performance and purchase price levels, thereby facilitating a valid comparative purchase price analysis. In analyzing the transaction value of WWB, MWRI has considered the market approach and has evaluated price to stockholders' equity and price to earnings multiples and the price to total assets percentage for three samples; sample one is twenty-nine Washington, Idaho, Montana and Oregon bank transactions occurring in 2002-2005, and sample two is twenty-three Western Washington and Western Oregon transactions with banks having total assets less than \$500 million that sold from January 1, 1998 to October 15, 2003 segregated by form of consideration. Although MWRI also tested a sample of 45 bank transactions occurring in 1998-2005, these results are not presented since the results reflect the higher level of merger prices in 1998. Sample three is thirty banks from across the United States with total assets between \$50 million and \$150 million that announced mergers in the period of July 1, 2005 through December 31, 2005.

Comparable Sales Multiples. MWRI calculated the estimated purchase price per share for these three samples for each ratio using the appropriate WWB financial data for the expected Effective Date. This simplification enables direct comparisons between the proposed WWB-Heritage transaction and the results of the three samples. Then the \$50.90 price per share for the proposed WWB-HERITAGE transaction is compared to these estimated purchase prices per share for the three samples. The results are shown below:

Sample One- 29 Transactions		Sample Two-23 Transactions	
Financial Ratio	Price per share	Financial Ratio	Price per share
Price to Book Value	\$46.82	Price to Book Value	\$46.14
Price to Earnings	\$75.73	Price to Earnings	\$76.92
Price to Total Assets	\$67.09	Price to Total Assets	\$78.73

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Financial Ratio	Price per share
Price to Book Value	\$43.42
Price to Earnings	\$85.85
Price to Total Assets	\$69.20

The results for sample one reflect data on all Northwest-based bank and thrift transactions for 2002-2005. The proposed purchase price of \$50.90 is above the price to book value and below the price to earnings ratio per share and price to total assets ratio. Perhaps, a better comparison is sample two with bank mergers involving banks in Western Washington and Western Oregon. The proposed \$50.90 purchase price compares favorably only for the price to book value results. The price to book value ratio provided price per share results that are above \$50.90. Similar to samples one and two, the results for sample three show that the proposed purchase price of \$50.90 per share was above the price for the book value and below the price to earnings and total assets ratios.

Relative Contribution Analysis involves certain historical and estimated financial information for WWB and Heritage and the pro forma combined entity resulting from this transaction. The following table shows the percentage contributions of each company to the indicated values to the combined company.

Percentage of Combined	Heritage	WWB
Trailing 12 Months Net Income	92.3%	7.7%
Total Assets at 9-30-05	92.7%	7.3%
Total Deposits at 9-30-05	92.9%	7.1%
Stockholders' Equity at 9-30-05	94.7%	5.3%

The proposed transaction has WWB shareholders receiving 5.5% of Heritage's market capitalization at closing. The percentage of stockholders' equity of 5.3% compares favorably with 5.3% and offsets the higher net income percentage of 7.7%. Also, the net income for WWB was \$207,117 in 2004, significantly lower than the trailing 12 months level. Using the 5.3% to calculate a price per share value for WWB, the value is \$48.59 per share, a price that is lower than the \$50.90 that Heritage is offering WWB shareholders.

Earnings Per Share Accretion Analysis is the review of earnings per share calculations for the first year after the closing of the merger. Using the 2006 calculations for WWB and Heritage, estimates of the revenue enhancement and cost reductions that can reasonably be attained, information all provided by the management of WWB and Heritage, the comparison of stand-alone earnings per share and adjusted earnings per share shows that the adjusted earnings per share is \$.06 to \$.09 higher than the expected earnings per share depending upon the assumptions made. A calculation of 4% accretion to earnings per share yields a total amount of \$8,277,612 (or a price per share of \$46.78).

The Income Approach is sometimes referred to as the net present value or earnings analysis. One investment value method frequently used estimates the present value of an institution's future earnings or cash flow that is discussed below.

Net Present Value Analysis. The investment or earnings value of any banking organization's stock is an estimate of the present value of future benefits, usually earnings, dividends, or cash flow, which will accrue to the stock. An earnings value is calculated using an annual future earnings stream over a period of time of not less than five years and the residual or terminal value of the earnings stream after five years, using WWB's estimates of future growth and an appropriate capitalization or discount rate. MWRI's calculations were based on an analysis of the banking industry, WWB's earnings estimates for 2006-2010, historical levels of growth and earnings, and the competitive situation in the market area of WWB. Using discount rates of 18% and 16%, acceptable discount rates considering the risk-return relationship most investors would demand for an investment of this type as of the valuation date, the Net Present Value of Future Earnings provided a range of \$47.66 to \$51.11 per share, which compares favorably with \$50.90.

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When the cost, market value, relative contribution, earnings per share accretion and income approaches are subjectively weighed, using the appraiser's experience and judgment, it is MWRI's opinion that the proposed transaction is fair, from a financial point of view to the WWB shareholders.

Pursuant to the terms of the Engagement Letter, WWB has agreed to pay MWRI a fee of \$25,000 for this fairness opinion and a completion fee that is contingent on the value of the Heritage stock price, \$98,898 if calculated on January 24, 2006, for other financial advisory services. During the two years preceding the date of the Engagement Letter, MWRI had no other contractual relationships with WWB or Heritage. In addition, WWB has agreed to reimburse MWRI for its reasonable out-of-pocket expenses, including the fees and disbursements of its counsel, and to indemnify MWRI against certain liabilities.

Interests of Certain Persons in the Mergers

Stock Ownership. The directors, executive officers and 10% shareholders of WWB, together with their affiliates, beneficially owned (including their outstanding options to purchase, in the aggregate, 12,832 shares of common stock), as of the record date for the special meeting, a total of 65,340 shares of WWB common stock, representing 43% of all outstanding shares of WWB common stock and options to purchase WWB common stock. The options to purchase the 12,832 are immediately exercisable on the effective date of the merger. The directors, executive officers and affiliates of WWB will receive the same consideration in the merger for their shares as the other shareholders of WWB, plus cash with respect to their options. None of the directors or executive officers of WWB has indicated that he or she has any plans to exercise his or her options prior to the completion of the merger. Various members of WWB's management and the WWB board have other interests in the merger, as described below, that are in addition to their interests as WWB shareholders. The WWB board is aware of those interests and considered them, among other matters, in approving the Merger Agreement and the transactions contemplated thereby.

Stock Options. On the effective date of the merger, WWB options to purchase WWB common stock will be converted into a cash payment equal to the difference between the per share consideration (as defined in the Merger Agreement) and the exercise price of the option. As of the date of this Proxy Statement/Prospectus, the officers and other employees of WWB held options to acquire a total of 7,500 shares of WWB common stock and the non-employee directors of WWB held options to acquire a total of 5,332 shares of WWB common stock. The total value of stock payable with respect to such options and the options exercised since the date of the Merger Agreement (net of the exercise prices payable by the option holders) is estimated at \$ (based on the current trading price of Heritage common stock of approximately \$). All the WWB options will be immediately and fully exercisable as a result of the merger.

WWB Change in Control Obligations. WWB is a party to employment agreements with its President and Chief Executive Officer, L. Anthony Tebeau, which generally provides for change of control payments equal to Mr. Tebeau's current salary for 24 months from the date of the change in control in the event Mr. Tebeau is not the President and Chief Executive Officer of the surviving entity. Paula A. Vinson, Chief Financial Officer and Charles R. Perry, Lending Officer also have employment agreements with WWB. Ms. Vinson's agreement provides that in the event of a change in control, Ms. Vinson's term of employment shall not be less than two years after the Effective Date of the transaction. Mr. Perry's agreement provides that in the event of a change in control, Mr. Perry's term of employment shall not be less than six months after the Effective Date of the transaction. Heritage currently proposes to employ Ms. Vinson and Mr. Perry for the periods specified in their employment agreements. Therefore, the estimated aggregate cash payment upon completion of the merger is approximately \$236,500, which shall be paid in satisfaction of the change in control provisions in Mr. Tebeau's employment agreement. If Ms. Vinson is not employed by Heritage for a period of two years following the merger, she would be entitled to be paid by Heritage in a lump sum an amount equal to \$7,850 times the number of months she was employed by Heritage less than 24 months. If Mr. Perry is not employed by Heritage for a period of six months following the merger, he would be entitled to be paid by Heritage in a lump sum an amount equal to \$7,500 times the number of months he was employed by Heritage less than six months.

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Heritage also has entered into agreements with the directors of WWB providing that the directors will not, directly or indirectly, become interested in, as a promoter, principal shareholder, director or officer of, any financial institution that competes or will compete with Heritage or any of its subsidiaries or their affiliates within Pierce County, Thurston County or King County in the State of Washington for a period of two years after the Effective Date. The agreements also provide that during this two year period, the directors will not solicit employees or customers of WWB or Heritage, or any of their subsidiaries.

Heritage does not intend to enter into any written employment, severance, change of control or similar agreements with the executive officers or directors of WWB.

Insurance. WWB has agreed to cause the persons serving as officers and directors of WWB immediately prior to the effective date of the merger to be covered by the current policies of the directors and officers liability insurance maintained by WWB for a period of three years after the effective date of the merger with respect to acts or omissions of officers and directors, in their capacity as such, occurring on or prior to the effective date.

Certain Federal Income Tax Consequences

The following is a discussion of the material federal income tax consequences of the merger that are generally applicable to holders of WWB common stock who are citizens of, reside in or are organized under the laws of the United States. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended (the Code), existing regulations thereunder (including final, temporary or proposed) and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences described herein. The following discussion is intended only as a general summary of the material federal income tax consequences of the merger and is not a complete analysis or listing of all potential tax effects relevant to a decision on whether to vote in favor of approval of the Merger Agreement.

This discussion assumes that the WWB shareholders hold their shares of WWB common stock as a capital asset within the meaning of section 1221 of the Code. Further, the discussion does not address all aspects of federal income taxation that may be relevant to WWB shareholders in light of their particular circumstances or that may be applicable to them if they are subject to special treatment under the Code, including, without limitation, shareholders who are:

financial institutions, mutual funds or insurance companies;

tax-exempt organizations;

S corporations or other pass-through entities;

WWB shareholders whose shares are qualified small business stock for purposes of section 1202 of the Code or who may otherwise be subject to the alternative minimum tax provisions of the Code; or

WWB shareholders who received their WWB common stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan.

Consummation of the merger is conditioned upon the receipt by WWB of the opinion of Gerrish McCreary Smith, PC counsel to Heritage, dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in the opinion, which are consistent with the state of facts existing as of the effective date of the merger, the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code. The tax opinions to be delivered in connection with the merger are not binding on the Internal Revenue Service (IRS) or the courts, and neither WWB nor Heritage intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the merger.

Assuming the facts as set forth in the opinion referred to above occur, the United States federal income tax consequences of the merger to a holder generally will be to the following effect:

the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code,

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no gain or loss will be recognized by Heritage or WWB by reason of the merger,

each shareholder of WWB will recognize gain, but not loss, in an amount equal to the lesser of:

the excess, if any, of the sum of the fair market value of the Heritage common stock and the amount of cash (excluding any cash in lieu of fractional shares) received by the shareholder in exchange for shares of WWB common stock over the shareholder's basis in the WWB common stock, and

the amount of cash (excluding any cash in lieu of fractional shares) received by the shareholder in exchange for shares of WWB common stock,

the basis in the Heritage common stock to be received by a WWB shareholder (including fractional shares deemed received and resold) will be the same as the basis in the WWB common stock surrendered in the exchange for Heritage shares, decreased by the amount of cash received (excluding any cash received in lieu of fractional shares) and increased by the amount of gain recognized, if any, as a result of the merger (but excluding any gain or loss from the deemed receipt and sale of fractional shares).

if WWB common stock is a capital asset in the hands of the shareholder at the time of the merger, the holding period of the Heritage shares received by the WWB shareholder in the merger will include the holding period of the shares of WWB common stock surrendered in exchange for the Heritage shares.

the receipt of cash in lieu of a fractional share of Heritage common stock will be treated as if the fractional Heritage share was distributed as part of the exchange to the WWB shareholder and then redeemed by Heritage, resulting in gain or loss measured by the difference, if any, between the amount of cash received for the fractional share and the shareholder's tax basis in the fractional share.

Assuming that the merger is a reorganization, neither Heritage nor WWB will recognize gain or loss as a result of the merger. The following discussion of U.S. federal income tax consequences of the merger to WWB shareholders assumes that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Exchange of WWB Shares for Heritage Shares and Cash. If a WWB shareholder's adjusted basis in his or her WWB shares is less than the fair market value, as of the date of the merger, of the shares of Heritage common stock and cash received by the shareholder, then the shareholder will recognize a gain. This recognized gain will be equal to the lesser of:

the excess, if any, of the fair market value, as of the date of the merger, of the Heritage shares and cash received, other than cash received in lieu of fractional shares, over the adjusted basis of the WWB shares surrendered in the exchange, and

the amount of cash received in the exchange, other than cash received in lieu of fractional shares.

If, however, a WWB shareholder's adjusted basis in the shares of WWB common stock surrendered in the Merger is more than the fair market value of the Heritage shares and cash received, then the WWB shareholder's loss will not be currently allowed or recognized for U.S. federal income tax purposes.

In the case of a shareholder who recognizes gain on the exchange, if the exchange does not have the effect of a distribution of a dividend (as discussed below) and the shares of WWB common stock exchanged were held as capital assets by the WWB shareholder, the gain will be characterized as a capital gain. If the exchange does have the effect of a distribution of a dividend, the gain will be taxable as ordinary income (unless the gain is qualified dividend income within the meaning of Section 1(h)(11) of the Code entitled to capital gains treatment) to the extent of the shareholder's ratable share of available earnings and profits. The remainder, if any, of the recognized gain will be capital gain if the WWB shares exchanged were held as capital assets by the WWB shareholder.

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The determination of whether the exchange has the effect of the distribution of a dividend is based on a comparison of the WWB shareholder's proportionate interest in Heritage after the merger with the proportionate

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interest the shareholder would have had if the shareholder had received solely Heritage common stock in the merger. For purposes of this comparison, the WWB shareholder may be deemed to constructively own shares of Heritage common stock held by certain members of his or her family or certain entities in which he or she has an ownership or beneficial interest and certain stock options may be aggregated with the shareholder's shares of Heritage common stock. Dividend treatment will apply unless the shareholder's interest has been sufficiently reduced. While the determination is based on a WWB shareholder's particular facts and circumstances, the IRS has indicated in published rulings that a distribution that results in any actual reduction in interest of an extremely small minority shareholder in a publicly held corporation will meaningfully reduce the shareholder's interest in the corporation, and, therefore, will result in capital gain treatment for shareholders who hold the shares as capital assets if the shareholder exercises no control with respect to corporate affairs.

Because the determination of whether a payment will be treated as having the effect of the distribution of a dividend will generally depend upon the facts and circumstances of each WWB shareholder, WWB shareholders are strongly urged to consult their own tax advisors regarding the tax treatment of cash received in the merger, including the application of the constructive ownership rules of the Code and the effect of any transactions in shares of Heritage common stock by the WWB shareholder.

A WWB shareholder's basis in the shares of Heritage common stock received in the merger, including fractional shares deemed received and resold as described below, will be equal to the shareholder's basis in his or her WWB shares reduced by any cash, other than cash in lieu of fractional shares, received in the Merger and increased by any gain recognized in the merger, but excluding any gain or loss from the deemed receipt and resale of fractional shares described below. Provided that the WWB shares surrendered were held as capital assets at the time of the merger, the holding period of the Heritage shares received will include the holding period of the WWB shares surrendered.

Cash Received. Cash received by a holder generally will be treated as received in redemption of the WWB stock, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the WWB stock and the portion of the holder's aggregate adjusted tax basis of the share of WWB common stock surrendered allocable to the WWB stock. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of WWB common stock is more than one year.

Dissenting Shareholders. Holders of WWB common stock who dissent with respect to the merger as discussed in *Dissenters' Rights* beginning on page 36 of this Proxy Statement/Prospectus, and who receive cash in respect of their shares of WWB common stock will recognize capital gain or loss equal to the difference between the amount of cash received and their aggregate tax basis in their shares.

Backup Withholding. Non-corporate shareholders of WWB may be subject to information reporting and backup withholding on any cash payments they receive. Shareholders will not be subject to backup withholding, however, if they:

furnish a correct taxpayer identification number and certify that they are not subject to backup withholding on the substitute Form W-9 or successor form included in the election form/letter of transmittal they will receive; or

are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder's federal income tax liability, provided he or she furnishes the required information to the IRS.

Cash in lieu of Fractional Shares. Holders of shares of WWB common stock who receive cash in lieu of fractional shares of Heritage common stock will be treated as having first received the fraction of a Heritage share and then as having received cash in exchange for the fractional share interest. Thus, such holders will generally recognize gain or loss in an amount equal to the difference between the amount of cash received in lieu of Heritage shares and the portion of the basis in the WWB shares allocable to the fractional interest.

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Reporting Requirements. Shareholders who receive Heritage common stock as a result of the merger will be required to retain records pertaining to the merger and each shareholder will be required to file with his or her federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger. WWB's shareholders will be responsible for the preparation of their own tax returns.

This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the merger to an WWB shareholder will depend upon the facts of his or her particular situation. Accordingly, we strongly urge you to consult with a tax advisor to determine the particular tax consequences to you of the merger.

Conduct of WWB's Business Pending the Merger

WWB has agreed in the Merger Agreement to operate its businesses in the usual, regular and ordinary course and to use its best efforts to preserve its business relationships and to retain key employees. The Merger Agreement provides that, except with the written consent of Heritage, neither WWB nor WSB may:

amend its articles of incorporation or bylaws;

issue any additional shares of capital stock (except upon the exercise of outstanding options), options, warrants or other stock-based compensation rights;

dispose of or discontinue any of its assets, businesses or properties that are material to WWB;

merge, consolidate with, or acquire any business or property of any other party that is material to WWB;

repurchase any of its capital stock, split or otherwise subdivide its capital stock, recapitalize in any way or declare a cash or stock dividend on WWB common stock (except as necessary to pay transaction costs and distributions on outstanding trust preferred);

incur any additional debt except in the ordinary course of business;

increase compensation, pay bonuses or enter into severance arrangements;

amend any existing employment contract with any person or enter into any new employment contract;

adopt any new employee benefit plan or make any material change to an existing employee benefit plan;

make any capital expenditures exceeding \$10,000 individually;

enter into, renew, terminate or change any material contract, agreement or lease;

settle any litigation;

extend credit or account for loans and leases other than in accordance with existing lending policies and accounting practices, except that WWB shall not, other than in accordance with mutually agreed procedures, make any new loan or extend or renew any existing loan in excess of \$250,000,

change its lending, investment, liability management or other material banking policies in any material respect; or

incur more than \$215,000 in transaction costs.

Conditions to the Completion of the Merger

Completion of the merger is subject to various conditions. While it is anticipated that all of the applicable conditions will be satisfied, there can be no assurance as to whether or when all of those conditions will be satisfied or, where permissible, waived.

The respective obligations of Heritage and WWB to complete the merger are subject to the following conditions:

approval of the Merger Agreement by a two-thirds vote of all outstanding shares of WWB common stock at the special meeting of WWB's shareholders;

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receipt of all required regulatory approvals and expiration of all related statutory waiting periods;

absence of any pending or threatened claim, action, or investigation before a court or governmental agency that threatens to prevent the completion of the merger;

the absence of any order, decree or injunction of any court or agency that prohibits completion of the merger;

effectiveness of the registration statement for the Heritage shares to be issued in the merger;

approval by the NASDAQ National Market of listing of the shares of Heritage common stock to be issued in the merger;

accuracy of the other party's representations and warranties contained in the Merger Agreement as of the dates specified in that agreement, except, in the case of most of those representations and warranties, where the failure to be so accurate would not be reasonably likely to have a material adverse effect on the party making those representations and warranties (see - Representations and Warranties below), and the performance by the other party of its obligations contained in the Merger Agreement in all material respects;

that there be no change or threatened change relative to: (a) the business, property, assets (including loan portfolio), liabilities, financial or other condition of WWB or Heritage (unless due to changes in banking regulations, accepted accounting principles, or general economic conditions, or acts approved by the other party) which is reasonably likely, individually or in the aggregate, to have a material adverse effect on such business, or (b) the ability of each party to complete the transaction, in the period from execution of the Merger Agreement to the effective date of the transaction;

the receipt by WWB and Heritage of an opinion of Heritage's counsel substantially to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

The obligations of Heritage under the Merger Agreement are subject to several conditions including, but not limited to:

compliance by WWB and WSB with Section 3.12 of the Merger Agreement prohibiting WSB, subsequent to the execution of the Merger Agreement, from making any new loan outside of its trade territory of King and Pierce Counties, Washington, extend credit or account for loans and leases other than in accordance with existing lending policies and accounting practices, or make any new loan, a loan extension or renewal in a principal amount which exceeds \$250,000, other than in accordance with the loan reporting process agreed to by the Parties;

approval of the Merger Agreement by a two-thirds vote of all outstanding shares of WWB common stock at the special meeting of WWB's shareholders;

compliance by WWB with Section 6.2(L) of the Merger Agreement requiring that on the Effective Date WWB have no less than \$3,609,000 in minimum consolidated equity capital;

receipt by Heritage of agreements from each affiliate of WWB relating to restrictions on disposition of Heritage shares received by such affiliates;

the number of shares of WWB common stock for which dissenters' rights of appraisal are perfected as of the effective date or payable in cash for fractional shares shall not exceed 15% of the outstanding shares;

compliance by WWB with Section 6.2(M) of the Merger Agreement requiring that prior to the Effective Date written confirmation be delivered to Heritage by WWB stating that WWB has redeemed and paid off its outstanding trust preferred securities and that all tax returns for the statutory trust have been filed with no further current or potential liability to Heritage;

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compliance by WWB with Section 6.2(N) of the Merger Agreement requiring that prior to the Effective Date Heritage shall have received written agreement from the landlord of WWB's and WSB's main office building permitting Heritage to assume the existing lease and the existing extension (authorizing continued occupation through 2017) with no assumption fee;

receipt of voting agreements from each director and executive officer of WWB;

compliance by WWB with Section 6.2(O) of the Merger Agreement requiring that as of the effective date, WSB's lease on its second office site be terminated at no cost and with no penalty to Heritage or to WWB or WSB, the building at that site be removed from the books of WWB, WSB and Washington State Bank Real Estate Holdings, Inc. (Holdings) at a loss after tax not exceeding \$101,640, and that the building is to be sold for cash with no financing provided by WWB or WSB;

compliance by WWB with Section 6.2(P) of the Merger Agreement requiring that the cost of certain recommended improvements to the main office of WSB shall be borne by WSB, which costs shall not exceed \$25,000;

receipt of noncompetition and nonsolicitation agreements from each director of WWB and WSB, and from its President and Chief Executive Officer, L. Anthony Tebeau; and

receipt of nonsolicitation agreement from Paula A. Vinson, Chief Financial Officer of WSB.

The obligations of WWB under the Merger Agreement are subject to the following conditions:

WWB's financial advisor shall not have withdrawn its fairness opinion; and

nothing shall have come to WWB's attention to cause it to have a reasonable belief that the merger will not be treated as a reorganization within the meaning of section 368(a) of the Code.

Representations and Warranties

Each of WWB and Heritage has made representations and warranties to the other in the Merger Agreement as to, among other things:

corporate organization, existence and qualification to conduct business;

due authorization, execution, delivery and enforceability of the Merger Agreement;

capital structure;

governmental and third-party consents necessary to complete the merger;

absence of any violation of agreements or law or regulation as a result of the merger;

compliance with laws;

SEC and regulatory filings;

accuracy of financial statements;

absence of any undisclosed liabilities;

loan portfolio;

tax treatment of the merger;

agreements with regulatory agencies and regulatory approvals;

absence of legal proceedings and regulatory actions; and