

HERITAGE FINANCIAL CORP /WA/

Form 424B3

May 23, 2013

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**Filed Pursuant to Rule 424(b)(3)
Registration No. 333-188326**

Proxy Statement of Valley Community Bancshares, Inc.

Prospectus of Heritage Financial Corporation

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

We are pleased to report that the board of directors of Valley Community Bancshares, Inc. (Valley) has approved a merger involving Valley and Heritage Financial Corporation (Heritage). Before we can complete the merger, we must obtain the approval of the shareholders of Valley. We are sending you this document to ask you to approve the merger agreement at a special meeting of Valley shareholders to be held at the time and place indicated in the meeting notice on the next page. No vote of Heritage shareholders is required to complete the merger. This document, which serves as a proxy statement for the special meeting and as a prospectus for the shares of Heritage common stock to be issued in the merger to the shareholders of Valley, gives you detailed information about the special meeting and the merger. **Please read this entire document carefully, including the Risk Factors section beginning on page 11.**

Valley will merge into Heritage, with Heritage as the surviving entity. In the merger, shareholders of Valley will be entitled to receive \$19.50 in cash and 1.3611 shares of Heritage common stock, subject to adjustment as described in the merger agreement and this document, for each share of Valley common stock that they hold prior to the merger. On May 15, 2013, the implied value of the merger consideration for each share of Valley common stock was \$38.45, based on the closing price per share of Heritage common stock on that date. The market price of Heritage common stock will fluctuate before the merger. You should obtain current stock price quotations for Heritage common stock. Heritage common stock is listed on the NASDAQ Global Select Market under the symbol HFWA and Valley common stock is not listed or traded on any established securities exchange or quotation system.

Your vote is very important. Not voting will have the same effect as voting against the merger agreement, so whether or not you plan to attend the special meeting, please promptly return your completed and executed proxy card so that your shares are voted at the special meeting.

The board of directors of Valley unanimously recommends that you vote FOR approval of the merger agreement.

On behalf of the board of directors of Valley, thank you for your prompt attention to this important matter.

Sincerely,

David H. Brown

President and Chief Executive Officer

Valley Community Bancshares, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued in the merger or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

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The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Heritage or Valley, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This proxy statement/prospectus is dated May 17, 2013, and is being first mailed to Valley shareholders on or about May 23, 2013.

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VALLEY COMMUNITY BANCSHARES, INC.

1307 East Main Avenue

Puyallup, Washington 98372

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 27, 2013

Dear Shareholder:

Valley Community Bancshares, Inc., or Valley, will hold a special meeting of shareholders at the Georgian Room of the Best Western Park Plaza Hotel, 620 South Hill Park Drive, Puyallup, Washington at 10:30 a.m., local time, on June 27, 2013, to consider and vote on:

a proposal to approve the Agreement and Plan of Merger, dated as of March 11, 2013, by and between Heritage Financial Corporation, or Heritage, and Valley, as it may be amended from time to time, pursuant to which Valley will merge with and into Heritage with Heritage as the surviving company;

any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement; and

such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

The Valley board of directors has determined that the terms of the merger are fair to and in the best interests of Valley and its shareholders. **The Valley board of directors unanimously recommends that Valley shareholders vote FOR approval of the merger agreement and FOR approval of any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary.**

May 15, 2013 has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of Valley common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

You are cordially invited to attend the special meeting in person. However, please vote, sign, date and return the enclosed proxy card in the enclosed, self-addressed envelope as promptly as possible, even if you plan to attend the special meeting. No additional postage is required if mailed in the United States. If you choose to attend the special meeting, you may vote your shares in person, even if you have previously signed and returned your proxy card. If you hold your Valley shares through a bank, broker or other nominee (commonly referred to as held in street name), you must direct your bank, broker or other nominee to vote in accordance with the instructions you have received from them. You may revoke your proxy at any time prior to the special meeting as specified in the accompanying proxy statement/prospectus.

In connection with the proposed merger, Valley shareholders will have the opportunity to exercise dissenters' rights in accordance with the procedures specified in Chapter 23B.13 of the Washington Business Corporation Act (Chapter 23B.13 of the Revised Code of Washington (RCW)), or the WBCA. Chapter 23B.13 of the WBCA is included in the accompanying proxy statement/prospectus as **Appendix C**. A dissenting shareholder who follows the required procedures may receive cash in an amount equal to the fair value of his or her shares of Valley common stock instead of receiving a combination of cash and shares of Heritage common stock, and cash in lieu of any fractional Heritage shares. A shareholder who chooses to dissent pursuant to Chapter 23B.13 of the WBCA may provide the required notice specified therein to Valley's principal executive offices at 1307 East Main Avenue, Puyallup, Washington 98372. For additional details about dissenters' rights, please refer to the section entitled **The Merger Dissenters' Rights of Valley Shareholders** and **Appendix C** in the accompanying proxy statement/prospectus.

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We look forward to hearing from you.

By Order of the Board of Directors,

Thomas M. Pasquier

Chairman of the Board of Directors

Valley Community Bancshares, Inc.

Puyallup, Washington

May 23, 2013

YOUR VOTE IS VERY IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE MARK, SIGN AND DATE THE ENCLOSED PROXY CARD AND PROMPTLY RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Heritage from documents filed with the Securities and Exchange Commission, or the SEC, that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain these documents through the SEC website at <http://www.sec.gov>, or by requesting them in writing or by telephone from Heritage, as follows:

Heritage Financial Corporation

201 Fifth Avenue SW

Olympia, Washington 98501

Attention: Kaylene M. Lahn,

Senior Vice President and Corporate Secretary

(360) 943-1500

If you would like to request documents, please do so by June 20, 2013 to receive them before the special meeting.

For additional details about where you can find more information about Heritage, see *Where You Can Find More Information* on page 58.

Heritage supplied all information contained or incorporated by reference in this proxy statement/prospectus relating to Heritage and Valley supplied all information contained in this proxy statement/prospectus relating to Valley.

You should rely only on the information contained or incorporated by reference in this proxy statement/prospectus. No one has been authorized to provide you with information that is different from what is contained in this proxy statement/prospectus. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than the date of this proxy statement/prospectus, and neither the mailing of this proxy statement/prospectus to Valley shareholders nor the issuance of Heritage common stock in the merger shall create any implication to the contrary.

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- A Agreement and Plan of Merger, dated as of March 11, 2013, by and between Heritage Financial Corporation and Valley Community Bancshares, Inc.
- B Opinion of McAdams Wright Ragen, Inc.
- C Chapter 23B.13 of the Washington Business Corporation Act

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

Q: Why do Heritage and Valley want to merge?

A: We believe the combination of our companies will create a leading community banking franchise in western Washington. The combined branch network of the two companies is expected to allow for more effective marketing and customer convenience. The board of directors of Valley believes that the merger is fair to and in the best interests of Valley and its shareholders, and unanimously recommends that Valley shareholders vote for approval of the merger agreement. You should review the reasons for the merger described in greater detail under The Merger Valley's Reasons for the Merger; Recommendation of Valley's Board of Directors beginning on page 26 and The Merger Heritage's Reasons for the Merger beginning on page 28.

Q: What will I receive in the merger for my shares of Valley common stock?

A: You will be entitled to receive \$19.50 in cash and 1.3611 shares of Heritage common stock in exchange for each share of Valley common stock you hold prior to the completion of the merger, with cash paid in lieu of any fractional Heritage shares, which we refer to as the merger consideration. The value of the merger consideration will fluctuate with the market price of Heritage common stock. The merger consideration is subject to adjustment if Heritage's volume weighted average closing stock price for the twenty trading days starting on the twenty-fifth day prior to the closing is less than \$11.46 or equal to or greater than \$17.19 per share. A security's volume weighted average price is calculated by dividing the total dollar amount traded on a security for a given day (dollar volume) by the total number of shares traded during the same day (share volume). For further information, see Summary What Valley Shareholders Will Receive in the Merger.

Q: When and where is the special meeting?

A: The special meeting is scheduled to take place on June 27, 2013, at 10:30 a.m., local time, at the Georgian Room of the Best Western Park Plaza Hotel, 620 South Hill Park Drive, Puyallup, Washington.

Q: What will be voted on at the special meeting?

A: At the special meeting, the holders of Valley common stock will be asked to approve the merger agreement with Heritage, as well as any proposal of the Valley board of directors to adjourn or postpone the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Q: What should I do now?

A: After you have carefully read this proxy statement/prospectus, please vote your shares promptly. If you hold shares in your own name as a shareholder of record, you should complete, sign, date, and mail your proxy card in the enclosed postage-paid return envelope as soon as possible. Please vote by proxy even if you plan to attend the special meeting. If you hold your Valley shares through a bank, broker or other nominee (commonly referred to as held in street name), you must direct your bank, broker or other nominee to vote in accordance with the instructions you have received from them.

If you choose to attend the special meeting, you may vote your shares in person, even if you have previously returned your proxy. Please note that if you hold your shares in street name, you must obtain a legal proxy from your bank, broker or other nominee in order to vote your shares in person at the special meeting.

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Q: Why is my vote important?

A: We cannot complete the merger unless the shareholders of Valley approve the merger agreement. Approval of the merger agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of Valley common stock as of the voting record date for the special meeting. Accordingly, if you do not vote or if you abstain from voting, it will have the same effect as voting against approval of the merger agreement.

Q: If my shares are held in street name with a bank, broker or other nominee, will my bank, broker or other nominee vote my shares for me?

A: No. Without instructions from you, your bank, broker or other nominee will not be able to vote your shares. This will have the same effect as voting against approval of the merger agreement.

Q: Can I change my vote before the special meeting?

A: Yes. If you are the record holder of your shares, there are three ways you can change your vote after you have submitted your proxy:

First, you may send a written notice to the corporate secretary of Valley stating that you would like to revoke your proxy.

Second, you may complete and submit a new proxy card. Your latest vote received before the special meeting will be counted, and any earlier votes will be revoked.

Third, you may attend the special meeting in person and vote in person. Any earlier proxy will thereby be revoked. However, simply attending the meeting without voting will not revoke an earlier proxy you may have given.

If you hold your shares in street name with a bank, broker or other nominee, you must follow the directions you receive from your bank, broker or other nominee to change your vote. Your last vote will be the vote that is counted.

Q: What if I want to exercise dissenters' rights?

A: If you want to exercise dissenters' rights, you must deliver to Valley, before the vote is taken by Valley shareholders on the approval of the merger agreement, written notice of your intent to exercise your dissenters' rights if the merger is completed. Also, you must vote against, or abstain from voting on, the approval of the merger agreement and follow other procedures, both before and after the meeting, as described in **Appendix C**. Note that if you return a signed proxy card without voting instructions or with instructions to vote **FOR** the merger agreement, your shares will be automatically voted in favor of the merger agreement and you will lose all dissenters' rights available under Washington law.

Q: What are the U.S. federal income tax consequences of the merger to me?

A: Heritage and Valley will not be required to complete the merger unless they receive legal opinions from their respective counsel to the effect that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. U.S. holders of Valley

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common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Valley common stock for shares of Heritage common stock in the merger, except that U.S. holders may recognize gain (but not loss) to the extent of the amount of cash received in the merger. For further information, see "The Merger - Material U.S. Federal Income Tax Consequences of the Merger."

The U.S. federal income tax consequences described above may not apply to all holders of Valley common stock. Tax matters are very complicated and the consequences of the merger to any particular shareholder of

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Valley will depend on that shareholder's particular facts and circumstances. Accordingly, you are strongly urged to consult your own tax advisor to determine the particular tax consequences of the merger to you.

Q: When do you currently expect to complete the merger?

A: In the third quarter of 2013. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of Valley shareholders at the special meeting and the necessary regulatory approvals, and the other conditions to completing the merger must be satisfied or waived.

Q: Should I send in my Valley stock certificates now?

A: No. You should not send in your stock certificates at this time. Following the completion of the merger, the exchange agent appointed by Heritage will send you a letter of transmittal and instructions on surrendering your Valley stock certificates. Once the exchange agent has received the proper documentation, the exchange agent will send you a check for cash and your shares of Heritage common stock and cash in lieu of any fractional Heritage shares.

You are advised, however, to locate your stock certificate(s) at this time because, if the merger is approved, you will be required to surrender your Valley stock certificate(s) to receive the merger consideration.

Q: Whom should I call with questions?

A: If you have questions about the merger or the process for voting or if you need additional copies of this proxy statement/prospectus or a replacement proxy card, please contact:

David H. Brown

Valley Community Bancshares, Inc.

1307 East Main Avenue

Puyallup, Washington 98372

Telephone: (253) 848-2316

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire document, including the appendices, and the other documents to which this document refers to fully understand the merger and the related transactions. A list of the documents incorporated by reference appears on page 58 under Where You Can Find More Information.

THE COMPANIES (see page 48)

Heritage Financial Corporation

201 Fifth Avenue SW

Olympia, Washington 98501

Telephone: (360) 943-1500

Heritage Financial Corporation, or Heritage, a Washington corporation, is the holding company for Heritage Bank and Central Valley Bank. Heritage Bank serves western Washington and the greater Portland, Oregon area through its 28 full-service banking offices and Central Valley Bank serves Yakima and Kittitas counties in central Washington through its six full-service banking offices.

As of March 31, 2013, Heritage had total consolidated assets of \$1.45 billion, deposits of \$1.23 billion and shareholders equity of \$200.5 million.

Valley Community Bancshares, Inc.

1307 East Main Avenue

Puyallup, Washington 98372

Telephone: (253) 848-2316

Valley Community Bancshares, Inc., or Valley, is a privately owned Washington corporation registered as a bank holding company for Valley Bank, which was established through a reorganization completed on July 1, 1998. In addition to its main office, it operates nine banking locations, including a drive-up facility, in the south King County and eastern Pierce County regions of Washington.

As of March 31, 2013, Valley had total consolidated assets of \$234.0 million, deposits of \$203.0 million and shareholders equity of \$30.0 million.

THE MERGER AND THE MERGER AGREEMENT (see pages 24 and 38)

The terms and conditions of the merger are contained in the merger agreement, which is included in this proxy statement/prospectus as **Appendix A**. Please carefully read the merger agreement as it is the legal document that governs the merger.

Valley Will Merge into Heritage

In the merger, Valley will merge into Heritage, with Heritage as the surviving corporation. It is expected that, immediately following the merger, Valley Bank, a wholly owned subsidiary of Valley, will merge into Heritage Bank, a wholly owned subsidiary of Heritage, with Heritage Bank as the surviving institution. We refer to the merger of Heritage Bank and Valley Bank as the bank merger.

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What Valley Shareholders Will Receive in the Merger

Upon completion of the merger, each share of Valley common stock that is outstanding immediately prior to the merger will be converted into the right to receive \$19.50 in cash and 1.3611 shares of Heritage common stock (with cash paid in lieu of fractional share interests), subject to adjustment. We sometimes refer to this 1.3611-to-one ratio as the exchange ratio. If Heritage's volume weighted average closing stock price for the twenty trading days commencing on the twenty-fifth day prior to the closing (the Heritage average closing price) is between \$11.46 and \$17.19 per share, then the exchange ratio will be fixed at 1.3611 per share. If the Heritage average closing price is equal to or greater than \$17.19 per share, then the exchange ratio will adjust and the merger consideration will be \$42.90 per share of which \$19.50 will be paid in cash and the exchange ratio will be adjusted by dividing \$23.3973 by the Heritage average closing price. If Heritage's average closing price is less than \$11.46, and Heritage does not elect to terminate the merger agreement, then Heritage has the right to either fix the exchange ratio at 1.3611 and pay the balance of the merger consideration in cash or adjust the exchange ratio above 1.3611 provided that at least \$19.50 of the merger consideration is paid in cash, and in either case the total merger consideration per share is \$35.10 based on the Heritage average closing price. Cash will be paid in lieu of any fractional Heritage shares in an amount equal to the fraction multiplied by Heritage average closing price.

For example, if you hold 500 shares of Valley common stock immediately prior to the merger and the Heritage average closing price is \$16.00, you will receive \$9,750 in cash (500 x \$19.50 per share) and 680 shares of Heritage common stock (500 x 1.3611).

Valley Shareholders Should Wait to Surrender Their Stock Certificates Until After the Merger

To receive your payment and shares of Heritage common stock and cash in lieu of any fractional Heritage shares, you will need to surrender your Valley stock certificates. If the merger is completed, the exchange agent appointed by Heritage will send you written instructions for exchanging your stock certificates. The exchange agent will be Computershare Trust Company, N.A., Heritage's stock transfer agent, or an unrelated bank or trust company reasonably acceptable to Valley.

Please do not send in your certificates until you receive these instructions.

The Merger Is Expected to be Generally Tax-Free to Holders of Valley Common Stock with respect to the receipt of Heritage shares (see page 31)

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. U.S. holders of Valley common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Valley common stock for shares of Heritage common stock in the merger, except that U.S. holders may recognize gain (but not loss) to the extent of the amount of cash received in the merger. For further information, see The Merger Material U.S. Federal Income Tax Consequences of the Merger.

The U.S. federal income tax consequences described above may not apply to all holders of Valley common stock. Tax matters are very complicated and the consequences of the merger to any particular shareholder of Valley will depend on that shareholder's particular facts and circumstances. Accordingly, you are strongly urged to consult your own tax advisor to determine the particular tax consequences of the merger to you.

Valley Shareholders May Exercise Dissenters' Rights (see page 35)

Under Washington law, you have the right to dissent from the merger and receive cash equal to the fair value of your Valley shares instead of receiving a combination of cash and Heritage common stock. To exercise

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dissenters' rights, you must strictly follow the procedures established by Chapter 23B.13 of the WBCA, including the delivery to Valley before the vote is taken by Valley shareholders on the approval of the merger agreement of written notice of your intent to demand payment for your shares of Valley common stock if the merger is effected and you must vote against, or abstain from voting on, the approval of the merger agreement. See The Merger Dissenters' Rights of Valley Shareholders on page 35 and **Appendix C** to this proxy statement/prospectus.

Opinion of Valley's Financial Advisor (see page 28)

On March 11, 2013, McAdams Wright Ragen, Inc., or MWR, rendered to the Valley board its oral opinion, which was subsequently confirmed in writing by delivery of MWR's written opinion, that the aggregate merger consideration was fair as of that date, from a financial point of view, to the holders of Valley common stock.

MWR's opinion was directed to the Valley's board and only addressed the fairness, from a financial point of view, of the aggregate merger consideration to be received by the holders of Valley common stock pursuant to the merger agreement and did not address any other aspect or implication of the merger. The references to MWR's opinion in this proxy statement/prospectus are qualified in their entirety by reference to the full text of MWR's written opinion, which is included as **Appendix B** to this proxy statement/prospectus and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by MWR in preparing its opinion. However, neither MWR's opinion, nor the summary of its opinion and the related analyses set forth in this proxy statement/prospectus is intended to be, and they do not constitute, advice or a recommendation to the Valley's board or any shareholder of Valley as to how to act or vote with respect to any matter relating to the merger agreement or otherwise. MWR's opinion was furnished for the use and benefit of the Valley's board (in its capacity as such) in connection with its evaluation of the merger and should not be construed as creating, and MWR will not be deemed to have, any fiduciary duty to the Valley's board, Valley, any security holder or creditor of Valley or any other person, regardless of any prior or ongoing advice or relationships.

Valley's Board of Directors Recommends that Valley Shareholders Vote FOR Approval of the Merger Agreement (see page 21)

Valley's board of directors has unanimously determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Valley and its shareholders and unanimously recommends that Valley shareholders vote FOR approval of the merger agreement.

In determining whether to approve the merger agreement, Valley's board of directors consulted with certain of its senior management and with its legal and financial advisors. In arriving at its determination, the Valley board of directors also considered the factors described under The Merger Valley's Reasons for the Merger; Recommendation of Valley's Board of Directors.

Interests of Valley Directors and Executive Officers in the Merger (see page 37)

Some of the executive officers and directors of Valley have interests in the merger that are in addition to, or different from, the interests of Valley shareholders generally. These interests include the following:

One executive officer holds Valley stock options that will be cancelled prior to the completion of the merger and he will receive a cash payment to the extent the options are then in-the-money;

David H. Brown, the current President and Chief Executive Officer of Valley, will receive a payment of \$579,928 to terminate his Supplemental Retirement Benefit Agreement and a \$240,089 severance payment to terminate his Executive Severance Agreement;

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Joseph E. Riordan, the current Executive Vice President and Chief Financial Officer of Valley, will receive a payment of \$166,214 to terminate his Supplemental Retirement Benefit Agreement and a \$232,183 severance payment to terminate his Executive Severance Agreement;

David H. Brown, a director of Valley, will be added to the Heritage board and the Heritage Bank board; and

Valley's directors and executive officers will be entitled to indemnification by Heritage with respect to claims arising from matters occurring at or prior to the effective time of the merger and to coverage under a directors' and officers' liability insurance policy for up to six years after the merger.

The Valley board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated by the merger agreement.

Treatment of Valley Stock Options

The merger agreement requires Valley to cause all outstanding and unexercised options to purchase shares of Valley common stock to be cancelled prior to the effective time of the merger. In the case of out-of-the-money options, no payment will be made to the option holder for cancellation and in the case of in-the-money options, Valley must pay the option holder an amount equal to the value of the merger consideration per share of Valley common stock less the per share exercise price of the option multiplied by the number of shares underlying the option.

Regulatory Approvals (see page 35)

Under federal law, the merger must be approved by the Board of Governors of the Federal Reserve System, or Federal Reserve Board, and the bank merger must be approved by the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or DFI. The U.S. Department of Justice may review the impact of the merger and the bank merger on competition.

We have requested a waiver from the Federal Reserve Board of its application requirements that would apply to this merger. Assuming this waiver is granted, once the FDIC and DFI approve the merger, we must wait for up to 30 days before we can complete the merger. If, however, there are no adverse comments from the U.S. Department of Justice and we receive permission from the FDIC and DFI to do so, the merger may be completed on or after the 15th day after approval from the Federal Reserve Board.

As of the date of this proxy statement/prospectus, all of the required regulatory applications have been filed. There can be no assurance as to whether all regulatory approvals will be obtained or as to the dates of the approvals. There also can be no assurance that the regulatory approvals received will not contain any unduly burdensome condition. It is a condition to Heritage's obligation to complete the merger that no such regulatory unduly burdensome condition be imposed. See The Merger Agreement Conditions to Completion of the Merger.

Conditions to Completion of the Merger (see page 45)

The completion of the merger depends on a number of conditions being satisfied or, where permitted, waived, including:

approval of the merger agreement by Valley's shareholders;

approval for listing on the NASDAQ Stock Market of the shares of Heritage common stock to be issued in the merger;

absence of any injunction or other legal restraint blocking the merger or the bank merger;

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receipt of all required regulatory approvals without the imposition of any unduly burdensome condition upon Heritage following the merger or Heritage Bank following the bank merger;

accuracy, generally in all material respects, of Heritage's and Valley's respective representations and warranties in the merger agreement on the date of the merger agreement and the closing date of the merger;

performance in all material respects by Heritage and Valley of their respective obligations under the merger agreement;

as a condition to Heritage's obligation to complete the merger, the holders of 10% or more of the outstanding shares of Valley common stock do not exercise dissenters' rights; and

as a condition to Valley's obligation to complete the merger, the receipt by Valley an opinion of its legal counsel and a copy of the opinion rendered to Heritage by its legal counsel as to the U.S. federal income tax consequences of the merger.

No assurance can be given as to when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Non-Solicitation (see page 43)

Valley has agreed that it generally will not solicit or encourage any inquiries or proposals regarding any acquisition proposals by third parties. Valley may respond to an unsolicited proposal if the board of directors of Valley determines that the proposal is reasonably likely to constitute or result in a transaction that is more favorable from a financial point of view to Valley's shareholders than the merger with Heritage and that the board's failure to respond would result in a violation of its fiduciary duties. Valley must promptly notify Heritage if it receives any acquisition proposals.

Termination of the Merger Agreement (see page 46)

Heritage and Valley can jointly agree to terminate the merger agreement at any time. Either company may also terminate the merger agreement:

if a regulatory or other governmental authority denies approval of the merger or the bank merger and such denial has become final and nonappealable, provided that the denial is not due to the failure of the company seeking termination to perform any of its covenants under the merger agreement, or if a court or other governmental body issues a final, nonappealable order prohibiting the merger or the bank merger;

if the merger has not been completed by October 31, 2013, unless due to the failure of the company seeking termination to perform or observe its covenants and agreements set forth in the merger agreement;

if the other company breaches any representation, warranty, covenant or other agreement, which breach results in a failure to satisfy the closing conditions of the party seeking termination and such breach is not, or cannot be, timely cured, provided that the party seeking termination is not itself in material breach of the merger agreement; or

if the shareholders of Valley fail to approve the merger agreement at the special meeting; provided Valley must pay Heritage a \$1,760,000 termination fee if (i) prior to the termination, a third party proposal to acquire Valley or any of its significant subsidiaries has been publicly announced and (ii) within one year of the termination, Valley or any of its significant subsidiaries either enters into a definitive agreement to be acquired in a transaction or that transaction is consummated.

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Set forth below are other termination events that would result in Valley being obligated to pay Heritage a \$1,760,000 termination fee.

a termination by Heritage based on (i) the board of directors of Valley either failing to continue its recommendation that the Valley shareholders approve the merger agreement or adversely changing such recommendation or (ii) Valley materially breaching the provisions of the merger agreement relating to third party acquisition proposals; or

a termination by Valley prior to it obtaining shareholder approval of the merger agreement in order to enter into a definitive acquisition agreement with a third party with respect to a superior unsolicited acquisition proposal.

Heritage may also terminate the merger agreement if the Heritage average closing price is less than \$11.46.

Differences in Shareholder Rights (see page 52)

Valley and Heritage are both incorporated under the laws of the State of Washington, which governs the rights of holders of Valley common stock and Heritage common stock. Some of the key differences between Valley's and Heritage's articles of incorporation and bylaws are:

the total number of shares of authorized capital stock of Heritage is 52,500,000 shares (50,000,000 common and 2,500,000 preferred), compared to 5,000,000 shares of common stock and no preferred for Valley);

All of the directors of Heritage's board of directors are elected annually by the shareholders; all of the directors of Valley are divided into three classes, with the directors serving staggered three-year terms and approximately one-third of the directors elected by the shareholders annually; and

Heritage's articles of incorporation provides that no shareholder beneficially owning more than 10% of the outstanding shares of Heritage common stock may vote his or her shares in excess of that amount, and that certain business combinations with persons owning more than 10% of its outstanding shares require approval of the holders of at least 80% of the outstanding shares of common stock, unless either a majority of the disinterested directors have approved the transaction or certain fair price and procedure requirements are satisfied; no such provisions or similar provisions are contained in Valley's articles of incorporation.

The rights of shareholders of Valley and Heritage are described in detail under "Comparison of Shareholder Rights" beginning on page 52.

Listing of Heritage Shares

The shares of Heritage common stock to be issued in the merger will be listed for trading on the NASDAQ Global Select Market.

Heritage to Use Purchase Accounting

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.

Per Share Market Price Information

Heritage common stock trades on the NASDAQ Global Select Market under the symbol HFWA. Valley common stock is not listed or traded on any established securities exchange or quotation system. The following table presents the closing sale price of Heritage common stock on March 8, 2013, the last trading day before the

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date of the public announcement of the merger agreement, and May 15, 2013, the last practicable trading day prior to the printing of this proxy statement/prospectus. The table also presents the equivalent value of the merger consideration per share of Valley common stock on those dates, calculated by multiplying the closing price of Heritage common stock on those dates by the exchange ratio of 1.3611 and adding the \$19.50 per share in cash.

Date	Heritage Closing Price	Equivalent Valley Per Share Value
March 8, 2013	\$ 14.20	\$ 38.83
May 15, 2013	\$ 13.92	\$ 38.45

The market price of Heritage common stock will fluctuate prior to the merger. You should obtain a current price quotation for Heritage common stock.

Valley Will Hold its Special Meeting on June 27, 2013 (see page 21)