

Item 8.01 Other Events

Settlement of Certain Litigation Relating to the Merger

As described in greater detail in the "The Merger-Litigation Relating to the Merger" section of the definitive proxy statement/prospectus filed with the Securities and Exchange Commission on November 20, 2017 and first mailed to shareholders of Puget Sound Bancorp, Inc. ("Puget Sound") on or about November 20, 2017, a lawsuit is pending in the Superior Court for the State of Washington in King County, under the caption Parshall v. Puget Sound Bancorp, Inc., et. al., Case No. 17-2-28224-3 SEA (the "Action").

On December 22, 2017, solely to avoid the costs, risks and uncertainties inherent in litigation and to allow the Puget Sound shareholders to vote on the proposals required in connection with the proposed merger with Heritage Financial Corporation ("Heritage") at the Puget Sound special meeting of shareholders, Puget Sound has agreed to make additional disclosures to supplement the disclosures contained in the proxy statement/prospectus ("Additional Disclosures"). The Additional Disclosures are set forth below and should be read in conjunction with the proxy statement/prospectus.

The Additional Disclosures moot plaintiff's disclosure claims asserted in the Action, and, as a result, plaintiff has agreed to dismiss the Action with prejudice as to his individual claims and without prejudice to the claims of the putative members of the class.

This agreement to make the Additional Disclosures will not affect the merger consideration to be paid in connection with the merger of Puget Sound into Heritage or the timing of the special meeting of Puget Sound's shareholders. Puget Sound and the other defendants, including Heritage, have vigorously denied, and continue to vigorously deny, that they have committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts that were or could have been alleged in the lawsuit, and expressly maintain that, to the extent applicable, they diligently and scrupulously complied with their fiduciary and other legal duties and are entering into the agreement to make the Additional Disclosures solely to eliminate the burden and expense of further litigation, to put the claims that were or could have been asserted to rest, and to avoid any possible delay to the closing of the merger that might arise from further litigation. Nothing in this document shall be deemed an admission of the legal necessity or materiality under any applicable laws for any of the disclosures set forth herein.

SUPPLEMENT TO PROXY STATEMENT/PROSPECTUS

The following information supplements the proxy statement/prospectus and should be read in connection with the proxy statement/prospectus, which should be read in its entirety. To the extent that information herein differs from or updates information contained in the proxy statement/prospectus, the information contained herein supersedes the information contained in the proxy statement/prospectus. All page references in the information below are to pages in the proxy statement/prospectus, and terms used below have the meanings set forth in the proxy statement/prospectus, unless otherwise defined below. Without admitting in any way that the disclosures below are material or otherwise required by law, Puget Sound and Heritage make the following supplemental disclosures:

Unaudited Prospective Financial Information

The disclosure under the heading "THE MERGER—Recommendation of the Puget Sound Board of Directors and Reasons of Puget Sound for the Merger" is supplemented by the adding of the following disclosure under the heading "Unaudited Prospective Financial Information" starting on page 36 of the proxy statement/prospectus.

Puget Sound

Puget Sound does not as a matter of course make public projections as to future performance, revenues, earnings or other financial results given, among other reasons, the uncertainty of realizing the underlying assumptions and estimates. However, Puget Sound is including in this proxy statement/prospectus certain unaudited prospective financial information that was provided to the Puget Sound board of directors in connection with its evaluation of the merger. Unaudited prospective financial information relating to Puget Sound was also provided to Sandler O'Neill, financial advisor to the Puget Sound board of directors. The inclusion of this information should not be regarded as an indication that any of Puget Sound, Heritage, their respective affiliates, officers, directors, advisors or other representatives or any other recipient of this information considered, or now considers, it necessarily to be predictive of actual future results, or that it should be construed as financial guidance, and it should not be relied on as such. This information was prepared solely for internal use and is subjective in many respects. While presented with numeric specificity, the unaudited prospective financial information reflects numerous estimates and assumptions made with respect to business, economic, market, competition, regulatory and financial conditions and matters specific to Puget Sound's business, all of which are difficult to predict and many of which are beyond Puget Sound's control. The unaudited prospective financial information reflects both assumptions as to certain business decisions that are subject to change and, in many respects, subjective judgment, and thus is susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. Puget Sound can give no assurance that the unaudited prospective financial information and the underlying estimates and assumptions will be realized. In addition, since the unaudited prospective financial information covers multiple years, such information by its nature becomes less predictive with each successive year.

Actual results may differ materially from those set forth below, and important factors that may affect actual results and cause the unaudited prospective financial information not to be realized include, but are not limited to, risks and uncertainties relating to Puget Sound's business, industry performance, general business and economic conditions, customer requirements, competition and adverse changes in applicable laws, regulations or rules. For other factors that could cause actual results to differ, please see the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" in this proxy statement/prospectus and in Puget Sound's Annual Report for the fiscal year ended December 31, 2016, available on the Puget Sound Bank website www.pugetsoundbank.com.

The unaudited prospective financial information does not take into account any circumstances or events occurring after the date it was prepared. Puget Sound can give no assurance that, had the unaudited prospective financial information been prepared as of the date of this proxy statement/prospectus, similar estimates and assumptions would be used. PUGET SOUND DOES NOT INTEND TO, AND DISCLAIMS ANY OBLIGATION TO, MAKE PUBLICLY AVAILABLE ANY UPDATE OR OTHER REVISION TO THE UNAUDITED PROSPECTIVE FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING SINCE ITS PREPARATION OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING THE UNAUDITED PROSPECTIVE FINANCIAL INFORMATION ARE NOT REALIZED, OR TO REFLECT CHANGES IN GENERAL ECONOMIC OR INDUSTRY CONDITIONS, EXCEPT AS MAY BE REQUIRED BY APPLICABLE LAW. The unaudited prospective financial information does not take into account the possible financial and other effects on Puget Sound of the merger and does not attempt to predict or suggest future results of the combined company. The unaudited prospective financial information does not give effect to the merger, including the impact of negotiating or executing the merger agreement, the expenses that may be incurred in connection with consummating the merger, potential synergies that may be achieved by the combined company as a result of the merger or the effect of any business or strategic decisions or actions which would likely have been taken if the merger agreement had not been executed, but which were instead altered, accelerated, postponed or not taken in anticipation of the merger. Further, the unaudited prospective financial information does not take into account the effect on Puget Sound of any possible failure of the merger to occur. None of Puget Sound, Heritage or their respective affiliates, officers, directors, advisors or other representatives has made, makes or is authorized in the future to make any representation to any shareholder of Puget Sound or Heritage or other person regarding Puget Sound's ultimate performance compared to the information contained in the unaudited prospective financial information or that the forecasted results will be achieved. The following table presents certain internal financial projections for Puget Sound for the fiscal years ending December 31, 2017 through December 31, 2019, as provided by the management of Puget Sound, as well as an estimated long-term earnings per share growth rate for the years thereafter, as estimated by the management of Puget Sound.

	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
Net Income (\$000s)	\$ 5,145	\$ 5,957	\$ 6,923	\$ 7,695	\$ 8,550
Earnings Per Share (\$)	\$ 1.50	\$ 1.73	\$ 2.01	\$ 2.23	\$ 2.47
Dividends Per Share (\$)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Tangible Book Value Per Share (\$)	\$ 15.88	\$ 17.63	\$ 19.65	\$ 21.91	\$ 24.41

The unaudited prospective financial information was not prepared with a view toward public disclosure, nor was it prepared with a view toward compliance with GAAP, published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information. Neither Puget Sound's independent registered public accounting firm, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the unaudited prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

In light of the foregoing, and considering that Puget Sound's special meeting will be held after the unaudited prospective financial information was prepared, as well as the uncertainties inherent in forecasting information, Puget Sound shareholders are cautioned not to place unwarranted reliance on such information, and Puget Sound urges all Puget Sound shareholders to review Puget Sound's most recent FDIC filings for a description of Puget Sound's reported financial results. See "Where You Can Find More Information."

Unaudited Prospective Financial Information

Heritage

Heritage does not as a matter of course make public projections as to future performance, revenues, earnings or other financial results given, among other reasons, the uncertainty of realizing the underlying assumptions and estimates. However, Heritage is including in this proxy statement/prospectus certain unaudited prospective financial information related to Heritage that was provided to Sandler O'Neill, financial advisor to Puget Sound and was considered by the Puget Sound board of directors in connection with its evaluation of the merger. Unaudited prospective financial information relating to Heritage was also provided to Sandler O'Neill. The inclusion of this information should not be regarded as an indication that any of Puget Sound, Heritage, their respective affiliates, officers, directors, advisors or other representatives or any other recipient of this information considered, or now considers, it necessarily to be predictive of actual future results, or that it should be construed as financial guidance, and it should not be relied on as such. This information was prepared solely for internal use and is subjective in many respects.

While presented with numeric specificity, the unaudited prospective financial information reflects numerous estimates and assumptions made with respect to business, economic, market, competition, regulatory and financial conditions and matters specific to Heritage's business, all of which are difficult to predict and many of which are beyond Heritage's control. The unaudited prospective financial information reflects both assumptions as to certain business decisions that are subject to change and, in many respects, subjective judgment, and thus is susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. Heritage can give no assurance that the unaudited prospective financial information and the underlying estimates and assumptions will be realized. In addition, since the unaudited prospective financial information covers multiple years, such information by its nature becomes less predictive with each successive year.

Actual results may differ materially from those set forth below, and important factors that may affect actual results and cause the unaudited prospective financial information not to be realized include, but are not limited to, risks and uncertainties relating to Heritage's business, industry performance, general business and economic conditions, customer requirements, competition and adverse changes in applicable laws, regulations or rules. For other factors that could cause actual results to differ, please see the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" in this proxy statement/prospectus and in Heritage's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and the other reports filed by Heritage with the SEC.

The unaudited prospective financial information does not take into account any circumstances or events occurring after the date it was prepared. Heritage can give no assurance that, had the unaudited prospective financial information been prepared as of the date of this proxy statement/prospectus, similar estimates and assumptions would be used.

HERITAGE DOES NOT INTEND TO, AND DISCLAIMS ANY OBLIGATION TO, MAKE PUBLICLY AVAILABLE ANY UPDATE OR OTHER REVISION TO THE UNAUDITED PROSPECTIVE FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING SINCE ITS PREPARATION OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS

UNDERLYING THE UNAUDITED PROSPECTIVE FINANCIAL INFORMATION ARE NOT REALIZED, OR TO REFLECT CHANGES IN GENERAL ECONOMIC OR INDUSTRY CONDITIONS, EXCEPT AS MAY BE REQUIRED BY APPLICABLE LAW. The unaudited prospective financial information does not take into account the possible financial and other effects on Heritage of the merger and does not attempt to predict or suggest future results of the combined company. The unaudited prospective financial information does not give effect to the merger, including the impact of negotiating or executing the merger agreement, the expenses that may be incurred in connection with consummating the merger, potential synergies that may be achieved by the combined company as a result of the merger or the effect of any business or strategic decisions or actions which would likely have been taken if the merger agreement had not been executed, but which were instead altered, accelerated, postponed or not taken in anticipation of the merger. Further, the unaudited prospective financial information does not take into account the effect on Heritage of any possible failure of the merger to occur. None of Puget Sound, Heritage or their respective affiliates, officers, directors, advisors or other representatives has made, makes or is authorized in the future to make any representation to any shareholder of Puget Sound or Heritage or other person regarding Heritage's ultimate performance compared to the information contained in the unaudited prospective financial information or that the forecasted results will be achieved.

The following table presents publicly available consensus mean analyst earnings per share estimates for Heritage for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term earnings per share growth rate and dividend payout ratio for the years thereafter.

	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
Net Income (\$000s)	\$ 41,779	\$ 44,542	\$ 47,879	\$ 51,479	\$ 55,341
Earnings Per Share (\$)	\$ 1.40	\$ 1.49	\$ 1.60	\$ 1.72	\$ 1.85
Dividends Per Share (\$)	\$ 0.51	\$ 0.54	\$ 0.58	\$ 0.62	\$ 0.67
Tangible Book Value Per Share (\$)	\$ 12.96	\$ 13.96	\$ 15.03	\$ 16.16	\$ 17.37

The unaudited prospective financial information was not prepared with a view toward public disclosure, nor was it prepared with a view toward compliance with GAAP, published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information. Neither Heritage's independent registered public accounting firm, Crowe Horwath LLP, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the unaudited prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

In light of the foregoing, and considering that Puget Sound's special meeting will be held after the unaudited prospective financial information was prepared, as well as the uncertainties inherent in forecasting information, Puget Sound shareholders are cautioned not to place unwarranted reliance on such information, and Puget Sound urges all Puget Sound shareholders to review Heritage's most recent SEC filings for a description of Heritage's reported financial results. See "Where You Can Find More Information."

Opinion of Puget Sound's Financial Advisor

The disclosure under the heading "THE MERGER—Opinion of Puget Sound's Financial Advisor—Puget Sound's Comparable Company Analyses" is hereby supplemented by deleting the table on page 40 (Puget Sound Peer Group) of the Proxy Statement and replacing it with the following:

PUGB Comp Group

Financials as of March 31, 2017 unless otherwise noted

Company Name	City, St	Ticker	Market Data (as of 07/25/2017)		LTM Profitability								Balance Sheet R			
			Total Assets	Mkt Cap	Price / Stock	Price / Book	Tang.	1 Yr Div.	Price	Eff.	Ratio	NIM	ROA	ROAT	C&I TCE	Ln
Selected Publicly Traded Western Region Banks operating in Metro areas with Total Assets \$300mm to \$2Bn and C&I Loans																
American Business Bank	Los Angeles, CA	AMBZ	1,819	290	42.5	191	22.3	0.0	53.2	66.8	3.00	0.72	8.9	7.74	23	54
Pacific Mercantile Bancorp	Costa Mesa, CA	PMBC	1,180	201	8.65	189	NM	0.0	25.7	92.5	3.35	-2.94	-28.2	8.72	33	91
California Bancorp	Oakland, CA	CALB	763	112	19.05	159	19.0	0.0	43.8	59.5	4.20	0.90	8.7	9.34	42	101
Avidbank Holdings, Inc.	Palo Alto, CA	AVBH	702	115	19.7	142	16.1	0.0	33.6	59.0	4.14	1.16	12.1	9.27	34	94
Presidio Bank	San Francisco, CA	PDOB	692	108	17.85	152	21.5	0.0	27.5	67.1	3.60	0.68	7.2	10.02	24	95
Northwest Bancorporation, Inc.	Spokane, WA	NBCT	642	85	11.85	125	15.6	0.0	26.7	71.6	4.35	0.83	9.4	9.41	25	91
CommerceWest Bank	Irvine, CA	CWBK	510	86	22.33	147	17.4	3.0	45.9	57.2	4.12	1.11	9.3	11.60	35	86
Premier Commercial Bancorp	Hillsboro, OR	PRCB	387	56	9.56	144	12.9	0.0	27.5	62.7	4.30	0.99	10.3	9.67	28	103
Commencement Bank	Tacoma, WA	CBWA	335	45	13.05	131	24.6	0.0	42.6	71.6	3.93	0.59	5.6	10.29	31	81
CBBC Bancorp	West Sacramento, CA	CBBC	306	47	18.7	154	14.6	0.0	33.6	55.3	4.09	1.14	13.5	9.96	20	90
		High	1819	290	-	191	24.6	3.0	53.2	92.5	4.35	1.16	13.5	11.60	42	103
		Low	306	45	-	125	12.9	0.0	25.7	55.3	3.00	-2.94	-28.2	7.74	20	54
		Mean	734	115	-	153	18.2									