

**UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON**

IN RE WSB FINANCIAL GROUP  
SECURITIES LITIGATION

Master File No. C07-1747RAJ

**NOTICE OF: (1) PENDENCY OF CLASS ACTION, AND (2) HEARING ON PROPOSED SETTLEMENT  
AND ATTORNEYS' FEE PETITION AND RIGHT TO SHARE IN NET SETTLEMENT FUND**

**Notice of Pendency of Settlement of Class Action:** If you purchased the common stock of WSB Financial Group, Inc. pursuant to or traceable to the Company's registration statement issued in connection with WSB Financial's initial public offering, please be advised that your rights may be affected by a class action lawsuit pending in this Court (the "Action").

*A Federal Court authorized this Notice. This is not a solicitation from a lawyer.*

**Notice of Settlement:** Please also be advised that Lead Plaintiff, the Police and Fire Retirement System of the City of Detroit ("Lead Plaintiff"), has reached a proposed settlement of the Action that will resolve all claims of Lead Plaintiff and the Class (as defined in paragraph 1 below) against all Defendants in the Action (the "Settlement"). This Notice explains important rights you may have, including your possible receipt of cash from the Settlement. Your legal rights will be affected whether or not you act. Also enclosed is a Proof of Claim and Release form (the "Claim Form") that you must complete and submit postmarked no later than February 19, 2009 to participate in the Settlement. Please read this Notice carefully!

1. **Statement of Plaintiff Recovery:** This Notice relates to a proposed settlement of a class action lawsuit filed against WSB Financial Group, Inc. ("WSB"), David K. Johnson, Mark Freeman, Richard N. Christopherson, James H. Lamb, Brian B. McLellan, Dean Reynolds, Donald H. Tucker, Louis J. Weir, Larry C. Westfall and D.A. Davidson, Inc. (collectively, "Defendants"). Subject to Court approval, Lead Plaintiff, on behalf of the Class, has agreed to settle all claims that were or could have been asserted in the Action in exchange for a settlement payment of \$4,850,000.00 in cash, together with interest thereon. On September 24, 2008, the \$4.85 million settlement payment was deposited into interest-bearing escrow account for the benefit of the Class. Pending final approval of the Settlement, this "Settlement Fund" will be held in the interest-bearing escrow account to pay claims of all persons and entities who purchased the common stock of WSB pursuant to or traceable to the Company's registration statement issued in connection with WSB's initial public offering (the "Class"). Such investors are referred to in this Notice as "Class Members." The Net Settlement Fund (the Settlement Fund less taxes, certain notice and administration costs, and attorneys' fees and litigation expenses awarded to counsel representing Lead Plaintiff ("Lead Counsel")) will be distributed in accordance with a plan of allocation (the "Plan of Allocation") that is described in this Notice. Lead Plaintiff's damages expert estimates that approximately 4.17 million shares of WSB common stock may have been affected by the conduct at issue in the Action. Thus, assuming that the owners of all affected shares elect to participate, the average per share recovery from the Settlement Fund is estimated to be approximately \$1.16 per affected share, before the deduction of attorneys' fees, costs and expenses, as approved by the Court. The actual per share recovery will depend upon several factors, including when and at what price the WSB common stock was purchased or otherwise acquired, and when and at what price they were sold or redeemed.

2. **Reasons for the Settlement:** In light of the amount of the Settlement and the immediacy of recovery to the Class, Lead Plaintiff believes that the proposed Settlement is fair, reasonable and adequate, and is in the best interests of the Class. Lead Plaintiff believes that the Settlement provides a substantial benefit now, namely \$4,850,000.00 in cash less the various deductions described in this Notice, as compared to the risk that all or some of the claims in the Action could have been dismissed in response to Defendants' motions to dismiss, the risks of protracted litigation through trial and appeals, the defenses asserted in the Action, the inherent uncertainty and risk associated with a complex action, such as this one, the ability of WSB to pay a judgment in a greater amount, or that a similar, smaller, or no recovery would be achieved after motions for summary judgment, a trial and/or appeals, possibly years in the future, in which Defendants would have the opportunity to assert substantial defenses to the claims asserted against them. Defendants deny the claims asserted against them in the Action or that they have engaged in any wrongdoing, violation of law or breach of duty, and the Settlement may not be construed as an admission of wrongdoing by any of the Defendants. Defendants have agreed to the Settlement in order to eliminate the burden and expense of continued litigation.

3. **Statement of Average Amount of Damages Per Share:** The parties do not agree on the average amount of damages per share that would be recoverable if Lead Plaintiff was to prevail on the claims asserted against Defendants. Defendants deny that any shares were damaged as Lead Plaintiff has alleged. In addition, Defendants were prepared to establish that the price of WSB common stock was not inflated as the result of any allegedly false or misleading public statement by any Defendant, and that the decline in the price of WSB's common stock alleged in the Action was not the result of the disclosure of information that allegedly had been wrongfully withheld by any Defendant.

4. **Statement of Attorneys' Fees and Expenses Sought:** Lead Counsel (as defined in paragraph 7) intend to apply, and shall apply, for an award of attorneys' fees in an amount not to exceed 25% of the Settlement Fund net of Court-approved litigation expenses. In addition, Lead Counsel also intend to apply for reimbursement of litigation expenses paid or incurred in connection with the prosecution and resolution of the claims against Defendants, in an amount not to exceed \$75,000. If the Court (as defined in paragraph 8) approves Lead Counsel's fee and expense application, the average cost per affected share will be approximately \$0.29.

5. **Identification of Attorneys' Representatives:** Any questions regarding the Settlement should be directed to Lead Counsel: David R. Stickney and Timothy A. DeLange, Bernstein Litowitz Berger & Grossmann LLP, 12481 High Bluff Drive, Suite 300, San Diego, CA 92130, 888-924-1888, [www.blbgllaw.com](http://www.blbgllaw.com).

<b>YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:</b>	
<b>SUBMIT A CLAIM FORM POSTMARKED NO LATER THAN FEBRUARY 19, 2009</b>	The only way to get a payment.
<b>EXCLUDE YOURSELF FROM THE CLASS POSTMARKED NO LATER THAN FEBRUARY 19, 2009</b>	Get no payment. This is the only option that allows you to ever be part of any other lawsuit against Defendants with respect to the claims in this case.
<b>OBJECT NO LATER THAN FEBRUARY 19, 2009</b>	Write to the Court and explain why you disagree with the fairness of the Settlement.
<b>GO TO THE HEARING ON MARCH 27, 2009 AT 9:00 A.M. AND FILE A NOTICE OF INTENTION TO APPEAR NO LATER THAN FEBRUARY 19, 2009</b>	Ask to speak in Court about the fairness of the Settlement.
<b>DO NOTHING</b>	Get no payment. Give up your rights.

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## WHY DID I GET THIS NOTICE?

6. This Notice is being sent to you pursuant to an Order of the United States District Court for the Western District of Washington (the “Court”) because you or someone in your family may have purchased the common stock of WSB pursuant to or traceable to the Company’s registration statement issued in connection with WSB’s initial public offering. The Court has directed us to send you this Notice because, as a potential Class Member, you have a right to know about your options prior to the trial or settlement of this case. Additionally, you have the right to understand how a class action lawsuit may generally affect your legal rights. If the Court approves the Settlement, after any objections and appeals are resolved, a claims administrator selected by Lead Plaintiff and approved by the Court will make payments pursuant to the Settlement.

7. In a class action lawsuit, the Court selects one or more people, known as class representatives, to sue on behalf of all people with similar claims, commonly known as the class or the class members. By Order dated March 10, 2008, the Court appointed the Police and Fire Retirement System of the City of Detroit (“Detroit P&F”) to serve as “Lead Plaintiff” under a federal law relating to lawsuits such as this one, and approved the selection by Lead Plaintiff of the law firm of Bernstein Litowitz Berger & Grossmann LLP (“Lead Counsel”) to serve as Lead Counsel in the Action. A class action is a type of lawsuit in which the claims of a number of individuals are resolved together, thus providing the class members with both consistency and efficiency. Once the class is certified, the Court must resolve all issues on behalf of the class members, except for those, if any, who choose to exclude themselves from the class. (For more information on excluding yourself from the Class, please read “What If I Do Not Want To Be A Part Of The Settlement? How Do I Exclude Myself?” located further below.)

8. The Court in charge of this case is the United States District Court for the Western District of Washington, and the case is known as *In re WSB Financial Group Securities Litigation*. The Judge presiding over this case is the Honorable Richard A. Jones, United States District Judge. The people who are suing are called plaintiffs, and those who are being sued are called defendants. In this case, the Lead Plaintiff is suing on behalf of itself and the Class, and Defendants are WSB, David K. Johnson, Mark Freeman, Richard N. Christopherson, James H. Lamb, Brian B. McLellan, Dean Reynolds, Donald H. Tucker, Louis J. Weir, Larry C. Westfall and D.A. Davidson & Co.

9. This Notice explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them. The purpose of this Notice is to inform you of this case, that it is a class action, how you might be affected and how to exclude yourself from the Settlement if that is your preference. It also is being sent to inform you of the terms of the proposed Settlement, and of a hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the proposed Settlement and the application by Lead Counsel for attorneys’ fees and reimbursement of litigation expenses, and interest thereon (the “Final Approval Hearing”).

10. The Final Approval Hearing will be held on March 27, 2009 at 9:00 a.m., before the Honorable Richard A. Jones, at the United States District Court for the Western District of Washington, 700 Stewart Street, Seattle, WA 98101, to determine:

- (i) whether the proposed Class should be certified;
- (ii) whether the proposed Settlement is fair, reasonable and adequate and should be approved by the Court;
- (iii) whether the claims against Defendants should be dismissed with prejudice as set forth in the Stipulation of Settlement dated October 15, 2008 (the “Stipulation”);
- (iv) whether the proposed Plan of Allocation is fair and reasonable and should be approved; and
- (v) whether the application by Lead Counsel for an award of attorneys’ fees and reimbursement of litigation expenses, and interest thereon, should be approved.

11. This Notice does not express any opinion by the Court concerning the merits of any claim in the Action, and the Court still has to decide whether to approve the Settlement. If the Court approves the Settlement, payments will be made after appeals, if any, are resolved, and after the completion of all claims processing. Please be patient.

## WHAT IS THIS CASE ABOUT? WHAT HAS HAPPENED SO FAR?

12. WSB is a bank holding company. The Company's wholly-owned subsidiary is Westsound Bank, a Washington commercial bank. The Company's lending activities include commercial and residential real estate loans, construction and land development loans, commercial and industrial loans, and consumer loans. Westsound Bank opened for business in March 1999 and was privately held until the Company's initial public offering ("IPO") was completed on December 21, 2006.

13. In the Action, Lead Plaintiff alleges that Defendants made false statements and omitted material facts in the prospectus and registration statements for WSB's IPO completed on December 21, 2006. Defendants deny all allegations of any wrongdoing in the Action.

14. On October 30, 2007, and thereafter, several class action lawsuits were filed in the Western District of Washington by and on behalf of all persons and entities who purchased or acquired the common stock of WSB pursuant to or traceable to the Company's Registration Statement and Prospectus issued in connection with the IPO of WSB common stock completed on December 21, 2006. On March 10, 2008, the Court consolidated these actions and ordered that all subsequent filings be docketed in the case captioned *In re WSB Financial Group Securities Litigation*, Master File No. C07-1747RAJ. On March 10, 2008, the Court appointed Detroit P&F as Lead Plaintiff and appointed the law firm of Bernstein Litowitz Berger & Grossmann LLP as Lead Counsel for the putative class of purchasers of the Company's common stock.

15. On April 11, 2008, Lead Plaintiff filed the Consolidated Class Action Complaint (the "Complaint"). The Complaint alleges violations of sections 11 and 15 of the Securities Act of 1933 (the "Securities Act"). In the Complaint, Lead Plaintiff alleges that Defendants issued false and misleading statements in WSB's Registration Statement and Prospectus issued in connection with WSB's IPO.

16. On May 9, 2008, Defendants moved to dismiss the Complaint under Rule 12(b)(6) of the Federal Rules of Civil Procedure. On June 6, 2008, Lead Plaintiff opposed those motions. On July 11, 2008, Defendants filed reply memoranda in further support of their motions to dismiss.

17. The Settlement proposed in the Stipulation was achieved after intense arm's-length negotiations. During these negotiations, Lead Counsel and counsel for Defendants presented, among other things, their respective views regarding the merits of the Action including the defenses, the claims and the damages sought.

## HOW DO I KNOW IF I AM PART OF THE SETTLEMENT?

18. If you are a Member of the Class, you are subject to the terms of the Settlement whether or not you submit a Claim Form, unless you timely request to be excluded. The Class consists of all persons and entities who purchased the common stock of WSB Financial pursuant to or traceable to the Company's Registration Statement issued in connection with WSB's IPO and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest. Also excluded from the Class are those Persons who timely request exclusion from the Class pursuant to this Notice (see "What If I Do Not Want To Participate In The Settlement? How Do I Exclude Myself," below).

**RECEIPT OF THIS NOTICE DOES NOT NECESSARILY MEAN THAT YOU ARE A CLASS MEMBER OR ARE ENTITLED TO RECEIVE PROCEEDS FROM THE SETTLEMENT. IF YOU WISH TO PARTICIPATE IN THE SETTLEMENT, YOU MUST SUBMIT THE ENCLOSED CLAIM FORM POSTMARKED NO LATER THAN FEBRUARY 19, 2009.**

## WHAT RECOVERY DOES THE SETTLEMENT PROVIDE?

19. The Settlement provides for a recovery of \$4,850,000 in cash, which was deposited into an interest-bearing escrow account on September 24, 2008. Lead Counsel's fees, expenses and costs with interest thereon, to the extent allowed by the Court, as well as taxes, notification costs, and administration costs will be deducted from these Settlement proceeds, and the balance will be distributed to the Class. The amount of any recovery will depend on a number of factors, including when and for what price Class Members purchased and/or sold their WSB common stock and the total number of WSB shares for which timely and valid Claim Forms are submitted by Class Members ("Authorized Claimants") (see "How Much Will My Payment Be?," below).

20. Lead Plaintiff's damages expert estimates that approximately 4.17 million shares of WSB common stock may have been affected by the conduct at issue in the Complaint. Thus, assuming that the owners of all affected shares elect to participate, the average per share recovery from the Settlement Fund is estimated to be approximately \$1.16 per affected share before deduction of attorney's fees, costs and expenses as approved by the Court.

#### **WHY IS THERE A SETTLEMENT?**

21. Under the proposed Settlement, the Court will not decide in favor of either Lead Plaintiff or Defendants. By agreeing to the Settlement, Lead Plaintiff and Defendants avoid the costs of further litigation and the risks of a trial, and the Class Members are compensated.

22. In light of the amount of the Settlement, and the immediacy of recovery to the Class, Lead Plaintiff and Lead Counsel believe that the proposed Settlement is fair, reasonable and adequate, and in the best interests of Class Members. Lead Plaintiff believes that the Settlement provides a substantial benefit, namely \$4,850,000 in cash, less the various deductions described in this Notice, as compared to the risks of protracted litigation through trial and appeals, the defenses asserted in the Action, the inherent uncertainty and risk associated with a complex action, such as this one, the ability of WSB to pay a judgment in a greater amount, or that a similar, smaller, or no recovery would be achieved after motions for summary judgment, a trial and/or appeals, possibly years in the future, in which Defendants would have the opportunity to assert substantial defenses to the claims asserted against them.

#### **WHAT LED UP TO THE SETTLEMENT?**

23. The Settlement resulted from extensive arm's-length negotiations among Lead Plaintiff, Lead Counsel and counsel for Defendants. The process included an arm's-length settlement mediation supervised by the Honorable Eugene F. Lynch (Ret.) on August 12, 2008. On August 12, 2008, Lead Plaintiff and WSB entered into an Agreement to Settle Class Action ("MOU") for payment of \$4,850,000, contingent upon the Bank obtaining regulatory approval of a monetary contribution to the settlement by WSB. The MOU was intended by Lead Plaintiff and WSB, subject to the approval by the Individual Defendants and regulatory approval of WSB's payment, to be a binding agreement that sets forth the terms and obligations of the Parties in connection with the Settlement. On September 11, 2008, the Individual Defendants approved the MOU. On September 16, 2008, the Federal Reserve Bank indicated by letter that it did not object to WSB's proposed contribution to the Settlement.

#### **WHY HAVE DEFENDANTS AGREED TO THE SETTLEMENT?**

24. Defendants have denied and continue to deny that they have committed, or threatened or attempted to commit, any wrongful act or violation of law or duty of any nature, and contend that they acted properly under the circumstances. Nevertheless, Defendants desire to settle and terminate the claims of the Lead Plaintiff and the Class Members so as to avoid the substantial expense, inconvenience and distraction of continued defense of the Action. Therefore, Defendants have determined that it is desirable and beneficial that the Action be settled in a manner and upon the terms and conditions set forth in the Stipulation. The Settlement shall not be deemed a presumption, concession or admission by WSB or the Individual Defendants of any violation of law, breach of duty, liability, default of wrongdoing as to any facts or claims alleged or asserted in the Action, or in any other actions or proceedings, all of which are denied.

#### **WHAT ARE LEAD PLAINTIFF'S REASONS FOR THE SETTLEMENT?**

25. Lead Plaintiff and Lead Counsel believe that the claims asserted against Defendants have merit. However, they recognize the expense and length of continued proceedings necessary to pursue their claims against Defendants through the motions to dismiss, discovery, trial and appeals. Lead Plaintiff and Lead Counsel also have taken into account the possibility that the claims asserted in the Complaint might have been dismissed, and have considered issues that would have been decided by a jury in the event of a trial of the Action, including whether Defendants in fact made any misrepresentation, whether the alleged misrepresentations or omissions were material to investors, whether any loss was caused by the alleged misrepresentations or omissions, and the amount of any damages. Lead Plaintiff and Lead Counsel also have considered the uncertain outcome and risk in complex lawsuits like this one, including the ability of WSB to pay a judgment in a greater amount. Lead Plaintiff believes that a recovery now will provide an immediate benefit to Class Members, which is superior to the risk and delay of proceeding with the Action. Considering these issues, and balancing them against the certain and substantial benefits that the Class will receive as a result of the Settlement, Lead Plaintiff and Lead Counsel determined that the Settlement described herein is fair, reasonable and adequate, and that it is in the best interests of the Class to settle the claims against Defendants on the terms set forth in the Stipulation and this Notice.

## WHAT MIGHT HAPPEN IF THERE WAS NO SETTLEMENT?

26. If there was no Settlement and Lead Plaintiff failed to establish any essential legal or factual element of their claims, neither Lead Plaintiff nor the Class would recover anything from Defendants. Also, if Defendants were successful in proving any of their defenses, the Class likely would recover substantially less than the amount provided in the Settlement, or nothing at all.

## HOW MUCH WILL MY PAYMENT BE?

### THE PROPOSED PLAN OF ALLOCATION: GENERAL PROVISIONS

27. WSB has paid four million eight-hundred fifty thousand dollars (\$4,850,000) in cash.

28. After approval of the Settlement by the Court and upon satisfaction of the other conditions to the Settlement, the Net Settlement Fund will be distributed to Authorized Claimants in accordance with the Plan of Allocation described below.

29. The Settlement Fund will be distributed as follows:

(i) To pay all federal, state and local taxes on any income earned by the Settlement Fund and to pay the reasonable costs incurred in connection with determining the amount of, and paying, taxes owed by the Settlement Fund (including reasonable expenses of tax attorneys and accountants);

(ii) To pay costs and expenses in connection with providing Notice to Class Members and administering the Settlement on behalf of Class Members;

(iii) To reimburse Lead Counsel for, and to pay, costs and expenses incurred by Lead Counsel in connection with, commencing and prosecuting the Action, with interest thereon, if and to the extent allowed by the Court;

(iv) To pay Lead Counsel's attorneys' fees, to the extent allowed by the Court; and

(v) Subject to an Order of the Court granting approval of the Settlement and the Plan of Allocation (or such other allocation plan as the Court may approve) becoming final (meaning that the time for appeal or appellate review of the Order granting final approval has expired, or if the Order is appealed, that appeal is either decided without causing a material change in the Order or upheld on appeal and no longer subject to appellate review by further appeal or writ of *certiorari*) the balance of the Net Settlement Fund shall be distributed to Authorized Claimants in accordance with the Plan of Allocation.

30. There will be no distribution of the Net Settlement Fund until a Plan of Allocation is finally approved, and the time for any petition for rehearing, appeal or review, whether by *certiorari* or otherwise, has expired.

31. Defendants are not entitled to get back any portion of the Settlement Fund once the Court's Order approving the Settlement becomes final. Moreover, Defendants have no liability, obligation or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund or the Plan of Allocation.

32. Approval of the Settlement is independent from approval of the Plan of Allocation. Any determination with respect to the Plan of Allocation will not affect the Settlement, if approved.

33. Securities for which an Authorized Claimant may be entitled to receive a distribution from the Net Settlement Fund include only the WSB common stock purchased or acquired pursuant to or traceable to the Company's Registration Statement and Prospectus issued in connection with the Company's IPO, including shares purchased in the publicly-traded aftermarket through October 23, 2007.

34. The WSB common stock was registered pursuant to a prospectus and registration statement (the "December 2006 Offering Documents"). Only those Class Members who purchased or otherwise acquired WSB common stock pursuant to or traceable to the December 2006 Offering Documents (as defined in paragraph 18 above) AND WERE DAMAGED AS A RESULT OF SUCH PURCHASES OR ACQUISITIONS, will be eligible to share in the distribution of the Net Settlement Fund.

35. Each person wishing to participate in the distribution must timely submit a valid Claim Form and all required documentation postmarked no later than February 19, 2009, to the address set forth in the Claim Form that accompanies this Notice. Unless otherwise ordered by the Court, any Class Member who fails to submit a Claim Form postmarked no later than February 19, 2009 shall be forever barred from receiving payments pursuant to the Settlement set forth in the Stipulation but will in all other respects be subject to the provisions of the Stipulation, including the terms of any

judgment entered and releases given. This means that each Class Member releases the Released Claims (as defined in paragraph 42) against the Released Persons (as defined in the Stipulation) (including Defendants) and is enjoined and prohibited from filing, prosecuting, or pursuing any of the Released Claims against any of the Released Persons (including Defendants) regardless of whether or not such Class Member submits a Claim Form.

36. The Court has reserved jurisdiction to allow, disallow, or adjust on equitable grounds the Claim of any Class Member. The Court also reserves the right to modify the Plan of Allocation without further notice to Class Members. Payment pursuant to the Plan of Allocation approved by the Court shall be conclusive against all Authorized Claimants. No person shall have any claim against Plaintiffs, Lead Counsel or the Claims Administrator or other agent designated by Lead Counsel based on the distributions made substantially in accordance with the Stipulation and the Settlement contained therein, the Plan of Allocation, or further orders of the Court.

#### **THE PROPOSED PLAN OF ALLOCATION: CALCULATION OF LOSS AMOUNTS**

37. Information Required on the Claim Form: The “Recognized Loss” for WSB common stock will be calculated for each purchase or acquisition of WSB common stock that is listed on the Claim Form, and for which adequate documentation is provided. To receive a distribution from the Net Settlement Fund, all Persons must:

- (i) Complete a valid Claim Form and supply all required documentation;
- (ii) Submit the completed Claim Form and documentation so that it is postmarked for mailing to the Claims Administrator no later than February 19, 2009

38. Each Claim Form must list all transactions in WSB common stock, including the date and price for all purchases or acquisitions and sales or dispositions, made through May 31, 2008. Each Claim Form also must indicate each Authorized Claimant’s position in WSB common stock as of December 12, 2006 (the date the registration statement was declared effective by the SEC) and October 30, 2007 (the date of suit against WSB alleging damages under Section 11 of the Securities Act). Each Authorized Claimant will be required to provide proof of his or her ownership position(s) and transactions in WSB common stock.

39. This Plan of Allocation encompasses damages under Section 11 of the Securities Act for WSB common stock. Section 11 concerns liability for false statements in a registration statement, under which losses are calculated as the “difference between the amount paid for the security (not exceeding the price at which the security was offered to the public) and (1) the value thereof as of the time such suit was brought, or (2) the price at which such security shall have been disposed of in the market before suit, or (3) the price at which such security shall have been disposed of after suit but before judgment if such damages shall be less than the damages representing the difference between the amount paid for the security (not exceeding the price at which the security was offered to the public) and the value thereof as of the time such suit was brought ....” In this case, Plaintiffs allege that Defendants made false statements and omitted material facts in the prospectus and registration statements for the WSB common stock IPO in December 2006, which had the effect of artificially inflating the price of WSB common stock. Defendants deny all such allegations. The first date of a lawsuit incorporating damages under Section 11 was filed on October 30, 2007, and therefore that is the relevant notice date under the statute.

40. A “Recognized Loss” will be calculated for each purchase or acquisition of WSB common stock listed in the Claim Form, and for which adequate documentation is provided. The calculation of the Recognized Loss will depend upon several factors, including when and at what price the WSB common stock was purchased or otherwise acquired, and when and at what price they were sold or redeemed. Specific Recognized Loss amounts will be calculated as follows:

##### **A. Calculation of Recognized Loss**

The Recognized Loss for each share of WSB common stock shall be calculated as follows:

- (i) The Recognized Loss is zero if the price at which the stock was sold or otherwise disposed is greater than the offering price (\$16.50) or the price at which it was purchased or acquired.
- (ii) For shares of WSB common stock purchased or acquired between December 12, 2006 and September 21, 2007, inclusive, and sold or otherwise disposed prior to or on September 21, 2007, the Recognized Loss is zero.
- (iii) For shares of WSB common stock purchased or acquired between December 12, 2006 and September 21, 2007, inclusive, and sold or otherwise disposed after September 21, 2007 and prior to October 30, 2007, the Recognized Loss is the difference between the acquisition price, which shall not be greater than the offering price (\$16.50) and the price received upon disposition.

(iv) For shares of WSB common stock purchased or acquired after September 21, 2007 and prior to or on October 23, 2007, and sold or otherwise disposed prior to or on October 23, 2007, the Recognized Loss is zero.

(v) For shares of WSB common stock purchased or acquired after September 21, 2007 and prior to or on October 23, 2007, and sold or otherwise disposed after October 23, 2007 and prior to October 30, 2007, the Recognized Loss is the difference between the acquisition price, which shall not be greater than the offering price (\$16.50) and the price received upon disposition.

(vi) For shares of WSB common stock purchased or acquired between December 12, 2006 and October 23, 2007, inclusive, and sold or otherwise disposed on or after October 30, 2007, the Recognized Loss is the difference between the acquisition price, which shall not be greater than the offering price (\$16.50), and the price received upon disposition, which shall not be less than the price on October 30, 2007, the date of suit (\$5.89).

(vii) For shares of WSB common stock purchased or acquired after October 23, 2007, the Recognized Loss is zero.

#### **B. Calculation of Net Recognized Loss:**

(i) For each Claim Form that includes more than one purchase or acquisition of WSB common stock, the Recognized Loss for each such purchase or acquisition will be accumulated to determine the “Net Recognized Loss” for the Claim Form.

(ii) The first-in-first-out (“FIFO”) method will be used to match shares of WSB common stock sold with previous shares of WSB common stock purchased/acquired. Under the FIFO method the earliest sale of a specific share of WSB common stock will be matched chronologically against each previous purchase or acquisition of shares of WSB common stock (or first matched to shares of WSB common stock held prior to the IPO). Once the purchase/acquisition and sale for each share of WSB common stock has been matched and the Recognized Loss for each transaction in shares of WSB common stock has been calculated (pursuant to Section A above), the following methodology will be applied to calculate Net Recognized Loss:

1. The “Aggregate Recognized Loss” will be calculated by accumulating, for each respective transaction, the product of the Recognized Loss per share of WSB common stock by the number of shares of WSB common stock purchased or acquired;

2. The “Market Profit (Loss)” for each transaction will be calculated as the purchase or acquisition price minus the sale or disposition price. The “Net Market Profit (Loss)” will be calculated by accumulating, for each respective transaction, the product of the Market Profit (Loss) per share of WSB common stock by the respective number of shares of WSB common stock purchased or acquired; and

3. The “Net Recognized Loss” for each Claim shall equal the lesser of: (i) the Aggregate Recognized Loss; and (ii) the Net Market Loss, except if the Authorized Claimant had a Net Market Profit, the value of the Claim is zero.

#### **C. General Provisions:**

(i) The Net Settlement Fund will be allocated among all Authorized Claimants.

(ii) Each Authorized Claimant will receive his, her or its *pro rata* share of the Net Settlement Fund, which will be his, her or its Net Recognized Loss divided by the total of all Net Recognized Losses to be paid from the Net Settlement Fund, multiplied by the total amount in the Net Settlement Fund. The proration factor applied to the Authorized Claims of Class Members will be based on the amount in the Net Settlement Fund available to satisfy those claims, as set forth in paragraph 29, above.

(iii) If the Net Settlement Fund exceeds the sum total amount of the Net Recognized Losses of all Authorized Claimants entitled to receive payment out of the Net Settlement Fund, the excess amount in the Net Settlement Fund will be distributed *pro rata* to all Authorized Claimants entitled to receive payment out of the Net Settlement Fund.



## WHAT RIGHTS AM I GIVING UP BY AGREEING TO THE SETTLEMENT?

41. If the Settlement is approved, the Court will enter a judgment (the “Judgment”). The Judgment will dismiss the claims against Defendants with prejudice and will provide that Lead Plaintiff and all other Class Members, except those who validly and timely requested to be excluded from the Class, shall upon the Effective Date of the Settlement, be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, waived, discharged and dismissed any and all Released Claims, including “Unknown Claims” (as defined in the Stipulation), against the Released Persons (as defined in the Stipulation) and any claims or potential claims that were or could be asserted in connection with the Action or Released Claims.

42. “Released Claims” means collectively any and all claims (including Unknown Claims, as defined in the Stipulation) and includes:

- (a) all claims and causes of action of every nature and description, whether known or unknown, whether arising under federal, state, common or foreign law, that Lead Plaintiff or any member of the Class (a) asserted in the Complaint, or (b) could have asserted in any forum that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint, but does not include claims based on or relating to transactions between WSB and its customers made in the ordinary course of business not involving the purchase or sale of securities as alleged in the Action.
- (b) all claims whether known or Unknown Claims, asserted or unasserted by or on behalf of WSB and/or the Individual Defendants against Lead Plaintiff and any Class Member or their attorneys, which have been or could have been asserted, whether under state, federal, common or administrative law, relating to the subject matter of the Action, including the institution, prosecution or settlement of the Action, but does not include claims based on or relating to transactions between WSB and its customers made in the ordinary course of business not involving the purchase or sale of securities as alleged in the Action.
- (c) all asserted and unasserted claims, whether known or unknown, by D.A. Davidson against Lead Plaintiff and any Class Member or their attorneys, whether under state, federal, common or administrative law, that have been or could have been brought in any forum relating specifically to the subject matter of the Action, including the institution, prosecution or settlement of the Action, but does not include claims based on or relating to transactions between D.A. Davidson and its customers made in the ordinary course of business not involving the purchase or sale of securities as alleged in the Action.

43. The Judgment also will provide that Defendants and any of the other Released Persons shall each be deemed to have, and by operation of this Judgment shall have, fully, finally and forever released, relinquished and discharged the Released Claims as against Lead Plaintiff’s Released Persons. The Judgment will also bar all claims for contribution by any person or entity, whether arising under state, federal or common law, based upon, arising out of, relating to, or in connection with the Released Claims of the Class or any Class Member.

## WHAT PAYMENT ARE THE ATTORNEYS FOR THE CLASS SEEKING? HOW WILL THE LAWYERS BE PAID?

44. Lead Counsel has not received any payment for their services in pursuing claims against Defendants on behalf of the Class, nor has Lead Counsel been reimbursed for their out-of-pocket expenses. At the Settlement Hearing described below, or at such other time as the Court may direct, Lead Counsel intends to apply to the Court for an award of attorneys’ fees in an amount not to exceed 25% of the Settlement Fund net of Court-approved litigation expenses.

45. Lead Counsel also intends to apply for reimbursement of litigation expenses in an amount not to exceed \$75,000. If the application for attorneys’ fees and reimbursement of litigation expenses is approved by the Court, the average cost per affected share would be approximately \$0.29. **THE COURT HAS NOT EXPRESSED ANY OPINION ON THE APPLICATION FOR ATTORNEYS’ FEES AND REIMBURSEMENT OF LITIGATION EXPENSES.**

46. The fee requested by Lead Counsel would compensate Lead Counsel for its efforts in achieving the Settlement for the benefit of the Class, and for its risk in undertaking this representation on a contingency basis. The fee requested is within the range of fees awarded under similar circumstances in litigation of this type. The Court will determine the amount of the award.

## **HOW DO I PARTICIPATE IN THE SETTLEMENT? WHAT DO I NEED TO DO?**

47. For settlement purposes only, the Court has certified this action as a class action. If you purchased or otherwise acquired the common stock of WSB pursuant to or traceable to the Company's registration statement issued in connection with WSB's initial public offering and you are not excluded by the definition of the Class and do not elect to exclude yourself, then you are a Class Member, and you will be bound by the proposed Settlement provided for in the Stipulation, in the event it is approved by the Court, as well as by any judgment or determination of the Court affecting the Class. Unless otherwise provided by the Court, any Class Member who fails to submit a Claim Form postmarked no later than February 19, 2009 shall be forever barred from receiving any payments pursuant to the Settlement set forth in the Stipulation, but will in all other respects be subject to the provisions of the Stipulation, including the terms of any judgments entered and the releases given.

48. If you wish to remain a Class Member, you may be eligible to share in the proceeds of the Settlement, provided that you timely submit an acceptable Claim Form. The Claim Form must be supported by such documents as specified in the Claim Form. The Claim Form is enclosed. Extra copies of the Claim Form may be obtained from the Claims Administrator at the website noted below or downloaded from Lead Counsel's website at [www.blbglaw.com](http://www.blbglaw.com).

49. The Court may disallow or adjust the Claim of any Class Member. The Court also may modify the Plan of Allocation without further notice to the Class. Payments pursuant to the Plan of Allocation, as approved by the Court, will be conclusive against all Authorized Claimants. No Person shall have any claim against Lead Plaintiff, Lead Counsel or the Claims Administrator, or any other agent designated by Lead Counsel, based on the distributions made substantially in accordance with the Stipulation and the Settlement, the Plan of Allocation or further orders of the Court. Each Claimant shall be deemed to have submitted to the jurisdiction of the United States District Court for the Western District of Washington with respect to his, her or its Claim Form.

50. As a Class Member, you are represented by Lead Plaintiff and Lead Counsel, unless you enter an appearance through counsel of your own choice at your own expense. You are not required to retain your own counsel, but if you choose to do so, such counsel must file an appearance on your behalf and must serve copies of such appearance on the attorneys listed in the section entitled, "When and Where Will the Court Decide Whether to Approve the Settlement?," below.

51. If you do not wish to remain a Class Member, you may exclude yourself from the Class by following the instructions in the section entitled, "What If I Do Not Want To Be A Part Of The Settlement? How Do I Exclude Myself?," below.

52. If you object to the Settlement or any of its terms, the proposed Plan of Allocation, or Lead Counsel's application for attorneys' fees and reimbursement of litigation expenses, and if you do not exclude yourself from the Class, you may present your objections by following the instructions in the section entitled, "When and Where Will the Court Decide Whether to Approve the Settlement?," below.

## **WHAT IF I DO NOT WANT TO BE A PART OF THE SETTLEMENT? HOW DO I EXCLUDE MYSELF?**

53. Each Class Member will be bound by all determinations and judgments in this lawsuit concerning the Settlement, whether favorable or unfavorable, unless such Person mails, by first class mail, a written request for exclusion from the Class, addressed to *In re WSB Financial Group Securities Litigation - EXCLUSIONS*, - c/o The Garden City Group, Inc., P.O. Box 91179, Seattle, WA 98111-9279, postmarked no later than February 19, 2009. You will not be able to exclude yourself from the Class after that date. Each request for exclusion must set forth the name and address of the person or entity requesting exclusion; state that such Person "requests exclusion from the Class in *In re WSB Financial Group Securities Litigation*, Master File No. C07-1747RAJ"; be signed by such Person; and provide a telephone number, and documentation verifying membership in the Class, including the date(s), price(s), and amount(s) for all purchases of WSB common stock pursuant to or traceable to the Company's registration statement issued in connection with WSB's initial public offering. Requests for Exclusion will not be valid if they are not made within the time stated above, unless the Requests for Exclusion are otherwise accepted by the Court.

54. If a Class Member requests to be excluded from the Class, that Class Member will not receive any benefit provided for in the Stipulation.

**WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE THE SETTLEMENT?  
DO I HAVE TO COME TO THE HEARING?  
MAY I SPEAK AT THE HEARING IF I DON'T LIKE THE SETTLEMENT?**

**If you do not wish to object to the proposed Settlement, the application for attorneys' fees and reimbursement of litigation expenses, and/or the proposed Plan of Allocation, you need not attend the Final Approval Hearing.**

55. The Final Approval Hearing will be held on March 27, 2009 at 9:00 a.m., before the Honorable Richard A. Jones, at the United States District Court for the Western District of Washington, 700 Stewart Street, Seattle, WA 98101. The Court reserves the right to approve the Settlement at or after the Final Approval Hearing with such modifications as may be consented to by the Parties to the Stipulation and without further notice to the members of the Class.

56. Any Class Member who does not request exclusion postmarked no later than February 19, 2009 may appear at the Final Approval Hearing and be heard on any of the matters to be considered at the hearing; provided, however, that no such Person shall be heard unless his, her or its objection or opposition is made in writing and is filed, together with copies of all other papers (including proof of all purchases of WSB common stock pursuant to or traceable to the Company's registration statement issued in connection with WSB's initial public offering) and briefs, with the Clerk's Office at the United States District Court for the Western District of Washington, 700 Stewart Street, Seattle, WA 98101, on or before February 19, 2009, and is sent for receipt no later than February 19, 2009 to each of the following:

**Lead Counsel for the Class**

BERNSTEIN LITOWITZ BERGER  
& GROSSMANN LLP  
David R. Stickney, Esq.  
Timothy DeLange, Esq.  
12481 High Bluff Drive, Suite 300  
San Diego, CA 92130

**Counsel for WSB  
and the Individual Defendants**

WILSON SONSINI GOODRICH &  
ROSATI  
Barry M. Kaplan, Esq.  
Douglas W. Greene, Esq.  
701 Fifth Avenue, Suite 5100  
Seattle, WA 98104

**Counsel for D.A. Davidson**

DORSEY & WHITNEY LLP  
Curt Roy Hineline, Esq.  
James Howard, Esq.  
1420 Fifth Avenue, Suite 3400  
Seattle, WA 98101

57. The filing must demonstrate your membership in the Class, including the number of purchases of WSB common stock pursuant to or traceable to the Company's registration statement issued in connection with WSB's initial public offering and price(s) paid. Only Class Members who have submitted their position in this manner will be entitled to be heard at the Final Approval Hearing, unless the Court orders otherwise. You may file an objection without having to appear at the Final Approval Hearing. Class Members who approve of the Settlement need not appear at the Final Approval Hearing.

58. Attendance at the hearing is not necessary; however, Persons wishing to be heard orally in opposition to the approval of the Settlement, the proposed Plan of Allocation and/or the request for attorneys' fees and reimbursement of litigation expenses are required to notify the above counsel in advance of the hearing. Persons who intend to object to the Settlement, the proposed Plan of Allocation and/or Lead Counsel's application for an award of attorneys' fees and reimbursement of litigation expenses and desire to present evidence at the Final Approval Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Final Approval Hearing.

59. The Final Approval Hearing may be delayed from time to time by the Court without further written notice to the Class. If you intend to attend the Final Approval Hearing, you should confirm the date and time with Lead Counsel.

**Unless otherwise ordered by the Court, any Class Member who does not object in the manner described herein will be deemed to have waived any objection and shall be forever foreclosed from making any objection to the proposed Settlement, the application for attorneys' fees and reimbursement of litigation expenses and/or the proposed Plan of Allocation. Class Members do not need to appear at the hearing or take any other action to indicate their approval.**

**WHAT IF I BOUGHT SHARES ON SOMEONE ELSE'S BEHALF?**

60. If you purchased or otherwise acquired WSB common stock pursuant to or traceable to the Company's registration statement issued in connection with WSB's initial public offering for the beneficial interest of a Person or organization other than yourself, you are directed to send a copy of this Notice and the Claim Form to the beneficial owner of the common stock postmarked no later than fourteen (14) days from the date of this Notice, or to provide the names and addresses of such persons no later than fourteen (14) days from the date of this Notice to *In re WSB Financial Group Securities Litigation*, c/o The Garden City Group, Inc., P.O. Box 91179 Seattle, WA 98111-9279, in which case the beneficial owner will be sent a copy of the Notice. Upon full compliance with these directions, such nominees may seek reimbursement of their reasonable expenses actually incurred in complying herewith by providing the Claims Administrator with proper documentation supporting the expenses for which reimbursement is sought. Copies of this Notice and the Claim Form may also be obtained from the Claims Administrator's website [www.gardencitygroup.com](http://www.gardencitygroup.com), or calling toll-free 1 (800) 961-2567, or may be downloaded from Lead Counsel's website at [www.blbglaw.com](http://www.blbglaw.com).

**CAN I SEE THE COURT FILE? WHOM SHOULD I CONTACT IF I HAVE QUESTIONS?**

61. This Notice contains only a summary of the terms of the proposed Settlement. For a more detailed statement of the matters involved in the Action, you are referred to the papers on file in the Action, including the Stipulation, which may be inspected during regular office hours at the Office of the Clerk, United States District Court for the Western District of Washington, 700 Stewart Street, Seattle, WA 98101.

62. All inquiries concerning this Notice or the Claim Form should be directed to:

*In re WSB Financial Group Securities Litigation*  
% The Garden City Group, Inc.  
P.O. Box 91179  
Seattle, WA 98111-9279  
1 (800) 961-2567

**OR**

BERNSTEIN LITOWITZ BERGER  
& GROSSMANN LLP  
David R. Stickney, Esq.  
Timothy DeLange, Esq.  
12481 High Bluff Drive, Suite 300  
San Diego, CA 92130

**Lead Counsel for the Class**

**DO NOT CALL OR WRITE THE COURT OR THE OFFICE OF THE CLERK OF THE COURT  
REGARDING THIS NOTICE.**

Dated: November 21, 2008

By Order of the Clerk of the Court  
United States District Court  
for the Western District of Washington