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AT SEATTLE
CLERK U.S. DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
DEPUTY

Counsel for Plaintiff

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

07-5620 JKA

SANDRA ELTERICH, individually and on
behalf of all others similarly situated,

Plaintiff,

vs.

DAVID K. JOHNSON, MARK D.
FREEMAN, WSB FINANCIAL GROUP,
INC., and D.A. DAVIDSON & CO.,

Defendants.

)
) CLASS ACTION
)
) COMPLAINT FOR VIOLATION
) OF THE FEDERAL SECURITIES
) LAWS
)
) DEMAND FOR JURY TRIAL
)
)
)

Plaintiff Sandra Elterich, individually and on behalf of all other persons similarly situated, by her undersigned attorneys, for her complaint against defendants, alleges the following based upon personal knowledge as to herself and her own acts, and information and belief as to all other matters, based upon, inter alia, the investigation conducted by and through her attorneys, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding WSB Financial Group, Inc., ("WSB", or the

COMPLAINT VIOLATION OF
THE FEDERAL SECURITIES LAWS

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1 "Company"), securities analysts' reports and advisories about the Company, and
2 information readily obtainable on the Internet. Plaintiff believes that substantial
3 evidentiary support will exist for the allegations set forth herein after a reasonable
4 opportunity for discovery.

5 NATURE OF THE ACTION

6 1. This is a federal securities class action on behalf of a class consisting of all
7 persons other than defendants who purchased the common stock of WSB pursuant and/or
8 traceable to the Company's Registration Statement and Prospectus issued in connection
9 with the Company's Initial Public Offering (the "IPO") on December 14, 2006, through
10 October 24, 2007, seeking to recover damages caused by defendants' violations of federal
11 securities laws and to pursue remedies under the Securities Act of 1933 (the "Securities
12 Act").

13 JURISDICTION AND VENUE

14 2. The claims asserted herein arise under and pursuant to Sections 11 and 15
15 of the Securities Act (15 U.S.C. §§ 77k and 77(o)).

16 3. This Court has jurisdiction over the subject matter of this action pursuant
17 to Section 22(a) of the Securities Act, 15 U.S.C. §77v(a).

18 4. Venue is proper in this Judicial District pursuant to Section 22(a) of the
19 Securities Act, 15 U.S.C. § 77v(a) and 28 U.S.C. § 1391(b). Many of the acts and
20 transactions alleged herein, including the dissemination of the materially false and
21 misleading information, affected persons in this District.

22 5. In connection with the acts, conduct and other wrongs alleged in this
23 Complaint, defendants, directly or indirectly, used the means and instrumentalities of
24 interstate commerce, including but not limited to, the United States mails, interstate
25 telephone communications and the facilities of the national securities exchange.

PARTIES

1
2 6. Plaintiff Sandra Elterich, as set forth in the accompanying certification,
3 incorporated by reference herein, purchased WSB stock pursuant and/or traceable to the
4 Company's IPO and was economically damaged thereby.

5 7. Defendant WSB is a Washington holding corporation with its principal
6 executive offices located in Bremerton, Washington. WSB engages in commercial
7 banking services to real estate developers, contractors and small- to medium-sized
8 business in Washington through its Westsound Bank & Mortgage subsidiary. WSB's
9 common stock is listed on the NASDAQ Global Market under ticker "WSFG".

10 8. Defendant D.A. Davison & Co. ("DA Davidson") was the underwriter of
11 the WSB IPO. D.A. Davidson is a Montana corporation and is a wholly-owned
12 subsidiary of Davidson Companies. D.A. Davidson's executive offices are located in
13 Great Falls, MT.

14 9. Defendant David K. Johnson ("Johnson") was at all relevant times WSB's
15 President, Chief Executive and Director.

16 10. Defendant Mark D. Freeman ("Freeman") was at all relevant times WSB's
17 Executive Vice President of Finance and Operations and Chief Financial Officer.

18 11. Johnson and Freeman are collectively referred to hereinafter as the
19 "Individual Defendants."

PLAINTIFF'S CLASS ACTION ALLEGATIONS

20
21 12. Plaintiff brings this action as a class action on behalf of herself and on
22 behalf of all purchasers of the common stock of the Company issued pursuant to and/or
23 traceable to the Company's IPO on December 14, 2006 through October 24, 2007,
24 pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a Class.
25 Excluded from the Class are defendants, the officers and directors of the Company, at all
26 relevant times, members of their immediate families and their legal representatives, heirs,
27

1 successors or assigns and any entity in which defendants have or had a controlling
2 interest.

3 13. The members of the Class are so numerous that joinder of all members is
4 impracticable. Approximately 2.6 million shares (including over-allotments) of the
5 Company's common stock were sold in the IPO. The precise number of Class members
6 is unknown to Plaintiff at this time but it is believed to be in the thousands. Members of
7 the Class may be identified from records maintained by WSB or its transfer agent and
8 may be notified of the pendency of this action by mail, using a form of notice customarily
9 used in securities class actions.

10 14. Plaintiff's claims are typical of the claims of the members of the Class, as
11 all members of the Class are similarly affected by defendants' wrongful conduct in
12 violation of federal law that is complained of herein.

13 15. Plaintiff will fairly and adequately protect the interests of the members of
14 the Class and has retained counsel competent and experienced in class and securities
15 litigation.

16 16. Common questions of law and fact exist as to all members of the Class
17 and predominate over any questions solely affecting individual members of the Class.

18 Among the questions of law and fact common to the Class are:

- 19 a. whether the provisions of the Securities Act were violated by
20 defendants' acts as alleged herein;
- 21 b. whether documents, including the Registration Statement and
22 Prospectus, press releases, and public statements issued by defendants
23 to the investing public omitted and/or misrepresented material facts
24 about the Company and its business; and
- 25 c. the extent to which members of the Class have sustained damages, and
26 the proper measure of damages.
- 27

1 17. A class action is superior to all other available methods for the fair and
2 efficient adjudication of this controversy since joinder of all members is impracticable.
3 Furthermore, as the damages suffered by individual Class members may be relatively
4 small, the expense and burden of individual litigation make it impossible for members of
5 the Class to redress individually the wrongs done to them. There will be no difficulty in
6 the management of this action as a class action.

7 **SUBSTANTIVE ALLEGATIONS**

8 18. On December 8, 2006, the Company filed with the SEC an amended
9 registration statement on Form S-1/A. The Registration Statement contained, *inter alia*, a
10 Prospectus.

11 19. The Company's Registration Statement became effective as of December
12 12, 2006, at 5:30 p.m.

13 20. The Company's IPO commenced on December 14, 2006, and involved the
14 sale of 2,300,000 shares of Company stock priced at \$16.50 per share.

15 21. The underwriter for the IPO was D.A. Davidson. D.A. Davidson was
16 provided an over-allotment option for 345,000 shares.

17 22. On December 15, 2006, the Company filed its Prospectus with the SEC.

18 23. On December 19, 2006, the Company issued a press release announcing
19 the completion of the IPO. According to the announcement, the Company realized net
20 proceeds of \$40.5 million on 2,645,000 shares sold.

21 24. Certain representations made in the Company's Registration Statement
22 and Prospectus in connection with the IPO were materially false or misleading, as
23 demonstrated below:

- 24 a. the Registration Statement and Prospectus failed to reveal that the
25 Company's corrective and remedial measures implemented by the
26 Company were tracking to plan;

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- b. the Registration Statement and Prospectus failed to reveal that the Company's internal control processes and compliance procedures were deficient with respect to mortgage and construction loan origination;
- c. the Registration Statement and Prospectus failed to reveal that the Company's mortgage division was engaged in improper business practices that may not have been in compliance with applicable rules and regulations; and
- d. the Registration Statement and Prospectus failed to reveal that these and other internal control weaknesses and improper business practices would create an imminent risk that the Company would face material financial impairments and charges.

25. The foregoing matters, all of which existed at the time of the IPO, were partially revealed in a Form 8-K the Company filed with the SEC on October 24, 2007. The Form 8-K states in relevant part:

Item 2.02 Results of Operations and Financial Condition

* * * *

The company cautioned, however, that its financial results and financial statements for the period are preliminary and unaudited and subject to the completion of the pending examination of the mortgage lending practices and construction loan portfolio of the company's subsidiary, Westsound Bank by the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or DFI. The FDIC and DFI recently indicated to the company's management that in the opinion of the regulators, the Bank violated certain banking laws and regulations which are primarily related to the origination, administration and monitoring of construction and mortgage loans. The examiners advised that they intend to recommend that the FDIC and DFI take regulatory action against the Bank with respect to such lending practices and activities, which may include a cease and desist order, monetary penalties, further increases in allowances for loan losses, reserves and/or charge-offs.

Additionally, the company has been cooperating in an investigation by the regulators pertaining to certain past activities involving former employees and third parties, including possible fraud, misconduct and other violations with respect to the application, processing and approval of certain loans previously

1 made. The company is also conducting its own internal investigation into the
2 issues surrounding the past activities of mortgage and construction loan
3 origination, and plans to retain an independent auditor to analyze these loans,
4 particularly construction loans and assist the company and its management in
5 determining the appropriate level of loan loss allowances, reserves or charge-
6 offs with respect to such loans.

7 The company and the Bank are cooperating with the regulatory investigation.
8 The company has no further comment at this time regarding the regulatory
9 investigation or its own internal investigation. There have been no findings
10 issued to date and these investigations are continuing.

11 The company cannot currently comment on the timing for completion of, or the
12 ultimate scope or outcome of, these investigations, the audit or any necessary
13 restatements.

14 * * * *

15 **Item 2.06 Material Impairments.**

16 Our board of directors and its audit committee have decided to retain an
17 independent auditor to help the company and its outside counsel to conduct an
18 internal investigation of mortgage and construction loans previously originated.
19 The company and its management expect that upon completion of its internal
20 investigation, that a material additional charge for impairment to certain of its
21 loans, particularly construction loans, may be required under generally accepted
22 accounting principles and regulatory guidelines pertaining to the Bank. The
23 company's board of directors and officers have determined, however, that at the
24 time of this filing they are unable in good faith to make a determination of an
25 estimate of the amount or range of amounts of the impairment charge. The
26 company will file an amended report on Form 8-K under this Item 2.06 promptly
27 and in any event, within 4 business days after it makes a determination of such
28 an estimate or range of estimates, or include such information in its next
quarterly report on Form 10-Q which is currently due to be filed under the
Securities Exchange Act of 1934, by November 14, 2007.

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors;
Appointment of Certain Officers; Compensatory Arrangements of Certain
Officers.**

On October 22, 2007, the company's executive vice president and chief financial
officer, Mark D. Freeman, advised the company that for personal health reasons
he was requesting a temporary paid leave of absence from October 22 through
December 31, 2007. The company has decided to recruit and retain a qualified
individual from outside the company to serve as chief financial officer on an
interim or temporary basis during Mr. Freeman's absence. Until such individual
can be retained, the responsibilities of Mr. Freeman will be shared by the

company's chief executive officer, David K. Johnson, its chief risk officer, Veronica R. Colburn, and its AVP staff accountant, Janet M. Hobson.

* * * *

Item 8.01 Other Items.

Pending examination and related investigations by the FDIC and DFI.

The FDIC and DFI recently indicated to the company's management that in the opinion of the regulators, the Bank violated certain banking laws and regulations which are primarily related to the previous lending practices of Westsound Bank's mortgage division, and the administration and monitoring of mortgage and construction loans. The examiners advised that they intend to recommend that the FDIC and DFI take regulatory action against the Bank with respect to such lending practices and activities, which may include a cease and desist order, monetary penalties, additional increases in allowances for loan losses, reserves and/or charge-offs.

Additional Risk Factors.

Since our Annual Report on Form 10-K for the year ended December 31, 2006, we have identified additional risk factors which could materially affect our business, financial condition or future results. Any of the following factors could materially and adversely affect our business, financial condition and results of operations after December 31, 2006, and the risks described below are not the only risks that we may face. Additional risks and uncertainties not currently known to us may also materially and adversely affect our business, financial condition or results of operations.

The examination and related investigations by the FDIC and DFI could result in costs, fines, penalties and restrictions that could have an adverse effect on us.

The FDIC and DFI recently indicated to the company's management that in the opinion of the regulators, the Bank violated certain banking laws and regulations which are primarily related to the origination, administration and monitoring of construction and mortgage loans.

The FDIC has requested documents and information from us in the course of their examination and related investigation. We have provided our cooperation. The company is also conducting its own internal investigation. The costs incurred in connection with these investigations to date have been immaterial, but future costs related to these investigations, including the company's own internal investigation, could be significant. However, we cannot predict the ultimate impact, if any, that the pending examination by FDIC and DFI and the related investigations may have on our business operations or results. While we cannot predict the ultimate impact, if any, that these investigations may have on

1 our business operations or results, a material adverse result is possible, including
2 but not limited to imposition of fines or other financial penalties, restriction of
3 our business and lending activities, removal or resignation of one or more
4 members of our senior management and board of directors, and additional loan
5 losses, reserves and/or charge-offs.

6 26. The October 24, 2007 announcement shocked the market and caused the
7 Company's stock to fall \$4.96 per share, a drop of nearly 43%.

8 27. Following an analyst downgrade on October 25, 2007, the Company's
9 stock declined nearly 30%.

10 **FIRST CLAIM**

11 **Violation of Section 11 of the Securities Act**

12 **Against All Defendants**

13 28. Plaintiff repeats and realleges each and every allegation contained above
14 as if fully set forth herein. This claim is not based on and does not sound in fraud.

15 29. This claim is brought by Plaintiff on her own behalf and on behalf of other
16 members of the Class who acquired WSB stock pursuant to or traceable to the
17 Company's IPO. Each Class Member acquired his, her, or its shares pursuant to and/or
18 traceable to, and in reliance on, the Registration Statement and Prospectus. WSB is the
19 issuer of the securities through the Registration Statement and Prospectus and D.A.
20 Davison is the underwriter of the securities that were offered through the Registration
21 Statement and Prospectus. The Individual Defendants are signatories of the Registration
22 Statement and Prospectus.

23 30. Defendants owed to the purchasers of the stock obtained through the
24 Registration Statement and Prospectus the duty to make a reasonable and diligent
25 investigation of the statements contained in the Registration Statement and Prospectus at
26 the time they became effective to ensure that such statements were true and correct and
27 that there was no omission of material facts required to be stated in order to make the
28 statements contained therein not misleading.

1 31. None of the defendants made a reasonable investigation or possessed
2 reasonable grounds for the belief that the statements contained in the Registration
3 Statement and Prospectus were true or that there was no omission of material facts
4 necessary to make the statements made therein not misleading.

5 32. Defendants issued and disseminated, caused to be issued and
6 disseminated, and participated in the issuance and dissemination of material
7 misstatements to the investing public that were contained in the Registration Statement
8 and Prospectus, which misrepresented or failed to disclose, among other things, the facts
9 set forth above. By reason of the conduct alleged herein, each defendant violated and/or
10 controlled a person who violated Section 11 of the Securities Act.

11 33. WSB is the issuer of the stock sold via the Registration Statement and
12 Prospectus. As issuer of the stock, the Company is strictly liable to Plaintiff and the
13 Class for the material misstatements and omissions therein.

14 34. At the times they obtained their shares of WSB, Plaintiff and members of
15 the Class did so without knowledge of the facts concerning the misstatements and
16 omissions alleged herein.

17 35. This action is brought within one year after discovery of the untrue
18 statements and omissions in and from the Registration Statement and Prospectus that
19 should have been made and/or corrected through the exercise of reasonable diligence, and
20 within three years of the effective date of the Registration Statement and Prospectus.

21 36. By virtue of the foregoing, plaintiff and the other members of the class are
22 entitled to damages under Section 11, as measured by the provisions of Section 11(e),
23 from the defendants and each of them, jointly and severally.

24 **SECOND CLAIM**

25 **Violations of Section 15 of the Securities Act**

26 **Against the Individual Defendants**

1 37. Plaintiff repeats and realleges each and every allegation contained above
2 as if fully set forth herein. This claim is not based on and does not sound in fraud.

3 38. This claim is asserted against the Individual Defendants, each of whom
4 was a control person of WSB during the relevant time period.

5 39. For the reasons set forth above in the First Claim, WSB is liable to the
6 plaintiff and the members of the Class who purchased WSB common stock in the IPO
7 based on the untrue statements and omissions of material fact contained in the
8 Registration Statement and Prospectus, pursuant to Section 11 of the Securities Act, and
9 were damaged thereby.

10 40. The Individual Defendants were control persons of WSB by virtue of,
11 among other things, their positions as senior officers of the Company, and they were in
12 positions to control, and did control, the false and misleading statements and omissions
13 contained in the Registration Statement and Prospectus.

14 41. None of the Individual Defendants made a reasonable investigation or
15 possessed reasonable grounds for the belief that the statements contained in the
16 Registration Statement and Prospectus were accurate and complete in all material
17 respects. Had they exercised reasonable care, they could have known of the material
18 misstatements and omissions alleged herein.

19 42. This claim was brought within one year after the discovery of the untrue
20 statements and omissions in the Registration Statement and Prospectus and within three
21 years after WSB common stock was sold to the Class in connection with the IPO.

22 43. By reason of the misconduct alleged herein, for which WSB is primarily
23 liable, as set forth above, the Individual Defendants are jointly and severally liable with
24 and to the same extent as WSB, pursuant to Section 15 of the Securities Act.

25 WHEREFORE, plaintiff prays for relief and judgment, as follows:

26 (a) Determining that this action is a proper class action, designating
27 plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23

1 of the Federal Rules of Civil Procedure and designating plaintiff's counsel as Lead
2 Counsel;

3 (b) Awarding damages in favor of plaintiff and the other Class members
4 against all defendants, jointly and severally, together with interest thereon;

5 (c) Awarding plaintiff and the Class reasonable costs and expenses
6 incurred in this action, including counsel fees and expert fees; and

7 (d) Such other and further relief as the Court may deem just and proper.

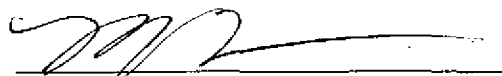
8 **JURY TRIAL DEMANDED**

9 Plaintiff hereby demands a trial by jury.

10
11 Dated: November 8, 2007

12
13 Respectfully submitted,

14
15 SMITH & LOWNEY, PLLC

16
17 

18 KNOLL LOWNEY, WSBA # 23457
19 BRIDGET BAKER-WHITE, WSBA # 38790
20 RICHARD SMITH, WSBA # 21788

21 THE ROSEN LAW FIRM, P.A.
22 Laurence M. Rosen
23 Phillip Kim
24 350 5th Avenue, Suite 5508
25 New York, New York 10118

26 Attorneys for Plaintiff

Print Message

Close this window

From postmaster@rosenlegal.com
Date 2007/11/03 Sat PM 12:57:57 CDT
To rosenlegal@verizon.net
Subject Confirmation of Receipt of Certification

Dear Sandra V Elterich,

We have received your certification in the WSB Financial Group, Inc. class action litigation. Thank you for submitting your information. Below is a copy of your certification - please retain it for your records. If you have any questions, please feel free to contact us at 1-866-rosenlegal (866-767-3653) or via e-mail at info@rosenlegal.com.

With increasing frequency, we find that our new clients were victimized by more than one company. If you think you may have lost monies in the market due to the dishonest acts or statements of a different company and would like it to be investigated, free of charge, please email us at reportfraud@rosenlegal.com.

Sincerely,

The Rosen Law Firm P.A.

CERTIFICATION

Certification and Authorization of Named Plaintiff Pursuant to Federal Securities Laws

The individual or institution listed below (the "Plaintiff") authorizes and, upon execution of the accompanying retainer agreement by The Rosen Law Firm P.A., retains The Rosen Law Firm P.A. to file an action under the federal securities laws to recover damages and to seek other relief against WSB Financial Group, Inc.. The Rosen Law Firm P.A. will prosecute the action on a contingent fee basis and will advance all costs and expenses. The WSB Financial Group, Inc. Retention Agreement provided to the Plaintiff is incorporated by reference, upon execution by The Rosen Law Firm P.A.

First name: Sandra

Last name: Elterich

Address: PO Box 404

City: Bremerton

State, Zip: WA, 98337

Email: jselterich@hotmail.com

Phone: 360-710-2015

The Plaintiff Certifies that:

1. Plaintiff has reviewed the complaint and authorized its filing.
2. Plaintiff did not acquire the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action or any other litigation under the federal securities laws.
3. Plaintiff is willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary.
4. Plaintiff represents and warrants that he/she/it is fully authorized to enter into and execute this certification.

5. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

6. Plaintiff has made no transaction(s) during the Class Period in the debt or equity securities that are the subject of this action except those set forth below:

Shares Purchased:

Purchase Date(s): 12/20/2006

Number of shares: 250

Price per Share: 18.15

Shares Sold:

7. During the three years prior to the date of this Certification, Plaintiff has not sought to serve or served as a representative party for a class in an action filed under the federal securities laws except if detailed below:

Note; our shares are owned by John D and Sandra V Elterich. We currently own a total of 4,169 shares 250 shares purchased at the IPO.

I declare under penalty of perjury, under the laws of the United States, that the information entered is accurate:
yes

By clicking on the button below, I intend to sign and execute this agreement: yes

Clicked to Submit Certification in the WSB Financial Group, Inc. Action

Signed pursuant to California Civil Code Section 1633.1, et seq. - Uniform Electronic Transactions Act

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