

HERITAGE COMMERCE CORP  
Form 10-Q  
November 10, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-23877

Heritage Commerce Corp  
(Exact name of Registrant as Specified in its Charter)

California	77-0469558
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

150 Almaden Boulevard  
San Jose, California 95113  
(Address of Principal Executive Offices including Zip Code)

(408) 947-6900  
(Registrant's Telephone Number, Including Area Code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting

company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

The Registrant had 11,820,509 shares of common stock outstanding on November 3, 2008.

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Heritage Commerce Corp and Subsidiaries  
Quarterly Report on Form 10-Q  
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## Part I -- FINANCIAL INFORMATION

## ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Heritage Commerce Corp  
Consolidated Balance Sheets (Unaudited)

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 35,718	\$ 39,793
Federal funds sold	100	9,300
Total cash and cash equivalents	35,818	49,093
Securities available-for-sale, at fair value	107,565	135,402
Loans, net of deferred costs	1,250,340	1,036,465
Allowance for loan losses	(22,323)	(12,218)
Loans, net	1,228,017	1,024,247
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	7,279	7,002
Company owned life insurance	40,236	38,643
Premises and equipment, net	9,318	9,308
Goodwill	43,181	43,181
Intangible assets	4,407	4,972
Accrued interest receivable and other assets	36,060	35,624
Total assets	\$ 1,511,881	\$ 1,347,472
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits		
Demand, noninterest bearing	\$ 257,739	\$ 268,005
Demand, interest bearing	139,377	150,527
Savings and money market	400,863	432,293
Time deposits, under \$100	34,792	34,092
Time deposits, \$100 and over	168,361	139,562
Brokered time deposits	185,052	39,747
Total deposits	1,186,184	1,064,226
Notes payable to subsidiary grantor trusts	23,702	23,702
Securities sold under agreement to repurchase	35,000	10,900
Other short-term borrowings	95,000	60,000
Accrued interest payable and other liabilities	27,711	23,820
Total liabilities	1,367,597	1,182,648
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock, no par value; 30,000,000 shares authorized; shares outstanding: 11,820,509 at September 30, 2008 and 12,774,926 at December 31, 2007	76,490	92,414
Retained earnings	68,306	73,298
Accumulated other comprehensive loss	(512)	(888)

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Total shareholders' equity		144,284		164,824
Total liabilities and shareholders' equity	\$	1,511,881	\$	1,347,472

See notes to consolidated financial statements

Heritage Commerce Corp  
Consolidated Income Statements (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income:	(Dollars in thousands, except per share data)			
Loans, including fees	\$ 17,919	\$ 19,282	\$ 53,524	\$ 49,541
Securities, taxable	1,250	1,881	4,137	5,729
Securities, non-taxable	17	38	64	124
Interest bearing deposits in other financial institutions	1	31	10	104
Federal funds sold	10	873	56	2,158
Total interest income	19,197	22,105	57,791	57,656
Interest expense:				
Deposits	4,911	7,663	15,285	17,669
Notes payable to subsidiary grantor trusts	527	585	1,610	1,749
Repurchase agreements	264	76	674	311
Other short-term borrowings	449	-	1,104	22
Total interest expense	6,151	8,324	18,673	19,751
Net interest income	13,046	13,781	39,118	37,905
Provision for loan losses	1,587	(500)	11,037	(736)
Net interest income after provision for loan losses	11,459	14,281	28,081	38,641
Noninterest income:				
Gain on sale of SBA loans	-	60	-	1,766
Servicing income	491	546	1,347	1,596
Increase in cash surrender value of life insurance	416	374	1,232	1,071
Service charges and fees on deposit accounts	505	344	1,457	954
Other	276	315	958	1,028
Total noninterest income	1,688	1,639	4,994	6,415
Noninterest expense:				
Salaries and employee benefits	5,665	5,840	17,694	15,413
Occupancy and equipment	1,348	1,169	3,511	2,933
Professional fees	468	751	2,112	1,489
Data processing	252	252	751	653
Low income housing investment losses	208	233	661	588
Client services	196	155	629	631
Advertising and promotion	186	206	609	808
Amortization of intangible assets	176	167	565	185
Other	1,898	1,745	5,442	4,618
Total noninterest expense	10,397	10,518	31,974	27,318
Income before income taxes	2,750	5,402	1,101	17,738
Income tax expense	309	2,162	39	6,450
Net income	\$ 2,441	\$ 3,240	\$ 1,062	\$ 11,288
Earnings per share:				
Basic	\$ 0.21	\$ 0.24	\$ 0.09	\$ 0.92
Diluted	\$ 0.21	\$ 0.24	\$ 0.09	\$ 0.91