

HERITAGE COMMERCE CORP
Form 10-Q
October 28, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2009

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
(State or Other Jurisdiction of
Incorporation or Organization)

77-0469558
(I.R.S. Employer
Identification No.)

150 Almaden Boulevard, San Jose, California
(Address of Principal Executive Offices)

95113
(Zip Code)

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

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
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 October 22, 2009.

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	September 30, 2009	December 31, 2008
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 42,105	\$ 29,996
Federal funds sold	150	100
Total cash and cash equivalents	42,255	30,096
Securities available-for-sale, at fair value	96,618	104,475
Loans held-for-sale, at lower of cost or market, including deferred costs	21,976	
Loans, including deferred costs	1,081,568	1,248,631
Allowance for loan losses	(28,976)	(25,007)
Loans, net	1,052,592	1,223,624
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	8,444	7,816
Company owned life insurance	41,897	40,649
Premises and equipment, net	9,182	9,517
Goodwill	43,181	43,181
Intangible assets	3,750	4,231
Accrued interest receivable and other assets	47,715	35,638
Total assets	\$ 1,367,610	\$ 1,499,227
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits		
Demand, noninterest bearing	\$ 250,515	\$ 261,337
Demand, interest bearing	139,919	134,814
Savings and money market	324,611	344,767
Time deposits, under \$100	43,559	45,615
Time deposits, \$100 and over	134,533	171,269
Time deposits-CDARS	41,418	11,666
Time deposits-brokered	181,819	184,582
Total deposits	1,116,374	1,154,050
Notes payable to subsidiary grantor trusts	23,702	23,702
Securities sold under agreement to repurchase	25,000	35,000
Note payable		15,000
Other short-term borrowings		55,000
Accrued interest payable and other liabilities	29,111	32,208

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Total liabilities	1,194,187	1,314,960
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; 40,000 shares outstanding (liquidation preference of \$1,000 per share plus accrued dividends)	39,846	39,846
Discount on preferred stock	(1,687)	(1,946)
Common stock, no par value; 30,000,000 shares authorized; 11,820,509 shares outstanding	79,884	78,854
Retained earnings	57,563	70,986
Accumulated other comprehensive loss	(2,183)	(3,473)
Total shareholders' equity	173,423	184,267
Total liabilities and shareholders' equity	\$ 1,367,610	\$ 1,499,227

See notes to consolidated financial statements

Table of Contents**Heritage Commerce Corp****Consolidated Statements of Operations (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands, except per share data)				
Interest income:				
Loans, including fees	\$ 14,727	\$ 17,919	\$ 44,619	\$ 53,524
Securities, taxable	753	1,250	2,702	4,137
Securities, non-taxable	1	17	9	64
Interest bearing deposits in other financial institutions	14	1	21	10
Federal funds sold		10		56
Total interest income	15,495	19,197	47,351	57,791
Interest expense:				
Deposits	3,228	4,911	10,652	15,285
Notes payable to subsidiary grantor trusts	476	527	1,463	1,610
Repurchase agreements	168	264	638	674
Note payable		100	82	184
Other short-term borrowings		349	53	920
Total interest expense	3,872	6,151	12,888	18,673
Net interest income before provision for loan losses	11,623	13,046	34,463	39,118
Provision for loan losses	7,129	1,587	28,253	11,037
Net interest income after provision for loan losses	4,494	11,459	6,210	28,081
Noninterest income:				
Gain on sale of loans	643		643	
Service charges and fees on deposit accounts	557	505	1,665	1,457
Increase in cash surrender value of life insurance	420	416	1,248	1,232
Servicing income	382	491	1,210	1,347
Other	348	276	808	958
Total noninterest income	2,350	1,688	5,574	4,994
Noninterest expense:				
Salaries and employee benefits	5,730	5,665	17,831	17,694
Occupancy and equipment	1,005	1,348	2,893	3,511
Professional fees	691	468	2,833	2,112
Deposit insurance premiums and regulatory assessments	631	238	2,590	626
Low income housing investment expense	217	208	642	661
Insurance	203	148	393	397
Software subscriptions	203	291	616	703
Data processing	196	252	686	751
Provision for off-balance sheet credit risk	173	(40)	166	(53)
Client services	146	196	450	629
Amortization of intangible assets	160	176	481	565
Director fees	141	141	436	408
Advertising and promotion	96	186		