

HERITAGE COMMERCE CORP
Form 10-Q
November 06, 2013

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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, 2013

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. (Check one):

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 26,345,329 shares of Common Stock outstanding on October 30, 2013.

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QUARTERLY REPORT ON FORM 10-Q
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Cautionary Note Regarding Forward-Looking Statements

This Report on Form 10-Q contains various statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These forward-looking statements often can be, but are not always, identified by the use of words such as "assume," "expect," "intend," "plan," "project," "believe," "estimate," "predict," "anticipate," "may," "might," "should," "could," "goal," "potential" and similar expressions. We base these forward-looking statements on our current expectations and projections about future events, our assumptions regarding these events and our knowledge of facts at the time the statements are made. These statements include statements relating to our projected growth, anticipated future financial performance, and management's long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition.

These forward-looking statements are subject to various risks and uncertainties that may be outside our control and our actual results could differ materially from our projected results. In addition, our past results of operations do not necessarily indicate our future results. The forward-looking statements could be affected by many factors, including but not limited to:

Competition for loans and deposits and failure to attract or retain deposits and loans;

Local, regional, and national economic conditions and events and the impact they may have on us and our customers, and our assessment of that impact on our estimates including, the allowance for loan losses;

Risks associated with concentrations in real estate related loans;

Changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of the Company's allowance for loan losses and the Company's provision for loan losses;

The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board;

Stability of funding sources and continued availability of borrowings;

Our ability to raise capital or incur debt on reasonable terms;

Regulatory limits on Heritage Bank of Commerce's ability to pay dividends to the Company;

Continued volatility in credit and equity markets and its effect on the global economy;

The impact of reputational risk on such matters as business generation and retention, funding and liquidity;

Oversupply of inventory and continued deterioration in values of California commercial real estate;

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A prolonged slowdown in construction activity;

The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities, and executive compensation) which we must comply, including but not limited to, the Dodd-Frank Act of 2010;

The effects of security breaches and computer viruses that may affect our computer systems;

Changes in consumer spending, borrowings and saving habits;

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Changes in the competitive environment among financial or bank holding companies and other financial service providers;

The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters;

The costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;

The ability to increase market share and control expenses; and

Our success in managing the risks involved in the foregoing items.

We are not able to predict all the factors that may affect future results. You should not place undue reliance on any forward looking statement, which speaks only as of the date of this Report on Form 10-Q. Except as required by applicable laws or regulations, we do not undertake any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

Table of Contents**Part I FINANCIAL INFORMATION****ITEM 1 CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

HERITAGE COMMERCE CORP
CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 32,571	\$ 16,520
Interest-bearing deposits in other financial institutions	9,327	357,045
Total cash and cash equivalents	41,898	373,565
Securities available-for-sale, at fair value	280,471	367,912
Securities held-to-maturity, at amortized cost (fair value of \$80,505 at September 30, 2013 and \$50,964 at December 31, 2012)	89,732	51,472
Loans held-for-sale SBA, at lower of cost or fair value, including deferred costs	6,975	3,409
Loans, net of deferred fees	893,052	812,313
Allowance for loan losses	(19,342)	(19,027)
Loans, net	873,710	793,286
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	10,792	10,728
Company owned life insurance	49,598	48,358
Premises and equipment, net	7,390	7,469
Intangible assets	1,645	2,000
Accrued interest receivable and other assets	38,424	35,113
Total assets	\$ 1,400,635	\$ 1,693,312
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand, noninterest-bearing	\$ 409,269	\$ 727,684
Demand, interest-bearing	178,783	155,951
Savings and money market	312,991	272,047
Time deposits under \$100	22,029	25,157
Time deposits \$100 and over	195,321	190,502
Time deposits brokered	62,833	97,807
CDARS money market and time deposits	14,311	10,220
Total deposits	1,195,537	1,479,368
Subordinated debt		9,279
Accrued interest payable and other liabilities	34,613	34,924
Total liabilities	1,230,150	1,523,571
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized		
Series C convertible perpetual preferred stock, 21,004 shares issued and outstanding at September 30, 2013 and December 31, 2012 (liquidation preference of \$21,004 at September 30, 2013 and December 31, 2012)	19,519	19,519
Common stock, no par value; 60,000,000 shares authorized; 26,341,021 shares issued and outstanding at September 30, 2013 and 26,322,147 shares issued and outstanding at December 31, 2012	132,298	131,820
Retained earnings	22,949	15,721

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Accumulated other comprehensive (loss) income	(4,281)	2,681
Total shareholders' equity	170,485	169,741
Total liabilities and shareholders' equity	\$ 1,400,635	\$ 1,693,312

See notes to consolidated financial statements

Table of Contents**HERITAGE COMMERCE CORP****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars in thousands, except per share data)				
Interest income:				
Loans, including fees	\$ 10,733	\$ 10,146	\$ 30,874	\$ 30,754
Securities, taxable	2,247	2,681	7,107	8,753
Securities, non-taxable	436	5	1,042	5
Interest-bearing deposits in other financial institutions	42	30	140	95
Total interest income	13,458	12,862	39,163	39,607
Interest expense:				
Deposits	575	690	1,796	2,144
Subordinated debt	51	346	229	1,293
Short-term borrowings	1	2	1	3
Total interest expense	627	1,038	2,026	3,440
Net interest income before provision for loan losses	12,831	11,824	37,137	36,167
Provision (credit) for loan losses	(534)	1,200	(804)	2,115
Net interest income after provision for loan losses	13,365	10,624	37,941	34,052
Noninterest income:				
Service charges and fees on deposit accounts	645	575	1,840	1,766
Increase in cash surrender value of life insurance	414	434	1,240	1,292
Servicing income	331	429	1,081	1,336
Gain on sales of SBA loans	103	221	373	633
Gain on sales of securities		1,105	38	1,164
Other	245	184	744	570
Total noninterest income	1,738	2,948	5,316	6,761
Noninterest expense:				
Salaries and employee benefits	5,772	5,336	17,647	16,380
Occupancy and equipment	986	1,041	3,082	3,004
Professional fees	602	587	1,984	2,268
Software subscriptions	381	275	966	878
Low income housing investment losses	320	264	930	795
Data processing	259	252	838	744
Insurance expense	255	198	763	645
FDIC deposit insurance premiums	200	248	666	675
Correspondent bank charges	170	156	513	455
Foreclosed assets, net	8	9	(242)	229
Subordinated debt redemption charges		601	167	601
Other	1,427	1,180	4,236	3,783
Total noninterest expense	10,380	10,147	31,550	30,457
Income before income taxes	4,723	3,425	11,707	10,356
Income tax expense	1,510	939	3,521	3,116

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Net income	3,213	2,486	8,186	7,240
Dividends and discount accretion on preferred stock		 		