

HERITAGE COMMERCE CORP
Form DEF 14A
April 15, 2011

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

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

SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

HERITAGE COMMERCE CORP

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

HERITAGE COMMERCE CORP

April 15, 2011

Dear Shareholder:

You are cordially invited to attend the 2011 Annual Meeting of Shareholders, which will be held at 1:00 p.m., Pacific time on Thursday, May 26, 2011, at Heritage Commerce Corp's offices, located at 150 Almaden Boulevard, San Jose, California, 95113.

The accompanying Notice of Annual Meeting and proxy statement describe the business that will be conducted at the meeting and provide information about Heritage Commerce Corp. We have also enclosed our 2010 Annual Report on Form 10-K.

Your continued support is appreciated and we hope you will attend the Annual Meeting. Whether or not you are personally present, it is very important that your shares be represented at the meeting. Accordingly, please sign, date, and mail the enclosed proxy card promptly. You may also vote electronically over the Internet or by telephone by following the instructions on the proxy card. If you attend the meeting and prefer to vote in person, you may do so.

Sincerely,

Jack W. Conner
Chairman of the Board

150 Almaden Boulevard, San Jose, California 95113

Walter T. Kaczmarek
President and Chief Executive Officer

Telephone (408) 947-6900 Fax (408) 947-6910

Table of Contents

HERITAGE COMMERCE CORP

**150 Almaden Boulevard
San Jose, California 95113**

Notice of Annual Meeting of Shareholders

Date and Time: Thursday, May 26, 2011, at 1:00 p.m., Pacific time.

Place: Company's offices located at 150 Almaden Boulevard, San Jose, California 95113.

- Items of Business:**
1. **To elect 10 members of the Board of Directors, each for a term of one year;**
 2. **Approval of an advisory proposal on the Company's executive compensation;**
 3. **Ratification of the selection of Crowe Horwath LLP as the Company's independent registered public accounting firm for the year ending December 31, 2011; and**
 4. **To transact such other business as may properly come before the meeting, and any adjournment or postponement.**

Record Date: You can vote if you are a shareholder of record on April 5, 2011.

Mailing Date: The proxy materials are being distributed to our shareholders on or about April 15, 2011, and include our Annual Report on Form 10-K, Notice of Annual Meeting, this proxy statement, and proxy or voting instruction card.

Important Notice Regarding the Internet Availability of Proxy Materials: The proxy statement and Annual Report on Form 10-K are available at www.heritagecommercecorp.com. **Your Vote is Important.** Please vote as promptly as possible by using the Internet or telephone or by signing, dating and returning the enclosed proxy card.

By Order of the Board of
Directors,

Debbie Reuter
Corporate Secretary

April 15, 2011
San Jose, California

Table of Contents

TABLE OF CONTENTS

| | Page |
|--|-------------|
| Questions & Answers | |
| <u>Why did you send me this proxy statement?</u> | 1 |
| <u>Who is entitled to vote?</u> | 1 |
| <u>What constitutes a quorum?</u> | 1 |
| <u>How many votes do I have?</u> | 1 |
| <u>How do I vote by proxy?</u> | 1 |
| <u>What do I have to do to vote my shares if they are held in the name of my broker?</u> | 2 |
| <u>How do I vote in person?</u> | 2 |
| <u>May I vote electronically over the Internet or by telephone?</u> | 2 |
| <u>What is cumulative voting and how do I cumulate my shares?</u> | 3 |
| <u>May I change my vote after I return my proxy?</u> | 3 |
| <u>What vote is required to approve each proposal?</u> | 3 |
| <u>How will voting on any other business be conducted?</u> | 4 |
| <u>What are the costs of soliciting these proxies?</u> | 4 |
| <u>How do I obtain an Annual Report on Form 10-K?</u> | 4 |
| <u>BENEFICIAL OWNERSHIP OF COMMON STOCK</u> | 5 |
| <u>CORPORATE GOVERNANCE AND BOARD MATTERS</u> | 8 |
| <u>Board of Directors</u> | 8 |
| <u>Code of Ethics</u> | 12 |
| <u>Reporting of Complaints/Concerns Regarding Accounting or Auditing Matters</u> | 12 |
| <u>Executive Officers of the Company</u> | 13 |
| <u>INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS</u> | 14 |
| <u>The Board of Directors</u> | 14 |
| <u>Board Leadership Structure</u> | 14 |
| <u>Board Authority for Risk Oversight</u> | 14 |
| <u>The Committees of the Board</u> | 15 |
| <u>Compliance with Section 16(a) of the Securities Exchange Act of 1934</u> | 17 |
| <u>Transactions with Management</u> | 17 |
| <u>Policies and Procedures for Approving Related Party Transactions</u> | 18 |
| <u>Compensation Discussion and Analysis</u> | 19 |
| <u>Compensation Committee Report</u> | 32 |
| <u>Executive Compensation Tables</u> | 34 |
| <u>Plan Based Awards</u> | 37 |
| <u>Equity Compensation Plan Information</u> | 38 |
| <u>Option Exercises and Vested Stock Awards</u> | 39 |
| <u>401(k) Plan</u> | 40 |
| <u>Employee Stock Ownership Plan</u> | 40 |
| <u>Supplemental Retirement Plan for Executive Officers</u> | 40 |
| <u>Management Deferral Plan</u> | 42 |
| <u>Change of Control Arrangements and Termination of Employment</u> | 43 |
| <u>Director Compensation</u> | 48 |
| <u>Director Fee Deferral Plan</u> | 48 |
| <u>Director Outstanding Stock Options</u> | 50 |
| <u>Director Compensation Benefits Agreement</u> | 50 |
| <u>PROPOSAL 1 ELECTION OF DIRECTORS</u> | 52 |
| <u>PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION</u> | 56 |

Table of Contents

| | Page |
|---|-------------|
| <u>PROPOSAL 3 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u> | |
| <u> Independent Registered Public Accounting Firm Fees</u> | <u>57</u> |
| <u>OTHER BUSINESS</u> | <u>61</u> |
| <u>SHAREHOLDER PROPOSALS</u> | <u>61</u> |

Table of Contents

**PROXY STATEMENT FOR HERITAGE COMMERCE CORP
2011 ANNUAL MEETING OF SHAREHOLDERS
INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

Why did you send me this proxy statement?

We sent you this proxy statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the 2011 Annual Meeting of Shareholders. This proxy statement summarizes the information you need to know to cast an informed vote at the Annual Meeting. However, you do not need to attend the Annual Meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card. You may also vote electronically by telephone or the Internet by following the instructions on the proxy card.

Along with this proxy statement, we are also sending you the Heritage Commerce Corp 2010 Annual Report on Form 10-K, which includes our consolidated financial statements. Heritage Commerce Corp is also referred to in this proxy statement as the "Company."

Who is entitled to vote?

We will begin sending this proxy statement, the attached Notice of Annual Meeting and the enclosed proxy card on or about April 15, 2011 to all shareholders entitled to vote. Shareholders who were the record owners of the Company's common stock at the close of business on April 5, 2011, are entitled to vote. On this record date, there were 26,233,001 shares of common stock outstanding.

What constitutes a quorum?

A majority of the outstanding shares of the common stock entitled to vote at the Annual Meeting must be present, in person or by proxy, in order to constitute a quorum. We can only conduct the business of the Annual Meeting if a quorum has been established. We will include proxies marked as abstentions and broker non-votes in determining the number of shares present at the Annual Meeting.

How many votes do I have?

Each share of common stock entitles you to one vote in person or by proxy, for each share of common stock outstanding in your name on the books of the Company as of April 5, 2011, the record date for the Annual Meeting on any matter submitted to a vote of the shareholders, except that in connection with the election of directors (Proposal 1), you may cumulate your shares (see "What is cumulative voting and how do I cumulate my shares?" below). The proxy card indicates the number of votes that you have as of the record date.

How do I vote by proxy?

You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or other nominee. If your shares are held by a broker or other nominee, you will receive instructions that you must follow to have your shares voted. If you hold your shares as a shareholder of record, you may vote by completing, signing and dating the enclosed proxy card and returning it promptly in the envelope provided. You may also vote electronically by telephone or over the Internet (see below). Returning the proxy card will not affect your right to attend the Annual Meeting and vote.

If you properly fill in your proxy card and send it to us in time to vote, your "proxy" (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the Board of Directors as follows:

"FOR" the election of all 10 nominees for director;

Table of Contents

"FOR" the approval of the advisory proposal on the Company's executive compensation; and

"FOR" the ratification of the selection of Crowe Horwath LLP as our independent registered public accounting firm for 2011.

For the election of directors (Proposal 1), a shareholder may withhold authority for the proxy holders to vote for any one or more of the nominees by marking the enclosed proxy card in the manner instructed on the proxy card. Unless authority to vote for the nominees is so withheld, the proxy holders will vote the proxies received by them for the election of the nominees listed on the proxy card as directors of the Company. Your proxy does not have an obligation to vote for nominees not identified on the preprinted proxy card (that is, write-in candidates). Should any shareholder attempt to "write in" a vote for a nominee not identified on the preprinted card (and described in these proxy materials), your proxy will NOT vote the shares represented by your proxy card for any such write-in candidate, but will instead vote the shares for any and all other indicated candidates. If any of the nominees should be unable or decline to serve, which is not now anticipated, your proxy will have discretionary authority to vote for a substitute who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, your proxy intends to vote all of the proxies in such a manner, in accordance with the cumulative voting, as will assure the election of as many of the nominees identified on the proxy card as possible. In such event, the specific nominees to be voted for will be determined by the proxy holders, in their sole discretion.

What do I have to do to vote my shares if they are held in the name of my broker?

If your shares are held by your broker, sometimes called "street name" shares, you must vote your shares through your broker. You should receive a form from your broker asking how you want to vote your shares. Follow the instructions on that form to give voting instructions to your broker. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine, but not on non-routine matters. A "broker non-vote" occurs when your broker does not vote on a particular proposal because the broker does not receive instructions from the beneficial owner and does not have discretionary authority. Proposal 3 (ratification of independent registered public accounting firm) is a routine item. Proposal 1 (election of directors) and Proposal 2 (advisory proposal on executive compensation) are non-routine items on which a broker may vote only if the beneficial owner has provided voting instructions.

How do I vote in person?

If you plan to attend the Annual Meeting and desire to vote in person, we will give you a ballot form when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, you must bring a power of attorney from your nominee in order to vote at the Annual Meeting.

May I vote electronically over the Internet or by telephone?

Shareholders whose shares are registered in their own names may vote either over the Internet or by telephone. Special instructions for voting over the Internet or by telephone are set forth on the enclosed proxy card. The Internet and telephone voting procedures are designed to authenticate the shareholder's identity and to allow shareholders to vote their shares and confirm that their voting instructions have been properly recorded.

If your shares are registered in the name of a bank or brokerage firm you may be eligible to vote your shares electronically by telephone or over the Internet. Most U.S. banks and brokerage firms are clients of Broadridge Financial Solutions ("Broadridge"). As such, shareholders who receive either a paper copy of their proxy statement or electronic delivery notification have the opportunity to vote by telephone or over the Internet. If your bank or brokerage firm is a Broadridge client, your proxy card or Voting Instruction

Table of Contents

Form ("VIF") will provide the instructions. If your proxy card or VIF does not provide instructions for Internet and telephone voting, please complete and return the proxy card in the self-addressed, postage-paid envelope provided.

What is cumulative voting and how do I cumulate my shares?

For the election of directors (Proposal 1), California law provides that a shareholder of a California corporation, or his/her proxy, may cumulate votes in the election of directors. That is, each shareholder may cast that number of votes equal to the number of shares owned by him/her, multiplied by the number of directors to be elected, and he/she may cumulate such votes for a single candidate or distribute such votes among as many candidates as he/she deems appropriate.

Certain affirmative steps must be taken by you in order to be entitled to vote your shares cumulatively for the election of directors. At the shareholders' meeting at which directors are to be elected, no shareholder is entitled to cumulate votes (i.e., cast for any one or more candidates a number of votes greater than the number of the shareholder's shares) unless the candidates' names have been placed in nomination at the meeting and prior to the commencement of the voting and at least one shareholder has given notice at the meeting and prior to commencement of the voting of the shareholder's intention to cumulate votes. If any shareholder has given such notice, then every shareholder entitled to vote may cumulate votes for candidates in nomination and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are entitled, or distribute the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks appropriate. The candidates receiving the highest number of votes, up to the number of directors to be elected, will be elected.

The proxies designated on your proxy card do not, at this time, intend to cumulate votes, to the extent they have the shareholder's discretionary authority to do so, pursuant to the proxies solicited in this proxy statement unless another shareholder gives notice to cumulate, in which case your proxy may cumulate votes in accordance with the recommendations of the Board of Directors. Therefore, discretionary authority to cumulate votes in such an event is solicited in this proxy statement.

May I change my vote after I return my proxy?

If you fill out and return the enclosed proxy card, or vote by telephone or over the Internet, you may change your vote at any time before the vote is conducted at the Annual Meeting. You may change your vote in any one of four ways:

You may send to the Company's Corporate Secretary another completed proxy card with a later date.

You may notify the Company's Corporate Secretary in writing before the Annual Meeting that you have revoked your proxy.

You may attend the Annual Meeting and vote in person.

If you have voted your shares by telephone or over the Internet, you can revoke your prior telephone or Internet vote by recording a different vote, or by signing and returning a proxy card dated as of a date that is later than your last telephone or Internet vote.

What vote is required to approve each proposal?

Approval of Proposal 1 (election of directors) requires a plurality of votes cast for each nominee. This means that the 10 nominees who receive the most votes will be elected. So, if you do not vote for a particular nominee, or you indicate "WITHHOLD AUTHORITY" to vote for a particular nominee on your proxy card, your vote will not count either "for" or "against" the nominee. Abstentions will not have

Table of Contents

any effect on the outcome of the vote. You may cumulate your votes in the election of directors as described under "*What is cumulative voting and how do I cumulate my shares?*" above. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.

Approval of Proposal 2 (advisory proposal on executive compensation) and Proposal 3 (ratification of independent registered public accounting firm) each requires a vote that satisfies two criteria: (i) the affirmative vote for the proposal must constitute a majority of the common shares present or represented or by proxy and voting on the proposal at the Annual Meeting and (ii) the affirmative vote for the proposal must constitute a majority of the common shares required to constitute the quorum. For purposes of Proposal 2 and 3, abstentions and broker non-votes will not affect the outcome under clause (i), which recognizes only actual votes cast. However, abstentions and broker non-votes will affect the outcome under clause (ii) if the number of affirmative votes, though a majority of the votes represented and cast, does not constitute a majority of the voting power required to constitute a quorum.

How will voting on any other business be conducted?

Your proxy card confers discretionary authority to your proxy to vote your shares on the matters which may properly be presented for action at the Annual Meeting, and may include action with respect to procedural matters pertaining to the conduct of the Annual Meeting.

What are the costs of soliciting these proxies?

We will pay all the costs of soliciting these proxies. In addition to mailing proxy soliciting material, our directors, officers and employees also may solicit proxies in person, by telephone or by other electronic means of communication for which they will receive no compensation. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward the proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their reasonable expenses. We have hired Advantage Proxy to seek the proxies of custodians, such as brokers, which hold shares which belong to other people. This service will cost the Company approximately \$4,000.

How do I obtain an Annual Report on Form 10-K?

A copy of our 2010 Annual Report on Form 10-K accompanies this proxy statement. If you would like another copy of this report, we will send you one without charge. The Annual Report on Form 10-K includes a list of exhibits filed with the Securities and Exchange Commission ("SEC"), but does not include the exhibits. If you wish to receive copies of the exhibits, we will send them to you; however, expenses for copying and mailing them to you will be your responsibility. Please write to:

**Heritage Commerce Corp
150 Almaden Boulevard
San Jose, California 95113
Attention: Corporate Secretary**

You can also find out more information about us at our website www.heritagecommercecorp.com. Our website is available for information purposes only and should not be relied upon for investment purposes, nor is it incorporated by reference into this proxy statement. On our website you can access electronically filed copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 filings, and amendments to those reports and filings, free of charge. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including the Company.

Table of Contents**BENEFICIAL OWNERSHIP OF COMMON STOCK**

The following table sets forth information as of February 15, 2011, pertaining to beneficial ownership of the Company's common stock by persons known to the Company to own five percent or more of the Company's common stock, current directors of the Company, nominees to be elected to the Board of Directors, the executive officers named in the Summary Compensation Table presented in this proxy statement, and all directors and executive officers of the Company, as a group. This information has been obtained from the Company's records, or from information furnished directly by the individual or entity to the Company.

For purposes of the following table, shares issuable pursuant to stock options which may be exercised within 60 days of February 15, 2011, are deemed to be issued and outstanding and have been treated as outstanding in determining the amount and nature of beneficial ownership and in calculating the percentage of ownership of those individuals possessing such interest, but not for any other individuals.

| Name of Beneficial Owner(1) | Position | Shares Beneficially Owned(2)(3) | Exercisable Options | Percent of Class(3) |
|---|--|--|--------------------------------|--------------------------------|
| Frank G. Bisceglia | Director | 124,319(4) | 20,082 | 0.47% |
| Jack W. Conner | Director & Chairman of the Board | 99,733(5) | 21,733 | 0.38% |
| John M. Eggemeyer III | Director | 1,284,000(6) | | 4.89% |
| Celeste V. Ford | Director | 6,768(7) | 3,768 | 0.03% |
| Walter T. Kaczmarek | Chief Executive Officer, President & Director | 188,475(8)(19) | 94,691 | 0.72% |
| Dan T. Kawamoto | Executive Vice President & Chief Administrative Officer | 20,141(9)(19) | 10,753 | 0.08% |
| Mark E. Lefanowicz | Director | 56,092(10) | 5,687 | 0.21% |
| Lawrence D. McGovern | Executive Vice President & Chief Financial Officer | 77,035(11)(19) | 49,314 | 0.29% |
| Robert T. Moles | Director | 109,892(12) | 19,588 | 0.42% |
| Michael R. Ong | Former Executive Vice President & Chief Credit Officer | 24(13)(19) | | 0.00% |
| Raymond Parker | Executive Vice President/Banking Division | 130,074(19) | 56,815 | 0.49% |
| Humphrey P. Polanen | Director | 29,470(14) | 15,082 | 0.11% |
| Charles J. Toeniskoetter | Director | 39,982(15) | 27,582 | 0.15% |
| Ranson W. Webster | Director | 622,660 | 20,082 | 2.37% |
| W. Kirk Wycoff | Director | (16) | | 9.89% |
| All directors, and executive officers (15 individuals) | | 2,788,665 | | 10.49% |
| Och-Ziff Capital Management Group LLC | | 2,413,175(17) | | 9.20% |
| Patriot Financial Group | | 2,595,000(18) | | 9.89% |

1.

Except as otherwise noted, the address for all persons is c/o Heritage Commerce Corp, 150 Almaden Boulevard, San Jose, California, 95113.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Table of Contents

2. Subject to applicable community property laws and shared voting and investment power with a spouse, the persons listed have sole voting and investment power with respect to such shares unless otherwise noted. Listed amounts reflect all previous stock splits and stock dividends.
3. Includes shares beneficially owned (including options exercisable within 60 days of February 15, 2011, as shown in the "Exercisable Options" column), both directly and indirectly, together with associates.
4. Includes 93,237 shares as one of two trustees of the Bisceglia Family Trust, and 11,000 shares held by Mr. Bisceglia in a personal Individual Retirement Account.
5. Includes 300 shares held in a trust account, and 6,700 shares held by Mr. Conner's spouse.
6. Includes 1,284,000 shares of common stock held by Castle Creek Capital Partners IV LLC ("CC Fund IV"). CC Fund IV also owns 12,960 shares of Series C Preferred Stock which is convertible into 3,456,000 shares of common stock following transfer to third parties in a widely dispersed offering. Since CC Fund IV does not have the right to acquire the shares of common stock underlying the Series C Preferred Stock and will not have voting or dispositive power of such shares of common stock, the shares of common stock underlying the Series C Preferred Stock are not included in the table. Mr. Eggemeyer is a managing principal of Castle Creek Capital IV LLC which is the sole general partner of CC Fund IV and may be deemed to have voting and/or investment control of the securities held by CC Fund IV and may be deemed to have voting and/or investment control of the securities held by CC Fund IV. Mr. Eggemeyer disclaims beneficial ownership of the securities held by CC Fund IV, except to the extent of his pecuniary interest therein.
7. Includes 3,000 shares in a trust account held by Ms. Ford.
8. Includes 12,750 restricted shares held by Mr. Kaczmarek and 41,000 shares held in a personal Individual Retirement Account. Mr. Kaczmarek individually owns 38,250 shares. Mr. Kaczmarek was awarded 51,000 restricted shares of the Company common stock pursuant to the terms of a Restricted Stock Agreement, dated March 17, 2005, of which 12,750 shares were still restricted at February 15, 2011. Under the terms of the Restricted Stock Agreement, the restricted shares will vest 25% per year at the end of years three, four, five and six, provided Mr. Kaczmarek is still with the Company, subject to accelerated vesting upon termination without cause, change of control, termination by Mr. Kaczmarek for good reason (each as defined in his employment agreement), death or disability. Mr. Kaczmarek has the right to vote the shares prior to the time they vest.
9. Includes 5,388 shares held by Mr. Kawamoto in a personal Individual Retirement Account.
10. Includes 34,679 shares held by Mr. Lefanowicz in a personal Individual Retirement Account, 10,000 shares held by his spouse, and 5,726 shares held by the Lefanowicz Family Trust. Mr. Lefanowicz has advised the Company that he does not intend to stand for re-election at the 2011 Annual Meeting.
11. Includes 4,980 shares held by Mr. McGovern in a personal Individual Retirement Account.
12. Includes 18,295 shares held by Mr. Moles' spouse.
13. Mr. Ong retired from the Company on December 31, 2010.
14. Includes 12,675 shares held by Mr. Polanen in a personal Individual Retirement Account and 1,623 shares held by his spouse.
- 15.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Includes 150 shares held by Mr. Toeniskoetter's spouse, and 11,000 shares held by the Toeniskoetter & Breeding, Inc. Profit Sharing Plan.

16.

Mr. Wycoff is one of the general partners of Patriot Financial Partners GP, L.P. ("Patriot GP"). Patriot GP is the general partner of Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P. (together, the "Funds"). Patriot Financial Partners GP, LLC ("Patriot LLC") is the general partner of Patriot GP. Mr. Wycoff is a member of Patriot LLC. Accordingly, securities owned by the Funds may be regarded as being beneficially owned by Mr. Wycoff. Mr. Wycoff disclaims beneficial ownership of the securities owned by the Funds, except to the extent of his pecuniary interest therein.

Table of Contents

17. OZ Management LP, a Delaware limited partnership ("OZ Management"), is the investment manager for OZ Master Fund, Ltd. ("Master Fund") and exercises voting and dispositive power over the shares held by Master Fund. Och-Ziff Holding Corporation, a Delaware Corporation ("Holding Corporation"), serves as the general partner of OZ Management. Och-Ziff Capital Management Group LLC, a Delaware limited liability company ("Capital Management"), is the sole shareholder of Holding Corporation and as such it may be deemed to control Holding Corporation. Mr. Daniel Och is chief executive officer of Capital Management and may be deemed to control such entity. Master Fund holds 2,182,987 shares of common stock. OZ Management and Capital Management have beneficial ownership of 230,188 additional shares. The address for each of these entities except Master Fund is 9 West 57th Street, 39th Floor, New York, NY 10019. The address for Master Fund is Goldman Sachs (Cayman) Trust, Limited, P.O. Box 896, G.T. Harbour Centre, Second Floor, North Church Street, George Town, Grand Cayman, Cayman Islands. All of the foregoing information has been obtained from Schedule 13G filed with the SEC on February 14, 2010, by each of these entities.
18. Includes 2,213,000 shares of common stock held by Patriot Financial Partners, L.P. and 382,000 shares of common stock held by Patriot Financial Partners Parallel, L.P. Patriot Financial Partners GP, L.P. ("Patriot GP") is a general partner of each Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P. (together, the "Funds") and Patriot Financial Partners GP, LLC ("Patriot LLC") is a general partner of Patriot GP. In addition, each of W. Kirk Wycoff, Ira M. Lubert and James J. Lynch are general partners of the Funds and Patriot GP and members of Patriot LLC. Accordingly, securities owned by the Funds may be regarded as being beneficially owned by Patriot GP, Patriot LLC and each of W. Kirk Wycoff, Ira M. Lubert and James J. Lynch. Mr. Wycoff, Mr. Lubert and Mr. Lynch each disclaim beneficial ownership of the securities owned by the Funds, except to the extent of their respective pecuniary interest therein. The Funds also own 8,043 shares of Series C Preferred Stock which is convertible into 2,145,000 shares of common stock following transfer to third parties in a widely dispersed offering. Since the Funds do not have the right to acquire these shares of common stock underlying the Series C Preferred Stock and will not have voting or dispositive power of such shares of common stock, the shares of common stock underlying the Series C Preferred Stock are not included in the table. The address for Patriot Financial Group is Cira Centre, 2929 Arch Street, 27th Floor, Philadelphia, PA 19104-2868. All of the foregoing information has been obtained from Schedule 13D filed with the SEC on June 25, 2010.
19. The Company's Employee Stock Ownership Plan owns 147,480 shares of our common stock all of which have been allocated. These include shares held for the account of the following named executive officers and included in the table for: Mr. Kaczmarek 1,784 shares, Mr. McGovern 5,221 shares, Mr. Ong 24 shares, Mr. Parker 1,505 shares, and zero shares for Mr. Kawamoto. Mr. Kaczmarek and Mr. McGovern are two of the three trustees of the Employee Stock Ownership Plan. As trustees, they have the power to vote any unallocated shares of Employee Stock Ownership Plan (currently no shares are unallocated) and allocated shares for which voting instructions are not otherwise provided.

Table of Contents

CORPORATE GOVERNANCE AND BOARD MATTERS

The Board of Directors is committed to good business practices, transparency in financial reporting and the highest level of corporate governance. To that end, the Board continually reviews its governance policies and practices, as well as the requirements of the Sarbanes-Oxley Act of 2002 and the listing standards of The NASDAQ Stock Market, to help ensure that such policies and practices are compliant and up to date.

Board of Directors

Board Independence

Ten (10) out of eleven (11) members of the Board of Directors are independent directors, as defined by the applicable rules and regulations of The NASDAQ Stock Market, as follows:

Frank G. Bisceglia
Jack W. Conner, Chairman of the Board
John M. Eggemeyer
Celeste V. Ford
Mark E. Lefanowicz
Robert T. Moles
Humphrey P. Polanen
Charles J. Toeniskoetter
Ranson W. Webster
W. Kirk Wycoff

Mr. Lefanowicz has advised the Company that he does not intend to stand for re-election at the 2011 Annual Meeting.

Board and Committee Meeting Attendance

During the fiscal year ended December 31, 2010, our Board of Directors held a total of 20 meetings. Each incumbent director who was a director during 2010 attended at least 75% of the aggregate of (a) the total number of such meetings and (b) the total number of meetings held by all committees of the Board on which such director served.

Director Attendance at Annual Meetings of Shareholders

The Board believes it is important for all directors to attend the Annual Meeting of Shareholders in order to show their support for the Company and to provide an opportunity for shareholders to communicate any concerns to them. The Company's policy is to encourage, but not require, attendance by each director at the Company's Annual Meeting of Shareholders. All of our directors at the time of our Annual Meeting of Shareholders in 2010 were in attendance.

Communications with the Board

Shareholders may communicate with the Board of Directors, including a committee of the Board or individual directors, by writing to the Corporate Secretary, Heritage Commerce Corp, 150 Almaden Boulevard, San Jose, California 95113. Each communication from a shareholder should include the following information in order to permit shareholder status to be confirmed and to provide an address to forward a response if deemed appropriate:

The name, mailing address and telephone number of the shareholder sending the communication; and

Table of Contents

If the shareholder is not a record holder of our common stock, the name of the record holder of our common stock beneficially owned must be identified along with the shareholder.

Our Corporate Secretary will forward all appropriate communications to the Board or individual members of the Board specified in the communication. Our Corporate Secretary may (but is not required to) review all correspondence addressed to the Board or any individual member of the Board, for any inappropriate correspondence more suitably directed to management. Communications may be deemed inappropriate for this purpose if it is reasonably apparent from the face of the correspondence that it relates principally to a customer dispute. Our policies regarding the handling of security holder communications were approved by a majority of our independent directors.

Nomination of Directors

The Company has a Corporate Governance and Nominating Committee. The duties of the Corporate Governance and Nominating Committee include the recommendation of candidates for election to the Company's Board of Directors.

The Corporate Governance and Nominating Committee's minimum qualifications for a director are persons of high ethical character who have both personal and professional integrity, which is consistent with the image and values of the Company. The Corporate Governance and Nominating Committee considers some or all of the following criteria in considering candidates to serve as directors:

commitment to ethical conduct and personal and professional integrity as evidenced through the person's business associations, diversity, service as a director or executive officer or other commitment to ethical conduct and personal and professional integrity as evidenced in organizations and/or education;

objective perspective and mature judgment developed through business experiences and/or educational endeavors;

the candidate's ability to work with other members of the Board of Directors and management to further our goals and increase stockholder value;

the ability and commitment to devote sufficient time to carry out the duties and responsibilities as a director;

demonstrated experience at policy making levels in various organizations and in areas that are relevant to our activities;

the skills and experience of the potential nominee in relation to the capabilities already present on the Board of Directors;
and

such other attributes, including independence, relevant in constituting a board that also satisfies the requirements imposed by the SEC and The NASDAQ Stock Market.

The Corporate Governance and Nominating Committee does not have a separate policy for consideration of any director candidates recommended by shareholders. Instead, the Corporate Governance and Nominating Committee considers any candidate meeting the requirements for nomination by a shareholder set forth in the Company's Bylaws (as well as applicable laws and regulations) in the same manner as any other director candidate. The Corporate Governance and Nominating Committee believes that requiring shareholder recommendations for director candidates to comply with the requirements for nominations in accordance with the Company's Bylaws ensures that the Corporate Governance and Nominating Committee receives at least the minimum information necessary for it to begin an appropriate evaluation of any such director nominee.

The Corporate Governance and Nominating Committee will consider director nominees recommended by shareholders who adhere to the following procedure. The Company's Bylaws provide

Table of Contents

that any shareholder must give written notice to the President of the Company of an intention to nominate a director at a shareholder meeting. Notice of intention to make any nominations shall be made in writing and shall be delivered or mailed to the President of the Company not less than 21 days, nor more than 60 days, prior to any meeting of shareholders called for the election of directors; provided, however, that if less than 21 days' notice is given to shareholders, such notice of intention to nominate shall be mailed or delivered to the President of the Company no later than the close of business on the tenth day following the day on which the notice of such meeting is sent by third class mail (if permitted by law), and no notice of intention to make nominations shall be required. The notification must contain the following information to the extent known to the notifying shareholder: (i) the name and address of each proposed nominee; (ii) the principal occupation of each proposed nominee; (iii) the number of shares of capital stock of the corporation owned by each proposed nominee; (iv) the name and residence address of the notifying shareholder; (v) the number of shares of capital stock of the corporation owned by the notifying shareholder; (vi) the number of shares of capital stock of any bank, bank holding company, savings and loan association or other depository institution owned beneficially by the nominee or by the notifying shareholder and the identities and locations of any such institutions; (vii) whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy or been adjudicated bankrupt; and (viii) a statement regarding the nominee's compliance with Section 2.3 of the Bylaws (see below).

Nominees for the Board of Directors must also meet certain qualifications set forth in Section 2.3 of our Bylaws, which prohibit the election as a director of any person who is a director, executive officer, branch manager or trustee for any unaffiliated commercial bank, savings bank, trust company, savings and loan association, building and loan association, industrial bank or credit union that is engaged in business in (i) any city, town or village in which the Company or any affiliate or subsidiary thereof has offices, or (ii) any city, town or village adjacent to a city, town or village in which the Company or any affiliate or subsidiary thereof has offices.

In addition, under the Company's Written Agreement with its regulators, any nominee for election or appointment to the Board of Directors who is not currently a director must obtain prior approval from the Board of Governors of the Federal Reserve before appointment or election to the Board of Directors.

In connection with the Company's June 2010 private placement, Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P. (collectively referred to herein as "Patriot") and Castle Creek Capital Partners IV, L.P. ("Castle Creek") obtained the right to representation on our Board of Directors (one for Patriot, collectively, and one for Castle Creek). Patriot and Castle Creek are each entitled to nominate one person to be elected or appointed to our Board (and the Board of Directors of Heritage Bank of Commerce) subject to receipt of applicable regulatory approvals, satisfaction of all legal and governance requirements regarding service as a director of the Company and Heritage Bank of Commerce and the reasonable approval of the Governance and Nominating Committee of our Board. So long as each of Patriot and Castle Creeks (along with their affiliate funds) holds at least 4.9% of all outstanding shares of our common stock (counting for such purposes all shares of common stock into which shares of Series C Preferred Stock convertible or exercisable and excluding as shares owned and outstanding shares of common stock issued by the Company after June 2010), the Company will be required to recommend to its shareholders the election of Patriot's and Castle Creek's Board representative at the Company's Annual Meeting, subject to satisfaction of all legal and governance requirements regarding service as a director of the Company and to the reasonable approval of the Governance and Nominating Committee and the Board. Each of the Board representatives may serve on any of the Board committees, except the Audit Committee, so long as the Board representative qualifies to serve on such committees under applicable rules of The NASDAQ Stock Market, bank regulatory guidelines, and the Company's corporate governance guidelines. For so long as Castle Creek and Patriot are entitled to a Board representative but do not have a Board representative serving on the Board, these investors will be entitled to designate one Board observer subject to applicable legal requirements. The rights to a Board representative and Board

Table of Contents

observer privileges are personal to Patriot and Castle Creek, respectively, and such rights are not transferable. The Patriot Board representative was W. Kirk Wycoff and the Castle Creek Board representative was John M. Eggemeyer. The Corporate Governance and Nominating Committee has recommended the election of Mr. Wycoff and Mr. Eggemeyer as directors at the 2011 Annual Meeting.

Under the terms of the Company's outstanding Series A Preferred Stock issued to the U.S. Treasury, if the Company fails to pay dividends on the Series A Preferred Stock for a total of six quarters, whether or not consecutive, the U.S. Treasury will have the right to appoint two members to the Company's Board of Directors. These directors would serve on the Company's Board of Directors until such time as the Company has paid in full all dividends not previously paid. In February 2011, we suspended payment of dividends for the sixth consecutive quarter. The Company has not been advised if or when the U.S. Treasury intends to exercise its rights to have two persons appointed to the Board of Directors. However, effective in January 2011, the Company has permitted the U.S. Treasury to allow an observer employed by the U.S. Treasury to attend meetings of the Company's Board of Directors.

Diversity of the Board of Directors

In considering diversity of the Board (in all aspects of that term) as a criteria for selecting nominees in accordance with its charter, the Corporate Governance and Nominating Committee takes into account various factors and perspectives, including differences of viewpoint, high quality business and professional experience, education, skills and other individual qualities and attributes that contribute to Board heterogeneity, as well as race, gender and national origin. The Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Committee seeks persons with leadership experience in a variety of contexts and industries. The Committee believes that this expansive conceptualization of diversity is the most effective means to implement Board diversity. The Corporate Governance and Nominating Committee will assess the effectiveness of this approach as part of its annual review of its charter.

Term of Office

Directors serve for a one-year term or until their successors are elected. The Board does not have term limits, instead preferring to rely upon the evaluation procedures described herein as the primary methods of ensuring that each director continues to act in a manner consistent with the best interests of the shareholders and the Company.

Number and Composition of Board Committees

The Board may delegate portions of its responsibilities to committees of its members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. Our Board has six standing committees: Audit Committee, Corporate Governance and Nominating Committee, Compensation Committee, Loan Committee, Finance and Investment Committee, and Strategic Issues Committee. An independent director, as defined by the applicable rules and regulations of The NASDAQ Stock Market, chairs the Board and its other standing committees. The Chair determines the agenda, the frequency and the length of the meetings and receives input from Board members.

Executive Sessions

Independent directors meet in executive sessions throughout the year including meeting annually to consider and act upon the recommendation of the Compensation Committee regarding the compensation and performance of the Chief Executive Officer.

Table of Contents

Evaluation of Board Performance

A Board assessment and director self-evaluations are conducted annually in accordance with an established evaluation process and includes performance of committees. The Corporate Governance and Nominating Committee oversees this process and reviews the assessment and self-evaluation with the full Board.

Management Performance and Compensation

The Compensation Committee reviews and approves the Chief Executive Officer's evaluation of the top management team on an annual basis. The Board (largely through the Compensation Committee) evaluates the compensation plans for senior management and other employees to ensure they are appropriate, competitive and properly reflect objectives and performance.

Director Stock Ownership Guidelines

In 2009, the Board adopted a policy that each future member of the Board is expected to hold, at a minimum, 10,000 shares of the Company's common stock. Any director not meeting the minimum level as of the effective date of their election to the Board has three years to bring his or her holdings up to this minimum level.

Code of Ethics

The Board expects all directors, as well as officers and employees, to display the highest standard of ethics, consistent with the principles that have guided the Company over the years.

The Board has adopted an Executive and Principal Financial Officers Code of Ethics that applies to the Chief Executive Officer, Chief Financial Officer and the senior financial officers of the Company to help ensure that the financial affairs of the Company are conducted honestly, ethically, accurately, objectively, consistent with generally accepted accounting principles and in compliance with all applicable governmental law, rules and regulations. We will disclose any amendment to, or a waiver from a provision of our Code of Ethics on our website. The Executive and Principal Financial Officers Code of Ethics is available on our website at www.heritagecommercecorp.com.

Reporting of Complaints/Concerns Regarding Accounting or Auditing Matters

The Company's Board of Directors has adopted procedures for receiving and responding to complaints or concerns regarding accounting and auditing matters. These procedures were designed to provide a channel of communication for employees and others who have complaints or concerns regarding accounting or auditing matters involving the Company.

Employee concerns may be communicated in a confidential or anonymous manner to the Audit Committee of the Board. The Audit Committee Chairman will make a determination on the level of inquiry, investigation or disposal of the complaint. All complaints are discussed with the Company's senior management and monitored by the Audit Committee for handling, investigation and final disposition. The Chairman of the Audit Committee will report the status and disposition of all complaints to the Board of Directors.

Table of Contents*Executive Officers of the Company*

Set forth below is certain information with respect to the executive officers of the Company:

| Name | Age | Position | Officer Since |
|-----------------------------|------------|--|----------------------|
| William J. Del Biaggio, Jr. | 69 | Executive Vice President/Marketing & Community Relations | 2004 |
| Margaret A. Incandela | 46 | Executive Vice President & Chief Credit Officer | 2009 |
| Walter T. Kaczmarek | 59 | President and Chief Executive Officer | 2005 |
| Dan T. Kawamoto | 60 | Executive Vice President & Chief Administrative Officer | 2009 |
| Lawrence D. McGovern | 56 | Executive Vice President & Chief Financial Officer | 1998 |
| Raymond Parker | 61 | Executive Vice President/Banking Division | 2005 |

William J. Del Biaggio, Jr. has been with the Company since 1994 serving in various executive positions, since 2006. Mr. Del Biaggio, Jr. has served as an Executive Vice President. He is a former member of the Board of Directors.

Margaret A. Incandela re-joined the Company in January 2009 as a Senior Vice President. In 2010 she was promoted to Executive Vice President/Credit Risk Management, and in January 2011 she was further promoted to Chief Credit Officer. Prior to joining the Company, Ms. Incandela served as Senior Vice President and Chief Credit Officer of Diablo Valley Bank from 2006 through its acquisition by the Company in 2007, and continued in the role of Senior Credit Officer for the Diablo Valley region through 2008. From 2003 to 2005, Ms. Incandela was the Executive Vice President and Chief Credit Officer of CIB Bancshares, Inc. She has been working in the banking industry for over 24 years.

Biographical information for Walter T. Kaczmarek is found under "Proposal 1 Election of Directors."

Dan T. Kawamoto has served as Executive Vice President and Chief Administrative Officer of the Company since July, 2009. He was the Executive Vice President and Chief Financial Officer of 1st Century Bancshares, Inc. from February, 2007 to July, 2009. Prior to that, he was at Comerica Bank Western Market as its Executive Vice President Personal Financial Services from 1997 to 2007, and as its Chief Financial Officer from 1991 to 2003. Mr. Kawamoto was an audit partner for six years with Ernst & Young LLP prior to joining Comerica Bank in 1991.

Lawrence D. McGovern has served as Executive Vice President and Chief Financial Officer of the Company since July, 1998.

Raymond Parker has served as Executive Vice President of Heritage Bank of Commerce/Banking Division since May, 2005. From January, 2005 until joining Heritage Bank of Commerce, Mr. Parker served as a consultant and then a director to Exadel, Inc. From February, 2000 through May, 2002, Mr. Parker served as the President and Chief Executive Officer of Loan Excel, Inc. From 1974 through 1999, he was employed in various capacities by Union Bank of California, including Executive Vice President of the Commercial Banking Group.

Table of Contents

INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors

The Board of Directors oversees our business and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through, among other things, discussions with the Chief Executive Officer, other key executives and our principal outside advisors (legal counsel, outside auditors, and other consultants), by reading reports and other materials that we send them and by participating in Board and committee meetings.

The Company's Bylaws currently permit the number of Board members to range from 9 to 15, leaving the Board authority to fix the exact number of directors within that range. The Board has currently fixed the number of directors at 11.

Board Leadership Structure

The Board of Directors is committed to maintaining an independent Board, and for many years a majority of the Board has been comprised of independent directors. It has further been the practice of the Company to separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. The Chief Executive Officer is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company. The Chairman of the Board provides guidance to the Chief Executive Officer, sets the agenda for Board meetings, presides over meetings of the full Board (including executive sessions), and facilitates communication among the independent directors and between the independent directors and the Chief Executive Officer. The Board further believes that the separation of the duties of the Chief Executive Officer and the Chairman of the Board eliminates any inherent conflict of interest that may arise when the roles are combined, and that an independent director who has not served as an executive of the Company can best provide the necessary leadership and objectivity required as Chairman of the Board.

Board Authority for Risk Oversight

The Board has ultimate authority and responsibility for overseeing risk management of the Company. The Board monitors, reviews and reacts to material enterprise risks identified by management. The Board receives specific reports from executive management on financial, credit, liquidity, interest rate, capital, operational, legal and regulatory compliance and reputation risks and the degree of exposure to those risks. The Board helps ensure that management is properly focused on risk by, among other things, reviewing and discussing the performance of senior management and business line leaders.

Board committees have responsibility for risk oversight in specific areas. The Audit Committee oversees financial, accounting and internal control risk management policies. The Company's internal Risk Management Steering Committee reports directly to the Audit Committee. The Risk Management Steering Committee is responsible for monitoring the Company's overall risk program. The Audit Committee receives quarterly reports from the Risk Management Steering Committee and the Company's internal audit department. The Audit Committee reports periodically to the Board on the effectiveness of risk management processes in place and the overall risk assessment of the Company's activities. The Compensation Committee assesses and monitors risks in the Company's compensation program. The Corporate Governance and Nominating Committee recommends director candidates with appropriate experience and skills who will set the proper tone for the Company's risk profile and provide competent oversight over our material risks.

Table of Contents

The Committees of the Board

The Board may delegate portions of its responsibilities to committees of its members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. Our Board has six standing committees: the Audit Committee, Corporate Governance and Nominating Committee, Compensation Committee, Loan Committee, Finance and Investment Committee, and Strategic Issues Committee.

Audit Committee. The Company has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee charter adopted by the Board sets out the responsibilities, authority and specific duties of the Audit Committee. The Audit Committee charter is available on the Company's website at www.heritagecommercecorp.com.

The responsibilities of the Audit Committee include the following:

Oversight of our financial, accounting and reporting process, our system of internal accounting and financial controls, and our compliance with related legal and regulatory requirements.

The appointment, compensation, retention and oversight of our independent auditors, including conducting a review of their independence, reviewing and approving the planned scope of our annual audit, overseeing the independent auditors' work, and reviewing and pre-approving any audit and non-audit services that may be performed by them.

Review with management and our independent auditors the effectiveness of our internal controls over financial reporting.

Approve the scope and engagement of external audit services and review significant accounting policies and adjustments recommended by the independent auditors and address any significant, unresolved disagreements between the independent auditors and management.

Review and discuss the annual audited financial statements with management and the independent auditors prior to publishing the annual report and filing the Annual Report on Form 10-K with the SEC.

Review and discuss with management and the independent auditors any significant changes, significant deficiencies and material weaknesses regarding internal controls over financial reporting required by the Sarbanes-Oxley Act of 2002. Oversee the corrective action taken to mitigate any significant deficiencies and material weaknesses identified.

Review with management and the independent auditors the effect of significant regulatory and accounting initiatives, changes, and pronouncements as well as significant and unique transactions and financial relationships.

Review with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, and receive and discuss with the independent auditors disclosures regarding the auditors' independence.

Oversee the internal audit function and the audits directed under its auspices.

Establish policies to ensure all non-audit services provided by the independent auditors are approved prior to work being performed.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Oversee and report to the full Board on the effectiveness of the Company's risk management processes and overall risk assessment of the Company's activities.

Each member of the Audit Committee meets the independence criteria as defined by applicable rules and regulations of the SEC for audit committee membership and is independent and is "financially

Table of Contents

sophisticated" as defined by the applicable rules and regulations of The NASDAQ Stock Market. The members of the Audit Committee are Celeste V. Ford, Mark E. Lefanowicz, and Humphrey P. Polanen (Committee Chair). The Audit Committee met 9 times during 2010.

During 2010 the Board of Directors determined that Mr. Mark E. Lefanowicz has: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal control over financial reporting; and (v) an understanding of audit committee functions.

Therefore, in 2010 the Board determined that Mr. Lefanowicz meets the definition of "audit committee financial expert" under the applicable rules and regulations of the SEC and is "financially sophisticated" as defined by the applicable rules and regulations of The NASDAQ Stock Market. The designation of a person as an audit committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933. The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other audit committee member or any other director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

Mr. Lefanowicz has advised the Company that he does not intend to stand for re-election at the 2011 Annual Meeting. The Committee will designate another of its members as the "audit committee financial expert" following the Annual Meeting.

The Audit Committee Report for 2010 appears on page 57 of this proxy statement.

Compensation Committee. The Company has a separately designated Compensation Committee, which consists entirely of independent directors as defined by the applicable rules and regulations of The NASDAQ Stock Market. The Compensation Committee has adopted a charter, which is available on the Company's website at www.heritagecommercecorp.com. The Compensation Committee has the following responsibilities:

- Review and approve our compensation philosophy.
- Review industry compensation practices and our relative compensation positioning.
- Approve compensation paid to our Chief Executive Officer and other executive officers.
- Review and approve the Compensation Discussion and Analysis appearing in our proxy statement.
- Review director compensation programs, plans and awards.
- Administer our short-term and long-term executive incentive plans and stock or stock-based plans.
- Review and approve general employee welfare benefit plans and other plans on an as needed basis.
- Retain advisors in its sole discretion to assist the Compensation Committee in the performance of its directors.
- Perform the various reviews required by the U.S. Treasury Capital Purchase Program.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

The members of the Compensation Committee are Frank G. Bisceglia, Celeste V. Ford, Robert T. Moles (Committee Chair) and Ranson W. Webster. The Committee met 8 times in 2010.

Corporate Governance and Nominating Committee. The Company has a separately designated Corporate Governance and Nominating Committee, which consists of entirely independent directors as defined by the applicable rules and regulations of The NASDAQ Stock Market. The Corporate

Table of Contents

Governance and Nominating Committee has adopted a charter, which is available on the Company's website at www.heritagecommercecorp.com.

The purposes of the Corporate Governance and Nominating Committee include the following responsibilities:

Identifying individuals qualified to become Board members and making recommendations to the full Board of candidates for election to the Board.

Recommending to the Board corporate governance guidelines.

Leading the Board in an annual review of its performance.

Recommending director appointments to Board committees.

The members of the Corporate Governance and Nominating Committee are Robert T. Moles, Humphrey P. Polanen, Charles J. Toeniskoetter, and Ranson W. Webster (Committee Chair). The Committee met 9 times in 2010.

Finance and Investment Committee. The Finance and Investment Committee is responsible for the development of policies and procedures related to liquidity and asset-liability management, supervision of the Company's investments and preparation of the Company's annual budget. The members of the Finance and Investment Committee are Frank G. Bisceglia, Jack W. Conner (Committee Chair), John M. Eggemeyer, Walter T. Kaczmarek, Mark E. Lefanowicz, and W. Kirk Wycoff. The Finance and Investment Committee met 12 times during 2010.

Loan Committee. The Loan Committee is responsible for the approval and supervision of loans and the development of the Company's loan policies and procedures. The members of the Loan Committee are Frank G. Bisceglia (Committee Chair), Walter T. Kaczmarek, Robert T. Moles, Charles J. Toeniskoetter, and W. Kirk Wycoff. The Loan Committee met 45 times during 2010.

Strategic Issues Committee. The principal duties of the Strategic Issues Committee are to provide oversight and guidance to senior management regarding the strategic direction of the Company, including development of overall strategic business plan. The members of the Strategic Issues Committee are Jack W. Conner, John M. Eggemeyer, Walter T. Kaczmarek, Charles J. Toeniskoetter (Committee Chair), and Ranson W. Webster. The Strategic Issues Committee met 4 times during 2010.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities. They are required by SEC rules and regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our executive officers and directors were complied with during the year ended December 31, 2010.

Transactions with Management

Some of the Company's directors and executive officers, as well as other related persons (as defined under "Policies and Procedures for Approving Related Party Transactions" below), are customers of, and have had banking transactions with, the Company's subsidiary, Heritage Bank of Commerce, in the ordinary course of business, and Heritage Bank of Commerce expects to have such ordinary banking

Table of Contents

transactions with these persons in the future. In the opinion of the management of the Company and Heritage Bank of Commerce, all loans and commitments to lend included in such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual directors, officers and related persons must comply with Heritage Bank of Commerce's lending policies and statutory lending limits. In addition, prior approval of Heritage Bank of Commerce's Board of Directors is required for all loans advanced to directors and executive officers. As of December 31, 2010, Heritage Bank of Commerce had no loans outstanding to directors, executive officers and other related persons.

Policies and Procedures for Approving Related Party Transactions

The Board of Directors has adopted a written Statement of Policy with Respect to Related Party Transactions. Under this policy, any "related party transaction" may be consummated or may continue only if the Audit Committee approves or ratifies the transaction in accordance with the guidelines in the policy and if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party. For purposes of this policy, a "related person" means: (i) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company; (ii) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; (iii) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and (iv) any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner, principal or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

A "related party transaction" is a transaction between the Company and any related person (including any transaction requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934).

The Board of Directors has determined that the Audit Committee is best suited to review and approve related party transactions. Accordingly, at each calendar year's first regularly scheduled Audit Committee meeting, management shall recommend related party transactions to be entered into by the Company for that calendar year, including the proposed aggregate value of such transactions if applicable. After review, the Committee shall approve or disapprove such transactions and, at each subsequently scheduled meeting, management shall update the Committee as to any material change to those proposed transactions. The Committee shall consider all of the relevant facts and circumstances available to the Committee, including (if applicable) but not limited to: the benefits to the Company; the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. No member of the Audit Committee may participate in any review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person. The Committee will approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders, as the Committee determines in good faith. The Audit Committee shall convey the decision to the Chief Executive Officer, who shall convey the decision to the appropriate persons within the Company. In the event management recommends any further related party transactions subsequent to the first calendar year meeting, such transactions may be presented to the Audit Committee

Table of Contents

for approval or preliminarily entered into by management subject to ratification by the Audit Committee; provided that if ratification shall not be forthcoming, management shall make all reasonable efforts to cancel or annul such transaction.

Compensation Discussion and Analysis

The Compensation Committee of the Board of Directors has responsibility for establishing, implementing and continually monitoring the compensation structure, policies and programs of the Company. The Compensation Committee is responsible for assessing and approving the total compensation structure paid to the Chief Executive Officer and the other executive officers. Thus, the Compensation Committee is responsible for determining whether the compensation paid to each of these executive officers is fair, reasonable and competitive, and whether it serves the interests of the Company's shareholders.

The individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during 2010, as well as the other individuals included in the Summary Compensation Table, are referred to as the "named executive officers." This Compensation Discussion and Analysis identifies the Company's current compensation philosophy and objectives and describes the various methodologies, policies and practices for establishing and administering the compensation programs for our executives including the named executive officers.

The Company and the Compensation Committee believe our compensation philosophy, policies and objectives outlined within this Compensation Discussion and Analysis are appropriately designed to allow us to effectively compensate our employees both during times of positive performance and in times of weak performance. Consistent with our performance based philosophy and objectives, and in view of the poor and deteriorating general economic conditions that began in 2008, none of our named executive officers received a salary increase in 2010, except our Chief Financial Officer and no bonuses were paid or stock awards issued to the named executive officers in 2008, 2009 or 2010 (except stock options issued to two named executive officers when they joined the Company.)

Effect of the Emergency Economic Stabilization Act of 2008 and American Recovery and Reinvestment Act of 2009

In October, 2008, the Department of the Treasury ("U.S. Treasury") established the Troubled Asset Relief Program ("TARP") under the Emergency Economic Stabilization Act of 2008, as amended ("EESA"). EESA provided immediate authority and facilities that the Secretary of the U.S. Treasury could use to restore liquidity and stability to the financial system. The U.S. Treasury implemented the Capital Purchase Program under TARP to make preferred stock investments in participating financial institutions.

We participated in the Capital Purchase Program in November 2008 by selling preferred stock and common stock purchase warrants to the U.S. Treasury. We participated in the Capital Purchase Program so that we could continue to lend and support our current and prospective customers and further strengthen our capital base. As a result, we became subject to certain executive compensation requirements under EESA, U.S. Treasury regulations, and the contract pursuant to which we sold such preferred stock.

On February 13, 2009, Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA"), which the President signed into law on February 17, 2009. Among other things, ARRA continued the same compensation corporate governance restrictions in EESA and added substantially to them in several areas.

On June 15, 2009, the U.S. Treasury issued its Interim Final Rule promulgated pursuant to Section 111 of EESA as amended by ARRA ("Interim Final Rule"). The Interim Final Rule consolidates all of the executive compensation related provisions that are specifically directed at TARP recipients into a single rule (superseding all prior rules and guidance), and utilizes the discretion granted to the U.S.

Table of Contents

Treasury under ARRA to adopt additional standards. These standards generally applied to our senior executive officers ("SEOs"). For these purposes our SEOs are the same individuals who are our named executive officers.

Key features of ARRA and the Interim Final Rule as they apply to the Company are:

Prohibition on Bonuses. A prohibition of the payment of any "bonus, retention award, or incentive compensation" to the five most highly compensated employees for as long as any Capital Purchase Program related obligations are outstanding. A "bonus" under the rules includes the issuance of stock options.

Restricted Stock with Cliff Vesting. "Long-term" restricted stock is excluded from ARRA's bonus prohibition, but only to the extent the value of the stock does not exceed one-third of the total amount of annual compensation of the employee receiving the stock. The stock may "fully vest" only as the Capital Purchase Program obligations have been satisfied, subject to several exemptions, and the stock must be forfeited if the employee does not continue performing substantial services for the Company for at least two years from the date of grant.

Golden Parachutes. Prohibition on making any severance/golden parachute payments (defined as any payment without regard to the amount of such payment) to any SEO or any of the next five most highly compensated employees upon termination of employment for any reason (except death or disability) or any payment due to a change in control. A golden parachute payment does not include any payment made for services performed or benefits accrued such as normal retirement benefits.

Clawback. Recovery of any bonus or other incentive payments paid to any SEO or the next 20 most highly compensated employees that were made based on financial statements or other criteria that are later found to be materially inaccurate.

Tax Gross-Ups. Prohibition on the payment of any "gross-up" to any SEO or the next twenty most highly compensated employees. A gross-up means any reimbursement of taxes owed with respect to any compensation (except for a tax equalization agreement relating to foreign compensation).

SEO Compensation Plans that Encourage Unnecessary Risk-Taking. Prohibition on executive compensation plans that encourage SEOs to take unnecessary and excessive risks that threaten the Company's value. Every six months the Compensation Committee must discuss, evaluate and review SEO compensation plans to identify and take action to limit risks that encourage focus on short-term results over long-term results.

Perquisites. Annually disclose to the U.S. Treasury and Federal Reserve Board any perquisites whose total value exceeds \$25,000 for the fiscal year paid to any of the five highest compensated employees.

Earnings Manipulation. Prohibition on compensation plans that encourage earnings manipulation. Every six months, the Compensation Committee must discuss, evaluate and review employee compensation plans to ensure they do not encourage manipulation of reported earnings to enhance employee compensation.

Limit on Tax Deduction. We contractually agreed to abide by a provision of EESA which limits our tax deduction for compensation paid to any SEO to \$500,000 annually. This provision amended the Internal Revenue Code by adding a new Section 162(m)(5), which imposes a \$500,000 deduction limit.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Certifications of CEO and CFO. A requirement that the Company's Chief Executive Officer and Chief Financial Officer provide a written certification of compliance with the executive

Table of Contents

compensation restrictions in ARRA in the Company's annual report on Form 10-K filed with the SEC.

Excessive Expenditures. Implementation of a company-wide policy regarding excessive or luxury expenditures.

The Committee believes that the foregoing restrictions on executive compensation and any further restrictions on executive compensation which may be adopted could adversely affect the Company's ability to hire, retain or motivate its executive management and other key employees, and the Committee believes the Company may face increased competition for such employees from financial institutions that are not participants in the Capital Purchase Program.

Overview of Compensation Philosophy

The Compensation Committee believes executive compensation packages provided by the Company to its executives, including the named executive officers, should include base salary, variable performance based cash/stock awards and stock based compensation in order to achieve three primary goals.

The Compensation Committee believes that the first goal of our compensation program is that a reasonable percentage of executive compensation program should be linked to the financial performance of the Company. The Compensation Committee believes that a properly structured compensation program will focus on performance to motivate and support individuals to achieve specific short-term and long-term objectives while taking into consideration potential risk implications. We achieve this goal by providing our executives the opportunity to significantly increase their annual cash compensation through our variable performance based cash/stock awards incentive program by improving the Company's performance in specified financial metrics on an annual basis. We also expect that as those improvements are maintained and built upon, the Company's stock price will reflect these improvements.

The second goal of our compensation program is to align the interests of our executive officers with the interests of our shareholders. We use stock awards (stock options and/or restricted stock) to reward the long-term efforts of management and to retain management. These equity awards serve to increase the ownership stake of our management in the Company, further aligning the interests of the executives with those of our shareholders.

The third goal of our compensation program is to attract and retain highly competent executives. Our executives, and particularly our named executive officers, are talented managers and they are often presented with opportunities at other institutions, including opportunities at potentially higher compensation levels. We seek to attract and retain our executives by setting base compensation and incentives at competitive levels and awarding stock-based awards. We also consider other forms of executive pay, including our supplemental executive retirement plan and severance arrangements (including change of control provisions) as a means to attract and retain our executive officers including the named executive officers.

We believe we should balance each of these goals. The Compensation Committee reviews our Compensation Peer Group (as described below) and other comparative survey data to determine an appropriate mix of each element of compensation. We also use our Compensation Peer Group and other comparative survey data to assess appropriate compensation levels as discussed in more detail later in this report.

Table of Contents

Compensation Program Objectives and Rewards

The components of Company's compensation and benefits programs are driven by our business environment and are designed to enable us to achieve the goals of our compensation program within a framework that adheres to the Company's mission and values. The programs' objectives are to:

Reflect our position as a leading community bank in our service areas;

Attract, engage and retain the workforce that helps ensure our future success;

Motivate and inspire employee behavior that fosters a high performance culture;

Support a one company culture;

Support overall business objectives;

Provide shareholders with a superior rate of return over the long term; and

Create shareholder value through the continuous provision of quality service to our customers.

Consequently, the guiding principles of our programs are to:

Promote and maintain a high performance banking organization;

Remain competitive in our marketplace for talent; and

Balance our compensation costs with our desire to provide value to employees and shareholders.

To this end, we will measure success of our programs by:

Overall business performance and employee engagement;

Ability to attract and retain key talent;

Costs and business risks that are limited to levels that optimize risk and return; and

Employee understanding and perceptions that ensure program value equals or exceeds program cost.

All of our compensation and benefits for our named executive officers described below have as a primary purpose our need to attract, retain and motivate the highly talented individuals who will engage in the behaviors necessary to enable us to succeed in creating shareholder value in a highly competitive marketplace. Beyond that, different elements have specific purposes designed to reward different behaviors.

Base salary and benefits are designed to:

Reward core competence in the executive role relative to skills, position and contributions to the Company; and

Provide fixed cash compensation with merit increases competitive with the market place.

Annual incentive variable cash and stock awards are designed to:

Focus employees on annual financial objectives derived from the business plan that lead to long-term success;

Provide annual variable performance based cash and stock awards to reward and motivate achievement of critical annual performance metrics selected by the Compensation Committee; and

Foster a pay for performance culture that aligns our compensation programs with our overall business strategy.

Table of Contents

Equity based compensation awards are designed to:

Link compensation rewards to the creation of shareholder wealth;

Promote teamwork by tying compensation significantly to the value of our common stock;

Attract the next generation of management by providing significant capital accumulation opportunities; and

Retain executives by providing a long-term-oriented program whose value could only be achieved by remaining with and performing for the Company.

A supplemental executive retirement plan facilitates our ability to attract and retain executives as we compete for talented employees in a marketplace where these plans are commonly offered.

Change of control and separation benefits with certain officers:

Individual employment contracts with certain executives provide for change of control and separation benefits.

Separation benefits provide benefits to ease an employee's transition due to an unexpected employment termination by the Company due to ongoing changes in the Company's employment needs.

Change in control benefits encourage key executives to remain focused on the Company's business in the event of rumored or actual fundamental corporate changes which will enhance shareholder value.

The use of these compensation programs and benefits enables us to reinforce our pay-for-performance philosophy, align our executives' interests with shareholders, and strengthen our ability to attract, retain and motivate highly qualified executives. We believe that this combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages executive recruitment and retention.

Total compensation is generally targeted at the 75th percentile of our Compensation Peer Group. We target above the median of our Compensation Peer Group because of the competition in our market for talented executives and our desire to attract and, more importantly, retain and motivate talented individuals we believe are necessary to achieve the goals and objectives of our Board of Directors.

Our programs and our ability to attract, retain and incentivize executive talent have been materially adversely affected by the requirements of EESA and ARRA and regulations by the U.S. Treasury implementing these statutes. Our inability to offer and/or pay (i) any bonus or incentive compensation (including stock options), except for cliff vesting restricted stock for only up to one third of base salary; or (ii) any severance or so-called "golden parachute" payments, regardless of the amount of the payment or reasons for termination of employment, will make it more difficult to compete for and retain executive talent in our market areas where other banks and companies in the financial services industry do not participate in the Capital Purchase Program.

Role of Compensation Committee in Determining Compensation

The Compensation Committee of the Board of Directors has strategic and oversight responsibility for the overall compensation and benefits programs of the Company. Such responsibilities include establishing, implementing, and continually monitoring the compensation structure, policies, and programs of the Company, including an assessment of the risk profile of each compensation policy and practice. The Compensation Committee is responsible for assessing and approving the total compensation paid to the Chief Executive Officer and all Executive Vice Presidents. The Compensation Committee is responsible for determining whether the compensation paid to each of these executives is fair,

reasonable and

Table of Contents

competitive, and whether the compensation program serves the interests of the Company's shareholders. The Compensation Committee is comprised of four independent directors who satisfy The NASDAQ Stock Market listing requirements and relevant Internal Revenue Service and SEC regulations on independence. The Compensation Committee's Chair regularly reports to the Board of Directors on the Compensation Committee actions and recommendations. To evaluate and administer the compensation practices of the Chief Executive Officer and other effective officers, the Compensation Committee meets a minimum of four times a year. The Compensation Committee also holds special meetings and meets telephonically to discuss extraordinary items, such as the hiring or dismissal of executive officers. For fiscal year 2010, the Compensation Committee met a total of 8 times (includes regularly scheduled Compensation Committee meetings, special meetings and telephonic meetings).

When making individual compensation decisions for executive officers, the Compensation Committee takes many factors into account, including the executive's experience, responsibilities, management abilities and job performance, overall performance of the Company, current market conditions and competitive pay for similar positions at comparable companies. In addition, the Compensation Committee reviews the relationship of various positions between departments, the affordability of desired pay levels and the importance of each position within the Company. These factors are considered by the Compensation Committee in a subjective manner without any specific formula or weighting.

The Compensation Committee relies significantly on the input and recommendations of our Chief Executive Officer when evaluating these factors relative to the compensation of executive officers, excluding his own compensation, which is set according to the terms of his employment agreement and annual review by the Board of Directors. Because the Chief Executive Officer works closely with and supervises our executive team, the Compensation Committee believes that the Chief Executive Officer provides valuable insight in evaluating their performance. Our Chief Executive Officer provides the Compensation Committee with his assessment of the performance of each named executive officer and his perspective on the factors described above in developing his recommendations for the executive's compensation, including salary adjustments, incentive bonuses, annual equity grants and equity grants awarded in conjunction with promotions. The Chief Executive Officer also provides the Compensation Committee with additional information regarding the effect, if any, of market competition and changes in business strategy or priorities. The Compensation Committee discusses our Chief Executive Officer's recommendations and then approves or modifies the recommendations in collaboration with the Chief Executive Officer.

Role of Compensation Consultants

Generally at least every two years, the Compensation Committee retains the services of an executive compensation consultant to assess the competitiveness of our compensation programs, conduct other research as directed by the Compensation Committee, and support the Compensation Committee in the design and implementation of executive and Board of Director compensation. In third quarter of 2009, the Compensation Committee retained Carl D. Jacobs Group LLC ("Jacobs Group") to assist the Compensation Committee and management in the review and assessment of multiple aspects of our compensation programs, including equity compensation practices, and short-term and long-term incentive design. In December, 2009 the Jacobs Group provided its independent analysis of the Company's executive compensation policies and practices and provided analyses on the pay practices of the Compensation Peer Group and other comparable market data. The Jacobs Group reported directly to the Compensation Committee.

Our compensation programs for executive management and our Board of Directors in 2010 took into account the review and assessment presented in the Jacobs Group 2009 report. The Compensation Committee used the results of the 2009 report in its review and deliberations about executive and Board of Director compensation issues and recommendations for 2010.

Table of Contents

2010 Executive Compensation Program

Market Positioning and Pay Benchmarking

The Compensation Committee targets base salary close to the 60th percentile of the Compensation Peer Group data for the base salaries of the Chief Executive Officer and the other named executive officers. The actual positioning of each executive officer's compensation is dependent on considerations of the executive's performance, the performance of the Company and the individual business or corporate function for which the executive is responsible, the nature and importance of the position and role within the Company, the scope of the executive's responsibility (including risk management and corporate strategic initiatives), and the individual's success in promoting our core values and demonstrating leadership.

In the third quarter of 2009, the Compensation Committee undertook a comprehensive review of the Company's compensation programs for executive officers, other elected officers, selected staff and the Board of Directors. The Jacobs Group, in consultation with the Compensation Committee, selected a peer group of financial institutions to establish a Compensation Peer Group for the 2009 report. The companies included in the Compensation Peer Group were selected from publicly traded banks in California and several from neighboring states based on: (i) compatibility of the Company based on size as measured through total assets between one and four billion dollars; (ii) similarity of their product lines and business focus; (iii) participation and non-participation in the U.S. Treasury Capital Purchase Program; and (iv) the competitive market for executive talent. The Compensation Peer Group consisted of 19 publicly traded independent community banks with the majority located in California. In addition to the Compensation Peer Group, the Jacobs Group also assembled, reviewed and compiled data from five recognized published compensation surveys. Published surveys included California banks located in our service areas as well as local area data drawn from national surveys. The Comparative Peer Group and the comparative survey data were used to benchmark executive compensation levels against banks that have executive positions with responsibilities similar in breadth and scope to ours and that compete with us for executive talent. With such information, the Compensation Committee reviewed and analyzed compensation for each executive. The Compensation Peer Group component companies used in the evaluation of the Company's compensation programs in the 2009 report for executive officers and the Board of Directors were as follows:

| | |
|----------------------------------|------------------------------|
| Bank of Marin Bancorp | Pacific Mercantile Bancorp |
| Bridge Capital Holdings | PacWest Bancorp |
| Cascade Financial Corporation | Preferred Bank |
| Center Financial Corporation | Premier West Bancorp |
| Farmers & Merchants Bancorp | Provident Financial Holdings |
| First California Financial Group | Sierra Bancorp |
| First Regional Bancorp | TriCo Bancshares |
| Heritage Oaks Bancorp | WestAmerica Bancorp |
| Nara Bancorp | Wilshire Bancorp |
| North Valley Bancorp | |

Pay Mix

We do not allocate between cash and non-cash compensation and short-term versus long-term compensation based on specific percentages. Instead, we believe that the compensation package for our executives should be generally in line with the prevailing market, consistent with each executive's level of impact and responsibility.

Table of Contents

Chief Executive Officer Compensation

The Compensation Committee meets with the other independent directors each year in an executive session without management present to evaluate the performance of the Chief Executive Officer. The Compensation Committee also confers with the Chief Executive Officer when setting his base salary. In 2010, the Compensation Committee considered management's continuing achievement of its short and long-term goals versus its strategic objectives as well as financial targets. Emphasis was also placed on performance factors of the Company's business units, along with the results of the independent consultant's analysis of the pay practices of the 2009 Compensation Peer Group, and personal performance goals established by the Compensation Committee. In view of the 2009 report, the Compensation Committee determined that the Chief Executive Officer's base salary in 2010 was 77% of the 60th percentile and his total compensation fell below the desired 75th percentile.

The Compensation Committee accepted the Chief Executive Officer's recommendation that his salary should be frozen for 2010 in response to the current economic conditions adversely affecting the Company and the financial challenges facing the Company in 2010. Consequently, the Chief Executive Officer's base salary remained at \$333,700.

Executive Base Salary

In accordance with our compensation objectives, salaries are set and administered to reflect the value of the position in the marketplace, the career experience of the individual, and the contribution and performance of the individual. Base salary is generally targeted at the 60th percentile of our Compensation Peer Group.

Although each of the named executive officers has an employment agreement with the Company, the initial base salary in each of the agreements may be increased (and has been in the past) in accordance with the Chief Executive Officer's evaluations and the Compensation Committee's evaluation of the Company's overall compensation programs and policies.

For 2010, the Compensation Committee considered the pay practices of the 2009 Compensation Peer Group and the analyses and recommendations provided by its independent consultant. In evaluation of the base salaries in 2010 for the named executive officers, the Compensation Committee also considered the minimum, mid-range and maximum salaries paid to similarly situated positions at companies in the 2009 Compensation Peer Group as well as the performance levels of the named executive officers.

In response to the economic conditions adversely affecting the Company and the financial challenges facing the Company in 2010, the Chief Executive Officer recommended that his base salary and the salaries of the other 2009 named executive officers should be frozen for 2010. The Compensation Committee accepted the recommendation. During mid-year in 2010, the Compensation Committee approved a \$10,000 increase in the base salary of Lawrence D. McGovern, the Company's Chief Financial Officer. The Compensation Committee took this action upon recommendation of the Chief Executive Officer in recognition of Mr. McGovern's superior efforts in completing the Company's June 2010 private placement and his increased duties and responsibilities resulting from the capital raise transaction.

Base salary drives the formula used in the Management Incentive Plan as discussed below under "Management Incentive Plan." Base salary is the only element of compensation that is used in determining the amount of contributions permitted under the Company's 401(k) plan.

Management Incentive Plan

We believe that a portion of the annual incentive compensation for named executive officers should be based on performance against pre-defined financial metrics and performance objectives. The Company's Management Incentive Plan ("Incentive Plan") plays a key role in fulfilling the objective. In 2010, each of our named executive officers was eligible to receive a bonus under the Incentive Plan.

Table of Contents

Annual performance bonuses are designed to focus participants on, and reward them for, the achievement of specific annual financial, strategic and/or operational objectives of the Company.

The incentive levels (as a percent of salary) are designed to provide for the achievement of threshold, target and maximum performance objectives. The financial metrics, performance objectives, and the formula for computing the performance bonus are established by the Compensation Committee early in each fiscal year.

The award opportunities under the Incentive Plan were derived in part from comparative data provided by our independent consultant and in part by the Compensation Committee's judgment on internal equity of the positions, their relative value to the Company and the desire to maintain a consistent annual incentive target for the Chief Executive Officer and the other named executive officers.

The payouts for executives under the Incentive Plan are targeted to provide aggregate cash compensation together with base salary at the 70th percentile of comparative data provided by our independent consultant when we reach our target annual financial performance ("Target"). Smaller payouts can be awarded if we reach 90% of our target annual financial performance ("Threshold").

The incentive levels assigned as a percentage of base salary for 2010 were as follows:

| Named Executive | As a percent of base salary | |
|----------------------|--------------------------------|--------|
| | Threshold | Target |
| Walter T. Kaczmarek | 15% | 33% |
| Lawrence D. McGovern | 15% | 33% |
| Dan T. Kawamoto | 15% | 33% |
| Michael R. Ong* | 15% | 33% |
| Raymond Parker | 15% | 33% |

*

Mr. Ong retired from the Company effective December 31, 2010.

Management recommends, and the Compensation Committee reviews and approves, the financial metrics for each plan year that must be met in order for awards to be paid. These financial metrics are weighted and are intended to motivate and reward eligible executives to strive for continued financial improvement of the Company, consistent with performance based compensation and increasing shareholder value. The Compensation Committee typically identifies from three to five financial metrics which may be revised from year to year to reflect current business situations.

The financial metrics selected for 2010 were net income, return on equity, non-performing assets and loan/deposit ratio. The Compensation Committee believes net income is a valid measurement in assessing how the Company is performing from a financial standpoint. Net income is an accepted accounting measure that drives earnings per share and shareholder returns over the long term. Return on equity is an accepted measure of growth and efficient use of capital. In addition, the Compensation Committee, in consultation with the Chief Executive Officer, concluded that, in view of the continual deterioration of the economy expected to occur in 2010, management should focus on credit quality and liquidity and deposit growth. The Compensation Committee believes that non-performing assets are an effective measure to monitor the Company's progress in improving its credit quality. The Company's loan to deposit ratio is a commonly used measure in the banking industry that measures liquidity as well as an indication of the Company's success in growing its deposit base.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Table of Contents

The Compensation Committee determines the weighting of financial metrics each year based upon recommendations from the senior management. For 2010, the Compensation Committee weighted the financial metrics as follow:

| | |
|-----------------------|-----|
| Net Income | 25% |
| Return on Equity | 15% |
| Non-Performing Assets | 35% |
| Loan to Deposit Ratio | 25% |

For 2010 as compared to 2009, the Company decreased the weighting for return on equity from 25% to 15% and increased non-performing assets from 25% to 35% in order to underscore management and improvement of credit quality, as primary objective for the year. Because the Committee believed that the Incentive Plan should balance risk-taking with performance, the Committee maintained a risk-based capital element to the plan. If the total risk-based capital ratio is below 11.5% at year-end 2010, bonus payments will be reduced by 50%, and if the ratio is below 10.5%, then bonuses would be reduced to zero.

Performance objectives were generally identified through our annual financial planning and budget process. Senior management developed a financial plan for 2010, and the financial plan was reviewed and approved by the Board of Directors. The Compensation Committee received recommendations from senior management for financial performance objective ranges. The "target" level equated to the approved financial plan. The "threshold" performance level was set at 90% of the target level. In making the determination of the threshold and target levels, the Compensation Committee considered specific circumstances anticipated to be encountered by the Company during the coming year. Generally, the Compensation Committee sets the threshold and target levels such that the relative difficulty of achieving the target level is consistent from year to year. The Compensation Committee believed that targets established for the Incentive Plan in 2010 were sufficiently challenging given the economic climate and the level of growth and improvement in the various financial metrics that would have to occur to meet the various performance objectives.

For 2010, performance was assessed relative to performance objectives for net income, return on equity, nonperforming assets and loan to deposit ratio. These performance objectives are shown below:

| | Threshold | Target |
|-----------------------|---------------|---------------|
| Net Income* | \$ 3,164,000 | \$ 3,516,000 |
| Return on Equity | 1.85% | 2.06% |
| Non-Performing Assets | \$ 42,200,000 | \$ 38,000,000 |
| Loan/Deposit Ratio | 100% | 95% |

*

Pre-dividends payable on the Company's preferred stock

Upon completion of the fiscal year, the Compensation Committee assesses the performance of the Company for each financial metric comparing the actual fiscal year results to the pre-determined performance objectives for each financial metric calculated with reference to the pre-determined weight accorded the financial metric, and an overall percentage amount for the award is calculated. In addition, the Compensation Committee has discretionary authority to include qualitative subjective measures which may increase or decrease an award up or down by an additional 15% of base salary. The positive discretion may be utilized to address completion of special projects, department initiatives, or favorable achievements reflected in regulatory exam results. The Compensation Committee may also use its discretion in adjusting financial metrics and performance objectives for unexpected economic conditions or changes in the business of the Company.

The Company did not reach the "threshold" or "target" performance objectives for net income or return on equity in 2010. Although the Company's non-performing assets and loan to deposit ratio metrics

Table of Contents

exceeded the target levels established by the Compensation Committee, the Compensation Committee decided not to award any bonuses to the named executive officers for 2010 performance.

Impact of Capital Purchase Program. The Incentive Plan was initially established as a cash award performance based plan. As discussed above, however, the Company's participation in the U.S. Treasury Capital Purchase Program subjects it to various limitations on executive compensation. Among these limitations is a prohibition on the payment of bonuses to the Company's five highest paid employees. Because of these limitations, bonuses, if earned, under the Incentive Plan for 2010, were payable solely in long-term restricted stock as defined by the U.S. Treasury. No bonus could exceed 33% of the named executive officer's annual compensation. Moreover, all bonuses awarded under the Incentive Plan are subject to a "clawback" policy.

Equity Based Compensation

We believe that equity based compensation should be a significant component of total executive compensation to align executive compensation with the long-term performance of the Company and to encourage executives to make value enhancing decisions for the benefit of our shareholders. Each of the named executive officers is eligible to receive equity compensation.

The Compensation Committee is responsible for determining equity grants to all staff members, including named executive officers, and in doing so considers past grants, corporate and individual performance, and recommendations of our Chief Executive Officer for staff members other than himself. Stock award levels within the established ranges were determined based on market data. The Compensation Committee has targeted the 75th percentile of the comparative data with respect to these long-term incentive awards.

The Company's Amended and Restated 2004 Equity Plan (the "Plan") (approved by our shareholders at the 2008 annual meeting) provides for the grant of non-qualified and incentive stock options, and restricted stock. The Compensation Committee approves all awards under the Plan and acts as the administrator of this Plan.

Stock options provide for financial gain derived from the potential appreciation in stock price from the date that the option is granted until the date that the option is exercised. The exercise price of stock option grants is set at fair market value on the grant date. Under the approved Plan, we may not grant stock options at a discount to fair market value or reduce the exercise price of outstanding stock options except in the case of a stock split or other similar event. We do not grant stock options with a so-called "reload" feature, nor do we loan funds to employees to enable them to exercise stock options. Stock options granted to date generally vest pro rata on a daily basis over four years and expire ten years from the grant date. Our long-term performance ultimately determines the value of stock options, because gains from stock option exercises are entirely dependent on the long-term appreciation of our stock price.

Under the U.S. Treasury executive compensation restrictions for U.S. Treasury Capital Purchase Program participants, the issuance of stock options is prohibited under the general prohibitions on bonuses for the five highest paid employees of the Company. As such, the Company has utilized long-term restricted stock, as necessary and where appropriate, to comply with the restrictions. Long-term restricted stock is permitted under the U.S. Treasury restrictions so long as it vests no sooner than in proportion to the Company's redemption of its Series A Preferred Stock held by the U.S. Treasury.

An award of restricted stock involves the immediate transfer by the Company to a participant of ownership of a specific number of shares of common stock. The restricted stock is valued at its fair market value on the date of grant. Restricted stock is subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Internal Revenue Code of 1986, as amended. Restricted stock awarded by the Compensation Committee will generally vest the later of two years from the date of grant on at such time as the Company has redeemed all its Series A Preferred Stock held by the U.S. Treasury.

Table of Contents

The Compensation Committee has established a stock option and restricted stock policy which recognizes that stock options and restricted stock have an impact on the profits of the Company under current accounting rules and also have a dilutive effect on the Company's shareholders. Accordingly, they are recognized as a scarce resource and option grants and awards of restricted stock are given the same consideration as any other form of compensation.

The Compensation Committee has established ranges for the amount of options that may be granted that depend on the individual's position with the Company and whether the option is awarded as an incentive to attract an individual, to retain an individual or to reward performance. The Compensation Committee approves primarily nonstatutory stock options instead of incentive stock options because of the tax advantages available to the Company for nonstatutory options and because employees generally do not take full advantage of the tax benefits available to them from incentive stock options.

We do not backdate options or grant options or award restricted stock retroactively. In addition, we do not plan to coordinate grants of options or awards of restricted stock so that they are made before announcement of favorable information, or after announcement of unfavorable information. The Company's options and restricted stock are granted at fair market value on a fixed date or event (the first day of service for new hires and the date of Compensation Committee approval for existing employees), with all required approvals obtained in advance of or on the actual grant date. All grants to executive officers require the approval of the Compensation Committee and the Board of Directors. Fair market value has been consistently determined as the closing price on The Nasdaq Global Select Market on the grant date. In order to ensure that an option exercise price or restricted stock date of grant valuation fairly reflects all material information, without regard to whether the information seems positive or negative, every grant of options and restricted stock is contingent upon an assurance by management and legal counsel that the Company is not in possession of material undisclosed information. If the Company is in a "black-out" period for trading under its trading policy or otherwise in possession of inside information, the date of grant is suspended until the second business day after public dissemination of the information.

The Company's general practice has been to grant options and restricted stock only on the annual grant date at the Compensation Committee and Board of Directors' regular March meeting for current staff and at any other Compensation Committee meeting (whether a regular meeting or otherwise) held on the same date as a regularly scheduled Board meeting (which are held monthly) as required to attract new staff, retain staff or recognize key specific achievements. Because of the economic downturn, particularly in the financial services industry, the Committee did not award stock awards to the named executive officers in 2008, 2009 or 2010, except to Michael Ong and Dan Kawamoto, who received stock options when they joined the Company in June 2008 and 2009, respectively.

Retirement Plans

Our Amended and Restated Supplemental Retirement Plan ("SERP") is an important element of our compensation program. We compete for executive talent in our market area where many of our competitors offer supplemental retirement plans. These types of plans have been commonly offered in the community bank industry for some time. The SERP is a nonqualified defined benefit plan and is unsecured and unfunded and there are no plan assets. When the Company offers key executives participation in the SERP, including some but not all of the named executive officers, the supplemental retirement benefit awarded is based on the individual's position within the Company and a vesting schedule determined by the desirability of incenting the retention element of the program. The participant is 100% vested in his or her benefit at normal retirement (as defined in the plan). A participant whose employment terminates after the normal retirement date will receive 100% of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following retirement (unless selected otherwise by the participant) and continuing until the death of the participant. For information on the plan, see "Supplemental Retirement Plan for Executive Officers."

Table of Contents

Prohibition on Speculation in Company Stock

Our stock trading guidelines prohibit executives from speculating in our stock, which includes, but is not limited to, short selling (profiting if the market price of the securities decreases), buying or selling publicly traded options, including writing covered calls, and hedging or any other type of derivative arrangement that has a similar economic effect.

Termination of Employment and Change in Control Provisions

The Compensation Committee believes that a change in control transaction, or potential change in control transaction, would create uncertainty regarding the continued employment of our executives. This is because many change in control transactions result in significant organizational changes, particularly at the senior executive level. In order to encourage our executives to remain employed with us during an important time when their continued employment in connection with or following a transaction is often uncertain and to help keep our executives focused on our business rather than on their personal financial security, we believe that providing certain of our executives with severance benefits upon certain terminations of employment is in the best interests of our Company and our shareholders.

The Company does not have company-wide separate change of control agreements with its executive officers. Instead, the Chief Executive Officer and most of the other named executive officers have specific change of control and severance provisions in their respective employment agreements. The Compensation Committee considers the use of change of control provisions and severance provisions on a case by case basis depending on the individual's position with the Company and the need to attract and/or retain the individuals.

The severance benefits provided for our named executive officers were determined by the Compensation Committee based on its judgment of prevailing market practices at the time each agreement was entered into. At present, we have employment agreements with Messrs. Kaczmarek, McGovern, Kawamoto, Ong, and Parker, which detail their eligibility for payments under various termination scenarios. In addition, certain equity grants made to the named executive officers provide for vesting of stock options and, in the case of Mr. Kaczmarek vesting of restricted stock, upon a change of control.

Impact of Capital Purchase Program. The change of control provisions along with the other severance arrangements provided in the employment agreements with the named executive officers have been materially adversely affected by the provisions of EESA and ARRA. Each of the named executive officers with employment agreements requires the Company to comply with the provisions of EESA and ARRA, including the limitation on the payment of golden parachute and other severance payments. We have shown the severance and/or change in control payouts that would be payable to each named executive officer if the triggering event occurred on December 31, 2009 in the "Change in Control Arrangements and Termination of Employment" section in this Proxy Statement.

Impact of Regulatory Action. Under the Company's current Written Agreement with its regulators dated February 17, 2010, the Company must obtain prior written approval from its regulators prior to making any severance payments including so-called "golden parachutes" to its executive officers and other employees.

Tax Considerations

Section 162(m) ("Section 162(m)") of the Internal Revenue Code of 1986, as amended, limits the allowable deduction for compensation paid or accrued with respect to the Chief Executive Officer and each of the four other most highly compensated executive officers of a publicly held corporation to no more than \$1 million per year. Certain compensation is exempt from this deduction limitation, including performance based compensation paid under a plan administered by a committee of outside directors,

Table of Contents

which has been approved by shareholders. The Company has not previously obtained shareholder approval of performance standards for its compensation plans or arrangements because its executives generally do not have compensation arrangements that would exceed \$1 million per year.

In light of Section 162(m), it is the policy of the Compensation Committee to modify, where necessary, our executive compensation program to maximize the tax deductibility of compensation paid to our executive officers when and if the \$1 million threshold becomes an issue. At the same time, the Compensation Committee also believes that the overall performance of our executives cannot in all cases be reduced to a fixed formula and that the prudent use of discretion in determining pay levels is in our best interests and those of our shareholders. Under some circumstances, the Compensation Committee's use of discretion in determining appropriate amounts of compensation may be essential. In those situations where discretion is or can be used by the Compensation Committee, compensation may not be fully deductible.

Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended, among other things, limits flexibility with respect to the time and form of payment of deferred compensation. If a payment or award is subject to Section 409A, but does not meet the requirements that exempt such amounts from taxation under such section, the recipient is subject to (i) income tax at the time the payment or award is not subject to a substantial risk of forfeiture, (ii) an additional 20% tax at that time, and (iii) an additional tax equal to the amount of interest (at the underpayment rate under the Internal Revenue Code plus one percentage point) on the underpayment that would have occurred had the award been includable in the recipient's income when first deferred or, if later, when not subject to a substantial risk of forfeiture. We have made modifications to our plans and arrangements such that payments or awards under those arrangements either are intended to not constitute "deferred compensation" for Section 409A purposes (and will thereby be exempt from Section 409A's requirements) or, if they constitute "deferred compensation," are intended to comply with the Section 409A statutory provisions and final regulations.

Impact of Capital Purchase Program. While we are a participant in the Capital Purchase Program, no deduction will be claimed for federal income tax purposes for executive compensation that would not be deductible if Section 162(m)(5) were to apply to the Company. This requirement effectively limits deductible compensation paid to the named executive officers to \$500,000.

Accounting Considerations

Accounting considerations play an important role in the design of our executive compensation program. Accounting rules require us to expense the fair value of restricted stock awards and the estimated fair value of our stock option grants which reduces the amount of our reported profits. The Compensation Committee considers the amount of this expense in determining the amount of equity compensation awards.

Compensation Committee Report

Compensation Discussion and Analysis. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 401(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Risk Assessment of Incentive Compensation Arrangements. In connection with its participation in the U.S. Treasury Capital Purchase Program, the Compensation Committee is required to meet at least every six months with the Company's senior risk officers to discuss and review the relationship between the Company's risk management policies and practices and its SEOs incentive compensation arrangements, identifying and making reasonable efforts to limit any features in such compensation arrangements that might lead to the SEOs taking unnecessary or excessive risks that could threaten the value of the

Table of Contents

Company. The Compensation Committee, on behalf of the Company, must certify that it has completed the review and taken any necessary actions.

In response to this requirement, the Compensation Committee meets with the senior risk managers of the Company (including its internal auditor, Chief Financial Officer, Chief Credit Officer, Senior Vice President-Human Resources, and Senior Vice President-Compliance). The Compensation Committee discusses the overall risk structure and the significant risks identified within the Company, and discusses the process by which those present at the meeting analyze the risks associated with the executive compensation program. This process includes, among other things, a review of the Company's programs and discussions with the Compensation Committee's independent compensation consultant about the structure of the Company's overall executive compensation program. This review includes the compensation potential under the Company's incentive plans, the long-term view encouraged by the design and vesting features of the Company's long-term incentive arrangements, and the extent to which the Compensation Committee and the Company's management monitor the program. The Compensation Committee also identifies areas of enterprise risk of the Company and evaluates the degree to which participants in a plan perform functions that have the potential to significantly affect overall enterprise risk. The Compensation Committee then analyzes the extent to which design features have the potential to encourage behaviors that could significantly contribute to enterprise risk.

Our SEOs participate in the following two incentive compensation plans:

Management Incentive Plan; and

Amended and Restated 2004 Equity Plan.

Based on its review (the most recent in March 2011), the Compensation Committee has determined that the Company's executive compensation program does not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company, and that no changes to these plans were required for this purpose.

Among the factors the Compensation Committee considered were the following:

Our Management Incentive Plan in 2010 imposed a specific dollar maximum amount for each participant, did not rely on a single financial measure in awarding bonuses, and imposed minimum capital ratios that must be satisfied before any bonuses may be paid. To the extent bonuses are earned, they are payable only in long-term restricted stock and are subject to "clawback" provisions.

Our 2004 Equity Plan imposes specific ranges of stock option grant limits that apply on an individual basis, and each option grant vests over four years. Vesting has historically been tied to tenure of employment and not tied to Company or individual performance. Stock options are subject to "clawback" provisions.

The Compensation Committee generally targets the 75th percentile of peer practice to limit total direct compensation.

In addition to the incentive plans in which the SEO's participate, the Company has incentive plans for other officers and branch employees which reward performance. The Compensation Committee reviewed all non-SEO plans, and concluded that none of them, considered individually or as a group, presented any material threat to our capital or earnings, encouraged taking undue or excessive risks, or encouraged manipulation of financial data in order to increase the size of an award. Under one bonus plan the rewards offered are based on subjective criteria and are not tied directly to Company performance. Another plan that rewards bonuses for cost savings suggested by branch employees that are actually implemented is also not based on Company performance. Several other plans reward loan production, and internal controls with different levels of review and approvals are designed to prevent manipulation to increase an award.

Table of Contents

Moreover, employees eligible for production bonuses do not have loan approval authority, and loans and underwriting standards are subject to regular review by the Board of Directors' Loan Committee.

Certification. As required by the U.S. Treasury Capital Purchase Program, the Compensation Committee certifies that it has (i) reviewed with senior risk officers the SEO compensation plans and has made all reasonable efforts to ensure that these plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the Company; (ii) reviewed with senior risk officers the Company's employee compensation plans and has made all reasonable efforts to limit any unnecessary risks these plans pose to the Company; and (iii) reviewed the Company's employee compensation plans to eliminate any features of these plans that would encourage the manipulation of reported earnings of the Company to enhance the compensation of any employee.

Compensation Committee of the Board

Frank G. Bisceglia
Celeste V. Ford
Robert T. Moles, Chairman
Ranson W. Webster

Executive Compensation Tables

The following table provides for the periods shown, information as to compensation for services of the Company's principal executive officer, principal financial officer, and the three other executive officers of the Company who had the highest total compensation (as defined in accordance with applicable regulations) with respect to the year ended 2010 (collectively referred to as the "named executive officers"):

Summary Compensation Table

| Name and Principal Position (a) | Year (b) | Salary (\$) (c)(1) | Bonus (\$) (d) | Stock Awards (\$) (e) | Option Awards (\$) (f)(2) | Non-Equity Incentive Plan Compensation (\$) (g)(3) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (h)(4) | All Other Compensation (\$) (i)(5) | Total (\$) (j) |
|---|-------------|--------------------------|----------------------|-----------------------------|---------------------------------|--|---|--|----------------------|
| Walter T. Kaczmarek President & Chief Executive Officer | 2010 | \$ 333,700 | | | | | \$ 572,000 | \$ 33,065 | \$ 938,765 |
| | 2009 | \$ 333,700 | | | | | \$ 376,600 | \$ 28,879 | \$ 739,179 |
| | 2008 | \$ 332,083 | | | | | \$ 366,800 | \$ 40,862 | \$ 739,745 |
| Lawrence D. McGovern Executive Vice President & Chief Financial Officer | 2010 | \$ 227,000 | | | | | \$ 109,100 | \$ 14,272 | \$ 350,372 |
| | 2009 | \$ 222,000 | | | | | \$ 57,100 | \$ 13,107 | \$ 292,207 |
| | 2008 | \$ 220,833 | | | | | \$ 91,800 | \$ 15,542 | \$ 328,175 |
| Dan T. Kawamoto Executive Vice President & Chief Administrative Officer | 2010 | \$ 240,000 | | | | | | \$ 12,948 | \$ 252,948 |
| | | | | | | | | | |
| Michael Ong Executive Vice President/ Chief Credit Officer(6) | 2010 | \$ 240,000 | | | | | | \$ 32,438 | \$ 272,438 |
| | 2009 | \$ 240,000 | | | | | | \$ 10,619 | \$ 250,619 |
| | 2008 | \$ 84,615 | | | \$ 70,250 | | | \$ 35,290 | \$ 190,155 |
| Raymond Parker Executive Vice President/ | 2010 | \$ 250,300 | | | | | \$ 339,400 | \$ 19,777 | \$ 609,477 |
| | 2009 | \$ 250,300 | | | | | \$ 249,300 | \$ 16,418 | \$ 516,018 |

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

| | | | | | |
|------------------|------|------------|------------|-----------|------------|
| Banking Division | 2008 | \$ 249,083 | \$ 129,100 | \$ 16,464 | \$ 394,647 |
|------------------|------|------------|------------|-----------|------------|

- (1) The amounts in column (c) include amounts voluntarily deferred by each of the named executive officers into their 401(k) plan accounts. For 2010, Mr. Kaczmarek deferred \$22,000, Mr. Kawamoto

Table of Contents

deferred \$21,600, Mr. Ong deferred \$22,000, and Mr. Parker deferred \$20,500. Mr. McGovern did not defer any amount in 2010.

- (2) The amounts shown in column (f) reflect the grant date fair value for stock options issued under the Company's 2004 Equity Plan, and are reported for the fiscal year during which the stock options were issued, as determined pursuant to generally accepted accounting principles. The assumptions used in calculating the valuation for stock option awards may be found in Note 10 to the Company's consolidated financial statements for the year ended December 31, 2010, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 7, 2011.
- (3) No bonuses were paid to the named executive officers for 2008, 2009 or 2010 performance under the Management Incentive Plan.
- (4) The Company did not adopt or award any new pension or retirement benefits to the named executive officers in 2010. The amounts shown in column (h) for 2010 represent only the aggregate change in the actuarial present value of the accumulated benefit under the Company's Supplemental Executive Retirement Plan from December 31, 2009 to December 31, 2010. The amounts in column (h) were determined using interest rate and mortality rate assumptions consistent with those used in the Company's consolidated financial statements and include amounts which the named executive officer may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 11 to the Company's consolidated financial statements for the fiscal year ended December 31, 2010 included in the Company's Annual Report on Form 10-K filed with the SEC on March 7, 2011.
- (5) The amounts shown in column (i) include the following for each named executive:

| | Economic Value of Death Benefit of Life Insurance for Beneficiaries | 401(k) Plan Company Matching Contributions | Other Insurance Benefit | Employee Stock Ownership Plan Company Contributions | Vacation | Auto Compensation | Total |
|----------------------|--|---|--|--|-----------------|------------------------------|--------------|
| Walter T. Kaczmarek | \$ 17,733 | \$ 1,000 | \$ 2,332 | | | \$ 12,000 | \$ 33,065 |
| Lawrence D. McGovern | \$ 1,726 | | \$ 2,085 | | \$ 4,461 | \$ 6,000 | \$ 14,272 |
| Dan T. Kawamoto | | \$ 1,000 | \$ 3,548 | | | \$ 8,400 | \$ 12,948 |
| Michael R. Ong | | \$ 1,000 | \$ 3,406 | | \$ 19,632 | \$ 8,400 | \$ 32,438 |
| Raymond Parker | \$ 6,813 | \$ 1,000 | \$ 3,564 | | | \$ 8,400 | \$ 19,777 |

The economic value of the death benefit amounts shown above reflects the annual income imputed to each executive in connection with Company owned split-dollar life insurance policies for which the Company has fully paid the applicable premiums. These policies are discussed under "Supplemental Retirement Plan for Executive Officers."

- (6) Mr. Ong retired from the Company effective December 31, 2010.

Executive Contracts

Walter T. Kaczmarek On October 17, 2007, the Company entered into an Amended and Restated Employment Agreement with Walter T. Kaczmarek. The employment contract is for three years and is automatically renewed each month for three additional years. Under the agreement, Mr. Kaczmarek receives an annual salary of \$333,700 with annual increases, if any (last increased in 2008), as determined by the Board of Directors' annual review of executive salaries. In addition to his salary, he is eligible to participate in the Management Incentive Plan. Mr. Kaczmarek participates in the Company's 401(k) plan, under which he may receive matching contributions up to \$1,000. He also participates in the Company's Employee Stock Ownership Plan. The Company provides Mr. Kaczmarek, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. Kaczmarek is provided with life insurance coverage in the amount of two times his then current salary but no more than \$700,000. He is provided with long-term care insurance, with a lifetime benefit of up to \$432,000. The

Table of Contents

Company reimburses Mr. Kaczmarek for up to \$1,200 of expenses incurred by him for tax consultation and preparation of tax returns and any excess of insurance coverage for an annual physical examination. Mr. Kaczmarek is reimbursed for monthly dues for one country club and one business club membership. He receives an automobile allowance in the amount of \$1,000 per month, together with reimbursements for gasoline and maintenance expenditures.

Under his employment agreement, Mr. Kaczmarek is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Dan T. Kawamoto On June 11, 2009, the Company entered into an Employment Agreement with Dan Kawamoto which became effective July 13, 2009 when Mr. Kawamoto commenced his employment. The employment contract is for one year and is automatically renewed for one year terms. Under the agreement, Mr. Kawamoto receives an annual salary of \$240,000 with annual increases, if any, as determined by the Company's Chief Executive Officer and Board of Directors' annual review of executive salaries. In addition to his salary, he is eligible to participate in the Management Incentive Plan. Mr. Kawamoto participates in the Company's 401(k) plan, under which he may receive matching contributions up to \$1,000. He also participates in the Company's Employee Stock Ownership Plan. The Company provides to Mr. Kawamoto, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. He also receives an automobile allowance in the amount of \$700 per month, together with reimbursements for gasoline expenditures and up to \$2,400 per year for automobile repairs and maintenance. Mr. Kawamoto is provided with life insurance coverage in the amount of two times his salary not to exceed \$700,000. He is also provided with long-term care insurance, with a lifetime benefit of up to \$72,000.

Under his employment agreement, Mr. Kawamoto is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Lawrence D. McGovern On October 17, 2007, the Company entered into an Amended and Restated Employment Agreement with Lawrence D. McGovern. The employment contract is for one year and is automatically renewed for one year terms. Under the agreement, Mr. McGovern receives an annual salary of \$232,000 with annual increases, if any (last increased in July 2010), as determined by the Company's Chief Executive Officer and Board of Directors' annual review of executive salaries. In addition to his salary, he is eligible to participate in the Management Incentive Plan. Mr. McGovern participates in the Company's 401(k) plan, under which he may receive matching contributions up to \$1,000. He also participates in the Company's Employee Stock Ownership Plan. The Company provides to Mr. McGovern, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. McGovern receives an automobile allowance in the amount of \$500 per month, together with reimbursements for gasoline expenditures. Mr. McGovern is provided with life insurance coverage in the amount of two times his salary but not more than \$700,000. He is also provided with long-term care insurance, with a lifetime benefit of up to \$72,000.

Under his employment agreement, Mr. McGovern is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Michael R. Ong On August 12, 2008, the Company entered into an Employment Agreement with Michael R. Ong. Mr. Ong retired from the Company on December 31, 2010. The employment contract was for one year and was automatically renewed annually for one year terms. Under the Agreement, Mr. Ong received an annual salary of \$240,000 with annual increases, if any, as determined by the Company's Chief Executive Officer and Board of Directors' annual review of executive salaries. In addition to his salary, he was eligible to participate in the Management Incentive Plan and the Company's 401(k) plan. He also

Table of Contents

participated in the Company's Employee Stock Ownership Plan. The Company provided to Mr. Ong, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. Ong was reimbursed for monthly dues for one country club membership. He received an automobile allowance in the amount of \$700 per month, together with reimbursements for gasoline expenditures. Mr. Ong was provided with life insurance coverage in the amount of two times his salary but no more than \$700,000. He was also provided with long-term care insurance, with a lifetime benefit of up to \$72,000.

Under his employment agreement, Mr. Ong was entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Raymond Parker On October 17, 2007, the Company entered into an Amended and Restated Employment Agreement with Raymond Parker. The employment contract is for one year and is automatically renewed for one year terms. Under the agreement, Mr. Parker receives an annual salary of \$250,300 with annual increases, if any (last increased in 2008), as determined by the Company's Chief Executive Officer and Board of Directors' annual review of executive salaries. In addition to his salary, he is eligible to participate in the Management Incentive Plan. Mr. Parker participates in the Company's 401(k) plan, under which he may receive matching contributions up to \$1,000. He also participates in the Company's Employee Stock Ownership Plan. The Company provides to Mr. Parker, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. Parker is also reimbursed for monthly dues for membership at one country club. He also receives an automobile allowance in the amount of \$700 per month, together with reimbursements for gasoline expenditures. Mr. Parker is provided with life insurance coverage in the amount of two times his salary not to exceed \$700,000. He is also provided with long-term care insurance, with a lifetime benefit of up to \$72,000.

Under his employment agreement, Mr. Parker is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Executive Employment Agreements and Emergency Economic Act of 2008 and American Recovery and Reinvestment Act of 2009. All of the executive officer employment agreements provide that the payment of any amounts under the agreement are subject to the requirements of EESA and ARRA and any regulations promulgated thereunder by the U.S. Treasury so long as the U.S. Treasury owns the Company's Series A Preferred Stock.

Plan Based Awards

Stock Based Plans. In 1994, the Board of Directors adopted the Heritage Bank of Commerce 1994 Tandem Stock Option Plan (the "1994 Stock Option Plan") in order to promote the long-term success of the Company and the creation of shareholder value. The 1994 Stock Option Plan expired on June 8, 2004. In 2004, the Board of Directors adopted the Heritage Commerce Corp 2004 Stock Option Plan (the "2004 Plan"), which was approved by the Company's shareholders at the 2004 Annual Meeting. The 1994 Stock Option Plan and the 2004 Plan authorized the Company to grant stock options to officers, employees and directors of the Company and its affiliates. In 2009, the 2004 Plan was amended and restated as the 2004 Equity Plan to authorize the issuance of restricted stock in addition to stock options. The 2004 Equity Plan was approved by the Company's shareholders at the 2009 Annual Meeting.

Management Incentive Plan. The Company maintains a Management Incentive Plan adopted by the Board of Directors in 2005. Executive officers are eligible for target bonuses which are expressed as a percentage of their respective base salaries which increase as the level of performance of established goals increases. The bonuses are tied directly to the satisfaction of overall Company performance for the year. No bonuses were paid to the named executive officers for 2008, 2009 or 2010 performance. See "Compensation Discussion and Analysis" for information about the Management Incentive Plan.

Table of Contents

The following table provides information on the potential performance-based awards available if defined performance objectives were achieved in 2010 for each of the Company's named executive officers under the Company's Management Incentive Plan, and stock options or other stock awards granted to the named executive officers in 2010.

Grants of Plan-Based Awards

| Name (a) | Grant Date (b) | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | All Other Stock Awards: Number of Shares of Stock or Units (i) | All Other Option Awards: Number of Securities Underlying Options (j) | Exercise or Base Price of Option Awards (\$/Sh) (k) | Grant Date Fair Value of Stock and Options Awards (l) |
|-------------------------|----------------------|--|-----------------------|------------------------|---|----------------------|-----------------------|---|---|--|---|
| | | Threshold (\$) (c) | Target (\$) (d) | Maximum (\$) (e) | Threshold (#) (f) | Target (#) (g) | Maximum (#) (h) | | | | |
| Walter T. Kaczmarek | 3/25/2010 | \$ 50,055 | \$ 110,121 | | | | | | | | |
| Lawrence D. McGovern | 3/25/2010 | \$ 33,300 | \$ 73,260 | | | | | | | | |
| Dan T. Kawamoto | 3/25/2010 | \$ 36,000 | \$ 79,200 | | | | | | | | |
| Michael R. Ong(2) | 3/25/2010 | \$ 36,000 | \$ 79,200 | | | | | | | | |
| Raymond Parker | 3/25/2010 | \$ 37,545 | \$ 82,599 | | | | | | | | |

- (1) These potential performance-based awards were established under the Management Incentive Plan if the indicated level of performance was achieved in 2010 as described further in the "Compensation and Discussion Analysis" and in the discussion under "Plan Based Awards Management Incentive Plan." They do not represent the actual payments made to the named executive officers. No payments were paid in 2010 to the named executive officers for 2010 performance.
- (2) Mr. Ong retired from the Company effective December 31, 2010.

Equity Compensation Plan Information

The following table shows the number and weighted-average exercise price of securities to be issued upon exercise of outstanding options, warrants and rights, and the number of securities remaining available for future issuance under equity compensation plans at December 31, 2010:

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|---|--|
| Equity compensation plans approved by security holders | 1,150,821(1) | \$ 15.47 | 716,193(3) |
| Equity compensation plans not approved by security holders | 462,963(2) | \$ 12.96 | N/A |

- (1) Consists of 142,919 options to acquire shares of common stock issued under the Company's 1994 Stock Option Plan, and 1,007,902 options to acquire shares under the Company's 2004 Equity Plan.
- (2)

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Consists of warrant issued to the U.S. Treasury to purchase 462,963 shares of the Company's common stock. The warrant is immediately exercisable and has a 10-year term with an initial exercise price of \$12.96.

(3)

Available under the Company's Amended and Restated 2004 Equity Plan.

Table of Contents**Outstanding Equity Awards**

The following table shows the number of Company shares of common stock covered by exercisable and unexercisable stock options and the number of Company unvested shares of restricted common stock held by the Company's named executive officers as of December 31, 2010.

Outstanding Equity Awards at Year End

| Name (a) | Option Awards | | | | | Stock Awards | | | |
|-------------------------|--|---|--|-------------------------------|--------------------------------------|---|--|---|--|
| | Number of Securities Underlying Unexercised Options (#) (b) | Number of Securities Underlying Unexercised Options (#) (c) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d) | Exercise Price (\$) (e) | Options Expiration Date (f) | Number of Shares or Units of Stock That Have Not Vested (#) (g) | Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)(2) | Shares, Units or Rights That Have Not Vested (#) (i) | Equity Awards: Market Plan or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) (j) |
| Walter T. Kaczmarek | 50,000 | | | \$ 18.15 | 3/17/2015 | 12,750(1) | \$ 57,375 | | |
| | 20,000 | | | \$ 23.85 | 8/3/2016 | | | | |
| | 22,876 | 2,124(3) | | \$ 23.89 | 5/4/2017 | | | | |
| Lawrence D. McGovern | 9,000 | | | \$ 9.51 | 4/25/2012 | | | | |
| | 7,500 | | | \$ 14.11 | 5/27/2014 | | | | |
| | 8,000 | | | \$ 20.00 | 8/11/2015 | | | | |
| | 10,000 | | | \$ 23.85 | 8/3/2016 | | | | |
| | 13,725 | 1,275(3) | | \$ 23.89 | 5/4/2017 | | | | |
| Dan T. Kawamoto | 8,938 | 16,062(4) | | \$ 3.22 | 7/27/2019 | | | | |
| Michael R. Ong | 14,691 | | | \$ 11.15 | 8/25/2018 | | | | |
| Raymond Parker | 25,000 | | | \$ 18.65 | 5/16/2015 | | | | |
| | 5,000 | | | \$ 20.00 | 8/11/2015 | | | | |
| | 12,000 | | | \$ 23.85 | 8/3/2016 | | | | |
| | 13,726 | 1,274(3) | | \$ 23.89 | 5/4/2017 | | | | |

(1) Restricted stock issued to Mr. Kaczmarek pursuant to a restricted stock agreement dated March 17, 2005 entered into when Mr. Kaczmarek joined the Company. The restricted stock shares vest 25% per year at the end of years three, four, five and six.

(2) The market value of the shares of restricted stock that have not vested is calculated by multiplying the number of shares of stock that have not vested by the closing price of our common stock at December 31, 2010, as reported on The NASDAQ Global Select Market, which was \$4.50.

- (3) The options vest daily over 4 years beginning 5/4/2007 and have a term of 10 years.
- (4) The options vest daily over 4 years beginning 7/27/2009 and have a term of 10 years.

Option Exercises and Vested Stock Awards

The following table sets forth information with regard to the exercise and vesting of stock options and vesting of shares of restricted stock for the year ended December 31, 2010, for each of the named executive officers.

Table of Contents**Option Exercises and Stock Vested**

| Name (a) | Option Awards | | Stock Awards | |
|----------------------|---|------------------------------------|--|---------------------------------|
| | Number of Shares Acquired on Exercise | Value Realized upon Exercise | Number of Shares Acquired on Vesting | Value Realized on Vesting |
| | (#) (b) | (\$) (c) | (#) (d) | (\$) (e) |
| Walter T. Kaczmarek | | | 12,750 | \$ 57,375 |
| Lawrence D. McGovern | | | | |
| Dan T. Kawamoto | | | | |
| Michael R. Ong(1) | | | | |
| Raymond Parker | | | | |

- (1) Mr. Ong retired from the Company effective December 31, 2010.

401(k) Plan

The Company has established a broad-based employee benefit plan under Section 401(k) of the Internal Revenue Code of 1986 ("401(k) Plan"). The purpose of the 401(k) Plan is to encourage employees to save for retirement. Eligible employees may make contributions to the plan subject to the limitations of Section 401(k). The 401(k) Plan trustees administer the Plan. The Company may match up to \$1,000 of each employee's contributions. The 401(k) Plan allows highly compensated employees to contribute up to a maximum percentage of their base salary, up to the limits imposed by the Internal Revenue Code, on a pre-tax basis. Participants choose to invest their account balances from an array of investment options as selected by plan fiduciaries. The 401(k) Plan is designed to provide for distributions in a lump sum after termination of service. However, loans and in-service distributions under certain circumstances such as hardship, attainment of age 59-1/2, or a disability are permitted. For named executive officers, these amounts are included in the Summary Compensation Table under "All Other Compensation."

Employee Stock Ownership Plan

In 1997, Heritage Bank of Commerce initiated a broad-based employee stock ownership plan ("Stock Ownership Plan"). The Stock Ownership Plan was subsequently adopted by the Company as the successor corporation to Heritage Bank of Commerce. The Stock Ownership Plan allows the Company, at its option, to purchase shares of the Company common stock on the open market. To be eligible to receive an award of shares under the Stock Ownership Plan, an employee must have worked at least 1,000 hours during the year and must be employed by the Company on December 31. The executive officers have the same eligibility to receive awards as other employees of the Company. Awards under the Stock Ownership Plan generally vest over four years. In addition, the value of a participant's account becomes fully vested upon reaching the age of 65 or termination of employment by death or disability. The Company may discontinue its contributions at any time. The amounts of contributions to the Stock Ownership Plan for named executive officers are included in the Summary Compensation Table in the column entitled "All Other Compensation."

Supplemental Retirement Plan for Executive Officers

The Company has established the 2005 Amended and Restated Supplemental Executive Retirement Plan (the "SERP" or the "Plan") covering key executives, including several of the named executive officers. The SERP is a nonqualified defined benefit plan and is unsecured and unfunded and there are no plan assets. When the Company offers key executives participation in the SERP, the supplemental retirement benefit awarded is based on the individual's position within the Company and a vesting schedule determined by the desirability of incentivizing the retention element of the program. The

Table of Contents

participant is 100% vested in his or her benefit at normal retirement, upon termination within two years from a change in control, or upon disability. However, the participant's vested benefit is reduced for payment prior to normal retirement age in accordance with the Plan terms.

Normal Retirement. A participant whose employment terminates after normal retirement (as defined in the Plan) will receive 100% of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following retirement (unless selected otherwise by the participant) and continuing until the death of the participant.

Early Retirement. In order to be eligible for early retirement benefits, the plan requires the participant to terminate employment (for reasons other than for cause or within two years from a change of control) after the date that the participant is at least 55 years old but prior to normal retirement as defined in the participant's participation agreement. The participant will then receive the portion of the supplemental retirement benefit that has vested as of the actual early retirement date. However, for each year (or partial year) before normal retirement age the participant receives an early retirement benefit, the vested benefit is reduced by five percent. Unless otherwise selected by the participant, the early retirement benefit will be paid monthly, with payments to commence on the first day of the month following the participant's separation from service and continuing until the death of the participant.

Termination Before Early Retirement. If a participant's employment is terminated without cause or the participant resigns, the participant shall be eligible to receive the portion of the supplemental retirement benefit that has vested as of the effective date of termination reduced by five percent for each year (or partial year) that the participant's benefits are paid prior to the participant's normal retirement age. Benefits are payable monthly commencing on the first of the month elected by the participant but not before the participant's early retirement age, and continuing until the death of the participant.

Disability. In the event a participant becomes disabled, the participant will receive the actuarial equivalent of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following determination that the participant is disabled and continuing until the death of the participant.

Cause. If a participant's employment is terminated for cause, the participant forfeits any rights the participant may have under the SERP.

Change of Control. If a participant's employment is terminated for any reason (except cause or after qualifying for normal retirement) within two years following a change of control, the participant will receive 100% of his or her supplemental retirement benefit commencing at the later of the first month following the age selected by the participant or the first month following the participant's separation from service, and continuing until the death of the participant. In the event payments commence prior to the participant's normal retirement age, then the benefit due to the participant will be reduced by five percent for each year (or partial year) that the participant's benefit is paid prior to the participant's normal retirement age.

Company-owned split-dollar life insurance policies support the Company's obligations under the SERP. The premiums on the policies are paid by the Company. The cash value accrued on the policies supports the payment of the supplemental benefits for each participant. In the case of death of the participant, the participant's designated beneficiaries will receive 80% of the net-at-risk insurance (which means the amount of the death benefit in excess of the cash value of the policy).

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Table of Contents

The following table shows the present value of the accumulated benefit payable to each of the named executive officers that participate in the SERP, including the number of service years credited to each named executive officer:

| Name (a) | Plan Name (b) | Number of Years Credited Service (#) (c) | Present Value of Accumulated Benefit(1)(2) (\$) (d) | Payments During Last Fiscal Year (\$) (e) |
|----------------------|--------------------------------|---|--|---|
| Walter T. Kaczmarek | Heritage Commerce Corp SERP | 6 | \$ 1,864,700 | |
| Lawrence D. McGovern | Heritage Commerce Corp SERP | 12 | \$ 510,300 | |
| Dan T. Kawamoto(3) | Heritage Commerce Corp SERP | | | |
| Michael R. Ong(4) | Heritage Commerce Corp SERP | | | |
| Raymond Parker | Heritage Commerce Corp SERP | 6 | \$ 1,013,400 | |

(1) The amounts in column (d) were determined using interest rate and mortality rate assumptions consistent with those used in the Company's consolidated financial statements and include amounts which the named executive officer may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 11 to the Company's consolidated financial statements for the fiscal year ended December 31, 2010, included in the Company's Annual Report on Form 10-K filed with the SEC on March 7, 2011.

(2) The following vesting percentages apply to the named executive officers:

| End of the year prior to termination | Walter T. Kaczmarek | Lawrence D. McGovern | Dan T. Kawamoto | Michael R. Ong | Raymond Parker |
|---|------------------------|-------------------------|--------------------|-------------------|-------------------|
| 12/31/2010 | 60% | 100% | N/A | N/A | 90% |
| 12/31/2011 | 72% | 100% | N/A | N/A | 100% |
| 12/31/2012 | 84% | 100% | N/A | N/A | 100% |
| 12/31/2013 | 100% | 100% | N/A | N/A | 100% |
| 12/31/2014 | 100% | 100% | N/A | N/A | 100% |

(3) Mr. Kawamoto does not participate in the SERP.

(4) Mr. Ong retired from the Company effective December 31, 2010, and did not participate in the SERP.

Management Deferral Plan

In January 2004, the Company adopted the Heritage Commerce Corp Nonqualified Deferred Compensation Plan for certain executive officers. The purpose of the plan is to offer those employees an opportunity to elect to defer the receipt of compensation in order to provide termination of employment and related benefits taxable pursuant to Section 451 of the Internal Revenue Code of 1986, as amended (the "Code"). The plan is intended to be a "top-hat" plan (i.e., an unfunded deferred compensation plan maintained for a select group of management or highly-compensated employees) under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA"). The executive may elect to defer up to 100% of any bonus and 50% of any regular salary into the Management Deferral Plan. Amounts deferred are invested in a portfolio of approved investment choices as directed by the executive. Under the Management Deferral Plan, the Company may make discretionary contributions for the executive, but has not done so. Amounts deferred by executives to the plan will be distributed at a future date they have selected or upon termination of employment. The executive can select a distribution schedule of up to fifteen years. To date, none of the Company executive officers have elected to participate in the plan.

Table of Contents

Change of Control Arrangements and Termination of Employment

In connection with the Company's participation in the U.S. Treasury's Capital Purchase Program, the Company agreed that, until such time as the U.S. Treasury ceases to own the Series A Preferred Stock acquired under the program, the Company will take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of EESA and agreed to not adopt any benefit plans with respect to, or which cover, its senior executive officers that do not comply with EESA. The subsequent enactment of ARRA, and issuance of rules and regulations issued by the U.S. Treasury in June, 2009, has amended, and in some cases expanded upon, provisions of Section 111(b) of EESA. These provisions prohibit any payment of golden parachutes (as defined by the U.S. Treasury regulation) to the named executive officers or the five next highly-compensated employees for departure from our Company for any reason, except for death, disability or payments for services performed or benefits accrued.

In addition, under the terms of our written agreement with our regulators, we may not pay any "golden parachute" or other severance to any employee, with certain exceptions, without the prior approval of our regulators.

The descriptions that follow reflect the post-termination benefits that the named executive officers would otherwise be entitled to, but for, in the case of some, the restrictions under EESA and ARRA, and prior approval from our regulators.

Stock Option Plans. Each of the named executives holds options granted under the 2004 Equity Plan and/or the 1994 Stock Option Plan. Under these plans, option holders will be given 30 days' advance notice of the consummation of a change of control transaction during which time the option holders will have the right to exercise their options, and all outstanding options become immediately vested. The options terminate on the consummation of the change of control. In the event the option holder dies or becomes disabled, the option holder or his or her estate will have 12 months to exercise those options that have vested as of the date of termination of employment from a disability or death.

Supplemental Executive Retirement Plan. Several of the named executives are participants in the 2005 Amended and Restated Supplemental Executive Plan. If a participant's employment is terminated without cause or the participant resigns, the participant shall be eligible to receive the portion of the supplemental retirement benefit that has vested as of the effective date of termination reduced by five percent for each year (or partial year) that the participant's benefits are paid prior to the participant's normal retirement age. Benefits are payable monthly commencing on the first of the month elected by the participant, but not before the participant's early retirement age, and continuing until the death of the participant. In the event a participant becomes disabled, the participant will receive the actuarial equivalent of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following determination that the participant is disabled and continuing until the death of the participant. If a participant's employment is terminated for cause, the participant forfeits any rights the participant may have under the plan. If a participant's employment is terminated for any reason (except cause or after qualifying for normal retirement) within two years following a change of control, the participant will receive 100% of his or her supplemental retirement benefits commencing at the later of the first month following the age selected by the participant, or the first month following the participant's separation from service, and continuing until the death of the participant. In the event payments commence prior to the participant's normal retirement age, then the benefit due to the participant will be reduced by five percent for each year (or partial year) that the participant's benefit is paid prior to the participant's normal retirement age.

Mr. Kaczmarek's Employment Agreement. If Mr. Kaczmarek's employment is terminated without cause or he resigns for good reason, he will be entitled to a lump sum payment equal to two times his base salary and his highest annual bonus in the last three years. If he is terminated or he resigns for good reason

Table of Contents

120 days before, or within two years after, a change of control, he will be paid a lump sum of 2.75 times his base salary and highest annual bonus in the last three years. If his employment is terminated by the Company without cause, or he resigns for good reason, or as a result of a change of control the Company terminates his employment or he resigns for good reason, his participation in group insurance coverages will continue on at least the same level as at the time of termination for a period of 36 months from the date of termination. In the event that the amounts payable to Mr. Kaczmarek under the agreement constitute "excess parachute payments" under the Internal Revenue Code of 1986, as amended, that are subject to an excise or similar tax, the amounts payable to Mr. Kaczmarek will be increased so that he receives substantially the same economic benefit under the agreement had there been no such tax imposed. Additionally, following the termination of his employment, Mr. Kaczmarek has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees and customers.

Mr. McGovern's Employment Agreement. If Mr. McGovern's employment is terminated without cause, he will be entitled to a lump sum payment equal to one times his base salary, his highest annual bonus in the last three years and his annual automobile allowance. In the event that Mr. McGovern's employment is terminated by the Company or he resigns for good reason 120 days before, or within two years after, a change in control, he will be entitled to a lump sum payment of 1.5 times his base salary, his highest annual bonus in the last three years and his annual automobile allowance. If the employment agreement is terminated by the Company without cause, or as a result of a change of control the Company terminates his employment or he resigns for good reason, his participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. In the event that the amounts payable to Mr. McGovern under the agreement constitute "excess parachute payments" under the Internal Revenue Code of 1986, as amended, that are subject to an excise or similar tax, the amounts payable to Mr. McGovern will be increased so that he receives substantially the same economic benefit under the agreement had there been no such tax imposed. Additionally, following the termination of his employment, Mr. McGovern has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or customers.

Mr. Kawamoto's Employment Agreement. If Mr. Kawamoto's employment is terminated without cause, he will be entitled to a lump sum payment equal to one times his base salary and his highest annual bonus in the last three years. In the event that Mr. Kawamoto's employment is terminated by the Company or he resigns for good reason 120 days before or within two years after a change in control, he will be entitled to a lump sum payment of two times his base salary and his highest annual bonus in the last three years. If the employment is terminated by the Company without cause, his participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Mr. Kawamoto's employment is terminated by the Company as a result of a change in control, or he resigns for good reason, these benefits will continue for an additional 24 months from the date of termination. In the event that the amounts payable to Mr. Kawamoto under the agreement constitute "excess parachute payments" under the Internal Revenue Code of 1986, as amended, that are subject to an excise or similar tax, the amounts payable to Mr. Kawamoto will be increased so that he receives substantially the same economic benefit under the agreement had there been no such tax imposed. Additionally, following the termination of his employment, Mr. Kawamoto has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or customers

Mr. Ong's Employment Agreement. Effective December 31, 2010, Mr. Ong retired from the Company. Under Mr. Ong's employment agreement if his employment was terminated without cause, he would have

Table of Contents

been entitled to a lump sum payment equal to one times each of his base salary and his highest annual bonus in the last three years. If Mr. Ong's employment was terminated by the Company or he resigned for good reason 120 days before or within two years after a change in control, he would have been entitled to a lump sum payment of two times his base salary and his highest annual bonus in the last three years. If his employment had been terminated by the Company without cause, his participation in group insurance coverage would continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Mr. Ong's employment had been terminated as a result of a change in control, or he resigned for good reason, these benefits would have continued for an additional 24 months from the date of termination. In the event that the amounts payable to Mr. Ong under the agreement constituted "excess parachute payments" under the Internal Revenue Code of 1986, as amended, that are subject to an excise or similar tax, the amounts payable to Mr. Ong would have been increased so that he received substantially the same economic benefit under the Agreement had there been no such tax imposed. Additionally, following the termination of his employment, Mr. Ong has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or customers.

Mr. Parker's Employment Agreement. If Mr. Parker's employment is terminated without cause, he will be entitled to a lump sum payment equal to one times his base salary and his highest annual bonus in the last three years. In the event that Mr. Parker's employment is terminated by the Company or he resigns for good reason 120 days before or within two years after a change in control, he will be entitled to a lump sum payment of two times his base salary and his highest annual bonus in the last three years. If the employment is terminated by the Company without cause, his participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Mr. Parker's employment is terminated by the Company as a result of a change in control, or he resigns for good reason, these benefits will continue for an additional 24 months from the date of termination. In the event that the amounts payable to Mr. Parker under the agreement constitute "excess parachute payments" under the Internal Revenue Code of 1986, as amended, that are subject to an excise or similar tax, the amounts payable to Mr. Parker will be increased so that he receives substantially the same economic benefit under the agreement had there been no such tax imposed. Additionally, following the termination of his employment, Mr. Parker has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or customers.

Mr. Kaczmarek's Restricted Stock Agreement. On March 17, 2005, the Company entered into a restricted stock agreement pursuant to which Mr. Kaczmarek was granted 51,000 shares of common stock. The restricted stock vests 25% each year at the end of years three, four, five and six, provided Mr. Kaczmarek is still with the Company. The restricted stock becomes fully vested upon a change of control, disability, death, termination of employment by the Company without cause, or termination of employment by Mr. Kaczmarek for good reason.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Table of Contents

The following tables summarize the payments which would be payable to our named executive officers in the event of various termination scenarios. This information is for illustrative purposes only. Regardless of the manner in which a named executive's employment terminates, the officer would be entitled to (i) the vested portion of any stock option or restricted stock and (ii) the vested portion of the officer's benefit under the Supplemental Executive Retirement Plan.

In accordance with the executive compensation limitations under ARRA, a portion of the payments reflected in the tables may fall within the U.S. Treasury's definition of a prohibited "golden parachute payment", and would therefore not be payable (and therefore have no value) in the event of a named executive officer's covered termination so long as we are participating in the U.S. Treasury Capital Purchase Program. In addition, under our written agreement with our regulators a portion of the payments in the table may fall within our regulators' definition of a "golden parachute" and, therefore, require the regulators' prior approval.

| | Change in Control | Involuntary Termination Without Cause | Termination for Good Reason | Death | Disability |
|---|----------------------|--|-----------------------------------|---------------------|---------------------|
| Walter T. Kaczmarek | | | | | |
| Cash severance under employment agreement | \$ 1,448,425 | \$ 1,053,400 | \$ 1,053,400 | \$ | \$ |
| Health and life insurance premiums | 59,418 | 59,418 | 59,418 | | |
| Health and life insurance benefits | | | | 667,400 | 180,000(4) |
| Long-term care insurance benefits | | | | | 72,000 |
| Supplemental executive retirement plan(1)(2)(3) | 1,133,452 | 680,071 | 680,071 | | 1,012,958 |
| Unvested restricted stock awards (accelerated) | 57,375 | 57,375 | 57,375 | 57,375 | 57,375 |
| Split-dollar death benefits (upon death) | | | | 3,133,001 | |
| Outplacement services (layoff) | 5,000 | | | | |
| IRC 280(g) excise tax gross-up | 1,275,996 | | | | |
| Total: | \$ 3,979,666 | \$ 1,850,264 | \$ 1,850,264 | \$ 3,857,776 | \$ 1,322,333 |
| Lawrence D. McGovern | | | | | |
| Cash severance under employment agreement | \$ 507,000 | \$ 338,000 | \$ | \$ | \$ |
| Health and life insurance premiums | 25,202 | 25,202 | | | |
| Health and life insurance benefits | | | | 464,000 | 147,984(4) |
| Long-term care insurance benefits | | | | | 72,000 |
| Split-dollar death benefits (upon death) | | | | 1,045,327 | |
| Total: | \$ 532,202 | \$ 363,202 | \$ | \$ 1,509,327 | \$ 219,984 |

Table of Contents

| | Change in Control | Involuntary Termination Without Cause | Termination for Good Reason | Death | Disability |
|--|----------------------|--|--------------------------------------|--------------|------------|
| Dan T. Kawamoto | | | | | |
| Cash severance under employment agreement | \$ 480,000 | \$ 240,000 | \$ | \$ | \$ |
| Health and life insurance premiums | 50,808 | 25,404 | | | |
| Health and life insurance benefits | | | | 480,000 | 159,984(4) |
| Long-term care insurance benefits | | | | | 72,000 |
| Total: | \$ 530,808 | \$ 265,404 | \$ | \$ 480,000 | \$ 231,984 |
| Michael R. Ong(5) | | | | | |
| Cash severance under employment agreement | \$ 480,000 | \$ 240,000 | \$ | \$ | \$ |
| Health and life insurance premiums | 36,960 | 18,480 | | | |
| Health and life insurance benefits | | | | 480,000 | 159,984(4) |
| Long-term care insurance benefits | | | | | 72,000 |
| Total: | \$ 516,960 | \$ 258,480 | \$ | \$ 480,000 | \$ 231,984 |
| Raymond Parker | | | | | |
| Cash severance under employment agreement | \$ 760,600 | \$ 380,300 | \$ | \$ | \$ |
| Health and life insurance premiums | 37,066 | 18,533 | | | |
| Health and life insurance benefits | | | | 500,600 | 166,848(4) |
| Long-term care insurance benefits | | | | | 72,000 |
| Supplemental executive retirement plan(1)(3) | 93,294 | | | | 90,044 |
| Split-dollar death benefits (upon death) | | | | 958,277 | |
| IRC 280(g) excise tax gross-up | 377,724 | | | | |
| Total: | \$ 1,268,684 | \$ 398,833 | \$ | \$ 1,458,877 | \$ 328,892 |

-
- (1) Assumes executive selected age 62 for commencement of the payment of this benefit.
- (2) If Mr. Kaczmarek terminates his employment for good reason or he is terminated without cause, he is entitled to be credited with two additional years of service.
- (3) The amount reflected in the table is the incremental increase in the benefit payable to the named executive officer in addition to the benefit payable under the terms of the Supplemental Executive Retirement Plan. See "Supplemental Retirement Plan for Executive Officers" and the tables included therein for information about the value of the accumulated benefit payable to each named executive officer.

Table of Contents

- (4) This balance represents the annual payment of long-term disability for the named executive officers. This long-term payment would begin after an elimination period and a twelve week short term disability period. This long-term disability payment will increase by 6% (cost of living adjustment) over the first five years of payments and cease at age 65.
- (5) Mr. Ong retired from the Company effective December 31, 2010. Under the terms of his employment agreement, he was not entitled to any severance payments. The information in the table assumes Mr. Ong's employment ended December 31, 2010, due to the various termination scenarios.

Director Compensation

This section provides information regarding the compensation policies for non-employee directors and amounts paid to these directors in 2010. Mr. Kaczmarek does not receive any separate compensation for his service as a director.

The Company has a policy of compensating non-employee directors for their service on the Board and Board committees of the Company. On an annual basis, the Compensation Committee reviews director compensation, including the individual fees and retainers, the components of compensation, as well as the total amount of director compensation appropriate for the Company.

Beginning in 2010, the Board of Directors approved the recommendation of the Compensation Committee to restructure the cash compensation paid to directors. In 2010, each director received an annual retainer fee of \$45,000. The chairman of each standing committee of the Board receives an additional \$3,000 per year, and the Chairman of the Board receives an additional \$5,000 per year. Board Members are not paid separate fees for attending Board or committee meetings.

In addition to providing cash compensation, the Compensation Committee also believes in granting equity compensation to non-employee directors in order to further align their interests with those of shareholders and has adopted a policy of granting stock options to directors.

Directors are entitled to annual grants of stock options as follows:

| | |
|------------------------------|---------------|
| Board Chairman | 4,500 - 5,500 |
| Committee Chairman | 3,500 - 4,500 |
| Board members (non-chairman) | 3,000 - 4,000 |

In 2010, each of the directors received stock options in accordance with the above schedule, except John M. Eggemeyer and W. Kirk Wycoff who joined the Board in August 2010 and did not receive stock options in 2010.

Director Fee Deferral Plan

Directors may defer their fees through deferred compensation agreements ("Deferral Agreements"). Under the Deferral Agreements, a participating director may defer up to 100% of his or her board fees into a deferred account. The applicable rate of interest is the prime rate published by the Wall Street Journal on the immediately preceding December 31st. A participating director is eligible to begin receiving benefits upon termination of service on the Board for any reason including death or disability. None of our current directors participate in the deferral program.

The following table summarizes the compensation of non-employee directors for the year ended December 31, 2010.

Table of Contents**Director Compensation Table**

| Name (a) | Fees Earned or Paid in | | Stock Awards (\$) (c) | Options Awards (\$) (d)(1) | Non-Equity Incentive Plan Compensation (\$) (e) | Nonqualified Deferred Compensation Earnings (\$) (f)(2) | All Other Compensation (\$) (g) | Change in Pension Value and Total (\$) (h) |
|-----------------------------|------------------------------|--|--------------------------------|-------------------------------------|--|--|--|---|
| | Cash (\$) (b) | | | | | | | |
| Frank G. Bisceglia | \$ 48,000 | | | \$ 7,000 | | \$ 11,600 | \$ 827(3) | \$ 67,427 |
| Jack W. Conner | \$ 56,004 | | | \$ 9,000 | | \$ 9,400 | \$ 3,369(3) | \$ 77,773 |
| John M. Eggemeyer(4) | \$ 18,750 | | | | | | | \$ 18,750 |
| Celeste V. Ford | \$ 45,000 | | | \$ 6,000 | | | | \$ 51,000 |
| John J. Hounslow(5) | \$ 22,500 | | | | | | | \$ 22,500 |
| Mark E. Lefanowicz(6) | \$ 45,000 | | | \$ 6,000 | | | | \$ 51,000 |
| Robert T. Moles | \$ 48,000 | | | \$ 7,000 | | \$ 18,800 | | \$ 73,800 |
| Humphrey P. Polanen | \$ 48,000 | | | \$ 7,000 | | \$ 36,800 | \$ 732(3) | \$ 92,532 |
| Charles J. Toeniskoetter | \$ 48,000 | | | \$ 7,000 | | \$ 18,800 | \$ 696(3) | \$ 74,496 |
| Ranson W. Webster | \$ 48,000 | | | \$ 7,000 | | \$ 14,300 | \$ 332(3) | \$ 69,632 |
| W. Kirk Wycoff(4) | \$ 18,750 | | | | | | | \$ 18,750 |

- (1) The amounts shown in column (d) reflect the grant date fair value for stock options issued under the Company's 2004 Equity Plan in 2010, as determined pursuant to generally accepted accounting principles. See Note 10 to the Company's consolidated financial statements for the year ended December 31, 2010, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 7, 2011.
- (2) The amounts shown in column (f) represent only the aggregate change in the actuarial present value of the accumulated benefit measured from December 31, 2009 to December 31, 2010, under the respective director compensation benefits agreements. The amounts in column (f) were determined using interest rate and mortality rate assumptions, consistent with those used in the Company's consolidated financial statements, and include amounts which the named director may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 11 to the Company's consolidated financial statements for the year ended December 31, 2010, included in the Company's Annual Report on Form 10-K filed with the SEC on March 7, 2011.
- (3) The amounts shown reflect the annual income imputed to each director in connection with Company owned split dollar life insurance policies for which the Company has fully paid the applicable premiums.
- (4) Messrs. Eggemeyer and Wycoff joined in Board in August 2010.
- (5) Mr. Hounslow resigned from the Board in July 2010.
- (6) Mr. Lefanowicz's term will end at the 2011 Annual Meeting, and he has notified the Company that he does not intend to stand for re-election.

Table of Contents***Director Outstanding Stock Options***

Each of the non-employee directors owned the following stock options granted under the 1994 Stock Option Plan and/or 2004 Equity Plan as of December 31, 2010:

| Director | Stock Options |
|--------------------------|----------------------|
| Frank G. Bisceglia | 24,800 |
| Jack W. Conner | 28,300 |
| John M. Eggemeyer(1) | |
| Celeste V. Ford | 10,500 |
| John J. Hounslow(2) | |
| Mark E. Lefanowicz(3) | 10,000 |
| Robert T. Moles | 24,300 |
| Humphrey P. Polanen | 19,800 |
| Charles J. Toeniskoetter | 32,300 |
| Ranson W. Webster | 24,800 |
| W. Kirk Wycoff(1) | |

- (1) Messrs. Eggemeyer and Wycoff joined the Board in August 2010.
- (2) Mr. Hounslow resigned from the Board in July 2010, and the terms of the stock options issued to Mr. Hounslow have expired.
- (3) Mr. Lefanowicz's term will end at the 2011 Annual Meeting, and he has notified the Company that he does not intend to stand for re-election.

Director Compensation Benefits Agreement

Prior to 2007, the Company entered into individual director compensation benefits agreements with each of its then directors. These agreements were amended and restated in December, 2008 ("Benefit Agreements"). The Benefit Agreements provide an annual benefit equal to a designated applicable percentage of \$1,000 times each year served as a director, subject to a 2% increase each year from the date of the commencement of payments. The applicable percentage increases over time and equals 100% after nine years of service. In the event of a disability, or a resignation or termination pursuant to a change of control, the director's applicable percentage will be accelerated to 100%. Payments of benefits will be made in equal monthly payments on the first day of each month, commencing on the later of the director's attaining the age of 62 or the month following the month in which the director separates from service on the Board and continuing until the director's death. If a director is removed from the Board for cause he or she will forfeit any benefits under the Benefit Agreement. All of the participating directors are fully vested, except Jack W. Conner, Robert T. Moles, Charles J. Toeniskoetter, and Ranson W. Webster.

Company-owned split-dollar life insurance policies support the Company's obligations under the Benefit Agreements. The premiums on the policies are paid by the Company. The cash value accrued on the policies supports the payment of the supplemental benefits for each participant. In the case of death of the participant, the participant's designated beneficiaries will receive 80% of the net-at-risk insurance (which means the amount of the death benefit in excess of the cash value of the policy).

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Table of Contents

The following table shows the present value of the accumulated benefit payable to each director who has a director compensation benefit agreement, including the number of service years credited to each director under the Benefit Agreements.

| Name (a) | Plan Name (b) | Number of Years Credited Service (#) (c) | Present Value of Accumulated Benefit(1)(2) (\$) (d) | Payments During Last Fiscal Year (\$) (e) |
|--------------------------|--------------------------------|---|--|---|
| Frank G. Bisceglia | Heritage Commerce Corp SERP | 17 | \$ 193,800 | |
| Jack W. Conner | Heritage Commerce Corp SERP | 6 | \$ 43,200 | |
| Robert T. Moles | Heritage Commerce Corp SERP | 6 | \$ 69,600 | |
| Humphrey P. Polanen | Heritage Commerce Corp SERP | 17 | \$ 231,400 | |
| Charles J. Toeniskoetter | Heritage Commerce Corp SERP | 9 | \$ 96,400 | |
| Ranson W. Webster | Heritage Commerce Corp SERP | 7 | \$ 58,400 | |

(1) The amounts in column (d) were determined using interest rate and mortality rate assumptions consistent with those used in the Company's consolidated financial statements and include amounts which the named executive officer may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 11 to the Company's consolidated financial statements for the fiscal year ended December 31, 2010 included in the Company's Annual Report on Form 10-K filed with the SEC on March 7, 2011.

(2) The following vesting percentages apply to the directors:

| End of the year prior to termination | Frank G. Bisceglia | Jack W. Conner | Robert T. Moles | Humphrey P. Polanen | Charles T. Toeniskoetter | Ranson W. Webster |
|---|-----------------------|-------------------|--------------------|------------------------|-----------------------------|----------------------|
| 12/31/2010 | 100% | 70% | 70% | 100% | 90% | 70% |
| 12/31/2011 | 100% | 80% | 80% | 100% | 100% | 80% |
| 12/31/2012 | 100% | 90% | 90% | 100% | 100% | 90% |
| 12/31/2013 | 100% | 100% | 100% | 100% | 100% | 100% |
| 12/31/2014 | 100% | 100% | 100% | 100% | 100% | 100% |

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

The Bylaws of the Company provide that the number of directors shall not be less than 9 nor more than 15. By resolution, the Board of Directors has fixed the number of directors at 11. All of our directors serve one year terms that expire at the next following annual meeting. The Bylaws of the Company provide the procedure for nominations and election of the Board of Directors. For information on these procedures see "Corporate Governance and Board Matters Nomination of Directors." Nominations not made in accordance with the procedures may be disregarded by the Chairman of the Annual Meeting and upon his instructions, the inspector of election will disregard all votes cast for such nominees.

The Board of Directors, upon the recommendation of the Corporate Governance and Nominating Committee, has recommended the nomination of the 10 current members of the Board of Directors for one year terms that will expire at the Annual Meeting to be held in 2012. On April 6, 2011, Mark Lefanowicz notified the Company that he will not stand for re-election as a director when his term ends at this year's Annual Meeting of Shareholders. Mr. Lefanowicz will thereby retire from our Board effective May 25, 2011. The Board intends to fill the vacancy as soon as practicable in 2011.

John M. Eggemeyer and W. Kirk Wycoff were appointed to the Board in August 2010. Mr. Eggemeyer was appointed at the request of Castle Creek Capital Partners IV, L.P. ("Castle Creek"). Mr. Wycoff was appointed to the Board at the request of Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P. (together, the "Patriot Funds"). Castle Creek and the Patriot Funds, each have a right to representation on our Board of Directors under the Securities Purchase Agreement, dated June 21, 2010, between the Company and the investors named therein in connection with the Company's June 2010 private placement. Castle Creek and the Patriot Funds are holders of our common stock and our Series C Preferred Stock. The Board's Corporate Governance and Nominating Committee approved, and the Board has recommended, the election of Mr. Eggemeyer and Mr. Wycoff as directors at the Annual Meeting. For further information, see the sub-section entitled Corporate Governance and Board Matters Nomination of Directors" in this Proxy Statement.

If any nominee should become unable or unwilling to serve as a director, the proxies will be voted at the Annual Meeting for substitute nominees designated by the Board. The Board presently has no knowledge that any of the nominees will be unable or unwilling to serve.

The following provides information with respect to each person nominated and recommended to be elected to the Board of Directors:

FRANK G. BISCEGLIA, age 65, became a director of the Company in 1994. Mr. Bisceglia is a Senior Vice President Investments, Advisory and Brokerage Services, Senior Portfolio Manager, Portfolio Management Program at UBS Financial Services, Inc., a full-service securities firm. Mr. Bisceglia has a Bachelor of Science degree in Investment Management from San Jose State University. Mr. Bisceglia contributes to the Board a substantial understanding of finance and investments from over 31 years of experience as a financial advisor to corporate and high-wealth individuals. As a long-term member of the Board and its Loan Committee, he has a broad based understanding of the Company's business and he has developed a general knowledge of the Company's credit administration and loan underwriting process.

JACK W. CONNER, age 71, became a director of the Company in 2004. Mr. Conner was elected Chairman of the Board in July, 2006. Mr. Conner was Chairman and Chief Executive Officer of Comerica California from 1991 until his retirement in 1998, and remained a director until 2002. He was President and a director of Plaza Bank of Commerce from 1979 to 1991. Prior to joining Plaza Bank of Commerce, he held various positions with Union Bank of California where he began his banking career in 1964. Mr. Conner has a Bachelor of Arts degree from San Jose State University. Mr. Conner contributes to the Board over 20 years of executive leadership and substantial experience in the community banking industry. Having served as a Chief Executive Officer and President at several successful community banks in the Company's primary market, he brings a wide-ranging understanding of bank management, finance,

Table of Contents

operations and strategic planning. His demonstrated leadership ability, judgment and executive experience led the Board to elect him as Chairman of the Board.

JOHN M. EGGEMEYER III, age 65, is a co-founder and Chief Executive of Castle Creek Capital LLC, a merchant banking firm specializing in the financial services industry, and Castle Creek Financial LLC, a licensed broker/dealer. Mr. Eggemeyer is Chairman of the Board of PacWest Bancorp, and Chairman and Chief Executive Officer of White River Capital, Inc., and its wholly owned subsidiary, Union Acceptance LLC. Mr. Eggemeyer also serves as a director of Guaranty Bancorp and its subsidiary, Guaranty Bank and Trust Company. From 2004 to May 2006, Mr. Eggemeyer also served as Chief Executive Officer of Guaranty Bancorp. Within the past five years, he served as a director of TCF Financial Corporation (until April 2006) and American Financial Realty Trust (until October 2005). Mr. Eggemeyer also currently serves as a trustee of Northwestern University, the Parent Advisory Board of Stanford University and The Bishop's School in La Jolla, CA. Mr. Eggemeyer brings extensive leadership and banking experience to our Board, including specific community banking expertise and management experience, as well as public company expertise and consensus-building skills. In addition, his knowledge of and experience in capital markets is an invaluable resource as the Company regularly assesses its capital and liquidity needs. In addition, Mr. Eggemeyer provides perspective to the Board as a key investor in the Company.

CELESTE V. FORD, age 54, became a director of the Company in 2009. Since 1995, Ms. Ford has served as the Chief Executive Officer of Stellar Solutions, Inc., a professional aerospace engineering services firm she formed. In 2000, she founded Stellar Ventures, a venture investment company for investment in early-stage technology development and market applications. In 2000, Ms. Ford co-founded QuakeFinder, LLC to research, develop and market technology to enable global forecasts of seismic activity. In 2004, she organized Stellar Solutions Aerospace Ltd., based in London, to serve overseas markets. Ms. Ford has received wide recognition in her field, having served on congressional commissions in the aerospace industry as well as on business panels focusing on entrepreneurship and women in business. She previously served as a member of the Boards of Directors of Foundry Networks, Bay Microsystems, Women's High Tech Coalition, and California Space Authority. Ms. Ford has a Bachelor of Science degree from the University of Notre Dame, and a Masters of Science degree from Stanford University. Ms. Ford contributes to the Board her demonstrated executive leadership and general business knowledge developed from her substantial success as an entrepreneur. Her engineering background, industry standing and government service bring a unique perspective to the Board.

WALTER T. KACZMAREK, age 59, became President, Chief Executive Officer and a director of the Company in 2005. Mr. Kaczmarek was Executive Vice President of Comerica Bank and of Plaza Bank of Commerce from 1990 to 2005. Prior to joining Plaza Bank of Commerce he served in various positions with Union Bank of California and also The Martin Group, a real estate investment development company. Mr. Kaczmarek contributes to the Board his breadth of knowledge of the Company's business, industry and strategy. Mr. Kaczmarek has a Bachelor of Science in Commerce degree from Santa Clara University, and a Masters in Business Administration degree from San Jose State University. He brings to the Board a full understanding of the Company's banking business, markets, community and culture. He provides the Board with an overall perspective of all facets of the Company's business, financial condition and its strategic direction. Mr. Kaczmarek's leadership, communication, and decision-making skills are of particular value to the Board.

ROBERT T. MOLES, age 56, became a director of the Company in 2004. Mr. Moles has been the Chairman of the Board of Intero Real Estate Services, Inc., a full-service real estate firm since 2002. Prior to joining Intero, he served as President and Chief Executive Officer of the Real Estate Franchise Group of Cendant Corporation, the largest franchiser of residential and commercial real estate brokerage offices in the world. Prior to joining Cendant, he served as President and Chief Executive Officer of Contempo Realty, Inc. in Santa Clara, California. Mr. Moles contributes to the Board a substantial expertise in the real estate industry in the Company's primary market. With over 33 years of experience in executive and

Table of Contents

managerial positions, he brings to the Board his skills in dealing with business and financial planning and personnel management. With his background, the Board elected him as Chairman of the Compensation Committee.

HUMPHREY P. POLANEN, age 61, became a director of the Company in 1994. Mr. Polanen is the managing member of Sand Hill Management Partners LLC, a private equity investment fund. Since 1999, Mr. Polanen has been actively involved as an investor and director in various venture capital-backed companies in the technology industry, and has served as a director of various private equity funds. He was the Managing Director of Internet Venture Partners BV, an investment firm, from 2000 to 2004. Prior to joining Internet Ventures he served in various executive positions with Sun Microsystems and Tandem Computers. Mr. Polanen is a director (and former Chairman of the Board) of St. Bernard Software, a publicly traded Internet security company. Mr. Polanen practiced corporate law for over 10 years at the beginning of his career. He has a Bachelor of Arts degree from Hamilton College and a Juris Doctorate degree from Harvard University. Mr. Polanen contributes to the Board a sophisticated knowledge and effective leadership perspective of general business, finance, investments and financial reporting developed over 30 years of experience as an executive, investor, director and business manager with advanced technology companies and private equity firms. He provides the Board with an important perspective on the technology industry. With his background, the Board elected him as Chairman of the Audit Committee.

CHARLES J. TOENISKOETTER, age 66, became a director of the Company in 2002. Mr. Toeniskoetter is Chairman of the Board of Toeniskoetter & Breeding, Inc., Development, a Silicon Valley real estate development and investment company. He is a member of the Board of Directors of Redwood Trust, Inc. and SJW Corp. (both New York Stock Exchange companies). Mr. Toeniskoetter has a Bachelor of Science degree from the University of Notre Dame and a Master of Business Administration degree from Stanford University. Mr. Toeniskoetter contributes to the Board his entrepreneurial skills and substantial experience as a successful real estate owner, developer and investor, and his executive and financial experience as the owner of several businesses in the Company's primary market. Mr. Toeniskoetter's involvement in local and community affairs, and his service on the boards of two other publicly traded companies provide valuable insight and perspective to the Board.

RANSON W. WEBSTER, age 66, became a director of the Company in 2004. Mr. Webster founded Computing Resources, Inc. ("CRI") in 1978, a privately-held general purpose service bureau specializing in automating accounting functions. He served as CRI's Chief Executive Officer and Chief Financial Officer. In 1999, CRI merged with Intuit, Inc., the maker of QuickBooks and Quicken financial software. In 1998, Mr. Webster founded Evergreen Capital, LLC, an early stage investment company focused on Internet and biotech companies. Mr. Webster contributes to the Board substantial business acumen, executive strategic planning and financial experience developed through years of proven entrepreneurial success. Mr. Webster has a unique perspective of the Company and from his long-standing service on the Board. He has a general understanding of corporate governance principles as Chairman of the Board's Nominating and Corporate Governance Committee.

W. KIRK WYCOFF, age 53, is a managing partner of Patriot Financial Partners, a private equity fund focused on investing in community banks and thrifts throughout the United States. He has more than 25 years of entrepreneurial banking experience. Mr. Wycoff serves as a director of Guaranty Bancorp and its subsidiary, Guaranty Bank and Trust Company. He also serves as Chairman of Continental Bank Holdings, Inc. and its subsidiary, Continental Bank. In addition, Mr. Wycoff serves as a director of Franklin Security Bancorp, Inc. and its subsidiary, Franklin Security Bank, and as a director of Porter Bancorp, Inc. and its subsidiary, PBI Bank. From 2005 to 2007, Mr. Wycoff served as President and Chief Executive Officer of Continental. From 1991 to 2004, Mr. Wycoff was Chairman and Chief Executive Officer of Progress Financial Corp., which was acquired by FleetBoston Financial Corp. in 2004. As an active member of the community, Mr. Wycoff serves on the Board of Directors of non-profit corporations including the Continental Foundation, which raises money for less privileged children, and the Lincoln

Table of Contents

Center, which helps to provide alternative education programs for troubled youth and also helps families with life transitions. Mr. Wycoff serves as a Trustee of Franklin and Marshall College. Mr. Wycoff brings extensive leadership and community banking experience to our Board, including executive management experience, as well as public company expertise and risk assessment skills. In addition, he provides perspective to the Board as a key investor in the Company.

Recommendation of the Board of Directors

The Board of Directors recommends the election of each nominee. The proxy holders intend to vote all proxies they hold in favor of the election of each of the nominees. If no instruction is given, the proxy holders intend to vote FOR each nominee listed.

Table of Contents

PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Company's executive compensation program is intended to attract, motivate, reward and retain the senior management talent required to achieve our corporate objectives and increase shareholder value. We believe that our compensation policies and procedures are centered on a pay-for-performance philosophy and are strongly aligned with the long-term interests of our shareholders. See "Executive Compensation Compensation Discussion and Analysis."

Under the American Recovery and Reinvestment Act of 2009, as a participant in the Capital Purchase Program we are required to provide shareholders with the right to cast an advisory vote on our compensation program at each annual meeting of shareholders (commonly referred to as a "say-on-pay" vote). The "say-on-pay" vote required by the Capital Purchase Program is similar to the "say-on-pay" vote required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, except that under the Capital Purchase Program this vote must occur annually, while under the Dodd-Frank Act, the Company may hold the vote every year, every other year or every three years. In deciding how frequently to hold the "say-on-pay" vote required under the Dodd-Frank Act, the Company is required to seek the views of its shareholders as to the frequency with which the vote shall be held at least once every six years. Because the Company is required to submit this say-on-pay vote to its shareholders annually by virtue of its participation in the Capital Purchase Program, it is not currently required to submit to its shareholders the say-on-pay vote or the vote regarding the frequency with which it will hold say-on-pay votes required by the Dodd-Frank Act. These votes will be required at the first annual meeting of shareholders after the Company is no longer subject to the say-on-pay requirements by virtue of its participation in the Capital Purchase Program.

As a result, the Company is presenting this proposal, which gives you as a shareholder the opportunity to endorse or not endorse our executive pay program by voting for or against the following resolution:

"RESOLVED, that the shareholders approve the compensation of our executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosures contained in the proxy statement."

The Board of Directors recommends that shareholders endorse the compensation program for our executive officers by voting FOR the above resolution. As discussed in the Compensation Discussion and Analysis contained in this proxy statement, the Compensation Committee of the Board of Directors believes that the executive compensation for 2010 was reasonable and appropriate, and was the result of a carefully considered approach.

In the event this non-binding proposal is not approved by our shareholders, such a vote shall not be construed as overruling a decision by the Board of Directors or Compensation Committee, nor create or imply any additional fiduciary duty by the Board of Directors or Compensation Committee, nor shall such a vote be construed to restrict or omit the ability of our shareholders to make proposals for inclusion in proxy materials related to executive compensation. Notwithstanding the foregoing, the Board of Directors and Compensation Committee will consider the non-binding vote of our shareholders to this proposal when reviewing compensation policies and practices in the future.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR this Advisory Proposal on Executive Compensation. The proxy holders intend to vote all proxies in favor of this proposal. If no instruction is given, the proxy holders intend to vote FOR the proposal.

Table of Contents

PROPOSAL 3 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors, upon the recommendation of its Audit Committee, has ratified the selection of Crowe Horwath LLP to serve as our independent registered public accounting firm for 2011, subject to ratification by our shareholders. A representative of Crowe Horwath LLP will be present at the Annual Meeting to answer questions and will have the opportunity to make a statement if so desired.

We are asking our shareholders to ratify the selection of Crowe Horwath LLP as our independent registered public accounting firm. Although ratification is not required by our Bylaws, the SEC or The NASDAQ Stock Market, the Board is submitting the selection of Crowe Horwath LLP to our shareholders for ratification because we value our shareholders' views on the Company's independent registered public accounting firm and as a matter of good corporate practice. In the event that our shareholders fail to ratify the selection of Crowe Horwath LLP, however, we reserve the discretion to retain Crowe Horwath LLP as our independent registered public accounting firm for 2011. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders.

Audit Committee Report

In accordance with its written charter adopted by the Company's Board of Directors, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and financial reporting practices of the Company. During 2010, the Committee met 9 times, and the Committee chair, as representative of the Audit Committee, discussed the interim financial information contained in each quarterly earnings announcement with the Chief Financial Officer prior to public release. The Committee discussed the interim financial statements with the Chief Financial Officer and the independent auditors prior to the filing of each quarterly Form 10-Q.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Committee reviewed with both the independent auditors and the internal auditors their audit plans, scope, and results.

The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees," and discussed and reviewed the results of the independent auditors' audit of the consolidated financial statements. The Committee also reviewed and discussed the results of the internal audit examinations.

The Committee reviewed the audited financial statements of the Company as of and for the year ended December 31, 2010, with management and the independent auditors. The Committee has also reviewed "Management's Report on Internal Control over Financial Reporting" and the independent registered public accounting firm's opinion on the effectiveness of the Company's internal control over financial reporting, and discussed these reports and opinions with management and the independent registered public accounting firm prior to the Company's filing of its Annual Report on Form 10-K for the year ended December 31, 2010.

Edgar Filing: HERITAGE COMMERCE CORP - Form DEF 14A

Table of Contents

Based on the above-mentioned review and discussion with management and the independent auditors, the Committee recommended to the Board of Directors that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2010, for filing with the SEC.

Heritage Commerce
Corp
Audit Committee

Humphrey P. Polanen,
Chairman
Celeste V. Ford
Mark E. Lefanowicz

March 3, 2011

The Audit Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or the Securities Act of 1934, and shall not otherwise be deemed filed under these Acts.

Table of Contents**Independent Registered Public Accounting Firm Fees**

The following table summarizes the aggregate fees billed to the Company by its independent auditor:

| Category of Services | Fiscal Year 2010 | Fiscal Year 2009 |
|-----------------------|---------------------|---------------------|
| Audit fees(1) | \$ 594,975 | \$ 684,028 |
| Audit-related fees(2) | 76,975 | 105,180 |
| Tax fees(3) | 89,850 | 76,550 |
| Total accounting fees | \$ 761,800 | \$ 865,758 |

- (1) Fees for audit services for 2010 and 2009 consisted of the audit of the Company's annual financial statements, review of the consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q, and the audit of the Company's internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Fees for 2009 include services related to the Company's two registration statements filed with the SEC in 2009.
- (2) Fees for audit related services for 2010 and 2009 consisted of financial accounting and reporting consultations, consents and other services related to SEC matters, and audits of the consolidated financial statements of the Company's employee benefit plans.
- (3) Fees for tax services for 2010 and 2009 consisted of tax compliance and tax planning and advice.

Fees for tax compliance services totaled \$40,000 and \$43,000 in 2010 and 2009, respectively. Tax compliance services are those rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings. Such services consisted primarily of preparation of the Company's consolidated federal and state income tax returns, assistance with state tax credits, and assistance regarding audits of the Company's California state tax returns.

Tax planning and advice services are those rendered with respect to proposed transactions, assistance regarding the Internal Revenue Code Section 280(G) "excise tax gross-up" disclosures in the proxy statement for hypothetical events, and consultation with management regarding various internal control and accounting matters. Tax planning and advice services totaled \$49,850 and \$33,550 in 2010 and 2009, respectively.

The ratio of tax planning and advice fees and all other fees to audit fees, audit-related fees and tax compliance fees was approximately 7% and 4% for 2010 and 2009, respectively.

In considering the nature of the services provided by the independent registered public accounting firm, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the independent registered public accounting firm and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC and the Public Company Accounting Oversight Board.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Under applicable SEC rules, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accountants in order to ensure that they do not

Table of Contents

impair the auditors' independence. The SEC's rules specify the types of non-audit services that the independent registered public accountants may not provide to its audit client and establish the Audit Committee's responsibility for administration of the engagement of the independent registered public accountants.

Consistent with the SEC's rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent registered public accountants to the Company or any of its subsidiaries. The Audit Committee may delegate pre-approval authority to the Chair of the Audit Committee and if it does, the decisions of that member must be presented to the full Audit Committee at its next scheduled meeting.

Recommendation of the Audit Committee and the Board of Directors

The Audit Committee of the Board of Directors and the Board of Directors recommends approval of the ratification of the appointment of Crowe Horwath LLP as the Company's independent registered public accounting firm for the year ended December 31, 2011. The proxy holders intend to vote all proxies they hold in favor of the proposal. If no instruction is given, the proxy holders intend to vote FOR approval of the proposal.

Table of Contents

OTHER BUSINESS

If any matters not referred to in this proxy statement come before the meeting, including matters incident to conducting the meeting, the proxy holders will vote the shares represented by proxies in accordance with their best judgment. Management is not aware of any other business to come before the meeting and, as of the date of the preparation of this proxy statement, no shareholder has submitted to management any proposal to be acted upon at the meeting.

SHAREHOLDER PROPOSALS

Under certain circumstances, shareholders are entitled to present proposals at shareholders' meetings, provided that the proposal is presented in a timely manner and in a form that complies with applicable regulations. Any shareholder proposals intended to be presented for consideration at the 2012 Annual Meeting of Shareholders, and to be included in the Company's proxy statement for that meeting under SEC Rule 14a-8, must be received by the Company for inclusion in the proxy statement and form of proxy for that meeting no later than December 17, 2011, in a form that complies with applicable regulations. If the date of next year's Annual Meeting is moved more than 30 days before or after the anniversary of this year's Annual Meeting, the deadline for inclusion is instead a reasonable time before the Company begins to print and mail its proxy materials.

For a shareholder proposal to be presented at the Annual Meeting that is not intended to be included in the Company's proxy statement under SEC Rule 14a-8, the proposal must be submitted at least 45 days before the date this proxy statement and form of proxy is first mailed to shareholders. If the date of next year's Annual Meeting is more than 30 days before or after the anniversary of this year's Annual Meeting, the deadline for submitting a proposal is instead a reasonable time before the Company begins to print and mail its proxy materials.

HERITAGE COMMERCE CORP

Debbie Reuter
Corporate Secretary

April 15, 2011
San Jose, California

