

HERITAGE COMMERCE CORP
Form 8-K
January 24, 2003

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

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **January 22, 2003**

Heritage Commerce Corp

(Exact name of registrant as specified in its charter)

California

(State of Incorporation)

000-23877

(Commission File Number)

77-0469558

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices including zip code)

(408) 947-6900

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former Address, if changed since last report)

Item 5. Other Events.

Heritage Commerce Corp Reports Financial Results
for the Year Ended December 31, 2002

Heritage Commerce Corp (the "Company") (Nasdaq: HTBK) today reported consolidated operating results for the year ended December 31, 2002. Consolidated net income was \$7,177,000, or \$0.63 per diluted share, compared to \$7,268,000, or \$0.64 per diluted share, for the year ended December 31, 2001. Return on average assets and return on average equity for the year ended December 31, 2002 were 0.77% and 9.14%, respectively, compared with returns of 0.84% and 10.23%, respectively, for the year ended December 31, 2001.

For the three months ended December 31, 2002, the Company reported net income of \$2,291,000, or \$0.20 per diluted share. For the three months ended December 31, 2001, net income was \$1,374,000, or \$0.12 per diluted share. Return on average assets and return on average equity for the three months ended December 31, 2002 were 0.95% and 11.07%, respectively, compared with returns of 0.60% and 7.30%, respectively, for the three months ended December 31, 2001.

Net interest income declined \$3,120,000, or 8%, for the year ended December 31, 2002 to \$37,519,000 from \$40,639,000 for the year December 31, 2001. Although the Company experienced a 5% increase in the volume of average earning assets during 2002, it did not fully offset the effect of the decline in interest rates. Overall, the Company's net interest margin declined 61 basis points to 4.39% for the year ended December 31, 2002, from 5.00% for the year ended December 31, 2001, reflecting the impact of a full year's reduction in interest rates that took place in 2001. The Company's net interest margin was 4.55% for the three months ended December 31, 2002, compared with 4.17% for the three months ended December 31, 2001 and 4.36% for the third quarter of 2002, evidencing the effect of interest bearing deposits repricing at lower interest rates.

NoninterestNoninterest income was \$9,030,000 for the year ended December 31, 2002, compared with \$6,297,000 for the year ended December 31, 2001. The increase in 2002 of \$2,733,000, or 43%, was primarily due to increases in gain on sale of securities of \$304,000, service charges and other fees of \$458,000, servicing income of \$603,000, gain on sale of SBA loans of \$504,000, and other noninterest income of \$864,000. The increase in other noninterest income was primarily due to an increase in fees of \$459,000 from the Company's residential mortgage loan operation. The increase in servicing income and the overall increase in gain on sales of loans was primarily the result of increased SBA loan origination from the Company's eight SBA loan production offices. The increases in service charges and other fees were primarily the result of an increase in activity resulting from the growth of the Company. In addition, the fourth quarter of 2002 includes a \$172,000 gain on sale of the Company's credit card portfolio and \$103,000 of leasing income.

During 2002 the Company continued to focus on managing operating expenses. NoninterestNoninterest expense for the year ended December 31, 2002 was \$33,209,000, down slightly from \$33,348,000 for the year ended December 31, 2001. Salaries and employee benefits, the single largest component of operating expenses, were \$18,116,000 for the year ended December 31, 2002, approximately equal to \$18,120,000 for the year ended December 31, 2001. The fourth quarter includes approximately \$300,000 of severance and other expenses associated with the merger of the wholly owned subsidiaries of the Company.

As of December 31, 2002, the Company's total assets were \$958,752,000, an increase of \$46,022,000, or 5%, from \$912,730,000 as of December 31, 2001. Total loans were \$673,907,000 as of December 31, 2002, up 6% from \$632,917,000 as of December 31, 2001. Total deposits were \$841,936,000 as of December 31, 2002, up 4% from \$807,908,000 as of December 31, 2001.

The Company added \$2,663,000 to the loan loss provision in 2002, compared with \$1,910,000 in 2001, an increase of \$753,000, or 39%. The Company's net loan charge-offs for the year ended December 31, 2002 were \$591,000, representing 0.09% of average loans, compared to \$406,000, representing 0.07% of average loans, for the year ended December 31, 2001. The Company's allowance for loan losses was \$13,227,000, or 1.96% of total loans, as of December 31, 2002, compared to \$11,154,000, or 1.76% of total loans, as of December 31, 2001. The increase in the

allowance for loan losses reflects continued weaknesses in the economy. The Company's nonperforming assets were \$4,571,000, or 0.68% of outstanding loans, as of December 31, 2002, primarily a result of the placement of one commercial real estate loan on nonaccrual status in 2002. There were no nonperforming assets as of December 31, 2001.

Shareholders' equity as of December 31, 2002 was \$82,865,000 compared with \$74,574,000 as of December 31, 2001. Book value per share increased to \$7.39 as of December 31, 2002, from \$6.71 as of December 31, 2001. The Company's leverage capital ratio was 10.80% as of December 31, 2002, up from 10.20% as of December 31, 2001. All of the Company's subsidiary bank capital ratios continue to be above the well-capitalized guidelines established by the bank regulatory agencies.

During 2002, the Company's Board of Directors approved the merger of three of its wholly owned commercial bank subsidiaries into the Company's original wholly owned bank subsidiary. On January 1, 2003, Heritage Bank East Bay, Heritage Bank South Valley, and Bank of Los Altos were merged into Heritage Bank of Commerce. Heritage Bank East Bay, Heritage Bank South Valley, and Bank of Los Altos now operate as divisions of Heritage Bank of Commerce and continue to serve their local markets and communities under their current names. As the Company continues to develop, consolidating the four bank operations under one bank charter is expected to eliminate many of the duplicate activities required to maintain four separate charters, thus creating opportunities for additional cost savings and increased efficiency in the delivery of products and services.

Heritage Commerce Corp, a bank holding company established in February 1998, is the parent company of Heritage Bank of Commerce, headquartered in San Jose. Heritage Bank of Commerce has three divisions: Heritage Bank East Bay, headquartered in the city of Fremont with an office in Danville; Heritage Bank South Valley in Morgan Hill with an office in Gilroy, and Bank of Los Altos, with two locations in Los Altos and one in Mountain View, and SBA Loan Production Offices in San Jose, Fresno, Santa Cruz, Elk Grove, Watsonville, Chico, Pittsburg, and Glendale.

The Company's common stock is listed on the Nasdaq National Market under the symbol "HTBK".

Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the year ended December 31, 2001 and the Quarterly Reports on Form 10-Q filed by the Company in fiscal 2002.

For further information about the Company's financial performance, contact Brad L. Smith, Chairman and Chief Executive Officer, at (408) 947-6900 or visit the Company's website at www.heritagecommercecorp.com

Forward Looking Statement Disclaimer

This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Company is conducting its operations, including the real estate market in California and other factors beyond the Company's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. For a discussion of factors which could cause results to differ, please see the Company's reports on Forms 10-K and 10-Q as filed with the Securities and Exchange Commission and the Company's press releases. Readers should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

HERITAGE COMMERCE CORP Condensed Consolidated Financial Information (Unaudited)

(Dollars in thousands, except Per Share amounts)	At and For the Three Months Ended			Percent Change
	December 31, 2002	September 30, 2002	December 31, 2001	September 30, 2002
Per Share Data				
Earnings Per Share (EPS):				
Basic EPS	\$ 0.20	\$ 0.16	\$ 0.12	25 %
Diluted EPS	\$ 0.20	\$ 0.16	\$ 0.12	25 %
End of Period(EOP) Book Value Per Share	\$ 7.39	\$ 7.22	\$ 6.71	2 %
EOP Shares Outstanding	11,214,414	11,184,917	11,114,967	0 %
Weighted Average Basic Shares Outstanding	11,197,983	11,169,765	11,113,884	0 %
Weighted Average Diluted Shares Outstanding	11,450,945	11,448,259	11,381,959	0 %
Income Statement Data				
Interest Income	\$ 13,344	\$ 13,051	\$ 14,198	2 %
Interest Expense	3,296	3,655	5,250	(10) %
Net Interest Income	10,048	9,396	8,948	7 %
Loan Loss Provision	597	750	576	(20) %
Noninterest Income:				
Service Charges and Other Fees	378	360	282	5 %
Gain on Sale of Loans	688	596	453	15 %
Gain on Sales of Securities Available-For-Sale	250	361	0	(31) %
Servicing Income	383	362	236	6 %
Other Noninterest Income	1,094	681	572	61 %
Total Noninterest Income	2,793	2,360	1,543	18 %
Noninterest Expense:				
Salaries & Employee Benefits	4,355	4,580	3,931	(5) %
Occupancy & Equipment	1,287	1,193	1,123	8 %
Other Noninterest Expense	3,204	2,573	2,671	25 %
Total Noninterest Expense	8,846	8,346	7,725	6 %
Income Before Taxes	3,398	2,660	2,190	28 %
Income Taxes	1,107	848	816	31 %
Net Income	\$ 2,291	\$ 1,812	\$ 1,374	26 %
Average Balances				
Average Loans	\$ 644,550	\$ 631,995	\$ 632,764	2 %
Average Other Earning Assets	\$ 232,315	\$ 222,303	\$ 218,173	5 %
Average Earning Assets	\$ 876,865	\$ 854,298	\$ 850,937	3 %
Average Assets	\$ 954,023	\$ 928,433	\$ 909,385	3 %
Average Interest Bearing Deposits	\$ 606,204	\$ 609,537	\$ 609,397	(1) %
Average Equity	\$ 82,089	\$ 79,434	\$ 74,624	3 %
Average Deposits	\$ 838,849	\$ 819,488	\$ 812,525	2 %

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End of Period Balances

EOP Loans:							
Real Estate - Land and Construction	\$	147,822	\$	136,631	\$	174,077	8 %
Real Estate - Mortgage		259,974		261,037		246,119	0 %
Commercial		263,261		228,696		208,888	15 %
Consumer		2,850		4,320		3,833	(34) %
Total EOP Loans	\$	673,907	\$	630,684	\$	632,917	7 %
EOP Assets							
	\$	958,752	\$	956,282	\$	912,730	0 %
EOP Deposits:							
Demand Deposits - Noninterest Bearing	\$	248,616	\$	237,776	\$	206,637	5 %
Demand Deposits - Interest Bearing		94,309		84,581		80,529	12 %
Savings/Money Market		290,417		282,400		229,995	3 %
Time Deposits		208,594		237,180		290,747	(12) %
Total EOP Deposits	\$	841,936	\$	841,937	\$	807,908	0 %
EOP Equity							
	\$	82,865	\$	80,791	\$	74,574	3 %

Credit Quality Data

EOP Non-Accrual Loans	\$	4,571	\$	4,747	\$	0	(4) %
EOP Total Non-Performing Assets	\$	4,571	\$	4,747	\$	0	(4) %
EOP 90-day Past Due Loans and Still Accruing	\$	0	\$	0	\$	0	N/A
EOP Net Charge-Offs/(Recoveries)	\$	(213)	\$	191	\$	95	(212) %
Net Charge-offs/(Recoveries) as Percent of Average Loans		(0.13) %		0.12 %		0.06 %	(209) %
EOP Loan Loss Reserves	\$	13,227	\$	12,416	\$	11,154	7 %

Ratios

Annualized ROA	0.95 %	0.77 %	0.60 %	23 %
Annualized ROE	11.07 %	9.05 %	7.30 %	22 %
Efficiency Ratio	68.89 %	70.99 %	73.63 %	(3) %
Noninterest Expense as Percent of Average Assets	3.68 %	3.57 %	3.37 %	3 %
Net Interest Margin	4.55 %	4.36 %	4.17 %	4 %
Allowance for Loan Losses:				
to Total Loans	1.96 %	1.97 %	1.76 %	0 %
to Non-Performing Loans	289 %	262 %	N/A	11 %
Leverage Ratio	10.80 %	10.83 %	10.20 %	0 %

SIGNATURES

Pursuant to the requirement of the Security Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: January 23, 2003

Heritage Commerce Corp

By: /s/ Lawrence D. McGovern

Name: Lawrence D. McGovern

Executive Vice President and Chief Financial Officer

By: /s/ Brad L. Smith

Brad L. Smith

Chairman of the Board and Chief Executive Officer

