

HERITAGE COMMERCE CORP
Form 10-Q
August 06, 2014

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[TABLE OF CONTENTS](#)

[Table of Contents](#)

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____
Commission file number 000-23877

Heritage Commerce Corp

(Exact name of Registrant as Specified in its Charter)

California
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

95113
(Zip Code)

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

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

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

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subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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

The Registrant had 26,370,510 shares of Common Stock outstanding on July 31, 2014.

Table of Contents

**HERITAGE COMMERCE CORP
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS**

		Page No.
	<u>Cautionary Note on Forward-Looking Statements</u>	<u>3</u>
	<u>Part I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Consolidated Financial Statements (unaudited)</u>	<u>5</u>
	<u>Consolidated Balance Sheets</u>	<u>5</u>
	<u>Consolidated Statements of Income</u>	<u>6</u>
	<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>7</u>
	<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>8</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>9</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>42</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>77</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>77</u>
	<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>77</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>77</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>77</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>77</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>77</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>77</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>78</u>
	<u>SIGNATURES</u>	<u>79</u>
	<u>EXHIBIT INDEX</u>	<u>80</u>

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

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

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

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

Delay in the pace of economic recovery and stagnant or decreasing employment levels;

Changes in the financial performance or condition of the Company's customers, or changes in the performance or creditworthiness of our customers' suppliers or other counterparties, which could lead to decreased loan utilization rates, delinquencies, or defaults, which could negatively affect our customers' ability to meet certain credit obligations;

Volatility in credit or equity markets and its effect on the global economy;

Changes in consumer spending, borrowing or saving habits;

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

The ability to increase market share and control expenses;

Risks associated with concentrations in real estate related loans;

Other-than-temporary impairment charges to our securities portfolio;

An oversupply of inventory and deterioration in values of California commercial real estate;

A prolonged slowdown in construction activity;

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

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

Changes in inflation, interest rates, and market liquidity which may impact interest margins and impact funding sources;

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

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Table of Contents

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

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

The impact of cyber security attacks or other disruptions to the Company's information systems and any resulting compromise of data or disruptions in service;

The effect of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations to be promulgated by supervisory and oversight agencies implementing the legislation taking into account that the precise timing, extent and nature of such rules and regulations and the impact on the Company are uncertain;

The impact of revised capital requirements under Basel III;

Significant changes in applicable laws and regulations, including those concerning taxes, banking and securities;

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

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

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

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

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

Table of Contents**Part I FINANCIAL INFORMATION****ITEM 1 CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****HERITAGE COMMERCE CORP****CONSOLIDATED BALANCE SHEETS (Unaudited)**

	June 30, 2014	December 31, 2013
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 32,162	\$ 20,158
Interest-bearing deposits in other financial institutions	17,256	92,447
Total cash and cash equivalents	49,418	112,605
Securities available-for-sale, at fair value	261,489	280,100
Securities held-to-maturity, at amortized cost (fair value of \$92,841 at June 30, 2014 and \$86,032 at December 31, 2013)	95,972	95,921
Loans held-for-sale SBA, at lower of cost or fair value, including deferred costs	2,269	3,148
Loans, net of deferred fees	990,341	914,913
Allowance for loan losses	(18,592)	(19,164)
Loans, net	971,749	895,749
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	10,314	10,435
Company owned life insurance	50,452	50,012
Premises and equipment, net	7,237	7,240
Intangible assets	1,297	1,527
Accrued interest receivable and other assets	30,422	34,895
Total assets	\$ 1,480,619	\$ 1,491,632
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand, noninterest-bearing	\$ 456,235	\$ 431,085
Demand, interest-bearing	193,041	195,451
Savings and money market	354,175	347,052
Time deposits under \$100	20,379	21,646
Time deposits \$100 and over	195,619	195,005
Time deposits brokered	33,614	55,524
CDARS money market and time deposits	14,785	40,458
Total deposits	1,267,848	1,286,221
Accrued interest payable and other liabilities	31,246	32,015

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Total liabilities	1,299,094	1,318,236
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized		
Series C convertible perpetual preferred stock, 21,004 shares issued and outstanding at June 30, 2014 and December 31, 2013 (liquidation preference of \$21,004 at June 30, 2014 and December 31, 2013)	19,519	19,519
Common stock, no par value; 60,000,000 shares authorized; 26,370,510 shares issued and outstanding at June 30, 2014 and 26,350,938 shares issued and outstanding at December 31, 2013	132,911	132,561
Retained earnings	29,187	25,345
Accumulated other comprehensive loss	(92)	(4,029)
Total shareholders' equity	181,525	173,396
Total liabilities and shareholders' equity	\$ 1,480,619	\$ 1,491,632

See notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Dollars in thousands, except per share data)				
Interest income:				
Loans, including fees	\$ 11,617	\$ 10,051	\$ 22,756	\$ 20,140
Securities, taxable	2,047	2,399	4,217	4,860
Securities, non-taxable	506	358	1,012	606
Interest-bearing deposits in other financial institutions	22	30	62	99
Total interest income	14,192	12,838	28,047	25,705
Interest expense:				
Deposits	506	595	1,027	1,220
Subordinated debt		90		178
Short-term borrowings	1		1	1
Total interest expense	507	685	1,028	1,399
Net interest income before provision for loan losses	13,685	12,153	27,019	24,306
Provision (credit) for loan losses	(198)	(270)	(208)	(270)
Net interest income after provision for loan losses	13,883	12,423	27,227	24,576
Noninterest income:				
Service charges and fees on deposit accounts	646	618	1,266	1,195
Gain on sales of SBA loans	442	134	599	270
Increase in cash surrender value of life insurance	397	410	795	826
Servicing income	313	385	661	750
Gain on sales of securities		7	50	38
Other	249	361	693	499
Total noninterest income	2,047	1,915	4,064	3,578
Noninterest expense:				
Salaries and employee benefits	6,819	5,864	13,062	11,875
Occupancy and equipment	987	1,028	1,932	2,096
Data processing	273	327	502	579
Insurance expense	269	253	538	508
FDIC deposit insurance premiums	220	207	454	466
Software subscriptions	191	294	438	585

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Correspondent bank charges	183	179	365	343
Low income housing investment losses	165	300	353	611
Professional fees	126	400	712	1,382
Subordinated debt redemption charges		167		167
Foreclosed assets, net		(96)	(19)	(251)
Other	1,701	1,466	3,331	2,809
Total noninterest expense	10,934	10,389	21,668	21,170
Income before income taxes	4,996	3,949	9,623	6,984
Income tax expense	1,672	1,156	3,223	2,011
Net income	3,324	2,793	6,400	4,973
Dividends on preferred stock	(224)		(448)	
Net income available to common shareholders	\$ 3,100	\$ 2,793	\$ 5,952	\$ 4,973

Earnings per common share:

Basic	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.16
Diluted	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.16

See notes to consolidated financial statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Net income	\$ 3,324	\$ 2,793	\$ 6,400	\$ 4,973
Other comprehensive income (loss):				
Change in net unrealized holding gains (losses) on available-for-sale securities and I/O strips	4,133	(10,544)	6,883	(12,708)
Deferred income taxes	(1,736)	4,428	(2,891)	5,337
Change in net unamortized unrealized gain on securities available-for-sale that were reclassified to securities held-to-maturity	(13)	(14)	(27)	(28)
Deferred income taxes	5	6	11	12
Reclassification adjustment for gains realized in income		(7)	(50)	(38)
Deferred income taxes		3	21	16
Change in unrealized gains (losses) on securities and I/O strips, net of deferred income taxes	2,389	(6,128)	3,947	(7,409)
Change in net pension and other benefit plan liability adjustment	(9)	36	(18)	65
Deferred income taxes	4	(15)	8	(27)
Change in pension and other benefit plan liability, net of deferred income taxes	(5)	21	(10)	38
Other comprehensive income (loss)	2,384	(6,107)	3,937	(7,371)
Total comprehensive income (loss)	\$ 5,708	\$ (3,314)	\$ 10,337	\$ (2,398)

See notes to consolidated financial statements

Table of Contents**HERITAGE COMMERCE CORP****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**

Six Months Ended June 30, 2014 and 2013

	Preferred Stock		Common Stock		Retained Earnings	Accumulated	Total Shareholders' Equity
	Shares	Amount	Shares	Amount		Other Comprehensive Income / (Loss)	
(Dollars in thousands, except share data)							
Balance, January 1, 2013	21,004	\$ 19,519	26,322,147	\$ 131,820	\$ 15,721	\$ 2,681	\$ 169,741
Net income					4,973		4,973
Other comprehensive loss						(7,371)	(7,371)
Issuance of restricted stock awards			10,000				
Repurchase of warrant					(140)		(140)
Amortization of restricted stock awards, net of forfeitures and taxes					116		116
Stock option expense, net of forfeitures and taxes					275		275
Stock options exercised			6,374		26		26
Balance, June 30, 2013	21,004	\$ 19,519	26,338,521	\$ 132,097	\$ 20,694	\$ (4,690)	\$ 167,620
Balance, December 31, 2013	21,004	\$ 19,519	26,350,938	\$ 132,561	\$ 25,345	\$ (4,029)	\$ 173,396
Net income					6,400		6,400
Other comprehensive income						3,937	3,937
Issuance of restricted stock awards, net			15,000				
Amortization of restricted stock awards, net of forfeitures and taxes					(91)		(91)
Cash dividend declared \$0.08 per share					(2,558)		(2,558)
Stock option expense, net of forfeitures and taxes					422		422
Stock options exercised			4,572		19		19
Balance, June 30, 2014	21,004	\$ 19,519	26,370,510	\$ 132,911	\$ 29,187	\$ (92)	\$ 181,525

See notes to consolidated financial statements

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

	Six Months Ended June 30,	
	2014	2013
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,400	\$ 4,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts and premiums on securities	538	1,384
Gain on sales of securities available-for-sale	(50)	(38)
Gain on sales of SBA loans	(599)	(270)
Proceeds from sale of SBA loans originated for sale	11,331	3,576
Net change in SBA loans originated for sale	(9,853)	(6,238)
Provision (credit) for loan losses	(208)	(270)
Increase in cash surrender value of life insurance	(795)	(826)
Depreciation and amortization	353	356
Amortization of intangible assets	230	237
Gains on sale of foreclosed assets, net		(231)
Stock option expense, net	422	275
Amortization of restricted stock awards, net	(91)	116
Gain on redemption of company owned life insurance	(51)	
Effect of changes in:		
Accrued interest receivable and other assets	1,564	(135)
Accrued interest payable and other liabilities	184	668
Net cash provided by operating activities	9,375	3,577
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities available-for-sale	(34,775)	(8,334)
Purchase of securities held-to-maturity	(2,347)	(34,681)
Maturities/paydowns/calls of securities available-for-sale	9,859	41,588
Maturities/paydowns/calls of securities held-to-maturity	1,217	2,373
Proceeds from sale of securities available-for-sale	50,011	26,944
Net change in loans	(75,792)	(29,065)
Change in Federal Home Loan Bank and Federal Reserve Bank stock	121	(143)
Purchase of premises and equipment	(350)	(428)
Proceeds from sale of foreclosed assets		809
Proceeds from redemption of company owned life insurance	406	
Net cash (used in) provided by investing activities	(51,650)	(937)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(18,373)	(290,329)
Repurchase of warrant		(140)
Payment of cash dividends	(2,558)	
Exercise of stock options	19	26
Net cash used in financing activities	(20,912)	(290,443)
Net decrease in cash and cash equivalents	(63,187)	(287,803)
Cash and cash equivalents, beginning of period	112,605	373,565

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Cash and cash equivalents, end of period	\$	49,418	\$	85,762
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Supplemental disclosures of cash flow information:

Interest paid	\$	1,039	\$	1,442
Income taxes paid		2,060		2,235

Supplemental schedule of non-cash investing activity:

Due to broker for securities purchased	\$		\$	1,538
Loans transferred to foreclosed assets				33
Transfer of loans held-for-sale to loan portfolio				20

See notes to consolidated financial statements

Table of Contents

HERITAGE COMMERCE CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(Unaudited)

1) Basis of Presentation

The unaudited consolidated financial statements of Heritage Commerce Corp (the "Company" or "HCC") and its wholly owned subsidiary, Heritage Bank of Commerce (the "Bank" or "HBC"), have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements are not included herein. The interim statements should be read in conjunction with the consolidated financial statements and notes that were included in the Company's Form 10-K for the year ended December 31, 2013. The Company also established the following unconsolidated subsidiary grantor trusts: Heritage Capital Trust I; Heritage Statutory Trust I; Heritage Statutory Trust II; and Heritage Commerce Corp Statutory Trust III, which were Delaware Statutory business trusts formed for the exclusive purpose of issuing and selling trust preferred securities. During the third quarter of 2012, the Company dissolved the Heritage Statutory Trust I and the Heritage Capital Trust I. During the third quarter of 2013, the Company dissolved the Heritage Statutory Trust II and the Heritage Commerce Corp Statutory Trust III.

HBC is a commercial bank serving customers located in Santa Clara, Alameda, Contra Costa, and San Benito counties of California. No customer accounts for more than 10 percent of revenue for HBC or the Company. Management evaluates the Company's performance as a whole and does not allocate resources based on the performance of different lending or transaction activities. Accordingly, the Company and its subsidiary operate as one business segment.

In management's opinion, all adjustments necessary for a fair presentation of these consolidated financial statements have been included and are of a normal and recurring nature. All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from these estimates.

The results for the three and six months ended June 30, 2014 are not necessarily indicative of the results expected for any subsequent period or for the entire year ending December 31, 2014.

Reclassifications

Certain reclassifications of prior year balances have been made to conform to the current year presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash and cash equivalents.

Adoption of New Accounting Standards

In January 2014, the Financial Accounting Standards Board ("FASB") amended existing guidance clarifying that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon

Table of Contents

HERITAGE COMMERCE CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2014

(Unaudited)

1) Basis of Presentation (Continued)

completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. We are evaluating the impact of adopting the new guidance on the consolidated financial statements.

In January 2014, the FASB issued guidance for accounting for investments in qualified affordable housing projects, which represents a consensus of the Emerging Issues Task Force and sets forth new accounting for qualifying investments in flow-through limited liability entities that invest in affordable housing projects. The new guidance will allow an investor that meets certain conditions to amortize the cost of its investment in proportion to the tax credits and other tax benefits it receives. The new accounting method, referred to as the proportional amortization method, will allow amortization of the tax credit investment to be reflected along with the primary benefits, the tax credits and other tax benefits, on a net basis in the income statement within the income tax expense (benefit) line. For public business entities, the guidance is effective for interim and annual periods beginning after December 15, 2014. For all other entities, the guidance is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early adoption is permitted in the annual period for which financial statements have not been issued. We are evaluating the impact of adopting the new guidance on the consolidated financial statements.

In May 2014, the FASB issued an update to the guidance for accounting for revenue from contracts with customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are evaluating the impact of adopting the new guidance on the consolidated financial statements.

Table of Contents**HERITAGE COMMERCE CORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****June 30, 2014****(Unaudited)****2) Earnings Per Share**

Basic earnings per common share is computed by dividing net income, less dividends and discount accretion on preferred stock, by the weighted average common shares outstanding. The Series C Preferred Stock participates in the earnings of the Company and, therefore, the shares issued on the conversion of the Series C Preferred Stock are considered outstanding under the two class method of computing basic earnings per common share during periods of earnings. Diluted earnings per share reflect potential dilution from outstanding stock options and common stock warrants, using the treasury stock method. The common stock warrant was antidilutive for the six months ended June 30, 2013. The Company repurchased the warrant for \$140,000 in the second quarter of 2013. A reconciliation of these factors used in computing basic and diluted earnings per common share is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share amounts)			
Net income available to common shareholders	\$ 3,100	\$ 2,793	\$ 5,952	\$ 4,973
Less: undistributed earnings allocated to Series C Preferred Stock	358	489	673	871
Distributed and undistributed earnings allocated to common shareholders	\$ 2,742	\$ 2,304	\$ 5,279	\$ 4,102
Weighted average common shares outstanding for basic earnings per common share	26,370,510	26,336,244	26,365,167	26,332,793
Dilutive effect of stock options outstanding, using the the treasury stock method	132,891	35,648	128,299	46,123
Shares used in computing diluted earnings per common share	26,503,401	26,371,892	26,493,466	26,378,916
Basic earnings per share	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.16
Diluted earnings per share	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.16

Table of Contents**HERITAGE COMMERCE CORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****June 30, 2014****(Unaudited)****3) Accumulated Other Comprehensive Income (Loss) ("AOCI")**

The following table reflects the changes in AOCI by component for the periods indicated:

	For the Three Months Ended June 30, 2014 and 2013			
	Unrealized Gains (Losses) on Available- for-Sale Securities and I/O Strips(1)	Unamortized Unrealized Gain on Available- for-Sale Securities Reclassified to Held-to- Maturity(1)	Defined Benefit Pension Plan Items(1)	Total(1)
	(Dollars in thousands)			
Beginning balance April 1, 2014, net of taxes	\$ 1,136	\$ 458	\$ (4,070)	