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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

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	**77-0469558**
(State or Other Jurisdiction of Incorporation or Organization)	(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)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES [X] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The Registrant had 11,867,255 shares of Common Stock outstanding on May 9, 2005.

Heritage Commerce Corp and Subsidiaries
Quarterly Report on Form 10-Q
Table of Contents

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)	March 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	$ 33,163	$ 33,646
Federal funds sold	76,200	24,100
Total cash and cash equivalents	109,363	57,746
Securities available-for-sale, at fair value	225,082	232,809
Loans held for sale, at lower of cost or market	33,610	37,178
Loans, net of deferred costs	729,870	725,530
Allowance for probable loan losses	(11,249)	(12,497)
Loans, net	718,621	713,033
Premises and equipment, net	2,993	3,183
Accrued interest receivable and other assets	34,381	33,226
Corporate owned life insurance	26,570	26,303
Other investments	4,695	4,695
TOTAL	**$ 1,155,315**	**$ 1,108,173**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits		
Demand, noninterest bearing	$ 274,736	$ 277,451
Demand, interest bearing	130,039	120,890
Savings and money market	361,060	357,318
Time deposits, under $100	37,829	38,295
Time deposits, $100 and over	118,773	104,719
Brokered deposits	40,086	19,862
Total deposits	962,523	918,535
Accrued interest payable and other liabilities	19,468	19,557
Other borrowings	47,800	47,800
Notes payable to subsidiary grantor trusts	23,702	23,702
Total liabilities	1,053,493	1,009,594
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; none outstanding	--	--
Common stock, no par value; 30,000,000 shares authorized; shares outstanding: 11,839,426 at March 31, 2005 and 11,669,837 at December 31, 2004	69,967	67,409
Unearned compensation on restricted stock	(920)	--
Unallocated ESOP shares	(128)	(193)
Accumulated other comprehensive loss, net of taxes	(2,844)	(1,730)
Retained earnings	35,747	33,093
Total shareholders' equity	101,822	98,579
TOTAL	**$ 1,155,315**	**$ 1,108,173**

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004 (As Restated, see Note 2)
Interest income:		
Loans, including fees	$ 12,812	$ 10,437
Securities, taxable	1,810	1,284
Securities, non-taxable	54	115
Interest bearing deposits in other financial institutions	14	3
Federal funds sold	177	68
Total interest income	14,867	11,907
Interest expense:		
Deposits	2,410	1,581
Subsidiary grantor trusts	512	482
Other	274	126
Total interest expense	3,196	2,189
Net interest income before provision for probable loan losses	11,671	9,718
Provision for probable loan losses	413	563
Net interest income after provision for probable loan losses	11,258	9,155
Noninterest income:		
Gain on sale of loans	760	727
Servicing income	668	505
Service charges and other fees on deposit accounts	393	473
Appreciation of company owned life insurance	266	329
Equipment leasing	79	245
Gain on sale of securities available-for-sale	--	212
Mortgage brokerage fees	--	119
Other	154	109
Total noninterest income	2,320	2,719
Noninterest expenses:		
Salaries and employee benefits	4,905	4,720
Occupancy	851	1,042
Loan origination costs	506	357
Professional fees	496	355
Client services	407	185
Retirement plan expense	368	237
Amortization of low income housing projects	252	159
Amortization of leased equipment	250	266
Furniture and equipment	199	237
Advertising and promotion	189	247
Data processing expense	172	139
Other	1,144	1,026
Total noninterest expenses	9,739	8,970
Income before provision for income taxes	3,839	2,904
Provision for income taxes	1,185	933
Net income	**$ 2,654**	**$ 1,971**
Earnings per share:		
Basic	$ 0.23	$ 0.17
Diluted	$ 0.22	$ 0.16

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands)	Common Stock Shares	Common Stock Amount	Unearned Compensation On Restricted Stock	Unallocated ESOP Shares	Accumulated Other Comprehensive Loss (Net of Taxes)	Retained Earnings	Total Shareholders' Equity	Comprehensive Income
Balances, December 31, 2004	11,669,837	$ 67,409	$ --	$ (193)	$ (1,730)	$ 33,093	$ 98,579	
Net income	--	--	--	--	--	2,654	2,654	$ 2,654
Net change in unrealized loss on securities available-for-sale and Interest-Only strip, net of reclassification adjustment and taxes	--	--	--	--	(1,114)	--	(1,114)	(1,114)
Total comprehensive income								$ 1,540
Amortization of stock compensation	--	--	--	65	--	--	65	
Issurance of restricted stock	51,000	926	(926)	--	--	--	--	
Amortization of restricted stock compensation	--	--	6	--	--	--	6	
Additional paid-in-capital in ESOP	--	96	--	--	--	--	96	
Redemption payment on common stock	--	(12)	--	--	--	--	(12)	
Stock options exercised	118,589	1,548	--	--	--	--	1,548	
Balances, March 31, 2005	11,839,426	$ 69,967	$ (920)	$ (128)	$ (2,844)	$ 35,747	$ 101,822	

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
(Dollars in thousands)	**2005**	**2004 (As Restated, see Note 2)**
Cash flows from operating activities:		
Net income	$ 2,654	$ 1,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	277	472
Provision for probable loan losses	413	563
Gain on disposals of property and equipment	--	(10)
Gain on sale of securities available-for-sale	--	(212)
Non-cash compensation expense related to ESOP plan	161	109
Non-cash compensation expense related to restricted stock	6	--
Amortization /accretion of discounts and premiums on securities	298	116
Gains on sales of loans	(760)	(727)
Proceeds from sales of loans held for sale	13,172	13,480
Originations of loans held for sale	(16,032)	(12,450)
Maturities/paydowns/payoffs of loans held for sale	7,187	4,823
Appreciation of company owned life insurance	(266)	(329)
Effect of changes in:		
Accrued interest receivable and other assets	(974)	1,370
Accrued interest payable and other liabilities	847	(2,529)
Net cash provided by operating activities	6,983	6,647
Cash flows from investing activities:		
Net increase in loans	(6,001)	(6,733)
Purchases of securities available-for-sale	--	(70,162)
Maturities/paydowns/calls of securities available-for-sale	5,198	2,890
Proceeds from sales of securities available-for-sale	--	17,637
Purchases of other investments	--	(3)
Purchases of premises and equipment	(87)	(139)
Net cash used in investing activities	(890)	(56,510)
Cash flows from financing activities:		
Net increase in deposits	43,988	49,575
Net proceeds from issuance of common stock	1,548	496
Redemption payment on common stock	(12)	--
Net change in other borrowings	--	5,000
Net cash provided by financing activities	45,524	55,071
Net increase in cash and cash equivalents	51,617	5,208
Cash and cash equivalents, beginning of period	57,746	114,217
Cash and cash equivalents, end of period	**$ 109,363**	**$ 119,425**
Supplemental disclosures of cash paid during the period for:		
Interest	$ 3,220	$ 2,547
Income taxes	$ 1,670	$ --

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2005
(Unaudited)

1) Basis of Presentation

The unaudited condensed consolidated financial statements of Heritage Commerce Corp (the “Company”) and its wholly owned subsidiary: Heritage Bank of Commerce (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 thereto included in the Company’s Form 10-K for the year ended December 31, 2004. The Company has 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 are Delaware Statutory business trusts formed for the exclusive purpose of issuing and selling trust preferred securities.

HBC is a commercial bank serving customers located in Santa Clara, Alameda, and Contra Costa 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 the Company’s opinion, all adjustments necessary for a fair presentation of these condensed consolidated financial statements have been included and are of a normal and recurring nature.

The results for the three months ended March 31, 2005 are not necessarily indicative of the results expected for any subsequent period or for the entire year ending December 31, 2005.

2) Restatement

Subsequent to the issuance of the Company's condensed consolidated financial statements for the first quarter ended March 31, 2004, management determined that the first quarter of 2004 condensed consolidated financial statements should be restated as a result of the following two accounting errors.

- An asset which the Company had accounted for as a direct financing lease and classified as a part of the loan portfolio during the first quarter of 2004 should have been accounted for as equipment subject to an operating lease. The after-tax income statement effect of correcting this error on the quarter ended March 31, 2004 was to reduce income by $41,000.

- The Company determined that its previous method of accounting for rent holidays and step rents in its facilities lease agreements was not appropriate and that it should have accounted for rent holidays and step rents on a straight-line basis. The after-tax income statement effect of correcting this error on the quarter ended March 31, 2004 was to increase income by $5,000.

The following is a summary of the significant effects of the restatement on the condensed consolidated income statement for the quarter ended March 31, 2004:

March 31, 2004 (Dollars in thousands)	As Previously Reported	Adjustments	As Restated
Loans, including fees	$ 10,514	$ (77)	$ 10,437
Total interest income	$ 11,984	$ (77)	$ 11,907
Net interest income before provision for probable loan losses	$ 9,795	$ (77)	$ 9,718
Provision for probable loan losses	$ 600	$ (37)	$ 563
Net interest income after provision for probable loan losses	$ 9,195	$ (40)	$ 9,155
Equipment leasing	$ --	$ 245	$ 245
Total noninterest income	$ 2,474	$ 245	$ 2,719
Occupancy	$ 1,050	$ (8)	$ 1,042
Amortization of leased equipment	$ --	$ 266	$ 266
Total noninterest expenses	$ 8,712	$ 258	$ 8,970
Income before provision for income taxes	$ 2,957	$ (53)	$ 2,904
Provision for income taxes	$ 950	$ (17)	$ 933
Net income	$ 2,007	$ (36)	$ 1,971
Earnings per share:			
Basic	$ 0.18	$ (0.01)	$ 0.17
Diluted	$ 0.17	$ (0.01)	$ 0.16

3) Securities Available-for-Sale

At the March 17-18, 2004 Emerging Issues Task Force (EITF) meeting, the Task Force reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Issue 03-1 provides guidance for the determination of when an investment is other-than-temporarily impaired. The guidance for evaluating whether an investment is other-than-temporarily impaired should be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. On September 30, 2004, the FASB deferred the effective date of paragraphs 10 through 20 of EITF Issue No. 03-1. Application of those paragraphs is deferred pending issuance of a final FASB Staff Position. Management is in the process of evaluating the impacts of EITF 03-1 guidance. Other-than-temporary impairment that may need to be recognized upon adoption of Issue 03-1 will be dependant on market conditions and management's intent and ability at the time of the impairment evaluation to hold investments with market values below amortized cost until a forecasted recovery in fair value up to (or beyond) amortized cost.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2005:

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ 5,941	$ 57	$ --	$ --	$ 5,941	$ 57
U.S. Government Agencies	86,870	1,227	2,863	137	89,733	1,364
Municipals	8,205	149	--	--	8,205	149
FHLMC and FNMA mortgage-backed securities	58,403	1,401	39,031	1,655	97,434	3,056
CMOs	19,323	341	--	--	19,323	341
Total	$ 178,742	$ 3,175	$ 41,894	$ 1,792	$ 220,636	$ 4,967

As of March 31, 2005, the Company held 100 securities, of which 82 had market values below amortized cost. Six securities have been carried with an unrealized loss for over 12 months. Higher interest rates at March 31, 2005 resulted in lower market values for the period and was the primary reason that certain securities had unrealized losses. There was no security that sustained a downgrade in credit ratings. All principal amounts are expected to be paid when securities mature. Because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2005.

4) Stock-Based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. No compensation expense has been recognized in the financial statements for employee stock option arrangements, as the Company's stock option plan provides for the issuance of options at a price of no less than the fair market value at the date of the grant.

Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method at the grant date of all stock options. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock option awards. Those models also require subjective assumptions, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 84 months; risk-free interest rate, 4.30% and 3.38% for March 31, 2005 and 2004; stock volatility of 19% and 30% in March 31, 2005 and 2004; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach, and forfeitures are recognized as they occur.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement requires that compensation costs related to share-based payment transactions bye recognized in the financial statements. Measurement of the cost of employee service will be based on the grant-date fair value of the equity or liability instruments issued. That cost will recognized over the period during which an employee is required to provide service in exchange for the award. Additionally, liability awards will be remeasured each reporting period. Statement 123R replaces SFAS No. 123. "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25 "Accounting for Stock Issued to Employees". This Statement is effective for interim periods beginning after June 15, 2005 and requires adoption using a modified prospective application or a modified retrospective application. However, on April 14, 2005, the SEC issued rule 2005-57, which allows companies to delay implementation of the statement to the beginning of the next fiscal year. The Company has not yet concluded on the method of adoption allowed by the Statement and is currently evaluating the impact of this accounting guidance on its financial condition and results of operations.

Subsequent to the issuance of the condensed consolidated financial statements for the first quarter of 2004, management determined that compensation expense for amortization of fair value of stock awards, net of tax for the quarter ended March 31, 2004 had been calculated incorrectly. Accordingly, such pro forma amounts presented in the table below have been restated. The effect was to decrease compensation expense for amortization of fair value of stock awards, net of taxes, $80,000 for the quarter ended March 31, 2004. Pro forma net income per common share increased $0.01 per diluted share at March 31, 2004. The correction did not impact the Company's consolidated financial position, results of operations, or cash flows for any period presented.

The Company awarded 51,000 restricted shares of common stock to Walter T. Kaczmarek, President and Chief Executive Officer of the Company, pursuant to the terms of a Restricted Stock Agreement dated March 17, 2005. The grant price was $18.15. 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. Compensation cost associated with the restricted stock issued is measured based on the market price of the stock at the grant date and is expensed on a straight-line basis over the service period. Restricted stock compensation expense for the quarter ended March 31, 2005 was $6,000.

Had compensation expense for the Company's stock-based awards been determined under the requirements of SFAS No. 123 the Company's pro forma net income and earnings per common share would have been as follows:

	Three Months Ended March 31,			
(Dollars in thousands, except per share data)		**2005**		**2004**
Net income				
As reported	$	2,654	$	1,971
Add: Stock-based compensation expense included in reported net income, net of taxes		6		--
Less: All stock-based compensation expense for amortization of fair value of all stock awards, net of taxes		(107)		(103)
Pro forma	$	2,553	$	1,868
Net income per common share - basic				
As reported	$	0.23	$	0.17
Pro forma	$	0.22	$	0.16
Net income per common share - diluted				
As reported	$	0.22	$	0.16
Pro forma	$	0.21	$	0.16

5) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding. Diluted earnings per share reflects potential dilution from outstanding stock options, using the treasury stock method. There were 8,556 and 117,770 stock options at March 31, 2005 and 2004, respectively, considered to be antidilutive and excluded from the computation of diluted earnings per share. For each of the periods presented, net income is the same for basic and diluted earnings per share. Reconciliation of weighted average shares used in computing basic and diluted earnings per share is as follows:

	Three Months Ended March 31,	
	2005	**2004**
Weighted average common shares outstanding - used in computing basic earnings per share	11,753,371	11,375,388
Dilutive effect of stock options outstanding, using the treasury stock method	409,375	422,941
Shares used in computing diluted earnings per share	12,162,746	11,798,329

6) Comprehensive Income

Comprehensive income includes net income and other comprehensive income, which represents the change in the Company's net assets during the period from non-owner sources. The Company's sources of other comprehensive income are unrealized gains and losses on securities available-for-sale and I/O strips, which are treated like available-for-sale securities, and are presented net of tax. Reclassification adjustments resulting from gains or losses on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose are excluded from comprehensive income of the current period. The Company's total comprehensive income was as follows:

(Dollars in thousands)	Three Months Ended March 31, 2005	2004
Net income	$ 2,654	$ 1,971
Other comprehensive income (loss), net of tax:		
Net unrealized holding gains (losses) on available-for-sale securities and Interest-Only strips, during the period, net of tax of $807 and $(771) for March 31, 2005 and 2004	(1,114)	1,065
Less: reclassification adjustment for net realized gains, net of tax of $68 for March 31, 2004 on available-for sale securities included in net income during the period	--	(144)
Other comprehensive income (loss)	(1,114)	921
Comprehensive income	$ 1,540	$ 2,892

7) Supplemental Retirement Plan

The Company has a supplemental retirement plan covering key executives and directors (Plan). The Plan is a nonqualified defined benefit plan and is unsecured and unfunded and there are no Plan assets. The following table presents the amount of periodic cost recognized for the quarters ended March 31, 2005 and 2004:

(Dollars in thousands)	March 31, 2005	2004
Components of net periodic cost		
Service cost	$ 197	$ 118
Interest cost	110	97
Prior service cost	3	--
Amortization of loss	51	29
Net periodic cost	$ 361	$ 244

8) Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

HBC is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk, in excess of the amounts recognized in the balance sheets.

HBC's exposure to credit loss in the event of non-performance of the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. HBC uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Credit risk is the possibility that a loss may occur because a party to a transaction failed to perform according to the terms of the contract. HBC controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures. Management does not anticipate any significant losses as a result of these transactions.

Commitments to extend credit as of March 31, 2005 and December 31, 2004 were as follows:

(Dollars in thousands)		March 31, 2005		December 31, 2004
Commitments to extend credit	$	325,675	$	313,036
Standby letters of credit		7,919		5,256
	$	333,594	$	318,292

Commitments to extend credit are agreements to lend to a client as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. HBC evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by HBC upon the extension of credit, is based on management's evaluation of the borrower. Collateral held varies but may include cash, marketable securities, accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and/or residential properties.

Standby letters of credit are written with conditional commitments issued by HBC to guaranty the performance of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients.

Claims

The Company is involved in certain legal actions arising from normal business activities. Management, based upon the advice of legal counsel, believes the ultimate resolution of all pending legal actions will not have a material effect on the financial statements of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis give effects to the restatement in Note 2 to the condensed consolidated financial statements.

Discussions of certain matters in this Report on Form 10-Q 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 (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words such as "believe", "expect", "intend", "anticipate", "estimate", "project", “assume”, “plan”, “predict”, “forecast” or similar expressions. These forward-looking statements relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Company's mission and vision. The Company's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. The factors include, but are not limited to changes in interest rates, reducing interest margins or increasing interest rate risk, general economic conditions nationally or in the State of California, legislative and regulatory changes adversely affecting the business in which the Company operates, monetary and fiscal policies of the US Government, real estate valuations, the availability of sources of liquidity at a reasonable cost, competition in the financial services industry, the occurrence of events such as the terrorist acts of September 11, 2001, and other risks. All of the Company's operations and most of its customers are located in California. In addition, acts and threats of terrorism or the impact of military conflicts have increased the uncertainty related to the national and California economic outlook and could have an effect on the future operations of the Company or its customers, including borrowers. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

EXECUTIVE SUMMARY

When evaluating financial condition and performance, management looks at certain key metrics and measures. The Company's evaluation includes an analysis including comparisons with peer group financial institutions and with its own performance objectives established in the internal planning process.

The primary activity of the Company is commercial banking. The Company's operations are located entirely in the southern and eastern regions of the general San Francisco Bay area of California. The largest city in this area is San Jose and the Company's market includes the headquarters of a number of technology based companies in the region known commonly as Silicon Valley. The Company's customers are primarily closely held businesses and professionals.

Through its asset and liability management process, the Company monitors a number of ratios to analyze the Company's performance over time and also to compare the Company against similarly sized and situated companies in the banking industry. Management considers the following ratios to be important benchmarks for the Company's performance and financial conditions:

- Return on average assets: Net income as a percentage of average assets. Measures the earning power of the balance sheet. For the three months ended March 31, 2005, the return on average assets was 0.96% compared to 0.95% at December 31, 2004.

- Return on average equity: Net income as a percentage of average shareholders' equity. Measures the return on invested capital. For the three months ended March 31, 2005, the return on average equity was 10.67% compared to 10.76% at December 31, 2004.

- Net interest margin: Net interest income as a percentage of average interest earning assets. Measures the earning power of interest earning assets funded by interest bearing liabilities. For the three months ended March 31, 2005, the net interest margin was 4.58% compared to 4.56% at December 31, 2004.

- Efficiency ratio: Non-interest expense divided by net interest income before provision for probable loan losses plus noninterest income. Measures the cost of producing revenue as a percentage of total revenue. For the three months ended March 31, 2005, the efficiency ratio was 69.61% compared to 81.37% at December 31, 2004.

There is no single ratio or metric that summarizes the performance of the Company. The ratios above each take an element of the Company's performance and quantify it so that it can be compared over time and benchmarked against other peer companies. Management uses these and other ratios and metrics in assessing and planning the Company's performance.

The Company believes that the initiatives it undertook in 2004, coupled with increases in short term interest rates including the target Federal funds rate and the prime rate, will cause its performance to more closely match the performance of peer banks in the future.

CRITICAL ACCOUNTING POLICIES

General

Heritage Commerce Corp's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within our consolidated financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. In certain instances, we use a discount factor and prepayment assumptions to determine the present value of assets and liabilities. A change in the discount factor or prepayment spreads could increase or decrease the values of those assets and liabilities which would result in either a beneficial or adverse impact to our financial results. We use historical loss factors as one factor in determining the inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from the historical factors that we use. We apply Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations to account for our stock option plan awards. Other estimates that we use are related to the expected useful lives of our depreciable assets. In addition GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Probable Loan Losses

The allowance for probable loan losses is an estimate of the losses that may be sustained in the Company's loan portfolio. The allowance is based on two basic principles of accounting: (1) Statement of Financial Accounting Standards (SFAS) No. 5 "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company's allowance for probable loan losses has three basic components: the formula allowance, the specific allowance and the unallocated allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. The formula allowance uses an historical loss view as an indicator of future losses and as a result formula losses could differ from the losses incurred in the future. The specific allowance uses various techniques to arrive at an estimate of loss. Historical loss information and fair market value of collateral are used to estimate those losses. The use of these values is inherently subjective and our actual losses could differ from the estimates. The unallocated allowance captures losses that are attributable to various economic events, industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in either the formula or specific allowances. For further information regarding our allowance for credit losses, see Allowance for Probable Loan Losses on page 22.

Loan Sales and Servicing

The amounts of gains recorded on sales of loans and the initial recording of servicing assets and interest only strips is based on the estimated fair values of the respective components. In recording the initial value of the servicing assets and the fair value of the Interest-Only (I/O) strips receivable, the Company uses estimates which are made based on management's expectations of future prepayment and discount rates. In evaluating the servicing assets, management used a discounted cash flow modeling technique, which require estimates regarding the amount and timing of future cash flows, including assumption about loan repayment rates, cost to service, as well as interest rate assumptions that contemplate the risks involved. For the quarter ended March 31, 2005, management's estimate of constant prepayment rate ("CPR") was 14% and the weighted average discount rate assumption was 9%. These prepayment and discount rates were based on current market conditions and historical performance of the various pools of loans. If actual prepayments with respect to sold loans occur more quickly than projected the carrying value of the servicing assets may have to be adjusted through a charge to earnings. A corresponding decrease in the value of the I/O strip receivable would also be expected.

Stock Based Awards

Under APB No. 25, compensation cost for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the amount required to be paid to the Company by the optionee upon exercising the option. Because the Company's stock option plans provide for the issuance of options at a price of no less than the fair market value at the date of the grant, no compensation expense is required to be recognized for stock options on the date of grant.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement requires that compensation costs related to share-based payment transactions bye recognized in the financial statements. Measurement of the cost of employee service will be based on the grant-date fair value of the equity or liability instruments issued. That cost will recognized over the period during which an employee is required to provide service in exchange for the award. Additionally, liability awards will be remeasured each reporting period. Statement 123R replaces SFAS No. 123. "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25 "Accounting for Stock Issued to Employees". This Statement is effective for interim periods beginning after June 15, 2005 and requires adoption using a modified prospective application or a modified retrospective application. However, on April 14, 2005, the SEC issued rule 2005-57, which allows companies to delay implementation of the statement to the beginning of the next fiscal year. The Company has not yet concluded on the method of adoption allowed by the Statement and is currently evaluating the impact of this accounting guidance on its financial condition and results of operations.

RESULTS OF OPERATIONS

Overview

For the three months ended March 31, 2005, consolidated net income was $2,654,000, compared to $1,971,000 for the three months ended March 31, 2004, an increase of 35%. Earnings per diluted share were $0.22 for the three months ended March 31, 2005, compared to $0.16 for the three months ended March 31, 2004, an increase of 38%. The increase in 2005 from 2004 was primarily attributed to an increases in the volume of average earning assets and increases in key market interest rates. Annualized return on average assets and return on average equity for the quarter ended March 31, 2005 were 0.96% and 10.67%, respectively, compared to 0.81% and 8.71%, for the same period in 2004.

Net interest income increased $1,953,000, or 20%, for the three months ended March 31, 2005 compared to the same period in 2004. The Company's net interest margin was 4.58% for the three months ended March 31, 2005, an increase of 21 basis points from 4.37% for the three months ended March 31, 2004. The increase in net interest margin reflects an increase in the yield on earning assets of 49 basis points offset by a corresponding increase in the cost of interest bearing liabilities of 39 basis points. The increase in net interest income for the three months ended March 31, 2005 compared to the same period in 2004 is the result of the increase in net interest margin and an increase in the volume of earning assets, primarily the increase in the average level of investment securities, funded by an increase in interest bearing liabilities.

Total assets at March 31, 2005 were $1,155,315,000, an increase of $93,189,000, or 9%, from $1,062,126,000 as of March 31, 2004, and an increase of $47,142,000, or 4%, from total assets of $1,108,173,000 as of December 31, 2004. Total deposits as of March 31, 2005 were $962,523,000, an increase of $77,538,000, or 9%, from $884,985,000 as of March 31, 2004, and an increase of $43,988,000, or 5%, from total deposits of $918,535,000 as of December 31, 2004.

Total loans at March 31, 2005 were $729,870,000, an increase of $62,880,000, or 9%, compared to $666,990,000 as of March 31, 2004, and an increase of $4,340,000, or 1%, from $725,530,000 as of December 31, 2004. The Company's allowance for probable loan losses was $11,249,000, or 1.54% of total loans at March 31, 2005, compared to $12,114,000, or 1.82% of total loans, and $12,497,000, or 1.72% of total loans, at March 31, 2004 and December 31, 2004, respectively. The decrease in the overall level of the allowance of loan losses since December 31, 2004 is primarily the result of a $1,977,000 charge-off related to one commercial loan in the first quarter of 2005 partially offset by the provisions made during the quarter. Nonperforming assets including nonaccrual loans, loans past due 90 days or more and still accruing, restructured loans, foreclosed assets, and other real estate owned at March 31, 2005 were $3,737,000, compared to $4,801,000 at March 31, 2004 and $1,330,000 at December 31, 2004.

The Company's shareholders' equity at March 31, 2005 was $101,822,000 compared to $92,982,000 at March 31, 2004 and $98,579,000 as of December 31, 2004. The increase in shareholders' equity from these prior periods was primarily attributable to net earnings and proceeds from the exercise of common stock options, partially offset by the decrease in other comprehensive income from fair value changes. Book value per share increased to $8.60 at

March 31, 2005, from $8.09 at March 31, 2004 and $8.45 at December 31, 2004. The Company's leverage capital ratio was 11.2% at March 31, 2005 compared to 11.5% at March 31, 2004 and 10.9% at December 31, 2004.

Net Interest Income and Net Interest Margin

Net interest income is the largest component of the Company's total revenue. Net interest income is the difference between the interest and fees earned on loans and investments and the interest paid on deposits and other liabilities. Net interest income depends on two factors: (1) the volume or balance of earning assets compared to the volume or balance of interest bearing deposits and liabilities, and (2) the interest rate earned on those interest earning assets compared with the interest rate paid on those interest bearing assets and liabilities. Net interest margin is net interest income expressed as a percentage of average earning assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

The following table presents the Company's average balance sheet, net interest income and the resultant yields and rates paid for the period presented:

	For the Three Months Ended March 31, 2005			For the Three Months Ended March 31, 2004		
(Dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate**
Assets:						
Loans, gross	$ 767,724	$ 12,812	6.77%	$ 687,781	$ 10,437	6.10%
Investment securities	234,463	1,864	3.22%	176,184	1,399	3.19%
Interest bearing deposits in other financial institutions	2,554	14	2.22%	2,039	3	0.59%
Federal funds sold	28,429	177	2.53%	29,145	68	0.94%
Total interest earning assets	1,033,170	$ 14,867	5.84%	895,149	$ 11,907	5.35%
Cash and due from banks	38,498			45,035		
Premises and equipment, net	3,255			3,983		
Other assets	46,789			37,989		
Total assets	$ 1,121,712			$ 982,156		
Liabilities and shareholders' equity:						
Deposits:						
Demand, interest bearing	$ 127,009	$ 293	0.94%	$ 106,143	$ 119	0.45%
Savings and money market	360,256	1,122	1.26%	336,364	841	1.01%
Time deposits, under $100	37,860	184	1.97%	39,611	142	1.44%
Time deposits, $100 and over	109,647	550	2.03%	96,251	349	1.46%
Brokered deposits	29,750	261	3.56%	11,652	130	4.49%
Other borrowings	73,869	786	4.32%	52,191	608	4.69%
Total interest bearing liabilities	738,391	$ 3,196	1.76%	642,212	$ 2,189	1.37%
Demand, noninterest bearing	261,471			234,693		
Other liabilities	20,928			14,226		
Total liabilities	1,020,790			891,131		
Shareholders' equity	100,922			91,025		
Total liabilities and shareholders' equity	$ 1,121,712			$ 982,156		
Net interest income / margin		$ 11,671	4.58%		$ 9,718	4.37%

Note: Yields and amounts earned on loans include loan fees of $1,072,000 and $991,000 for the three month periods ended March 31, 2005 and 2004, respectively. Interest income is reflected on an actual basis, not a fully taxable equivalent basis, and does not include a fair value adjustment. Nonaccrual loans of $3,450,000 and $4,171,000 for the period ended March 31, 2005 and 2004, respectively, are included in the average balance calculation above.

Net interest income for the three months ended March 31, 2005 increased 20% over the same period in 2004. For the three months ended March 31, 2005, average interest earning assets increased by $138,021,000, or 15%, over the prior period in 2004. For the three months ended March 31, 2005, the average yield on interest earning assets was 5.84%, an increase of 49 basis points from 5.35% for the same period in 2004. The rates paid on interest bearing liabilities increased 39 basis points to 1.76% for the three month period ended March 31, 2005 compared to 1.37% for the same period in 2004. As a result, the net interest margin increased 21 basis points to 4.58% for the three months ended March 31, 2005, from 4.37% for the same period in 2004. The increase in net interest income was attributable to increases in the volume of average earning assets and increases in key market interest rates. Overall, the changes in volume contributed $1,221,000 to net interest income while the effect of the changes in rates increased this contribution by $732,000 resulting in the overall increase of $1,953,000 at March 31, 2005 from March 31, 2004.

The following table sets forth an analysis of the changes in interest income resulting from changes in the average volume of interest earning assets and liabilities and changes in the average rates earned and paid. The total change is shown in the column designated "Net Change" and is allocated in the columns to the left, for the portions attributable to volume changes and rate changes that occurred during the period indicated. Changes due to both volume and rate have been allocated to the change in volume.

	Three Months Ended March 31, 2005 vs. 2004		
	Increase (Decrease) Due to Change In:		
(Dollars in thousands)	**Average Volume**	**Average Rate**	**Net Change**
Interest earning assets			
Loans, gross	$ 1,331	$ 1,044	$ 2,375
Investments securities	465	--	465
Interest bearing deposits in other financial institutions	3	8	11
Federal funds sold	(5)	114	109
Total interest earning assets	$ 1,794	$ 1,166	$ 2,960
Interest bearing liabilities			
Demand, interest bearing	47	127	174
Savings and money market	77	204	281
Time deposits, under $100	(8)	50	42
Time deposits, $100 and over	68	133	201
Brokered deposits	159	(28)	131
Other borrowings	230	(52)	178
Total interest bearing liabilities	$ 573	$ 434	$ 1,007
Net interest income	$ 1,221	$ 732	$ 1,953

Provision for Probable Loan Losses

The provision for probable loan losses represents the current period expense associated with maintaining an appropriate allowance for credit losses. The loan loss provision and level of allowance for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in the Company's market area. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for probable loan losses; however, actual loan losses may vary from current estimates. For the three months ended March 31, 2005, the provision for probable loan losses was $413,000, compared to $563,000 for the same period in 2004. See additional discussion under the caption "Allowance for Probable Loan Losses."

Noninterest Income

The following table sets forth the various components of the Company's noninterest income for the periods indicated:

	Three Months Ended March 31,		Increase (decrease) 2005 versus 2004	
(Dollars in thousands)	**2005**	**2004**	**Amount**	**Percent**
Gain on sale of loans	$ 760	$ 727	$ 33	5 %
Servicing income	668	505	163	32 %
Service charges and other fees on deposits accounts	393	473	(80)	(17)%
Appreciation of company owned life insurance	266	329	(63)	(19)%
Equipment leasing	79	245	(166)	(68)%
Gain on sale of securities available-for-sale	--	212	(212)	(100)%
Mortgage brokerage fees	--	119	(119)	(100)%
Other	154	109	45	41 %
Total	$ 2,320	$ 2,719	$ (399)	(15)%

Noninterest income for the three months ended March 31, 2005 was $2,320,000, a decrease of 15% from $2,719,000 for the same period in 2004. In the first quarter of 2005, gain on sale of Small Business Administration (SBA) loans increased 5% to $760,000 and loan servicing income increased 32% to $668,000 compared to the first quarter of 2004. The Company has an ongoing program of originating SBA loans and selling the government guaranteed portion in the secondary market, while retaining the servicing of the whole loans. The increased noninterest income from SBA lending in the first quarter of 2005 compared to the first quarter of 2004 was offset by a decrease in mortgage brokerage fees of $119,000 resulting from the closure of the Company's residential mortgage department in June 2004. In addition, there was $79,000 in lease income and no securities gains recognized in the first quarter of 2005, compared to $245,000 in lease income and $212,000 in securities gains in the first quarter of 2004. Deposit related activity charges were down $80,000 from the first quarter of 2004 compared to the first quarter of 2005.

Noninterest Expense

The following table sets forth the various components of the Company's noninterest expenses for the periods indicated:

	Three Months Ended March 31,		Increase (decrease) 2005 versus 2004	
(Dollars in thousands)	**2005**	**2004**	**Amount**	**Percent**
Salaries and employee benefits	$ 4,905	$ 4,720	$ 185	4 %
Occupancy	851	1,042	(191)	(18)%
Loan origination costs	506	357	149	42 %
Professional fees	496	355	141	40 %
Client services	407	185	222	120 %
Retirement plan expense	368	237	131	55 %
Amortization of low income housing projects	252	159	93	58 %
Amortization of leased equipment	250	266	(16)	(6)%
Furniture and equipment	199	237	(38)	(16)%
Advertising and promotion	189	247	(58)	(23)%
Data processing expense	172	139	33	24 %
Other	1,144	1,026	118	12 %
Total	$ 9,739	$ 8,970	$ 769	9 %

The following table indicates the percentage of noninterest expense in each category:

(Dollars in thousands)	For The Three Months Ended March 31, 2005	Percent of Total	2004	Percent of Total
Salaries and employee benefits	$ 4,905	50 %	$ 4,720	53 %
Occupancy	851	9 %	1,042	11 %
Loan origination costs	506	5 %	357	4 %
Professional fees	496	5 %	355	4 %
Client services	407	4 %	185	2 %
Retirement plan expense	368	4 %	237	3 %
Amortization of low income housing projects	252	3 %	159	2 %
Amortization of leased equipment	250	2 %	266	3 %
Furniture and equipment	199	2 %	237	3 %
Advertising and promotion	189	2 %	247	3 %
Data processing expense	172	2 %	139	1 %
Other	1,144	12 %	1,026	11 %
Total	$ 9,739	100 %	$ 8,970	100 %

Noninterest expenses for the three months ended March 31, 2005 were $9,739,000, up $769,000, or 9%, from $8,970,000 for the same period in the prior year.

For the three month period ended March 31, 2005 compared to the three month period ended March 31, 2004:

- Salaries and employee benefits increased $185,000, or 4%, compared to the same period in 2004. The increase was primarily due to severance expenses in the first quarter of 2005. Salaries and employee benefits as a percentage of total noninterest expenses decreased to 50% from 53% over the comparative three month period.

- Occupancy decreased by $191,000, or 18%, compared to the same period in 2004. The decrease was primarily as a result of lower depreciation on leasehold improvements in the first quarter of 2005. Occupancy costs as a percentage of total noninterest expenses decreased to 9% from 11% over the comparative three month period.

- Loan origination costs increased by $149,000, or 42%, compared to the same period in 2004. The increase from 2004 was primarily due to continued growth in the loan portfolio. Loan origination cost as a percentage of total noninterest expenses increased to 5% from 4% over the comparative three month period.

- Professional fees increased $141,000, or 40%, compared to the same period in 2004. The increases were primarily due to increased audit and consulting expenses related to compliance with the Sarbanes-Oxley Act. Professional fees as a percentage of total noninterest expenses increased to 5% from 4% over the comparative three month period.

- Client services increased $222,000, or 120%, compared to the same period in 2004. The increase from 2004 was primarily due to the increase in services fees charged to the Company from the third party vendors. Client services as a percentage of total noninterest expenses increased to 4% from 2% over the comparative three month period.

- Retirement plan expense increased $131,000, or 55%, compared to the same period in 2004. The increase was primarily related to the decrease in discount rate and the addition of two employees in the first quarter of 2005. Retirement plan expense as a percentage of total noninterest expense increased to 4% from 3% over the comparative three month period.

- Amortization of low income housing projects increased $93,000, or 58%, compared to the same period in 2004. The increase was primarily due to additional investments in low income housing project in June 2004. Amortization of low income housing projects as a percentage of total noninterest expenses increased to 3%

from 2% over the comparative three months period.

- Amortization of leased equipment decreased $16,000, or 6%, compared to the same period in 2004. Amortization of leased equipment as a percentage of total noninterest expenses decreased to a 2% from 3% over the comparative three month period.

- Furniture and equipment decreased by $38,000, or 16%, compared to the same period in 2004. The decrease was primarily due to fewer equipment repairs, and lower depreciation on furniture and equipment in 2005. Furniture and equipment, as a percentage of total noninterest expenses decreased to 2% from 3% over the comparative three month period.

- Advertising an promotion decreased $58,000, or 23%, compared to the same period in 2004. The decrease from 2004 was primarily due to certain advertising and sponsorships were discontinued in 2005. Advertising and promotion as a percentage of total noninterest expenses decreased to 2% from 3% over the comparative three month period.

- Data processing expense increased $33,000, or 24%, compared to the same period in 2004. Data processing expense as a percentage of total noninterest expenses increased to 2% from 1% over the comparative three month period.

- Other noninterest expense increased $118,000, or 12%, compared to the same period in 2004. Other noninterest expense as a percentage of total noninterest expenses increased to 12% from 11% over the comparative three month period.

Income Taxes

The provision for income taxes for the three months ended March 31, 2005 was $1,185,000, as compared to $933,000 for the same periods in the prior year. The following table shows the effective income tax rate for each period indicated.

	Three Months Ended March 31,	
	2005	**2004**
Income tax rate	30.87 %	32.13 %

The difference in the effective tax rate compared to the statutory tax rate of 42% is primarily the result of the Company's investment in Bank Owned Life Insurance policies whose earnings are not subject to taxes, tax credits related to investments in low income housing and investments in tax-free municipal securities.

FINANCIAL CONDITION

As of March 31, 2005, total assets were $1,155,315,000, an increase of $47,142,000, or 4%, from $1,108,173,000 at December 31, 2004, and an increase of $93,189,000, or 9%, from the same period in 2004. Securities available-for-sale decreased $7,727,000, or 3%, at March 31, 2005 from December 31, 2004, and increased $20,377,000, or 10%, from March 31, 2004. Total loans increased $4,340,000, or 1%, at March 31, 2005 from December 31, 2004, and increased $62,880,000, or 9%, from March 31, 2004. The increase in the assets was primarily funded by an increase in interest bearing deposits. Total deposits increased $43,988,000 or 5% to $962,523,000 at March 31, 2005 from $918,535,000 at December 31, 2004, and increased $77,538,000, or 9%, from $884,985,000 at March 31, 2004.

Securities Portfolio

A major component of the Company's earning assets is its securities portfolio. The following table sets forth the estimated fair value of investment securities at the dates indicated:

(Dollars in thousands)	March 31, 2005	March 31, 2004	December 31, 2004
Securities available-for-sale (at fair value):			
U.S. Treasury	$ 5,941	$ 6,021	$ 5,942
U.S. Government Agencies	89,734	63,301	90,308
Mortgage-Backed Securities	101,162	105,377	107,735
Municipals - Tax Exempt	8,923	14,835	9,206
CMOs	19,322	15,171	19,618
Total securities available-for-sale	$ 225,082	$ 204,705	$ 232,809

The following table summarizes the composition of the Company's investment securities and the weighted average yields at March 31, 2005:

	March 31, 2005 Maturity									
	Within One Year		After One and Within Five Years		After Five and Within Ten Years		After Ten Years		Total	
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale:										
U.S. Treasury	$ 5,941	1.67 %	$ --	-- %	$ --	-- %	$ --	-- %	$ 5,941	1.67 %
U.S. Government Agencies	41,789	2.14 %	47,945	2.50 %	--	-- %	--	-- %	89,734	2.33 %
Mortgage-Backed Securities	--	-- %	192	5.04 %	10,635	3.88 %	90,335	4.05 %	101,162	4.03 %
Municipals - Tax Exempt	718	6.67 %	8,205	2.95 %	--	-- %	--	-- %	8,923	3.25 %
CMOs	--	-- %	--	-- %	--	-- %	19,322	3.00 %	19,322	3.00 %
Total available-for-sale	$ 48,448	4.91 %	$ 56,342	2.26 %	$ 10,635	3.48 %	$ 109,657	3.95 %	$ 225,082	3.25 %

Securities that are classified as available for sale are carried at their fair value. This means that the carrying amount will increase or decrease based on changes in interest rates or, very rarely, changes in their credit rating.

As of March 31, 2005, the only securities held by the Company where the aggregate book value of the Company's investment in securities of a single issuer exceeded 10% of the Company's shareholders' equity were direct obligations of the U.S. government or U.S. government agencies.

The securities portfolio of the Company is also used as collateral to meet requirements imposed as a condition of deposit by some depositors such as political subdivisions (public funds) or bankruptcy trustees and other contractual obligations such as repurchase agreements. Securities with amortized cost of $84,656,000 and $73,730,000 as of March 31, 2005 and 2004 were pledged to secure public and certain other deposits as required by law or contract and other contractual obligations. A portion of these deposits can only be secured by U.S. Treasury securities. The Company has not used interest rate swaps or other derivative instruments to hedge fixed rate loans or to otherwise mitigate interest rate risk.

Loans

Loans increased $4,340,000, or 1%, to $729,870,000 at March 31, 2005 from $725,530,000 at December 31, 2004, and increased $62,880,000, or 9%, from $666,990,000 at March 31, 2004.

For the three months ended March 31, 2005, $16,032,000 in loans guaranteed by the U.S. Small Business Administration (SBA) were generated and held for sale, and $12,412,000 of SBA loans held for sale were sold into the secondary market.

At March 31, 2005 and December 31, 2004, the Company serviced SBA loans, which it had sold into the secondary market, of approximately $141,742,000 and $146,071,000, respectively. At March 31, 2005 and December 31, 2004, the carrying amount of the servicing assets was $2,201,000 and $2,213,000, respectively. There was no valuation allowance as of March 31, 2005 or December 31, 2004. The balance of Interest-Only (I/O) strip receivable at March 31, 2005 and December 31, 2004 was $4,597,000, net of unrealized gain of $1,807,000, and $3,954,000, net of unrealized gain of $1,536,000, respectively. These assets represent the servicing spread generated from the sold guaranteed portions of SBA loans. Servicing income from these loans was $668,000 for the quarter ended March 31, 2005, compared to $505,000 for the same period in 2004. Amortization of the related assets was $673,000 for the quarter ended March 31, 2004, compared to $380,000 for the same period in 2004. Heritage Bank of Commerce is a preferred lender with the U.S. Small Business Administration, which allows the Company to grant certain U.S. Small Business Administration loans without the prior approval of the SBA.

The following table summarizes the composition of the Company's loan portfolio at the dates indicated:

(Dollars in thousands)	March 31, 2005	Total	December 31, 2004	Total	March 31, 2004	Total
Commercial	$ 293,488	40 %	$ 300,452	41 %	$ 275,536	41 %
Real estate - mortgage	303,600	42 %	303,154	42 %	287,833	43 %
Real estate - land and construction	129,881	18 %	118,290	16 %	101,389	15 %
Consumer	2,147	0 %	2,908	1 %	1,715	1 %
Total loans	729,116	100 %	724,804	100 %	666,473	100 %
Deferred loan costs	754		726		517	
Allowance for loan losses	(11,249)		(12,497)		(12,114)	
Loans, net	$ 718,621		$ 713,033		$ 654,876	

The following table sets forth the maturity distribution of the Company's loan portfolio at March 31, 2005:

(Dollars in thousands)	Due in One Year or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Commercial	$ 280,937	$ 9,558	$ 2,993	$ 293,488
Real estate - mortgage	194,228	60,603	48,769	303,600
Real estate - land and construction	129,881	--	--	129,881
Consumer	2,014	133	--	2,147
Total loans	$ 607,060	$ 70,294	$ 51,762	$ 729,116
Loans with variable interest rates	$ 588,870	$ 24,789	$ --	$ 613,659
Loans with fixed interest rates	18,190	45,505	51,762	115,457
Total loans	$ 607,060	$ 70,294	$ 51,762	$ 729,116

The table above also shows the distribution of loans between those with predetermined (fixed) interest rates and those with variable (floating) interest rates. Floating rates generally fluctuate with changes in the prime rate as reflected in the western edition of *The Wall Street Journal*. At March 31, 2005, approximately 84% of the Company's loan portfolio consisted of floating interest rate loans.

Nonperforming assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days and still accruing, troubled debt restructurings and other real estate owned. Management generally places loans on nonaccrual status when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, any interest previously accrued but not collected is generally reversed from income. Loans are charged off when management determines that collection has become unlikely. Restructured loans are those where the Company has granted a concession on the interest paid or original repayment terms due to financial difficulties of the borrower. Other real estate owned ("OREO") consists of real property acquired through foreclosure on the related underlying defaulted loans. The following table shows nonperforming assets at the dates indicated:

	March 31,		December 31,
(Dollars in thousands)	**2005**	**2004**	**2004**
Nonaccrual loans	$ 3,450	$ 4,171	$ 1,028
Loans 90 days past due and still accruing	287	630	302
Restructured loans	--	--	--
Total nonperforming loans	3,737	4,801	1,330
Other real estate owned	--	--	--
Total nonperforming assets	$ 3,737	$ 4,801	$ 1,330
Nonperforming assets as a percentage of period end loans plus other real estate owned	0.51 %	0.72 %	0.18 %

As of March 31, 2005, the Company had $3,450,000 loans on nonaccrual status, which were considered imparied loans, compared to $1,028,000 as of December 31, 2004. The impaired loans had a related valuation allowance of $196,000 and $250,000 at March 31, 2005 and December 31, 2004, respectively. The Company had $287,000 and $302,000 of loans past due 90 days or more and still accruing interest, no restructured loans and no foreclosed assets as of March 31, 2005 and December 31, 2004.

The Company had $4,171,000 in loans on nonaccrual status as of March 31, 2004, which were considered impaired loans. The impaired loans had a related valuation allowance of $1,287,000 at March 31, 2004. The Company had $630,000 loans past due 90 days or more and still accruing interest, no restructured loans and no foreclosed assets as of March 31, 2004.

The Company had $219,000 and $258,000 in foregone interest income on nonaccrual loans for the three months ended March 31, 2005 and 2004, respectively. The Company had zero and $17,000 in interest income for cash payments received on nonaccrual loans for the three months ended March 31, 2005 and 2004, respectively.

Allowance for Probable Loan Losses

The Company assigns a risk grade consistent with the system recommended by regulatory agencies to all of its loans. Grades range from "Pass" to "Loss", depending on credit quality, with "Pass" representing loans that involve an acceptable degree of risk. Management conducts an evaluation of the "Pass" loan portfolio at least annually. Among other things, this evaluation takes into consideration loan payment history, covenant compliance and economic conditions then in existence. For loans where a higher degree of risk is identified, the evaluation includes periodic loan by loan review for certain loans to evaluate the level of impairment as well as detailed reviews of other loans (either individually or in pools) based on an assessment of the following factors: past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, collateral value, loan volumes and concentrations, size and complexity of the loans, recent loss experience in particular segments of the portfolio, bank regulatory examination results, and current economic conditions in the Company's marketplace, in particular the state of the technology industry and the real estate market.

This process attempts to assess the risk of loss inherent in the portfolio by segregating loans into four components for purposes of determining an appropriate level of the allowance: "watch," "special mention," "substandard" and "doubtful." Additionally, the Company maintains a program for regularly scheduled reviews of certain new and renewed loans by an outside loan review consultant. Any loans identified during an external review process that expose the Company to increased risk are appropriately downgraded and an increase in the allowance for loan losses is established for such loans. Further, the Company is examined periodically by the FDIC, FRB, and the California Department of Financial Institutions at which time a further review of loan quality is conducted.

Loans that demonstrate a weakness, for which there is a possibility of loss if the weakness is not corrected, are categorized as "classified." Classified loans include all loans graded substandard, doubtful and loss and may result from problems specific to a borrower's business or from economic downturns that affect the borrower's ability to repay or that cause a decline in the value of the underlying collateral (particularly real estate).

It is the policy of management to maintain the allowance for probable loan losses at a level adequate for risks inherent in the loan portfolio. Based on information currently available to analyze possible loan loss risk and a history of actual charge-offs, management believes that the loan loss allowance is adequate. However, the loan portfolio can be adversely affected if California economic conditions and the real estate market in the Company's market area were to continue to weaken. Also, any weakness of a prolonged nature in the technology industry would have a negative impact on the local market. The effect of such events, although uncertain at this time, could result in an increase in the level of nonperforming loans and increased loan losses, which could adversely affect the Company's future growth and profitability. No assurance of the ultimate level of credit losses can be given with any certainty. Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely.

The following table summarizes the Company’s loan loss experience as well as provisions, charge-offs and recoveries to the allowance for loan losses and certain pertinent ratios for the periods indicated:

	Three Months Ended March 31,		For the Year Ended December 31,
(Dollars in thousands)	**2005**	**2004**	**2004**
Balance, beginning of period / year	$ 12,497	$ 13,451	$ 13,451
Net charge-offs	(1,661)	(1,900)	(1,339)
Provision for probable loan losses	413	563	666
Reclassification to other liabilities	--	--	(281)(1)
Balance, end of period / year	$ 11,249	$ 12,114	$ 12,497
Ratios:			
Net charge-offs to average loans outstanding	0.93 %	1.16 %	0.19 %
Allowance for loan losses to average loans	1.54 %	1.84 %	1.80 %
Allowance for loan losses to total loans	1.54 %	1.82 %	1.72 %
Allowance for loan losses to nonperforming assets	301 %	252 %	940 %

(1) The Company reclassified the allowance for probable loan losses on unused commitments of $281,000 to other liabilities as of December 31, 2004. As of March 31, 2005, the reserve was $317,000.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously though provisions for probable loan losses. The net charge-offs as of March 31, 2005 were $1,661,000, compared to $1,900,000 as of March 31, 2004. Historical net charge-offs are not necessarily indicative of the amount of net charge-offs that the Company will realize in the future.

The following table summarizes the allocation of the allowance for loan losses (ALL) by loan type and the allocated allowance as a percent of loans outstanding in each loan category at the dates indicated:

(Dollars in thousands)	March 31, 2005 Amount	March 31, 2005 Percent of ALL by category to total loans by category	March 31, 2004 Amount	March 31, 2004 Percent of ALL by category to total loans by category	December 31, 2004 Amount	December 31, 2004 Percent of ALL by category to total loans by category
Commercial	$ 7,479	2.55 %	$ 9,013	3.27 %	$ 8,691	2.89 %
Real estate - mortgage	1,519	0.50 %	1,803	0.63 %	1,671	0.55 %
Real estate - land and construction	1,798	1.38 %	1,199	1.18 %	1,711	1.45 %
Consumer	73	3.40 %	38	2.20 %	38	1.31 %
Unallocated	380	-- %	61	-- %	386	-- %
Total	$ 11,249	1.54 %	$ 12,114	1.82 %	$ 12,497	1.72 %

The decrease in the overall level of the allowance and in the allowance as a percentage of total loans since December 31, 2004 is primarily the result of a $1,977,000 charge-off of a single loan originated in 2004. The remaining carrying value of the loan is $2,816,000 and is included in nonperforming assets at March 31, 2005. The carrying value of the loan is secured by real and personal property of the borrower and guarantors which the Company believes is sufficient to cover any remaining loss exposure. Other than the loans already classified, the Company has not identified any additional potential problem loans at March 31, 2005.

Loans are charged against the allowance when management believes that the collectibility of the principal is doubtful. The Company's methodology for assessing the appropriateness of the allowance consists of several key elements, which include specific allowances, the formula allowance and the unallocated allowance.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred in excess of the amount determined by the application of the formula allowance. As of March 31, 2005, nonperforming loans had a related specific valuation allowance of $214,000 compared to a specific valuation allowance of $270,000 at December 31, 2004.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments. Loss factors are based on management's experience and may be adjusted for significant factors that, in management's judgment, may affect the collectibility of the portfolio as of the evaluation date. Due to the Company's limited historical loss experience, management utilizes prior industry experience to determine the loss factor for each category of loan. The formula allowance on March 31, 2005 was $10,655,000, compared to $11,841,000 on December 31, 2004. The decrease was primarily attributable to the charge-off related to one loan and the specific reserve established for that loan.

The unallocated allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. As of March 31, 2005, the Company's unallocated allowance was $380,000, compared to $386,000 on December 31, 2004. In evaluating the appropriateness of the unallocated allowance, management considered the following factors:

- Bank's Lending Policies and Procedures – Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
- Economic Conditions – Changes in national and local economic and business conditions, trends, and developments, including the condition of various market segments.
- Changes in the Bank's Lending Management and Staff – Changes in the experience, ability and depth of lending management and other relevant staff.
- Changes in Trend and Volume of Past Due and Classified Loans – Changes in the trend of the volume and

severity of past due and classified loans; and trends in the volume of nonaccrual loans, troubled debt restructurings and other loan modifications.

- Quality of the Bank's Loan Review System – Changes in the quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors.

- Credit Concentrations – The existence and effect of any concentrations of credit and changes in the level of such concentrations.

There can be no assurance that the adverse impact of any of these conditions on the Bank will not be in excess of the current level of unallocated reserves. The current business, economic, and real estate markets along with the seasoning of the portfolio and the nature and duration of the current business cycle will affect the amount of unallocated reserve.

In an effort to improve its analysis of risk factors associated with its loan portfolio, the Company continues to monitor and to make appropriate changes to its internal loan policies. These efforts better enable the Company to assess risk factors prior to granting new loans and to assess the sufficiency of the allowance for loan losses.

Management believes that it has adequately provided an allowance for estimated probable losses in the credit portfolio. Significant deterioration in Northern California real property values or economic downturns could impact future operating results, liquidity or capital resources and require additional provisions to the allowance or cause losses in excess of the allowance.

Deposits

Total deposits were $962,523,000 at March 31, 2005, an increase of 5%, compared to deposits at December 31, 2004, and an increase of 9%, compared to deposits at March 31, 2004. At March 31, 2005, compared to December 31, 2004, noninterest bearing demand deposits decreased $2,715,000, or 1%; interest bearing demand deposits increased $9,149,000, or 8%; savings and money market deposits increased $3,742,000, or 1%; time deposits increased $13,588,000, or 10%; and brokered deposits increased $20,224,000, or 102%.

The following table summarizes the distribution of average deposits and the average rates paid for the periods indicated:

	Three Months Ended March 31, 2005		Year Ended December 31, 2004		Three Months Ended March 31, 2004	
(Dollars in thousands)	**Average Balance**	**Average Rate Paid**	**Average Balance**	**Average Rate Paid**	**Average Balance**	**Average Rate Paid**
Demand, noninterest bearing	$ 261,471	-- %	$ 275,192	-- %	$ 234,693	-- %
Demand, interest bearing	127,009	0.94 %	112,439	0.48 %	106,143	0.45 %
Saving and money market	360,256	1.26 %	350,922	1.04 %	336,364	1.01 %
Time deposits, under $100	37,860	1.97 %	38,717	1.49 %	39,611	1.44 %
Time deposits, $100 and over	109,647	2.03 %	100,309	1.55 %	96,251	1.46 %
Brokered deposits	29,750	3.56 %	11,460	4.13 %	11,652	4.49 %
Total average deposits	$ 925,993	1.06 %	$ 889,039	0.76 %	$ 824,714	0.77 %

As of March 31, 2005, the Company had a deposit mix of 38% in savings and money market accounts, 20% in time deposits, 14% in interest bearing demand accounts, and 28% in noninterest bearing demand deposits. As of March 31, 2005, approximately $6,516,000, or less than 1%, of deposits were from public sources, and approximately $125,171,000, or 14%, of deposits were from title and escrow companies. As of March 31, 2004, the Company had a deposit mix of 38% in savings and money market accounts, 17% in time deposits, 12% in interest bearing demand accounts, and 33% in noninterest bearing demand deposits. As of March 31, 2004, approximately $7,005,000, or less than 1%, of deposits were from public sources, and approximately $98,051,000, or 11%, of deposits were from title and escrow companies.

The Company obtains deposits from a cross-section of the communities it serves. The Company's business is not seasonal in nature. The Company had brokered deposits totaling approximately $40,086,000 and $11,018,000 at

March 31, 2005 and 2004, respectively. These brokered deposits generally mature within one to three years. The Company is not dependent upon funds from sources outside the United States.

The following table indicates the maturity schedule of the Company's time deposits of $100,000 or more as of March 31, 2005.

(Dollars in thousands)		Balance	% of Total
Three months or less	$	46,280	29 %
Over three months through twelve months		67,873	43 %
Over twelve months		44,706	28 %
Total	$	158,859	100 %

The Company focuses primarily on providing and servicing business deposit accounts that are frequently over $100,000 in average balance per account. As a result certain types of business clients whom the Company caters to and serves typically carry average deposits in excess of $100,000. The account activity for some account types and client types necessitates appropriate liquidity management practices by the Company to ensure its ability to fund deposit withdrawals.

Return on Equity and Assets

The following table indicates the ratios on the annualized return on average assets and average equity and average equity to average assets for each indicated period.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Return on average assets	0.96 %	0.81 %
Return on average equity	10.67 %	8.71 %
Average equity to average assets ratio	9.00 %	9.27 %

Annualized return on average assets and return on average equity for the quarter ended March 31, 2005 were 0.96% and 10.67%, respectively, compared with returns of 0.81% and 8.71%, respectively, for the same period in 2004. The equity to asset ratio for the quarter ended March 31, 2005 was 9.00%, compared to 9.27% for the same period in 2004.

Interest Rate Sensitivity

The planning of asset and liability maturities is an integral part of the management of an institution's net yield. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, net yields may change over time. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of loans or investments or in the form of delays in the adjustment of rates of interest applying to either earning assets with floating rates or to interest bearing liabilities. The Company has generally been able to control its exposure to changing interest rates by maintaining primarily floating interest rate loans and a majority of its time certificates with relatively short maturities

The following table sets forth the interest rate sensitivity of the Company's interest-earning assets and interest-bearing liabilities at March 31, 2005, using the rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or when it is scheduled to mature within the specified time frame:

(Dollars in thousands)	Within Three Months	Due in Three to Twelve Months	Due After One to Five Years	Due After Five Years	Not Rate-Sensitive	Total
Interest earning assets:						
Federal funds sold	$ 76,200	$ --	$ --	$ --	$ --	$ 76,200
Interest bearing deposits in other financial Institutions	2,930	--	--	--	--	2,930
Securities	310	48,138	56,342	120,292	--	225,082
Total loans	572,844	68,581	70,293	51,762	--	763,480
Total interest earning assets	652,284	116,719	126,635	172,054	--	1,067,692
Cash and due from banks	--	--	--	--	30,233	30,233
Other assets	--	26,570	--	--	30,820	57,390
Total assets	$ 652,284	$ 143,289	$ 126,635	$ 172,054	$ 61,053	$ 1,155,315
Interest bearing liabilities:						
Demand, interest bearing	$ 130,039	$ --	$ --	$ --	$ --	$ 130,039
Savings and money market	361,060	--	--	--	--	361,060
Time deposits	60,490	86,031	50,167	--	--	196,688
Other borrowings	7,100	14,600	26,100	--	--	47,800
Notes payable to subsidiary grantor trusts	9,279	--	--	14,423	--	23,702
Total interest bearing liabilities	567,968	100,631	76,267	14,423	--	759,289
Noninterest demand deposits	74,808	--	--	--	199,928	274,736
Accrual interest payable and other liabilities	--	--	--	--	19,468	19,468
Shareholders' equity	--	--	--	--	101,822	101,822
Total liabilities and shareholders' equity	$ 642,776	$ 100,631	$ 76,267	$ 14,423	$ 321,218	$ 1,155,315
Interest rate sensitivity GAP	$ 9,508	$ 42,658	$ 50,368	$ 157,631	$ (260,165)	$ --
Cumulative interest rate sensitivity GAP	$ 9,508	$ 52,166	$ 102,534	$ 260,165	$ --	$ --
Cumulative interest rate sensitivity GAP ratio	0.82 %	4.52 %	8.87 %	22.52 %	-- %	-- %

Interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities, which may have a significant effect on the net interest margin and are not reflected in the interest sensitivity analysis table. Because of these factors, an interest sensitivity gap report may not provide a complete assessment of the exposure to changes in interest rates. To supplement traditional GAP analysis, the Company performs simulation modeling to estimate the potential effects of changing interest rate environments but there is no significant impact as of March 31, 2005, compared to December 31, 2004. The process allows the Company to explore the complex relationships within the GAP over time and various interest rate environments.

Liquidity risk represents the potential for loss as a result of limitations on the Company's ability to adjust for future cash flows, to meet the needs of depositors and borrowers, and to fund operations on a timely and cost-effective basis. The liquidity policy approved by the board of directors requires annual review of the Company's liquidity by the asset/liability committee, which is composed of senior executives, and the finance and investment committee of the board of directors.

The Company's internal Asset/Liability Committee and the Finance and Investment Committee of the Board of Directors each meet monthly to monitor the Company's investments, liquidity needs and to oversee its asset/liability management. The Company evaluates the rates offered on its deposit products on a weekly basis.

Liquidity and Asset/Liability Management

To meet liquidity needs, the Company maintains a portion of its funds in cash deposits in other banks, in Federal funds sold, and in investment securities. At March 31, 2005, the Company's primary liquidity ratio was 20.96%, comprised of $104,790,000 in investment securities available-for-sale with maturities (or probable calls) of up to five years, less $15,745,000 of securities that were pledged to secure public and certain other deposits as required by law and contract; Federal funds sold of $76,200,000, and $33,163,000 in cash and due from banks, as a percentage of total unsecured deposits of $946,778,000. At December 31, 2004 and March 31, 2004, the Company's primary liquidity ratio was 16.35% and 20.75%, respectively.

The following table summarizes the Company's borrowings under its Federal funds purchased, security repurchase arrangements and lines of credit for the periods indicated:

	March 31,	
(Dollars in thousands)	**2005**	**2004**
Average balance during the first quarter	$ 50,167	$ 29,205
Average interest rate during the first quarter	2.22%	1.75%
Maximum month-end balance during the first quarter	$ 57,800	$ 48,600
Average rate at March 31	2.20%	1.75%

The Company has Federal funds purchase lines and lines of credit of totaling $56,000,000 from correspondent banks. As of March 31, 2005, the Company had borrowing capacity of approximately $103,000,000 under a borrowing line with the Federal Home Loan Bank secured by certain loans and investment securities.

Capital Resources

The following table summarizes risk-based capital, risk-weighted assets, and risk-based capital ratios of the Company:

	March 31,		December 31,	
(Dollars in thousands)	**2005**	**2004**	**2004**	
Capital components:				
Tier 1 Capital	$ 125,465	$ 113,015	$ 121,096	
Tier 2 Capital	11,249	10,713	11,623	
Total risk-based capital	$ 136,714	$ 123,728	$ 132,719	
Risk-weighted assets	$ 948,932	$ 856,348	$ 929,241	
Average assets	$ 1,122,671	$ 985,146	$ 1,112,526	
				Minimum Regulatory Requirements
Capital ratios:				
Total risk-based capital	14.4 %	14.5 %	14.3 %	8.0 %
Tier 1 risk-based capital	13.2 %	13.2 %	13.0 %	4.0 %
Leverage ratio (1)	11.2 %	11.5 %	10.9 %	4.0 %

(1) Tier 1 capital divided by average assets (excluding goodwill).

At March 31, 2005 and 2004, and December 31, 2004, the Company's capital met all minimum regulatory requirements. As of March 31, 2005, management believes that HBC was considered "Well Capitalized" under the Prompt Corrective Action Provisions.

To enhance regulatory capital and to provide liquidity the Company, through unconsolidated subsidiary grantor trusts, issued the following mandatorily redeemable cumulative trust preferred securities of subsidiary grantor trusts: In the first quarter of 2000, the Company issued $7,000,000 aggregate principal amount of 10.875% subordinated debentures due on March 8, 2030 to a subsidiary trust, which in turn issued a similar amount of trust preferred securities. In the third quarter of 2000, the Company issued $7,000,000 aggregate principal amount of 10.60% subordinated debentures due on September 7, 2030 to a subsidiary trust, which in turn issued a similar amount of trust preferred securities. In the third quarter of 2001, the Company issued $5,000,000 aggregate principal amount of Floating Rate Junior Subordinated Deferrable Interest Debentures due on July 31, 2031 to a subsidiary trust, which in turn issued a similar amount of trust preferred securities. In the third quarter of 2002, the Company issued $4,000,000 aggregate principal amount of Floating Rate Junior Subordinated Deferrable Interest Debentures due on September 26, 2032 to a subsidiary trust, which in turn issued a similar amount of trust preferred securities. Under applicable regulatory guidelines, the Trust Preferred securities currently qualify as Tier I capital. No assurance can be given that the banking regulators will continue Tier 1 capital treatment for trust preferred securities in light of the recent accounting change. The subsidiary trusts are not consolidated in the Company's consolidated financial statements and the subordinated debt payable to the subsidiary grantor trusts is recorded as debt of the Company to the related trusts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes have occurred during the quarter to the Company's market risk profile or information. For further information refer to the Company's Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Control and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2005. As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported on a timely basis. Based upon that evaluation and as result of the material weakness described below, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2005.

Material Weakness in Internal Control Over Financial Reporting

Management concluded that, as of March 31, 2005, the Company did not design and implement controls over the selection and application of accounting policies for complex, non-routine transactions. This is a material weakness that caused the restatement of previously issued financial statements. It is considered a material weakness due to the actual misstatements identified, the potential for additional misstatements, and the lack of other mitigating controls to detect the misstatements.

Management determined that this control deficiency constituted a material weakness in the Company's internal control over financial reporting as of March 31, 2005. A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

This material weakness resulted in restatements of the Company's financial statements for the quarter ended March 31, 2004. The material weakness resulted in accounting errors related to an asset subject to a lease and leased facilities.

This material weakness was discovered and evaluated during the three months ended March 31, 2005. As of March 31, 2005 the Company was in the process of creating a formal process related to the design and implementation of control over the selection and application of accounting policies for complex, non-routine transactions. This process will include the early identification of complex, non-routine transactions. These transactions will be initially documented by the Company's internal accounting staff. A regular meeting with accounting staff and executive level officers involved and familiar with accounting issues related to complex, non-routine transactions, will be held to review the initial documentation of complex, non-routine transactions. As required, outside legal or accounting advice will be obtained.

Through these steps, the Company believes it is addressing the deficiencies that affected its internal control over financial reporting as of March 31, 2005. However, the effectiveness of any system of internal controls is subject to inherent limitations and there can be no assurance that the Company's internal control over financial reporting will prevent or detect all errors. The Company intends to continue to evaluate and strengthen its internal control over financial reporting system.

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2005, except as noted above there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to affect, our internal controls over financial reporting. However, the Company continues the process of creating a formal process related to the design and implementation of controls over the selection and application of accounting policies for complex, non-routine transactions as noted above. The Company believes that this change in internal controls over financial reporting will improve its financial reporting system but there is no assurance that this change will materially affect the Company’s internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds

In June 2004, the Company’s Board of Director authorized the purchase of up to $10 million of its common stock, which represents approximately 700,000 share, or 6%, of its outstanding shares at current market price. The share repurchase authorization is valid through June 1, 2005.

The Company intends to finance the purchase using its available cash. Shares may be repurchased by the Company in open market purchases or in privately negotiated transactions as permitted under applicable rules and regulations. The repurchase program may be modified, suspended or terminated by the Board of Directors at any time without notice. The extent to which the Company repurchases its shares and the timing of such repurchases will depend upon market conditions and other corporate considerations.

The Company did not repurchase any shares during the first quarter of 2005. As of March 31, 2005, the Company has repurchased 263,728 shares at an average price of $15.98. Shares were purchased on the open market using available cash.

ITEM 6. EXHIBITS

Exhibit	Description
31.1	Certification of Registrant’s Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2003
31.2	Certification of Registrant’s Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2003
32.1	Certification of Registrant’s Chief Executive Officer Pursuant To 18 U.S.C. Section 1350
32.2	Certification of Registrant’s Chief Financial Officer Pursuant To 18 U.S.C. Section 1350

SIGNATURES

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

	Heritage Commerce Corp (Registrant)
May 10, 2005 Date	/s/ Walter T. Kaczmarek Walter T. Kaczmarek Chief Executive Officer
May 10, 2005 Date	/s/ Lawrence D. McGovern Lawrence D. McGovern Chief Financial Officer