

HERITAGE COMMERCE CORP
Form PRE 14A
March 22, 2019

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

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

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

HERITAGE COMMERCE CORP

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:
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- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
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HERITAGE COMMERCE CORP

April [•], 2019

Dear Shareholder:

You are cordially invited to attend the 2019 Annual Meeting of Shareholders, which will be held at 1:00 p.m., Pacific Daylight Time (PDT) on Thursday, May 23, 2019, at Heritage Commerce Corp's offices, located at 150 Almaden Boulevard, San Jose, California, 95113.

The accompanying Notice of Annual Meeting and proxy statement describe the business that will be conducted at the meeting and provide information about Heritage Commerce Corp. We have also enclosed our 2018 Annual Report on Form 10-K.

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

Sincerely,

Jack W. Conner
Chairman of the Board

Walter T. Kaczmarek
President and Chief Executive Officer

150 Almaden Boulevard, San Jose, California 95113 • Telephone (408) 947-6900 • Fax (408) 947-6910

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HERITAGE COMMERCE CORP

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

Notice of Annual Meeting of Shareholders

- Date and Time:** Thursday, May 23, 2019, at 1:00 p.m., Pacific Daylight Time (PDT).
- Place:** Heritage Commerce Corp's offices located at 150 Almaden Boulevard, San Jose, California 95113.
- Items of Business:**
1. To elect 10 members of the Board of Directors, each for a term of one year;
 2. To approve an advisory proposal on the Company's executive compensation;
 3. To approve an amendment to our Articles of Incorporation to increase the number of authorized shares of our common stock from 60,000,000 to 100,000,000;
 4. To ratify the selection of Crowe LLP as the Company's independent registered public accounting firm for the year ending December 31, 2019; and
 5. To transact such other business as may properly come before the meeting, and any adjournment or postponement.
- Record Date:** You can vote if you are a shareholder of record on March 28, 2019.
- Mailing Date:** The proxy materials are being distributed to our shareholders on or about April [•], 2019, and include our Annual Report on Form 10-K, Notice of Annual Meeting, this proxy statement, and proxy or voting instruction card.
- Important Notice Regarding the Internet Availability of Proxy Materials:** The proxy statement and Annual Report on Form 10-K are available at www.heritagecommercecorp.com. **Your Vote is Important.** Please vote as promptly as possible by using the Internet or telephone or by signing, dating and returning the enclosed proxy card.

By Order of the Board of Directors,

Deborah Reuter
Executive Vice President
and Corporate Secretary

April [•], 2019
San Jose, California

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**PROXY STATEMENT FOR HERITAGE COMMERCE CORP
2019 ANNUAL MEETING OF SHAREHOLDERS
INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

Why did you send me this proxy statement?

We sent you this proxy statement and the enclosed proxy card because our Board of Directors (the "Board of Directors" or the "Board") is soliciting your proxy to vote at the 2019 Annual Meeting of Shareholders. This proxy statement summarizes the information you need to know to cast an informed vote at the Annual Meeting. However, you do not need to attend the Annual Meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card. You may also vote by telephone or the Internet by following the instructions on the proxy card.

Along with this proxy statement, we are also sending you the Heritage Commerce Corp 2018 Annual Report on Form 10-K, which includes our consolidated financial statements. Heritage Commerce Corp is also referred to in this proxy statement as the "Company."

Who is entitled to vote?

We will begin sending this proxy statement, the attached Notice of Annual Meeting and the enclosed proxy card on or about April [•], 2019, to all shareholders entitled to vote. Shareholders who were the record owners of the Company's common stock at the close of business on March 28, 2019, are entitled to vote. On this record date, there were [•] shares of common stock outstanding.

What constitutes a quorum?

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

How many votes do I have?

Each share of common stock entitles you to one vote in person or by proxy, for each share of common stock outstanding in your name on the books of the Company as of March 28, 2019, the record date for the Annual Meeting on any matter submitted to a vote of the shareholders, except that in connection with the election of directors (Proposal 1), you may cumulate your shares (*see "What is cumulative voting and how do I cumulate my shares?" on page 3*). The proxy card indicates the number of votes that you have as of the record date.

Is voting confidential?

We have a confidential voting policy to protect the privacy of our shareholders' votes. Under this policy, ballots, proxy cards and voting instructions returned to banks, brokers and other nominees are kept confidential. Only the proxy tabulator and the Inspector of Election have access to the ballots, proxy cards and voting instructions.

How do I vote by proxy?

You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or other nominee. If your shares are held by a broker or other nominee, you will receive instructions that you must follow to have your shares voted. If you hold your shares as a shareholder of record, you may vote by completing, signing and dating the enclosed proxy card and returning it promptly in the envelope provided. You may also vote by telephone or over the Internet (see page 3). Returning the proxy card will not affect your right to attend the Annual Meeting and vote.

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

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

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

"FOR" the approval of the amendment to the Articles of Incorporation to increase the number of authorized shares; and

"FOR" the ratification of the selection of Crowe LLP as our independent registered public accounting firm for 2019.

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

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

If your shares are held by your broker, sometimes called "street name" shares, you must vote your shares through your broker. You should receive a form from your broker asking how you want to vote your shares. Follow the instructions on that form to give voting instructions to your broker. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine, but not on non-routine matters. A "broker non-vote" occurs when your broker does not vote on a particular proposal because the broker does not receive instructions from the beneficial owner and does not have discretionary authority. Proposal 1 (election of directors), Proposal 2 (advisory proposal on the executive compensation), and Proposal 3 (approval of the amendment to the Articles of Incorporation to increase the number of authorized shares) are non-routine items on which a broker may vote only if the beneficial owner has provided voting instructions. Proposal 4 (ratification of independent registered public accounting firm) is a routine item.

What are the procedures for attending the Annual Meeting?

Only shareholders owning the Company's common stock at the close of business on March 28, 2019, or their legal proxy holders, are entitled to attend the Annual Meeting. You must present photo identification for admittance. If you are a shareholder of record, your name will be verified against the list of shareholders of record on the Record Date prior to your admission to the Annual Meeting. If you are not a shareholder of record but hold shares through a bank, broker or other nominee, you must provide proof of beneficial ownership on the Record Date, such as your most recent account statement prior to

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March 28, 2019, or other similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above, you will not be admitted to the Annual Meeting.

How do I vote in person?

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

May I vote over the Internet or by telephone?

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

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares by telephone or over the Internet. Most U.S. banks and brokerage firms are clients of Broadridge Financial Solutions ("Broadridge"). As such, shareholders who receive either a paper copy of their proxy statement or electronic delivery notification have the opportunity to vote by telephone or over the Internet. If your bank or brokerage firm is a Broadridge client, your proxy card or Voting Instruction Form ("VIF") will provide the instructions. If your proxy card or VIF does not provide instructions for Internet and telephone voting, please complete and return the proxy card in the self-addressed, postage-paid envelope provided.

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

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

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

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

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May I change my vote after I return my proxy?

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

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

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

You may attend the Annual Meeting and vote in person.

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

What if I receive multiple proxy cards?

If you receive multiple proxy cards, your shares are probably registered differently or are in more than one account. Vote all proxy cards received to ensure that all your shares are voted. Unless you need multiple accounts for specific purposes, we recommend that you consolidate as many of your accounts as possible under the same name and address. If the shares are registered in your name, contact our transfer agent, EQ Shareowner Services, 1-866-883-3382; otherwise, contact your bank, broker or other nominee.

What vote is required to approve each proposal?

Approval of Proposal 1 (election of directors) requires a plurality of votes cast for each nominee. This means that the 10 nominees who receive the most votes will be elected. So, if you do not vote for a particular nominee, or you indicate "WITHHOLD AUTHORITY" to vote for a particular nominee on your proxy card, your vote will not count either "for" or "against" the nominee. Abstentions will not have any effect on the outcome of the vote. You may cumulate your votes in the election of directors as described under "*What is cumulative voting and how do I cumulate my shares?*" on page 3. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.

Proposal 3 (approval of an amendment to the Company's Articles of Incorporation to increase the number of authorized shares) requires the affirmative vote of a majority of the shares issued and outstanding on the Record Date. For purposes of Proposal 3, abstentions and broker non-votes will have the same effect as a negative vote.

Proposal 2 (advisory proposal on the executive compensation) and Proposal 4 (ratification of independent registered public accounting firm) each requires a vote that satisfies two criteria: (i) the affirmative vote for the proposal must constitute a majority of the common shares present or represented or by proxy and voting on the proposal at the Annual Meeting; and (ii) the affirmative vote for the proposal must constitute a majority of the common shares required to constitute the quorum. For purposes of Proposal 2 and 4, abstentions and broker non-votes will not affect the outcome under clause (i), which recognizes only actual votes cast. However, abstentions and broker non-votes will affect the outcome under clause (ii) if the number of affirmative votes, though a majority of the votes represented and cast, does not constitute a majority of the voting power required to constitute a quorum. The ratification of the appointment of the independent registered public accounting firm for 2019 is a matter on which a broker or other nominee is generally empowered to vote and, therefore, no broker non-votes are expected to exist with respect to Proposal 4.

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How will voting on any other business be conducted?

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

What are the costs of soliciting these proxies?

We will pay all the costs of soliciting these proxies. In addition to mailing proxy soliciting material, our directors, officers and employees also may solicit proxies in person, by telephone or by other electronic means of communication for which they will receive no compensation. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward the proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their reasonable expenses. We have hired Advantage Proxy to seek the proxies of custodians, such as brokers, which hold shares which belong to other people. This service will cost the Company approximately \$4,500 plus expenses.

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

A copy of our 2018 Annual Report on Form 10-K accompanies this proxy statement. If you would like another copy of this report, we will send you one without charge. The Annual Report on Form 10-K includes a list of exhibits filed with the Securities and Exchange Commission ("SEC"), but does not include the exhibits. If you wish to receive copies of the exhibits, we will send them to you. Please write to:

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

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

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The following table sets forth information as of February 28, 2019, pertaining to beneficial ownership of the Company's common stock by persons known to the Company to own 5% or more of the Company's common stock, nominees to be elected to the Board of Directors, the executive officers named in the Summary Compensation Table presented in this proxy statement, and all directors and executive officers of the Company, as a group. This information has been obtained from the Company's records, or from information furnished directly by the individual or entity to the Company.

For purposes of the following table, shares issuable pursuant to stock options which may be exercised within 60 days of February 28, 2019, are deemed to be issued and outstanding and have been treated as outstanding in determining the amount and nature of beneficial ownership and in calculating the percentage of ownership of those individuals possessing such interest, but not for any other individuals.

Name of Beneficial Owner(1)	Position	Shares Beneficially Owned(2)(3)	Exercisable Options	Percent of Class(3)
Michael E. Benito	Executive Vice President/Banking Division of Heritage Bank of Commerce	75,389(4)(20)	27,000	0.17%
Julianne M. Biagini-Komas	Director	26,886(5)		0.06%
Frank G. Bisceglia	Director	135,510(6)	25,000	0.31%
Margo G. Butsch	Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce	13,035(7)(20)	6,035	0.03%
Jack W. Conner	Director and Chairman of the Board	102,121(8)		0.24%
Jason DiNapoli	Director	291,694(9)		0.67%
Steven L. Hallgrimson	Director	124,673(10)	6,345	0.29%
Walter T. Kaczmarek	Chief Executive Officer, President and Director	132,333(11)(20)	15,000	0.31%
Lawrence D. McGovern	Executive Vice President and Chief Financial Officer	105,206(12)(20)	30,000	0.24%
Robert T. Moles	Director	71,677(13)	21,500	0.17%
Laura Roden	Director	28,273(14)	10,700	0.07%
Ranson W. Webster	Director	633,851(15)	25,000	1.46%
Keith A. Wilton	Executive Vice President, Director, and Chief Operating Officer and President of Heritage Bank of Commerce	94,058(16)(20)		0.22%
All directors, and executive officers (13 individuals)		1,834,706		4.22%
BlackRock Inc.		3,028,833(17)		7.00%
Dimensional Fund Advisors LP., Inc.		2,221,513(18)		5.13%
T. Rowe Price Associates, Inc.		6,064,670(19)		14.01%

1. Except as otherwise noted, the address for all persons is c/o Heritage Commerce Corp, 150 Almaden Boulevard, San Jose, California, 95113.
2. Subject to applicable community property laws and shared voting and investment power with a spouse, the persons listed have sole voting and investment power with respect to such shares unless otherwise noted. Listed amounts reflect all previous stock splits and stock dividends.
3. Includes shares beneficially owned (including options exercisable within 60 days of February 28, 2019, as shown in the "Exercisable Options" column).

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4. Includes 16,125 shares of restricted stock that have not vested and of which Mr. Benito has the right to vote.
5. Includes 1,190 shares of restricted stock that have not vested and of which Ms. Biagini-Komas has the right to vote.
6. Includes 93,237 shares as one of two trustees of the Bisceglia Family Trust, and 11,000 shares held by Mr. Bisceglia in a personal Individual Retirement Account. Also includes 1,632 shares of restricted stock that have not vested and of which Mr. Bisceglia has the right to vote.
7. Includes 7,000 shares of restricted stock that have not vested and of which Ms. Butsch has the right to vote.
8. Includes 19,515 shares held by Mr. Conner's spouse. Also includes 2,117 shares of restricted stock that have not vested and of which Mr. Conner has the right to vote.
9. Includes 251,694 shares held by a partnership and 20,000 shares held by Mr. DiNapoli's children.
10. Includes 90,628 shares held directly. Includes 3,500 shares held in a SEP IRA account, 2,000 shares held in a personal IRA account, 4,000 shares held in Mr. Hallgrimson's private foundation, 3,000 shares held by Mr. Hallgrimson's spouse, 7,000 shares in a limited liability company with his son, 2,900 shares that Mr. Hallgrimson holds as trustee of various trusts and 5,300 shares held in accounts of others over which Mr. Hallgrimson has voting and investment power. Also includes 1,632 shares of restricted stock that have not vested and of which Mr. Hallgrimson has the right to vote.
11. Includes 41,000 shares held in a personal Individual Retirement Account. Also includes 45,731 shares of restricted stock that have not vested and of which Mr. Kaczmarek has the right to vote.
12. Includes 4,980 shares held by Mr. McGovern in a personal Individual Retirement Account. Also includes 22,350 shares of restricted stock that have not vested and of which Mr. McGovern has the right to vote.
13. Includes 18,295 shares held by Mr. Moles' spouse. Also includes 1,632 shares of restricted stock that have not vested and of which Mr. Moles has the right to vote.
14. Includes 1,632 shares of restricted stock that have not vested and of which Ms. Roden has the right to vote.
15. Includes 8,493 shares held indirectly. Also includes 1,632 shares of restricted stock that have not vested and of which Mr. Webster has the right to vote.
16. Includes 28,000 shares of restricted stock that have not vested and of which Mr. Wilton has the right to vote.
17. BlackRock, Inc. is an investment management firm and may be deemed to beneficially own 3,028,833 shares of the Company which are held of record by clients of BlackRock, Inc. The address for BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055. All of the foregoing information has been obtained by Schedule 13G filed with the SEC on February 4, 2019.
18. Dimensional Fund Advisors LP is an investment management firm and may be deemed to beneficially own 2,221,513 shares of the Company which are held of record by clients of Dimensional Fund Advisors LP. The address for Dimensional Fund Advisors LP is Building One, 6300 Bee Cave Road, Austin, TX 78746. All of the foregoing information has been obtained by Schedule 13G filed with the SEC on February 8, 2019.

19.

T. Rowe Price Associates, Inc. is an investment management firm and may be deemed to beneficially own 6,064,670 shares of the Company which are held of record by clients of T. Rowe Price Associates, Inc. the address for T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, MD 21202. All of the foregoing information has been obtained by Schedule 13G filed with the SEC on February 14, 2019.

20.

The Company's Employee Stock Ownership Plan owns 108,270 shares of our common stock, all of which have been allocated. These include shares held for the account of the following named executive officers and includes in the table for Mr. Kaczmarek 1,906 shares, Mr. McGovern 5,506 shares, Mr. Benito 2,289 shares, and zero shares for Ms. Butsch and Mr. Wilton. Mr. Kaczmarek and Mr. McGovern are two of the three trustees of the Employee Stock Ownership Plan. As trustees, they have the power to vote any unallocated shares of the Employee Stock Ownership Plan (currently no shares are unallocated) and allocated shares for which voting instructions are not otherwise provided.

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CORPORATE GOVERNANCE AND BOARD MATTERS

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

Board of Directors

Board Independence

In 2018 eight (8) out of nine (9) members of the Board of Directors were independent directors, as defined by the applicable rules and regulations of the Nasdaq Stock Market, as follows:

Julianne M. Biagini-Komas
Frank G. Bisceglia
Jack W. Conner, Chairman of the Board
J. Philip DiNapoli*
Jason DiNapoli*
Steven L. Hallgrimson
Robert T. Moles
Laura Roden
Ranson W. Webster

*

J. Philip DiNapoli retired from the Board of Directors and Jason DiNapoli joined the Board of Directors in July 2018.

Board and Committee Meeting Attendance

During the fiscal year ended December 31, 2018, our Board of Directors held a total of 12 meetings. For the meetings directors were qualified to attend in 2018, each incumbent director who was a director during 2018 attended at least 75% of the aggregate of (a) the total number of such meetings and (b) the total number of meetings held by the standing committees of the Board on which such director served.

Director Attendance at Annual Meetings of Shareholders

The Board believes it is important for all directors to attend the Annual Meeting of Shareholders in order to show their support for the Company and to provide an opportunity for shareholders to communicate any concerns to them. The Company's policy is to encourage, but not require, attendance by each director at the Company's Annual Meeting of Shareholders. All of the directors of the Company are encouraged to attend the Annual Meeting of Shareholders and at the 2018 Annual Meeting of Shareholders all of our directors were in attendance.

Communications with the Board

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

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

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

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

Nomination of Directors

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

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

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

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

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

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

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

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

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

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

Section 5.14 of the Company's Bylaws provide that any shareholder must give advance written notice to the Company of an intention to nominate a director at a shareholder meeting. Notice of intention to make any nominations must be delivered to the Secretary of the Company at the principal executive offices of the Company not later than the close of business 90 days nor earlier than the close of business 120 days

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prior to the first anniversary of the preceding year's annual meeting. If the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date of the annual meeting, notice by the shareholder must be delivered not earlier than the close of business 120 days prior to such annual meeting and not later than the close of business 90 days prior to such annual meeting or 10 days following the day on which public announcement of the date of such meeting is first made by the Company.

To be in proper written form, a shareholder's notice to the Corporate Secretary must provide as to each person, whom the shareholder proposes to nominate for election as a director (each referred to as the "Nominee"): (1) all information relating to the Nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934 (the "Exchange Act"); (2) the Nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (3) the number of shares of capital stock of any bank, bank holding company, savings and loan association or other depository institution owned beneficially by the Nominee and the identities and locations of any such institutions; (4) whether the Nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy or been adjudged bankrupt; (5) a written statement executed by the Nominee acknowledging that as a director of the Company, the Nominee will owe a fiduciary duty exclusively to the Company and its shareholders; (6) a representation whether the Nominee satisfies the requirements of Section 2.2(b) of the Company's Bylaws (see below); (7) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the Nominee respect to any securities of the Company, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the Nominee; and (8) a description of all arrangements or understandings between the shareholder and the Nominee and any other person or persons (naming such person or persons) pursuant to which the nomination is to be made by the shareholder.

The notice must also set forth with respect to the shareholder submitting the nomination: (1) the name and address of the shareholder (and beneficial owner, if applicable), as it appears on the Company's books, (and of such beneficial owner, if applicable) and any other shareholders and beneficial owners known by such shareholder to be supporting the Nominee(s) for election; (2) the class or series and number of shares of capital stock of the Company that are, directly or indirectly, owned beneficially and of record by such shareholder (and by such beneficial owner, if applicable); (3) any derivative positions with respect to shares of capital stock of the Company held or beneficially held by or on behalf of such shareholder (and by or on behalf of such beneficial owner), the extent to which any hedging or other transaction or series of transactions has been entered into with respect to the shares of capital stock of the Company by or on behalf of such shareholder (and by or on behalf of such beneficial owner), and the extent to which any other agreement, arrangement or understanding has been made, the effect or intent of which is to increase or decrease the voting power of such shareholder (and such beneficial owner) with respect to shares of capital stock of the Company; (4) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose the Nominee; and (5) a representation whether the shareholder (or the beneficial owner, if any), intends or is part of a group that intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company's outstanding capital stock required to elect the nominee or otherwise to solicit proxies from shareholders in support of such nomination (and a copy of such documents must be provided with the notice). The information required of clauses (3) and (4) must be supplemented not later than ten days following the record date to disclose the information contained in clauses (3) and (4) above as of the record date.

The Company may require any proposed nominee to furnish such other information as it may reasonably require to determine: (1) the eligibility of the Nominee to serve as a director of the Company

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(including the information required to be set forth in the shareholder's notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person's nomination was given); and (2) whether the Nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the Company.

Nominees for the Board of Directors must also meet certain qualifications set forth in Section 2.2(b) of our Bylaws, which prohibit the election as a director of any person who is a director, executive officer, branch manager or trustee for any unaffiliated commercial bank, savings bank, trust company, savings and loan association, building and loan association, industrial bank or credit union that is engaged in business in: (1) any city, town or village in which the Company or any affiliate or subsidiary thereof has offices; or (2) any city, town or village adjacent to a city, town or village in which the Company or any affiliate or subsidiary thereof has offices.

J. Philip DiNapoli retired from the Board of Directors in July 2018. Upon recommendation of the Corporate Governance and Nominating Committee, the Board of Directors elected Jason DiNapoli to fill the vacancy created by the resignation of J. Philip DiNapoli. Jason DiNapoli is the son of J. Philip DiNapoli.

At the Board of Directors meeting held January 24, 2019, Walter T. Kaczmarek announced that he would be retiring as Chief Executive Officer and President of Heritage Commerce Corp and as Chief Executive Officer of Heritage Bank of Commerce effective August 8, 2019. Mr. Kaczmarek will continue as a member of the Board of Directors after his retirement. Upon recommendation of the Corporate Governance and Nominating Committee and in accordance with its succession plan, the Board of Directors elected Keith A. Wilton to succeed Mr. Kaczmarek as Chief Executive Officer and President of Heritage Commerce Corp and Heritage Bank of Commerce effective August 8, 2019. The Board of Directors also increased the size of the Board to 10 persons and elected Mr. Wilton to the Board of Directors effective February 1, 2019.

The Corporate Governance and Nomination Committee has recommended the election of Jason DiNapoli and Keith A. Wilton as directors at the 2019 Annual Meeting.

Diversity of the Board of Directors

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

Term of Office

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

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Board Committees

The Board may delegate portions of its responsibilities to committees of its members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. Our Board has five standing committees: Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, Finance and Investment Committee, and Strategic Initiatives Committee. In addition, Heritage Bank of Commerce maintains a Loan Committee. An independent director, as defined by the applicable rules and regulations of the Nasdaq Stock Market, chairs the Board and its other standing committees (including Heritage Bank of Commerce's Loan Committee). The Chair determines the agenda, the frequency and the length of the meetings and receives input from Board members.

Executive Sessions

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

Evaluation of Board Performance

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

Management Performance and Compensation

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

Director Stock Ownership Guidelines

The Board has adopted a policy that each member of the Board who is not an employee of the Company is expected to hold a minimum number of shares of the Company's common stock. In 2018, each such director was expected to hold, at a minimum, \$200,000 market value shares of the Company's common stock. The policy was changed in January 2019 to require a minimum ownership of 17,500 shares of the Company's common stock. Any director not meeting the minimum level as of the effective date of their election to the Board has three years to bring his or her holdings up to this minimum level. The Corporate Governance and Nominating Committee will review this policy on an annual basis.

Code of Ethics

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

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

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Reporting of Complaints/Concerns Regarding Accounting or Auditing Matters

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

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

INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors

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

The Company's Bylaws currently permit the number of Board members to range from 9 to 15, leaving the Board authority to fix the exact number of directors within that range. The Board has fixed the current number of directors at 10.

Board Leadership Structure

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

Board Authority for Risk Oversight

The Board has active involvement and the responsibility for overseeing risk management of the Company arising out of its operations and business strategy. The Board monitors, reviews and reacts to material enterprise risks identified by management. The Board receives specific oral and written reports from officers with oversight responsibility for particular risks within the Company. Reports cover executive management on financial, credit, liquidity, interest rate, capital, operational, legal and regulatory compliance and reputation risks and the Company's degree of exposure to those risks. The Board helps ensure that management is properly focused on risk by, among other things, reviewing and discussing the performance of senior management and business line leaders.

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

The Committees of the Board

The Board may delegate portions of its responsibilities to committees of its members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. Our Board has five standing committees: the Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, Finance and Investment Committee, and Strategic Initiatives Committee. In addition, Heritage Bank of Commerce also maintains a Loan Committee.

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

The responsibilities of the Audit Committee include the following:

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

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

review with management and our independent auditors the effectiveness of our internal controls over financial reporting;

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

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

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

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

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

oversee the internal audit function and the audits directed under its auspices;

establish policies to ensure all non-audit services provided by the independent auditors are approved prior to work being performed; and

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

Each member of the Audit Committee meets the independence criteria as defined by applicable rules and regulations of the SEC for audit committee membership and is independent and is "financially sophisticated" as defined by the applicable rules and regulations of the Nasdaq Stock Market. The members of the Audit Committee are Julianne M. Biagini-Komas, Steven L. Hallgrimson (Committee Chair), and Laura Roden. The Audit Committee met 14 times during 2018.

During 2017, the Board of Directors determined that Mr. Steven L. Hallgrimson has: (1) an understanding of generally accepted accounting principles and financial statements; (2) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (3) an experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities; (4) an understanding of internal control over financial reporting; and (5) an understanding of audit committee functions.

Therefore, in 2018 the Board determined that Mr. Hallgrimson meets the definition of "audit committee financial expert" under the applicable rules and regulations of the SEC and is "financially sophisticated" as defined by the applicable rules and regulations of the Nasdaq Stock Market. The designation of a person as an audit committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933. The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other audit committee member or any other director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

The Audit Committee Report for 2018 appears on page 59 of this proxy statement.

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

review and approve our compensation philosophy;

review industry compensation practices and our relative compensation positioning;

review the incentive compensation programs by the Company to evaluate and ensure that none of them encourage excessive risk;

retain compensation consultants to provide independent professional advice;

approve compensation paid to our Chief Executive Officer and other executive officers;

review and approve the Compensation Discussion and Analysis appearing in our proxy statement;

review director compensation programs, plans and awards;

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administer our short-term and long-term executive incentive plans and stock or stock-based plans; and

review and approve general employee welfare benefit plans and other plans on an as needed basis.

The members of the Compensation Committee are Julianne M. Biagini-Komas (Committee Chair), Frank G. Bisceglia, Robert T. Moles, and Ranson W. Webster. The Committee met 10 times during 2018.

Corporate Governance and Nominating Committee. The Company has a separately designated Corporate Governance and Nominating Committee, which consists of entirely independent directors as defined by the applicable rules and regulations of the Nasdaq Stock Market. The Corporate Governance and Nominating Committee have adopted a charter, which is available on the Company's website at www.heritagecommercecorp.com.

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

identifying individuals qualified to become Board members and making recommendations to the full Board of candidates for election to the Board;

recommending to the Board corporate governance guidelines;

leading the Board in an annual review of its performance; and

recommending director appointments to Board committees.

The members of the Corporate Governance and Nominating Committee are Steven L. Hallgrimson, Robert T. Moles, and Ranson W. Webster (Committee Chair). The Committee met 5 times during 2018.

Finance and Investment Committee. The Finance and Investment Committee is responsible for the development of policies and procedures related to liquidity, asset-liability management, and supervision of the Company's investments. The Committee also oversees and reviews internal financial reports including annual forecasts and budgets, and stress test analysis prepared by management. The members of the Finance and Investment Committee are Frank G. Bisceglia, Jack W. Conner (Committee Chair), Walter T. Kaczmarek, and Laura Roden. The Finance and Investment Committee met 8 times during 2018.

Strategic Initiatives Committee. The principal duties of the Strategic Initiatives Committee are to provide oversight and guidance to senior management regarding the strategic direction of the Company, including development of an overall strategic business plan. The members of the Strategic Initiatives Committee are Jack W. Conner, Jason DiNapoli, Walter T. Kaczmarek, Laura Roden (Committee Chair), and Ranson W. Webster. The Strategic Initiatives Committee met 5 times during 2018.

Heritage Bank of Commerce Loan Committee. The Heritage Bank of Commerce Loan Committee is responsible for the approval and supervision of loans and the development of the Company's loan policies and procedures. The members of the Loan Committee are Julianne M. Biagini-Komas, Frank G. Bisceglia (Committee Chair), Jason DiNapoli, Walter T. Kaczmarek, and Robert T. Moles. The Loan Committee met 37 times during 2018.

Role of Compensation Consultant

The Compensation Committee of the Board of Directors retained McLagan, an Aon Hewitt Company ("McLagan") as its independent compensation consultant in the fourth quarter of 2018 and it delivered its report in the first quarter of 2019.

The Compensation Committee has the authority to obtain assistance and advice from advisors to assist it with the evaluation of compensation matters without the approval or permission of management or the Board. The Compensation Committee uses advisors to obtain candid and direct advice independent of

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management, and takes steps to satisfy this objective. First, in evaluating firms to potentially provided advisory services to the Compensation Committee, the Compensation Committee considers if the firm provides any other services to the Company. In addition, while members of management may assist the Compensation Committee in the search for advisors, the Compensation Committee ultimately and in its sole discretion makes the decision to hire or engage a consultant and provides direction as to the scope of work to be conducted. The Chair of the Compensation Committee has evaluated the relationship of the compensation consultant with both the Company and the Compensation Committee, including the nature and amount of work performed for the Compensation Committee during the year. The Compensation Committee retained McLagan, to:

review existing compensation programs for executive officers;

provide information based on third-party data and analysis of compensation programs at comparable financial institutions for the design and implementation of our executive compensation programs;

assist the Compensation Committee in forming a peer group; and

provide independent information as to the reasonableness and appropriateness of the compensation levels and compensation programs of the Company as compared to comparable financial services companies.

Executive Officers of the Company

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

Name	Position
Walter T. Kaczmarek	President and Chief Executive Officer of Heritage Commerce Corp and Chief Executive Officer of Heritage Bank of Commerce
Keith A. Wilton	Executive Vice President and Chief Operating Officer of Heritage Commerce Corp and President of Heritage Bank of Commerce
Michael E. Benito	Executive Vice President/Banking Division of Heritage Bank of Commerce
Margo G. Butsch	Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce
Lawrence D. McGovern	Executive Vice President and Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce

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

Michael E. Benito, age 58, has served as Executive Vice President/Banking Division of Heritage Bank of Commerce since January 2012. Mr. Benito joined Heritage Bank of Commerce in 2003 as Senior Vice President/Director of Sales & Business Development. From 1998 through 2003, Mr. Benito served as a Managing Director for Greater Bay Bank and from December 1986 through 1998, he served as Regional Vice President with Imperial Bancorp. Mr. Benito began his banking career more than 32 years ago at Union Bank of California (formerly Union Bank).

Margo G. Butsch, age 55, has served as Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce since July 2017. Ms. Butsch joined Heritage Bank of Commerce through Focus Business Bank which was acquired by Heritage Bank of Commerce in August 2015. After the acquisition, Ms. Butsch joined Heritage Bank of Commerce as Vice-President/Credit Administration and was

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promoted to Senior Vice President/Credit Administration in November 2015. Since 1995 and prior to joining Heritage Bank of Commerce, Ms. Butsch held various Vice-President and Senior Vice President relationship management and loan administration positions with Focus Business Bank, The Independent Bankers Bank, Greater Bay Bank, and Imperial Bank.

Lawrence D. McGovern, age 64, has served as Executive Vice President and Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce since July 1998.

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities. They are required by SEC rules and regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our executive officers and directors were complied with during the year ended December 31, 2018.

Transactions with Management

Some of the Company's directors and executive officers, as well as other related persons (as defined under "Policies and Procedures for Approving Related Party Transactions" below), are customers of, and have banking transactions with, the Company's subsidiary, Heritage Bank of Commerce, in the ordinary course of business, and Heritage Bank of Commerce expects to have such ordinary banking transactions with these persons in the future. In the opinion of the management of the Company and Heritage Bank of Commerce, all loans and commitments to lend included in such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual directors, officers and related persons must comply with Heritage Bank of Commerce's lending policies and statutory lending limits. In addition, prior approval of Heritage Bank of Commerce's Board of Directors is required for all loans advanced to directors and executive officers. These loans are exempt from the loan prohibitions of the Sarbanes-Oxley Act.

Policies and Procedures for Approving Related Party Transactions

The Board of Directors has adopted a written Statement of Policy with Respect to Related Party Transactions. Under this policy, any "related party transaction" may be consummated or may continue only if the Audit Committee approves or ratifies the transaction in accordance with the guidelines in the policy and if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party. For purposes of this policy, a "related person" means: (1) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company; (2) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; (3) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and (4) any firm, corporation or other entity in which

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any of the foregoing persons is employed or is a partner, principal or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

A "related party transaction" is a transaction in which the Company or any of its subsidiaries is a participant and in which a related person had or will have a direct or indirect interest, other than transactions involving: (1) less than \$5,000 when aggregated with all similar transactions; (2) customary bank deposits and accounts (including certificates of deposit); and (3) loans and commitments to lend included in such transactions that are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features to the Company.

A related party who has a position or relationship with a firm, corporation, or other entity that engaged in a transaction with the Company shall not be deemed to have an indirect material interest within the meaning of this policy where the interest in the transaction arises only: (1) from such related party's position as a director of another corporation or organization that is party to the transaction; (2) from the direct or indirect ownership by the related party of less than a 10% equity interest in another person (other than a partnership) which is a party to the transaction; or (3) from the related party's position as a limited partner in a partnership in which the related party has an interest of less than 10%, and the related party is not a general partner of and does not hold another position in the partnership.

The Board of Directors has determined that the Audit Committee is best suited to review and approve related party transactions. The Committee considers all of the relevant facts and circumstances available to the Committee, including (if applicable) but not limited to: (1) the benefits to the Company; (2) the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; (3) the availability of other sources for comparable products or services; (4) the terms of the transaction; and (5) the terms available to unrelated third parties or to employees generally. No member of the Audit Committee may participate in any review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person. The Committee will approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its shareholders, as the Committee determines in good faith. The Audit Committee conveys its decision to the Chief Executive Officer, who conveys the decision to the appropriate persons within the Company.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis identifies the Company's current compensation philosophy and objectives and describes the various methodologies, policies and practices for establishing and administering the compensation programs for our executives including the named executive officers. The strategies and policies of the Compensation Committee have been developed so that there is a direct correlation between executive compensation and the Company's overall performance and individual performance. The individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during 2018, as well as, the other individuals included in the Summary Compensation Table, are referred to as the "named executive officers."

Overview of Compensation Philosophy

Our compensation philosophy is driven by our objective to attract and retain the premier talent needed to lead our Company in an extremely competitive environment and to strongly align the interests of our executives with those of our shareholders for the long term. Our executive compensation is aligned with our overall business strategy, with a focus on driving growth, profitability and long-term value for our shareholders.

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We structure our executive compensation program with a mix of base salary, annual performance-based cash incentive awards and long-term equity awards to incentivize and reward those individuals who make the greatest contributions to our performance and creation of shareholder value over time.

The first goal of our compensation program is to link a reasonable percentage of executive compensation to the financial performance of the Company. We achieve this goal by providing our named executive officers the opportunity to significantly increase their annual cash compensation through our variable performance based cash award incentive plan. The plan awards improvement in the Company's performance in key financial metrics on an annual basis. We also expect that as those improvements are maintained and built upon, they will be reflected in the Company's stock price.

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

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

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

Compensation Program Objectives and Rewards

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

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

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

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

Support a one company culture;

Support overall business objectives;

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

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

Consequently, the guiding principles of our programs are to:

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Promote and maintain a high performance banking organization;

Remain competitive in our marketplace for talent;

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

Avoid encouraging excessive risk taking.

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

Overall business performance and employee engagement;

Ability to attract and retain key talent;

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

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

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

Base salary and benefits are designed to:

Reward core competence in the executive role relative to position, performance, experience and responsibility;

Provide fixed cash compensation with merit increases competitive with the market place; and

Control fixed expenses.

Annual incentive variable cash awards are designed to:

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

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

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

Equity based compensation awards are designed to:

Align the interests of executives with those of our shareholders;

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

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

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

Change of control and separation benefits:

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

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

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

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Manage excessive risk-taking through plan design and oversight of incentive plans:

Incentive awards are capped;

Performance objectives are aligned with annual financial plan approval by the Board of Directors;

Multiple financial metrics are used taking into account performance and risk;

A "claw-back policy" is applied to performance based cash payments;

Payouts are modified through the use of risk-based capital ratio metrics;

Long-term incentive equity awards are deferred through vesting requirements; and

The Compensation Committee has discretion to reduce cash bonus payments.

Role of Shareholder Input

The Compensation Committee has been mindful of the strong support our shareholders expressed for our compensation program when making executive compensation decisions, including base salary adjustments and long-term incentive awards. In making these executive compensation decisions, which are discussed more fully below, the Compensation Committee's main considerations included our shareholders' support for our executive compensation program, and the peer and market information provided by the Compensation Committee's compensation consultant. The Compensation Committee will continue to consider our shareholders' views when making executive compensation decisions in the future.

Commencing last year we are including a say-on-pay non-binding advisory proposal every year with our annual meeting proxy statement. Last year our non-binding shareholder advisory vote on executive compensation was approved, with approximately 97% of voting shareholders casting their votes in favor of the say-on-pay resolution.

Role of Compensation Committee in Determining Compensation

The Compensation Committee of the Board of Directors has strategic and oversight responsibility for the overall compensation and benefits programs for executives of the Company. These responsibilities include establishing, implementing, and continually monitoring the compensation structure, policies, and programs of the Company. The Compensation Committee also periodically reviews, assesses and monitors the performance, and regularly reviews the design and function, of the Company's incentive compensation arrangements to ensure that any risk-taking incentives are consistent with regulatory guidance and the safety and soundness of the organization. The Compensation Committee is responsible for assessing and approving the total compensation paid to the Chief Executive Officer and all executive officers. The Compensation Committee is responsible for determining whether the compensation paid to each of these executives is fair, reasonable and competitive, and whether the compensation program serves the interests of the Company's shareholders.

At least annually, the Compensation Committee reviews the executive compensation program overall, and establishes base salaries, target annual cash bonus opportunities and equity grants (if any) for the fiscal year. In setting these elements of compensation, the Compensation Committee reviews the total target compensation for our executives and also considers developments in compensation practices outside of the Company. Specifically, the Compensation Committee is provided with competitive positioning data for similarly situated executives at companies in our peer group, as well as summary consolidated information about our executives' total compensation and pay history to use in setting individual compensation elements and making decisions on total executive compensation levels. Peer data is a helpful reference for the Compensation Committee to assess the competitiveness and appropriateness of our executive compensation program within the banking industry and the broader business community. Ultimately, the

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Compensation Committee applies its own business judgment and experience to determine the individual compensation elements, the amount of each compensation element and total target compensation

The Compensation Committee generally targets compensation in relation to the Company's Compensation Peer Group (discussed under "*Market Positioning and Pay Benchmarking*"). Base salary is targeted at the 60th percentile, total cash (salary and incentive cash awards) is targeted at the 70th percentile, and total direct compensation (total cash plus the three-year average value of equity awards) is targeted at the 75th percentile. We target above the median because of the competition in our market for talented executives and our desire to attract and, more importantly, retain and motivate talented individuals we believe are necessary to achieve the goals and objectives of our Board of Directors. Depending upon Company and individual performance, as well as the various other factors discussed in this Compensation Discussion and Analysis, target and actual total direct compensation of our executives, as well as individual compensation elements, may be within, below or above the market range for their positions.

The Compensation Committee is comprised of four independent directors who satisfy The Nasdaq Stock Market listing requirements and relevant SEC regulations on independence. The Compensation Committee's Chair regularly reports to the Board of Directors on the Compensation Committee actions and recommendations. To evaluate and administer the compensation practices of the Chief Executive Officer and other executive officers, the Compensation Committee meets a minimum of four times a year. The Compensation Committee also holds special meetings and meets telephonically to discuss extraordinary items, such as the hiring or dismissal of executive officers.

Role of the Chief Executive Officer

The Chief Executive Officer is not a member of the Compensation Committee but is invited to attend meetings as necessary to provide input and recommendations on compensation for the other named executive officers. The Chief Executive Officer provides the Compensation Committee with his assessment of the performance of each named executive officer and his perspective on the factors described above in developing his recommendations for the executive's compensation, including salary adjustments, incentive bonuses, annual equity grants and equity grants awarded in conjunction with promotions. Because the Chief Executive Officer works closely with and supervises our executive team, the Compensation Committee believes that the Chief Executive Officer provides valuable insight in evaluating their performance. The Chief Executive Officer also provides the Compensation Committee with additional information regarding the effect, if any, of market competition and changes in business strategy or priorities. The Compensation Committee takes the Chief Executive Officer's general input into consideration when determining and approving executive officer compensation, including for the named executive officers other than the Chief Executive Officer.

Role of Compensation Consultants

Generally, at least every two years the Compensation Committee retains the services of an independent executive compensation consultant to assess the competitiveness of our compensation programs, conduct other research as directed by the Compensation Committee, and support the Compensation Committee in the design and implementation of executive and Board of Director compensation. In the fourth quarter of 2016, the Compensation Committee retained McLagan, an Aon Hemitt Company ("McLagan") to: (1) review existing compensation programs; (2) provide market benchmark information pertaining to both cash and noncash compensation for executives; (3) provide recommendations and guidance to the Compensation Committee to support its oversight over such compensation programs; and (4) provide other advice and consultation, including guidance relative to evolving compensation-related regulatory requirements and industry best practices. McLagan delivered its report in the first quarter of 2017 ("*2017 Report*"). The information from the 2017 Report was used in

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making compensation decisions for 2018. McLagan was more recently retained in the fourth quarter of 2018 and provided its report in the first quarter of 2019.

Representatives of the compensation consultant attend meetings of the Compensation Committee as requested and also communicate with the Compensation Committee outside of meetings. The compensation consultant reports to the Compensation Committee rather than to management, although representatives of the firm may meet with members of management, including our Chief Executive Officer for purposes of gathering information on proposals that management may make to the Compensation Committee. During fiscal 2017, the compensation consultant met with various executives to collect data and obtain management's perspective on the fiscal 2017 compensation for our executives. The Compensation Committee may replace its compensation consultant or hire additional advisors at any time. There are no known conflicts of interests between McLagan and the Company.

Market Positioning and Pay Benchmarking

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

McLagan, in consultation with the Compensation Committee, selected a custom peer group of financial institutions to establish a "Compensation Peer Group" for the 2017 Report. The companies included in the Compensation Peer Group were selected from publicly traded banks in California, Oregon and Washington based on: (1) compatibility of the bank based on size as measured through total assets between \$1.1 billion and \$5.0 billion (median of \$2.6 billion); (2) similarity of their product lines and business focus; and (3) comparable performance criteria relating to nonperforming assets (less than 4% of assets). In addition to the Compensation Peer Group, McLagan's primary data sources also included its proprietary regional and community banking database and published industry survey data for national and California banks. The American Bankers Association (ABA) Compensation and benefits survey was also reviewed by McLagan. Compensation Peer Group and proprietary survey data represented actual 2015 compensation information. The ABA data represented actual 2014 compensation information, adjusted to 2015 at an annual rate of 3%. McLagan adjusted national survey data upwards by 27.4% for regional salary differentials, and also to reflect higher costs of salaries in the Company's principal market.

The Comparative Peer Group and the comparative survey data were used to benchmark executive compensation levels against banks that have executive positions with responsibilities similar in breadth and scope to ours and that compete with us for executive talent. The Compensation Committee reviewed and analyzed compensation for the Chief Executive Officer and the other named executive officers for the 2018 Compensation Program.

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The Compensation Peer Group component companies used in the evaluation of the Company's executive compensation programs in the 2017 Report for executive officers were as follows:

Bank of Commerce Holdings	Hanmi Financial Corp
Bank of Marin Bancorp	Heritage Financial Corp.
Cascade Bancorp*	Heritage Oaks Bancorp*
Central Valley Community Bancorp	Pacific Continental Corp.
CU Bancorp*	Pacific Premier Bancorp
Farmers & Merchants Bancorp	Preferred Bank
First Foundation Inc.	Provident Financial Holdings
First Northern Community Bancorp	Sierra Bancorp
FNB Bancorp*	TriCo Bancshares

*

Since acquired by another financial institution.

In the fourth quarter of 2018, the Compensation Committee again engaged McLagan to provide a report for the Committee's review and consideration in the first quarter of 2019 ("2019 Report") of the Company's compensation programs for executive officers. McLagan, in consultation with the Compensation Committee, selected a custom peer group of financial institutions to establish a "Compensation Peer Group" for the 2019 Report. The companies included in the Compensation Peer Group were selected from publicly traded banks in California, Colorado, Nevada, Oregon, Utah and Washington based on: (1) compatibility of the bank based on size as measured through total assets with a median of \$3.8 billion as of December 31, 2018; (2) similarity of their product lines and business focus; and (3) comparable performance criteria including, asset growth, profitability, credit quality, capitalization and total shareholder return. In addition to the Compensation Peer Group, McLagan's primary data sources also included its proprietary 2018 Regional & Community Banking Survey database. Peer Group and proprietary survey data represented actual 2017 compensation information. McLagan aged salary data aged to 2019 at annual rate of 3%. National survey data was adjusted upward 28% to account for the cost of salaries and wages in San Jose, California relative to the national average.

The Compensation Peer Group component companies used in the evaluation of the Company's executive compensation programs in the 2019 Report for executive officers were as follows:

Bank of Commerce Holdings	National Bank Holdings
Bank of Marin Bancorp	Opus Bank
BayCom Corp	Pacific Mercantile Bancorp
Central Valley Community Bancorp	Peoples Utah Bancorp
Farmers & Merchants Bancorp	Preferred Bank
First Foundation Inc.	RBB Bancorp
Hanmi Financial Corp.	Sierra Bancorp
Heritage Financial Corp.	TriCo Bancshares
Luther Burbank Corp.	Westamerica Bancorp

Chief Executive Officer Compensation

The Compensation Committee meets with the other independent directors each year in an executive session without management present to evaluate the performance of the Chief Executive Officer. The Compensation Committee also confers with the Chief Executive Officer when setting his base salary. The Chief Executive Officer does not participate in any deliberations regarding his own compensation. The Compensation Committee annually reviews and approves goals and objectives relevant to the Chief Executive Officer and evaluates the Chief Executive's performance against those objectives. The

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Compensation Committee typically considers corporate financial performance, the Company's achievement of its short and long-term goals versus its strategic objectives and financial targets. With the assistance of the compensation consultant, the Compensation Committee also considers the compensation data related to the Compensation Peer Group for base pay, total cash compensation, and total direct compensation. The Compensation Committee approves the Chief Executive Officer's compensation level based on its evaluation. In its review the Committee believes that the Chief Executive Officer's performance has been exemplary and that his leadership and management have been critical to the continual improvement and success of the Company. The Compensation Committee in its review of the 2017 Report approved an increase in the Chief Executive Officer base salary to \$500,000 for 2018. This brought the Chief Executive Officer's base salary to approximately 7.2% below the 60th percentile based on the 2017 Report.

Base Salary Decisions for the Other Named Executive Officers

Generally the Compensation Committee believes that executive base salaries should be targeted so as not to be substantially below the 60th percentile of the Compensation Peer Group for executives in similar positions with similar responsibilities. Base salaries are reviewed annually and adjusted as necessary to realign them with market levels after taking into account the value of the position in the marketplace, career experience, and the contribution and performance of the individual. Although each of the named executive officers has an employment agreement with the Company, the initial base salary in each of the agreements may be increased (and has been in the past) in accordance with the Chief Executive Officer's evaluation of the executive's performance and the Compensation Committee's evaluation of the Company's overall compensation programs and policies.

In 2018, the Compensation Committee considered the pay practices of the Compensation Peer Group and the analyses and recommendations provided by its independent consultant in the 2017 Report. In the evaluation of base salaries for 2018 for the named executive officers, the Compensation Committee reviewed the 60th percentile for the Compensation Peer Group, but also considered the minimum, mid-range and maximum salaries paid to similarly situated positions at companies in the Compensation Peer Group as well as the performance levels of the named executive officers. As a result of its review the Compensation Committee made the following changes to the base salary of the named executive officers effective April 1, 2018:

Named Executive	2018 Salary
Walter T. Kaczmarek	\$ 500,000
Keith A. Wilton	\$ 361,920
Michael E. Benito	\$ 282,067
Margo Butsch	\$ 255,000
Lawrence D. McGovern	\$ 308,437

For 2019, the Compensation Committee reviewed the 2019 Report, which indicated that on average the Company's salaries paid in 2018 were 11% below the 50th percentile and 16% below the 60th percentile of estimated market 2019 salaries. At its March 2019, meeting the Compensation Committee approved the following salaries for 2019 that approximate for each of the named executives the 60th percentile of estimated market 2019 salaries:

Named Executive	2019 Salary
Keith A. Wilton	\$ 400,000&nb