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Heritage Commerce Corp

P.E. 12/31/06
A/S 0-23879

SEC. REG.

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- 2007 Notice of Annual Meeting of Shareholders, to be held May 24, 2007
- 2007 Proxy Statement of Heritage Commerce Corp
- 2006 Annual Report on Form 10-K

PROCESSED

Filings Services
May 2, 2007
SNL Financial, LC
1-800-969-4121

HERITAGE
COMMERCE CORP

150 Almaden Boulevard
San Jose, California 95113
408.947.6900

www.heritagecommercecorp.com

To Our Shareholders

April 6, 2007

Dear Fellow Shareholders:

In 2006, we once again achieved record results, with earnings growing 20%. The operating leverage we have built with strong productivity gains and improving profitability resulted from the fine efforts of all our team members. Below are highlighted some of our financial accomplishments in 2006:

- Fully diluted earnings per share increased 21% to \$1.44 from \$1.19 in 2005
- Profitability ratios all improved over 2005 levels:
 - Net interest margin increased 48 basis points to 5.06%
 - Annualized return on average assets grew 30 basis points to 1.57%
 - Annualized return on average equity improved 89 basis points to 14.62%
 - The efficiency ratio improved 466 basis points to 56.86%
- Book value per share of \$10.54 was up 12% from a year ago


Over the past few years, we have invested in and developed an excellent team of professional bankers who believe in a "relationship banking" approach and are poised to take advantage of the opportunities in our market. Silicon Valley attracted more than 35% of the \$25.5 billion in venture capital investments nationwide in 2006, garnering \$9.2 billion in capital, an increase of 13% from a year ago.* This infusion of capital not only fuels growth in new companies, but also builds and supports existing service firms and infrastructure in the markets we serve.

Another of the benefits Heritage brings to the markets we serve is our Preferred Small Business Administration (SBA) lender status. Once again, we were among the top 10 SBA lenders in the 13-county area serviced by the San Francisco SBA office. Our SBA lending department originated \$65.8 million in SBA and USDA Business and Industry loans in 2006.

In addition to continuing to streamline our operations in 2006, we also pursued opportunities to expand our franchise. The results of those efforts paid off in February of this year, when we announced we had agreed to acquire *Diablo Valley Bank*. This transaction will bring a premier California franchise with a strong business banking culture and a respected team of local bankers to our organization. It will also enhance our position in the affluent East Bay communities of Danville and Pleasanton, which have exceptional demographics for attracting deposits and a very strong entrepreneurial business community. We expect the acquisition to close later this year, subject to Diablo Valley Bank shareholder approval and regulatory review and approval, and we believe the acquisition will add to our profitability in 2008 and beyond.

With a record breaking year in 2006 behind us, we are excited about our prospects for 2007. We very much appreciate the efforts of our Board of Directors, our employees and our clients. With the support of our communities and shareholders, we will continue to work hard to build an organization of which we can all be proud.

Sincerely,


Jack W. Conner
Chairman of the Board


Walter T. Kaczmarek
President and Chief Executive Officer

*1-23-2007: PricewaterhouseCoopers/National Venture Capital Association "MoneyTree™ Report," Data: Thomson Financial

Corporate Information

Subsidiary Bank Offices **Heritage Bank of Commerce**

San Jose Main
150 Almaden Blvd.
San Jose, CA 95113
408.947.6900

Danville
310 Hartz Avenue
Danville, CA 94526
925.831.1706

Fremont
3077 Stevenson Blvd.
Fremont, CA 94538
510.445.0400

Gilroy
7598 Monterey Street
Suite 110
Gilroy, CA 95020
408.842.8310

Los Gatos
15575 Los Gatos Blvd.
Building B
Los Gatos, CA 95032
408.356.6190

Los Altos
4546 El Camino Real
Los Altos, CA 94022
650.941.9300

Los Altos
369 S. San Antonio Rd.
Los Altos, CA 94022
650.941.9300

Morgan Hill
Cochrane Business Ranch
18625 Sutter Boulevard
Morgan Hill, CA 95037
408.778.2320

Mountain View
175 East El Camino Real
Mountain View, CA 94040
650.941.9300

www.heritagebankofcommerce.com

Board of Directors

- Jack W. Conner
Chairman
- Frank G. Bisceglia
- James R. Blair
- William J. Del Biaggio, Jr.
- Walter T. Kaczmarek
- Robert T. Moles
- Louis O. Normandin
- Jack L. Peckham
- Humphrey P. Polanen
- Charles J. Toeniskoetter
- Ranson W. Webster

Executive Management

Walter T. Kaczmarek
*President and
Chief Executive Officer*

William J. Del Biaggio, Jr.
*Founding Chairman and
Executive Vice President*

Richard Hagarty
*Executive Vice President and
Chief Credit Officer*

Lawrence D. McGovern
*Executive Vice President and
Chief Financial Officer*

Raymond Parker
*Executive Vice President,
Banking Division*

Heritage Commerce Corp Investor Relations Contact

Rebecca A. Levey
*Senior Vice President/
Marketing & Shareholder Relations/
Corporate Secretary*

Transfer Agent and Registrar

U. S. Stock Transfer Corporation
1745 Gardena Avenue
Glendale, California 91204-2991
(818) 502-1404

Independent Auditors

Crowe Chizek and Company, LLP
One Mid America Plaza
Suite 700
Oak Brook, Illinois 60522-3697
(630) 574-7878

Corporate Counsel

Buchalter Nemer
A Professional Corporation
1000 Wilshire Boulevard
Suite 1500
Los Angeles, California 90017-2457
(213) 891-0700

To get further information
on Heritage Commerce Corp,
or to receive regular financial
updates, please visit our web site
www.heritagecommercecorp.com
and click on "Information
Request."
