SIGNALIFE, INC.
Form S-8
October 11, 2006
As filed with the Securities and Exchange Commission on October 11, 2006

Commission File No. _______

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form S-8

Registration Statement Under The Securities Act Of 1933

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Signalife, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**87-0441351**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

350,000 common shares issued to Dr. Budimir Drakulic under the Signalife, Inc. 2002 Stock Plan

57,700 common shares issued to John Woodbury under the Signalife, Inc. 2002 Stock Plan

16,667 common shares issued to Willie Gault under the Signalife, Inc. 2002 Stock Plan

23,000 common shares issued to Erick Richardson under the Signalife, Inc. 2002 Stock Plan

7,426 common shares issued to Paul Taylor under the Signalife, Inc. 2002 Stock Plan

4,103 common shares issued to Jane Greene under the Signalife, Inc. 2002 Stock Plan

1,776 common shares issued to Tracy Jones under the Signalife, Inc. 2002 Stock Plan

3,063 common shares issued to Susan Keitt under the Signalife, Inc. 2002 Stock Plan

3,067 common shares issued to Claire LeFrance under the Signalife, Inc. 2002 Stock Plan

5,122 common shares issued to Kelly Mathews under the Signalife, Inc. 2002 Stock Plan

6,381 common shares issued to Rajiv Singh under the Signalife, Inc. 2002 Stock Plan

2,162 common shares issued to Dorothy Sosebee under the Signalife, Inc. 2002 Stock Plan

43,924 common shares available and reserved for prospective issuance under the Signalife, Inc. 2002 Stock Plan

(Full title of plan(s))

Pamela M. Bunes

President and Chief Executive Officer

Signalife, Inc.

531 South Main Street, Suite 301

Greenville, South Carolina 29601

(864) 233-2300

(Name and address of agent for service of process)

(Telephone number, including area code, of agent for service of process)

Copies to

John M. Woodbury, Jr., Esq.

7251 Owensmouth Ave, Suite 7

Canoga Park, California 91303

(818) 883-1767

Calculation of Registration Fee

Title of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock	480,547	$ 1.96 (2)	$ 941,872.12	$ 100.76

Common stock (3)	43,924	$	1.96 (2)	$	86,091.04	$	9.21
Total	524,471			$	1,027,963.16	$	109.97

(3)

Pursuant to SEC Rule 416(a), also covers additional common shares that may be offered to prevent dilution as a result of stock splits, stock dividends or similar transactions relating to these shares.

(2)

Pursuant to Rule 457(h)(1) and 457(c), the filing fee is computed upon the basis of the average of the high and low prices reported by the American Stock Exchange as of the close of market on October 3, 2006.

(3)

Common shares issuable upon the prospective grant of awards under the Signalife, Inc. 2002 Stock Plan.

Reoffer Prospectus ***480,547 Common Shares***

Signalife, Inc.

This reoffer prospectus (the *prospectus*) relates to the prospective offer and sale by certain securities holders (the *selling shareholders*) of Signalife, Inc. (*Signalife* or the *company*) identified in this prospectus during the period in which the registration statement containing this prospectus is effective of up to 480,547 common shares held by those shareholders.

This prospectus may be utilized by each selling shareholder to sell his or her common shares offered for sale hereunder. Notwithstanding the foregoing, sales under this prospectus by each selling shareholder who is an affiliate may not exceed the amount specified in SEC Rule 144(e) during any three-month period so long as he or she is an affiliate of the company and the shares remain control stock and for so long as the company is not eligible to file a registration statement on form S-3.

This offering is not being underwritten. The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. We will not receive any of the proceeds from those sales.

Our common shares trade on the American Stock Exchange, also called AMEX, under the trading symbol SGN.

An investment in the common shares offered for sale under this prospectus involves a high degree of risk. You should purchase our securities only if you can afford losing your entire investment.
See Risk Factors beginning on page 2 of this prospectus.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the common shares offered for sale under this prospectus or the merits of that offering, or has determined that this prospectus is truthful or complete.
Any representation to the contrary is a criminal offense.

The date of this Prospectus is October 10, 2006

531 South Main Street, Suite 301, Greenville, South Carolina 29601

(864) 233-2300

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THE COMPANY AND BUSINESS

Signalife is a medical device company focused on researching and developing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body.

Our initial product line are heart monitor systems used to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. The core component of our products is our battery-operated, digital 12-lead Model 100 Module, a compact device approximately 4 x 3.5 x 1.5 inches in size and 5.5 oz. in weight, that allows a patient s heart to be continuously monitored over a period of 24 to 48 hours in a variety of settings both non-ambulatory (stationary) and ambulatory (moving) such as hospitals, surgeries, clinics, doctors offices, exercise and sports medicine clinics and laboratories. The Model 100 Module contains both our proprietary patented amplification technology which acquires, processes and amplifies ECG signals, as well as Bluetooth technology which allows the acquired signals to be wirelessly transmitted to a personal computer for interpretation and storage by the physician. Our Model 100 Module operates using a proprietary and patented amplification technology which provides the capability to enlarge and process the physiological signals to discriminate them from ambient or background electromagnetic noise and to facilitate the examination of the signal data for diagnostic purposes.

We have recently commenced commercial marketing of our first heart monitoring system using our Model 100 Module the Fidelity 100 Monitor System. This system is an integrated system in which our Model 100 Module collects, processes and amplifies ECG signals from that patient through a set of twelve electrode lead sets provided with the system, and then wirelessly transmits that signal to a nearby personal computer provided with the system. The signals are then displayed on a computer monitor and can be printed on a printer provided with the system for analysis by the cardiologist.

We principally intend to sell the Fidelity 100 Monitor System as an integrated system containing all of the components the Model 100 Module, electrode lead sets, and a personal computer with monitor and printer, which could either be in a desk top or laptop configuration. The Model 100 Module and our proprietary ECG printing software may also be sold separate from the other components to physicians who prefer to use their own personal computers systems. As a result of these variables, the Fidelity 100 Monitor System will be offered in many different configurations.

The Fidelity 100 Monitor System is principally used for clinical (resting) and in-patient ambulatory applications. For example, ECG data may be instantaneously acquired, processed, amplified and transmitted to the personal computer for analysis in stationary settings, such as while conducting ECG tests in resting or in-patient ambulatory settings or during surgeries.

We are marketing our Fidelity 100 Monitor System in the United States through both our internal sales and marketing staff and through Rubbermaid Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc., pursuant to the terms of a Sales and Marketing Services Agreement entered into on March 26, 2006. The initial term of the agreement is for one year, and may be renewed by Rubbermaid on an annual basis for up to nine additional years, subject to satisfaction of modest performance benchmarks and other conditions. Under this agreement, Rubbermaid will, at its cost, put together a national sales force to market the Fidelity 100 Monitor System, and will also advertise and otherwise vigorously promote these products in medical literature, at trade shows, and through other mechanisms as set forth in the agreement. This marketing arrangement may be extended to international sales or other parties upon the mutual consent of both parties. In compensation for these services, Rubbermaid will receive 35% of net product sales, as

defined in the agreement. Signalife will, in turn, handle all product manufacturing, fulfillment and product servicing functions.

We are also completing development of an ambulatory Holter device (the *Signalife Holter Monitor*), which also operates using our Model 100 Module as its core component, and which will also be marketed in the United States by Rubbermaid. This device acquires, processes, amplifies and stores ECG data relating to arrhythmia and other transient heart disease over a period of 24 to 48 hours while the patient carries out his or her daily activities away from the physicians office or hospital. The signal data can be either stored on a storage chip contained in the device and downloaded by the physician at a later date when the patient returns to the physician s office, or transmitted to a patient monitoring center that will forward the data or otherwise make it available to the physician over the Internet. Although we have developed a production version of the Signalife Holter Monitor, we are still conducting physician preference testing studies on selected features of that device, and anticipate that we will make some minor modifications to that design before we commence marketing the product. We anticipate that we will complete final product modification activities and introduce the final Signalife Holter Monitor to market in the first quarter of fiscal 2006. In the interim, physicians could use the Model 100 Module contained in the Fidelity 100 Monitor System in out-patient ambulatory settings should they choose to do so, although it would not have all of the features we would otherwise suggest for out-patient applications.

We are also developing several other products for the heart monitoring market, including an intracardiac monitor, a non-prescription over-the-counter cardiac monitor, and a prescription event recorder.

As of October 4, 2006, we had issued and outstanding 39,877,297 shares of common stock, 113,578 shares of series A convertible preferred stock, and stock purchase options and warrants entitling the holders to purchase up to 10,472,818 and 179,292 shares of common stock and series A convertible preferred stock, respectively. We sometime refer to these securities in this prospectus as *common shares* and *series* A *preferred shares* , respectively.

Our common shares are currently quoted on the American Stock Exchange or AMEX under the symbol SGN.

Our corporate offices are located at 531 South Main Street, Suite 301,Greenville, South Carolina 29601. Our telephone number is (864) 233-2300.

RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. In such an event, the trading price for our common shares could decline substantially, and you could lose all or part of your investment. In order to attain an appreciation for these risks and uncertainties, you should read this prospectus in its entirety and consider all of the information and advisements contained in this prospectus, including the following risk factors and uncertainties.

Our limited operating history will make it difficult for you to predict our future operating results and to otherwise assess or predict the likelihood of our business success.

To date, we are a development stage company principally engaged in research and development, organizational and startup activities which has only recently introduced our first heart monitoring product, the Fidelity 100 Monitor System, to market in March 2006. Our limited operating history will make it difficult, if not impossible, to predict future operating results and to assess the likelihood of our business success in considering an investment in our

company. Risks and issues inherent in the establishment and expansion of a new business enterprise which we face include, among others,

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problems of entering new markets, marketing new technologies, hiring and training personnel, acquiring reliable facilities and equipment, and implementing operational controls. As a development stage company, we are also subject to risks and or levels of risk that are often greater than those encountered by companies with established operations and relationships. Development stage companies often require significant capital from sources other than operations. Since we are a start-up business, our management and employees will shoulder the burdens of the business operations and a workload associated with company growth and capitalization that is disproportionately greater than that for an established business. We cannot give you any assurance that we will successfully address these risks. Our prospects must be considered speculative, which may limit our ability to encourage further investment in our company.

We have no sales revenues to date and have accumulated losses since our inception. Our continued inability to generate revenues and profits could cause us to go out of business.

We have incurred cumulative net losses before preferred dividends available to common shareholders in the amount of $26,463,626 from our inception through June 30, 2006. We have only recently introduced our first heart monitoring product, the Fidelity 100 Monitor System, to market in March 2006, and have minimal sales revenues to date. We project that we will not be cash flow positive based solely on projected sales and service revenues less manufacturing, general and administrative, marketing expenses and other operating costs for an indefinite period of time. We anticipate that we will continue to incur substantial operating losses for the foreseeable future, notwithstanding any anticipated revenues we may receive in the near future.

If we are unable to raise additional working capital, we will be unable to fully fund our operations and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately our going out of business.

As noted in the prior risk factor, we commenced commercial marketing of our first heart monitoring product, the Fidelity 100 Monitor System, in March 2006, and further anticipate that after such introduction we will continue to be cash flow negative due to our costs exceeding our revenues for an indefinite period of time. We believe that our currently available working capital will be sufficient to continue our business for at least the next twelve months. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, such as through an acquisition of new products, the depletion of our working capital would be accelerated. To the extent it becomes necessary to raise additional cash in the future as our current cash and working capital resources are depleted, we will seek to raise it through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We may also seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. We currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

Even if we are able to raise additional financing, we might not be able to obtain it on terms that are not unduly expensive or burdensome to the company or disadvantageous to our existing shareholders.

Even if we are able to raise additional cash or working capital through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or the satisfaction of indebtedness without any cash outlay through the private issuance of debt or equity securities, the terms of such transactions may be unduly expensive or burdensome to the company or

disadvantageous to our existing

shareholders. For example, we may be forced to sell or issue our securities at significant discounts to market, or pursuant to onerous terms and conditions, including the issuance of preferred stock with disadvantageous dividend, voting or veto, board membership, conversion, redemption or liquidation provisions; the issuance of convertible debt with disadvantageous interest rates and conversion features; the issuance of warrants with cashless exercise features; the issuance of securities with anti-dilution provisions; and the grant of registration rights with significant penalties for the failure to quickly register. If we raise debt financing, we may be required to secure the financing with all of our business assets, which could be sold or retained by the creditor should we default in our payment obligations. We also might be required to sell or license our products or technologies under disadvantageous circumstances we would not otherwise consider, including granting licenses with low royalty rates and exclusivity provisions.

Our products are highly regulated. We will not be able to introduce our products to market if we cannot obtain the necessary regulatory approvals. If we are unable to obtain regulatory approvals for our products in selected key markets at all or in a timely manner, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan. Our failure to receive the regulatory approvals in the United States would likely cause us to go out of business.

The manufacture, sale, promotion and marketing of our heart monitoring products and other products we intend to develop are subject to regulation by the Food and Drug Administration (*FDA*) and similar government regulatory bodies in other countries. As we develop or obtain new products we will be required to determine what regulatory requirements, if any, we must comply with in order to market and sell our products in the United States and worldwide. The process of obtaining regulatory approval could take years and be very costly, if approval can be obtained at all. If we fail to comply with these requirements, we could be subjected to enforcement actions such as an injunction to stop us from marketing the product at issue or a possible seizure of our assets. We intend to work diligently to assure compliance with all applicable regulations that impact our business. We can give you no assurance, however, that we will be able to obtain regulatory approval for all of our products. We also cannot assure you that additional regulations will not be enacted in the future that would be costly or difficult to satisfy.

Because we are not diversified, we are subject to a greater risk of going out of business should our single proposed product line fail.

The only business opportunities we are presently pursuing are the heart monitoring or ECG market and, later, using the same technology, the neurological brain scan or EEG market. Unlike many established companies that are diversified, we do not presently have other businesses, properties, investments or other income producing assets upon which we could rely upon should our single product line fail, thereby increasing the risk of our going out of business.

Many of our customers will rely upon third party reimbursements from third party payors to cover all or a portion of the cost of our products. If third party payors do not provide reimbursement for our products, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.

We intend to sell our heart monitoring products to individual patients and doctors, hospitals and clinics who will seek reimbursement from various third party payors, including government health programs, private health insurance plans, managed care organizations and other similar programs. We can give you no assurance that reimbursement will be available from third party payors at all, or for more than a nominal portion of the cost of our products.

We are dependent upon Rubbermaid in providing a substantial part of our United States marketing and sales functions. Should Rubbermaid s performance be unsatisfactory, we may not be able to replace it given the exclusive nature of its rights to perform marketing and sales functions within the United States. If either Signalife or Rubbermaid terminate the agreement, we would then need to develop or procure other marketing and distribution channels within the United States, which would cause delays or interruptions in our product supply and result in the loss of significant sales or customers.

In March 2006, we signed an agreement with Rubbermaid, Inc. to act as our exclusive outside sales and marketing agent within the United States for up to ten years for our Fidelity 100 Monitor System and our first Signalife Holter Monitor. As a consequence, our ability to effectively market and distribute these products will be dependent in substantial part upon Rubbermaid s strength and financial condition, its expertise and relationships with customers, and its interest in selling and marketing our products. Although there are performance conditions in the governing agreement, they are relatively low and easy for Rubbermaid to attain, and we would not generally be able to terminate the agreement due to lesser-than-expected performance by Rubbermaid. If our relationships with Rubbermaid were to terminate, we would need to either develop alternative relationships or develop our own internal sales and marketing forces to continue to sell our products. In such an event, these efforts would require significant cash and other resources that would be diverted from other uses, if available at all, and could cause delays or interruptions in our product supply to customers, which could result in the loss of significant sales or customers.

We intend to rely upon the third-party FDA-approved manufacturers or suppliers to manufacture our heart monitoring products. Should these manufacturers fail to perform as expected, we will need to develop or procure other manufacturing sources, which would cause delays or interruptions in our product supply and result in the loss of significant sales and customers.

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. We have recently entered into a contract manufacturing agreement with a private-label manufacturer to manufacture our Model 100 Monitors and package our Model 100 Monitor System. We cannot give you any assurance that this contract manufacturer or any other contract manufacturer or supplier we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications. Further, should we be forced to manufacture our products, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure third party suppliers.

We are dependent for our success on a few key executive officers. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital.

Our success depends to a critical extent on the continued efforts of services of our executive management team comprised of Ms. Pamela M. Bunes, our Chief Executive Officer and President, Mr. Rodney Hildebrandt, our Chief Operating Officer, and Dr. Budimir S. Drakulic, our Vice President and Chief Technology Officer. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital. Ms. Bunes and Mr. Hildebrandt are currently employed pursuant to five-year employment agreements, while Dr. Drakulic is employed as a consultant under a loan-out agreement through June 26, 2016. None of these agreements will preclude any of these key officers from leaving the company. We currently maintain key man life insurance policies in the amount $3 million with respect to Dr. Drakulic which will assist us in recouping some of our costs in the event of the death of that officer.

Our inability to protect our intellectual property rights could allow competitors to use our property rights and technologies in competition against our company, which would reduce our sales. In such an event we would not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.

We rely on a combination of patent, patent pending, copyright, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties. We also cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial.

We also rely on proprietary designs, technologies, processes and know-how not eligible for patent protection. We cannot give you any assurance that our competitors will not independently develop the same or superior designs, technologies, processes and know-how.

While we have and will continue to enter into proprietary rights agreements with our employees and third parties giving us proprietary rights to certain technology developed by those employees or parties while engaged by our company, we can give you no assurance that courts of competent jurisdiction will enforce those agreements.

Risks Relating To An Investment In Our Securities

Our common shares are sporadically or thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares

Our common shares have historically been sporadically or thinly traded, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven development stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

The market price for our common shares is particularly volatile given our status as a relatively unknown development stage company with a small and thinly-traded public float, limited operating history, nominal

revenues and lack of profits to date for our newly introduced products, which could lead to wide fluctuations in our share price. The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The volatility in our common share price may subject us to securities litigation.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, we have relatively few common shares outstanding in the public float since most of our shares are held by a small number of shareholders. In addition, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without a material reduction in share price. Secondly, we are a speculative or risky investment due to our limited operating history, nominal revenues and lack of profits to date, and uncertainty of future market acceptance for our products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management s attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our products and services as viable security and technology solutions; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Since a single shareholder currently beneficially owns the majority of our outstanding common shares, that single shareholder will retain the ability to control our management and the outcome of corporate actions requiring shareholder approval notwithstanding the overall opposition of our other shareholders. This concentration of ownership could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.

ARC Finance Group, LLC, which is owned and controlled by Ms. Tracey Hampton, owns a majority of our outstanding common shares. As a consequence of its controlling stock ownership position, ARC Finance Group retains the ability to elect a majority of our board of directors or to remove any director, and thereby controls our management. ARC Finance Group also has the ability to control the outcome of corporate actions requiring shareholder approval, including mergers and other changes of corporate control, going private transactions, and other extraordinary transactions. ARC Finance Group actively evaluates potential modifications to our board of directors and management, and could make such modifications or wholesale changes at any time if deemed to be in the company s best interest.

The sale of a large amount of common shares held by our shareholders or our executive officers or directors, or the perception that such sales could occur, could substantially depress the prevailing market prices for our shares.

In addition to the shares being sold under this prospectus, there are a substantial number of common shares either currently outstanding or acquirable upon exercise of common share purchase options or warrants that may be freely sold on the public markets. Specifically, we have previously registered under a form S-8 registration statement (1) approximately 3,800,000 common shares issuable upon the exercise of common share purchase options previously granted to selected officers, directors, consultants and advisors under our 2002 Stock Plan, and (2) approximately 5,800,000 shares reserved for prospective issuance to selected officers, directors, employees, consultants and advisors under our 2006 Omnibus Equity Compensation Plan. We have also registered for sale a large number of shares previously purchased by investors, and/or acquirable by investors upon their exercise of previously granted common share purchase warrants. We have also registered for sale 3,500,000 common shares held by our controlling shareholder, ARC Finance Group, LLC, to provide it with a mechanism to sell such shares on the public market should it decide to do so in view of its apparent ineligibility to sell those shares under the Rule 144 safe harbor under current SEC interpretations. We understand that ARC Finance Group has continuously sold and plans to continue to sell shares under that registration statement, both directly under 10b-5 plans it has established or indirectly through independent trustees under blind trusts it has established, and believe that a large number of these shares remain available for sale. A large number of our shares, both registered and unregistered, may also be sold under available resale exemptions under the federal securities laws, including Rule 144 (albeit subject to volume limitations in the case of shares held by affiliates or restricted stock held for less than two years). We anticipate that a substantial number of the aforesaid registered and unregistered shares, whether currently held or acquired in the future by way of grant or exercise of common share purchase options or warrants, will be sold on the public markets for a number of reasons, including the need to satisfy income tax liabilities, the need to cover the purchase price of option and warrant exercises, or decisions predicated on market conditions.

A large number of common shares are issuable upon conversion of our series A preferred shares or the exercise of outstanding common share purchase options or warrants. The conversion or exercise of these securities could result in the substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. The sale of a large amount of common shares received upon the conversion or exercise of these securities on the public market to finance the exercise price or to pay associated income taxes, or the perception that such sales could occur, could substantially depress the prevailing market prices for our shares.

There are currently outstanding as of October 4, 2006, (1) 113,578 series A preferred shares each convertible into one common share at the conversion rate of $3 per share, and (2) share purchase options and warrants entitling the holders to purchase 10,472,818 and 179,292 common shares and series A preferred shares, respectively, at weighted average exercise prices of $2.41 and $3.60 per share, respectively. Included in these share purchase options are a large number granted to directors, officers, employees and consultants that are subject to vesting conditions. In the event of the conversion or exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their conversion or exercise of these securities.

Our issuance of additional common shares or preferred shares, or options or warrants to purchase those shares, would dilute your proportionate ownership and voting rights. Our issuance of additional preferred shares, or options or warrants to purchase those shares, could negatively impact the value of your investment in our common

shares as the result of preferential voting rights or veto powers, dividend rights,

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disproportionate rights to appoint directors to our board, conversion rights, redemption rights and liquidation provisions granted to the preferred shareholders, including the grant of rights that could discourage or prevent the distribution of dividends to you, or prevent the sale of our assets or a potential takeover of our company that might otherwise result in you receiving a distribution or a premium over the market price for your common shares.

We are entitled under our certificate of incorporation to issue up to 100,000,000 common and 10,000,000 blank check preferred shares. After taking into consideration our common and series A preferred shares outstanding as of October 4, 2006, we will be entitled to issue up to 60,122,703 additional common shares and 9,886,422 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issues shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our various stock plans. We cannot give you any assurance that we will not issue additional common or preferred shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

We are subject to the Delaware Business Combination Act, which could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.

As a Delaware corporation, we are subject to the Delaware Business Combination Act which precludes a shareholder who owns 15% or more of our shares from entering into a business combination involving our company for a period of three years, unless (1) our board of directors approves the combination before the shareholder acquires the 15% interest; (2) the interested shareholder acquires at least 85% of our shares as part of the transaction in which he acquired the initial 15%, excluding shares owned by our officers who are also directors and voting stock held by employee benefit plans; or (3) the combination is approved by a majority vote of our board of directors and two-thirds vote of our other shareholders at a duly called shareholders meeting. A business combination is defined as (1) a merger or consolidation requiring shareholder approval, (2) the sale, lease, pledge, or other disposition of our assets, including by dissolution, having at least 50% of the entire asset value of our company, or (3) a proposed tender or exchange offer of 50% or more of our voting stock.

The elimination of monetary liability against our directors, officers and employees under our certificate of incorporation and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and shareholders to the maximum extent permitted under Delaware corporate law. Our bylaws also require us to indemnify our directors to the maximum extent permitted by Delaware corporate law. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of

derivative

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litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

FORWARD-LOOKING STATEMENTS

In this prospectus and in the various documents and reports public reports filed with the United States Securities and Exchange Commission (the *SEC*) that are referenced by this prospectus we make a number of statements, referred to as *forward-looking statements*, which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as *seek*, *anticipate*, *believe*, *estimate*, *expect*, *intend*, *plan*, *budget*, *project*, *may be*, *likely result*, and similar expressions. When reading any forward looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, such as those relating to: (1) the success of our research and development activities, the development of a viable commercial production model, and the speed with which regulatory authorizations and product launches may be achieved; (2) whether or not a market for our products develops and, if a market develops, the pace at which it develops; (3) our ability to successfully sell our products if a market develops; (4) our ability to attract the qualified personnel to implement our growth strategies; (5) our ability to develop sales, marketing and distribution capabilities; (6) our ability to obtain reimbursement from third party payors for the products that we sell; (7) the accuracy of our estimates and projections; (8) our ability to fund our short-term and long-term financing needs; (9) changes in our business plan and corporate strategies; and (10) other risks and uncertainties discussed in greater detail elsewhere in this prospectus and the various documents and reports public reports filed with SEC that are referenced by this prospectus, including those sections in those documents and reports captioned *Risk Factors* and *Plan of Operation*.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus and the various documents and reports public reports filed with SEC that are referenced by this prospectus, including our most recent annual report on form 10-KSB and quarterly report on form 10-QSB. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

USE OF PROCEEDS

The proceeds from the sale of the common shares to be sold under this prospectus will be retained by the selling shareholders, and will not be paid or remitted or otherwise made available to our company. Should any selling shareholder acquire the shares to be sold by exercising common share purchase options or warrants, we would receive the proceeds from the exercise price. In such an event we anticipate we would use the proceeds of such exercise for working capital and general corporate purposes.

SELLING SHAREHOLDERS

Relationship Of Selling Shareholders To The Company

Dr. Budimir S. Drakulic has served as our Vice President and Chief Technology Officer since October 15, 2002.

Common Shares To Be Sold By Selling Shareholders

The following table sets forth the total number of common shares beneficially owned or acquirable by each of the selling shareholders as of October 4, 2006, the total number of common shares they may sell under this prospectus, and the number of common shares they will own thereafter assuming the sale of all shares offered under this prospectus and further assuming no other acquisitions or dispositions of common shares. The number and percentage of shares beneficially owned before and after the sales is determined in accordance with Rule 13d-3 and 13d-5 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. See footnote (1) to this table. We believe that each individual or entity named has sole investment and voting power with respect to the securities indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted.

The selling shareholders are under no obligation to sell all or any portion of the common shares offered for sale under this prospectus.

The total number of common shares sold under this prospectus may be adjusted to reflect adjustments due to stock dividends, stock distributions, splits, combinations or recapitalizations.

Unless otherwise stated below, to our knowledge no selling shareholder nor any of affiliate of such shareholder has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus. To our knowledge, none of the selling shareholders are a broker-dealer or an affiliate of a broker-dealer within the meaning of Rule 405.

	Common Shares Owned or Acquirable Before Sales (1)					Common Shares Owned or Acquirable After Sales (2)	
Selling Shareholder	**Held Outright**	**Underlying Options And Warrants**	**Total**	**%**	**Common Shares Offered For Sale**	**Number**	**%**
Dr. Budimir Drakulic	350,000(3)	416,050	766,050	1.9%	350,000(3)	416,050	1.0%
John Woodbury	57,700	0	57,700	0.1%	57,700	0	
Willie Gault	16,747	0	16,747	*	16,747	0	
Eric Richardson	23,000	0	23,000	*	23,000	0	
Paul Taylor	7,426	0	7,426	*	7,426	0	
Jane Greene	4,103	75,000	79,103	0.2%	4,103	75,000	0.2%

Tracy Jones	1,776	7,500	9,276	*	1,776	7,500	*
Susan Keitt	3,063	25,000	28,063	*	3,063	25,000	*
Claire LeFrance	3,067	68,750	71,817	0.2%	3,067	68,750	0.2%
Kelly Mathews	5,122	0	5,122	*	5,122	0	
Rajiv Singh	6,381	0	6,381	*	6,381	0	
Alaine Sosebee	2,162	12,500	14,662	*	2,162	12,500	*
Total	480,547	604,800	1,085,347	2.7%	480,547	604,800	1.5%

*

Less than one-tenth of one percent.

(1)

Pursuant to Rules 13d-3 and 13d-5 of the Exchange Act, beneficial ownership includes any common shares as to which a shareholder has sole or shared voting power or investment power, and also any common shares which the shareholder has the right to acquire within 60 days, including upon exercise of common shares purchase options or warrant or conversion of series A preferred shares. There were 39,877,297 common shares outstanding as of October 4, 2006.

(2)

Assumes the sale of all common shares offered under this prospectus.

(3)

Shares held by Dr. Drakulic as assignee/distributee under consulting agreement with B World Technologies, Inc. and B Technologies, Inc.

PLAN OF DISTRIBUTION

Method of Sales Under This Prospectus

Until such time and then only for so long as our company is eligible to file a registration statement on form S-3, no selling shareholder who is an affiliate may sell under this prospectus, in any three month period, more than the number of shares which he or she could sell pursuant to SEC Rule 144(e). That Rule stipulates that the maximum number of securities which an affiliate may sell within any three-month period under Rule 144 cannot exceed the greater of (1) 1% of the then outstanding common shares, or (2) the average weekly reported trading volume of our common shares on the public market during the four calendar weeks immediately preceding the date on which notice of the sale under Rule 144 is filed with the SEC.

Subject to the foregoing limitation, each selling shareholder who is an affiliate, and each of their respective permitted donees, transferees, pledgees or other successor-in-interest (to the extent permitted under this plan of distribution as described below), may from time to time sell any or all of their common shares offered for sale under this prospectus for cash or such other consideration or value allowed under forms S-8 and S-3: (1) on or through any public market or trading facility on which the shares are traded including on or through the OTCBB or, to the extent then applicable, on or through any other over-the-counter market or stock exchange market or the pink sheets , or (2) in privately negotiated

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transactions. These sales may be at fixed or negotiated prices. A selling shareholder may use any one or more of the following methods when selling shares:

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ordinary brokerage transactions and transactions in which the broker solicits purchasers;

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one or more block trades in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

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purchases by a broker or dealer as principal and resale by the broker or dealer for its account;

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in privately-negotiated transactions;

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an exchange distribution in accordance with the rules of an exchange;

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through the writing of options on the shares;

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through underwriters, brokers or dealers (who may act as agents or principals) or directly to one or more purchasers;

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through agents; or

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in any combination of these methods.

In addition to the foregoing methods, selling shareholders who are affiliates may offer their shares from time to time in transactions involving principals or brokers not otherwise contemplated above, in a combination of such methods as described above or any other lawful methods.

Broker-dealers engaged by selling shareholders who are affiliates may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. Each selling shareholder

has represented to us that it does not expect these commissions and discounts relating to its sales of shares to exceed what is customary in the types of transactions involved. Each of the selling shareholders has also represented to us that it is not a registered broker-dealer or an affiliate of a registered broker-dealer.

Selling shareholders who are affiliates may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. These broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling shareholders and/or the purchasers of shares for whom these broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that the selling shareholders will attempt to sell common shares in block transactions to market makers or other purchasers at a price per share which may be below the then market price.

Selling shareholders who are affiliates and any underwriters, broker-dealers or agents that participate in the sale of the common shares may be underwriters within the meaning of Section 2(11) of the Securities Act in connection with those sales. In such an event, any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, that can be attributed to the sale of the securities will be paid by the selling shareholders and/or the purchasers. Each selling shareholder has represented to us that it acquired the common shares offered for sale under this prospectus in the ordinary course of such shareholder s business and, at the time of its purchase of such securities such selling shareholder had no agreements or understandings, directly or indirectly, with any person to distribute any such securities. We have advised each selling shareholder that it may not use shares registered under this registration statement to cover short sales of common shares made prior to

the date on which this registration statement shall have been declared effective by the Commission. Selling shareholders who are underwriters within the meaning of Section 2(11) of the Securities Act will need to deliver a copy of this prospectus to each purchaser at or prior to the time of sale in accordance with the prospectus delivery requirements of that Act.

Selling shareholders who are affiliates may, in the alternative, sell all or any part of the shares offered by this prospectus through an underwriter. Each selling shareholder has represented to us that he or she does not have any current agreement or understanding, directly or indirectly, with any person to distribute the common shares offered by this prospectus. If any selling shareholder were to enter into any such agreement, the company will if required under an agreement with the selling shareholder, or may in the company s sole discretion absent such an agreement, allow such underwriter to sell those shares under this prospectus, in which event we would be required to set forth, in a post-effective amendment to this prospectus or supplement pursuant to Rule 424(b) of the Securities Act, the following information: (1) the number of shares being offered; (2) the terms of the offering, including the name of any selling shareholder, underwriter, broker, dealer or agent; (3) the purchase price paid by any underwriter; (4) any discount, commission and other underwriter compensation; (5) any discount, commission or concession allowed or reallowed or paid to any dealer; (6) the proposed selling price to the public; and (7) other facts material to the transaction.

Subject to any agreements with the company prohibiting any of the following actions and subject to restrictions on successors-in-interest described below, selling shareholders who are affiliates may also (1) enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the shares in the course of hedging the positions they assume, (2) sell the shares short and deliver these securities to close out their short positions, (3) loan or pledge the shares to broker-dealers that in turn may sell these securities, or (4) enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of common shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

We and the selling shareholders will be subject to applicable provisions of the Exchange Act and the rules and regulations under it, including, without limitation, Rule 10b-5 and, insofar as a selling shareholder is a distribution participant and we, under certain circumstances, may be a distribution participant, under Regulation M of the Exchange Act. Regulation M may limit the timing of purchases and sales of any of the common shares offered under this prospectus by the selling shareholders and any other person distributing our common shares. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of common shares to engage in market-making or market stabilization activities. Specifically, Regulation M prohibits an issuer, its shareholders or an affiliated purchaser other than in an excepted security or activity, to bid for, purchase, or attempt to induce any person to bid for or purchase, a covered security during the applicable restrictive period. The restrictive period for our common shares offered under this prospectus begins on the later of five business days prior to the determination of the offering price or such time that a person becomes a distribution participant, and ends upon such person s completion of participation in the distribution. The restrictive period will begin on the effective date of this offering. Distribution is defined under Regulation M as meaning an offering of securities, whether or not subject to registration under the Securities Act that is distinguished from ordinary trading transactions by the magnitude of the offering and the presence of special selling efforts and selling methods. Distribution participant is defined under Regulation M as meaning an underwriter, prospective underwriter, broker, dealer, or other person who has agreed to participate or is participating in a distribution. All of the foregoing may affect the marketability of the common shares offered for sale under this prospectus. To the extent required by law, we may require the selling shareholders and their brokers, if applicable, to provide a letter that acknowledges compliance with Regulation M before authorizing the transfer of the

shares under this prospectus.

No persons associated with us or the selling shareholders who is not a registered broker/dealer may participate in the distribution of the shares to be offered by the selling shareholders unless they meet the safe harbor provisions of the SEC Rule 3a4-1 promulgated under the Exchange Act with respect to exemption from registration as a broker/dealer.

The selling shareholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. The selling shareholders have the sole and absolute discretion not to accept any purchase offer or make any sale of their shares if they deem the purchase price to be unsatisfactory at any particular time.

Sales Outside Of This Prospectus

For so long as the shares offered under this prospectus by a selling shareholder remain control securities, he or she may, in lieu of or in addition to selling the offered shares under this prospectus, sell such common shares in a broker s transaction on the public markets pursuant to Rule 144 under the Securities Act, or otherwise sell or transfer such shares in any other manner permitted under the federal securities laws. Rule 144 is a safe harbor which permits the limited resale on the public markets of shares originally acquired in a private placement so long as the transaction is facilitated through a broker and satisfies various other conditions, including the availability of certain current public information concerning the issuer, the resale occurring following the lapse of required holding periods under 144, and the number of shares be sold during any three-month period not exceeding certain limitations. The aforesaid volume limitations are in addition to, and not in lieu of, the volume limitation imposed upon the selling shareholders by reason of the company no being eligible to file a registration statement on form S-3.

Once the shares offered under this prospectus by a selling shareholder no longer constitute control securities, he or she may sell the shares outside of this prospectus and free of the volume limitations imposed under either this prospectus or Rule 144.

Sales Under This Prospectus By Successors-In-Interest

In the event that common share purchase options or warrants held by a selling shareholder are transferred to a successor-in-interest of a selling shareholder, including transfers by operation or law, the successor-in-interest will only be eligible to receive registered common shares under form S-8 upon exercise of the options or warrants and to sell those shares under this prospectus under the following circumstances:

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the successor-in-interest acquires and exercises the options or warrants in his or her capacity as (1) the executor or administrator of the estate of a the former selling shareholder if he or she is deceased; (2) as the guardian of the former selling shareholder if he or she is incompetent, or (3) a similar persons authorized by law to administer the estate or assets of the former selling shareholder; or

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the successor-in-interest is a family member of the former selling shareholder and acquired the option or warrant pursuant to a gift or domestic relations order.

The term *family member* is defined as any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law (including adoptive relationships) to the former selling shareholder, and any person sharing the former selling shareholder s household (other than a tenant or employee). The term family member also includes a trust in which the former selling shareholder or any of his or her foregoing family members have more than 50% of the beneficial interest; a foundation in which the former selling shareholder or any of his or her foregoing family members control the

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management of assets; and any other entity in which the former selling shareholder or any of his or her foregoing family members own more than 50% of the voting interests.

Notwithstanding the foregoing, in the event that common share purchase options or warrants held by a selling shareholder are transferred to a successor-in-interest of a former selling shareholder for value (as that term is defined in form S-8), the successor-in-interest will not be eligible to receive registered common shares under form S-8 upon exercise of the options or warrants or to sell such shares under this prospectus. This would include options or warrants transferred by a former selling shareholder for value to his or her family members, with the exception of (1) options or warrants transferred to his or her spouse under a domestic relations order in settlement of marital property rights, or (2) options and warrants transferred to an entity in which more than 50% of the voting interests are owned by the former selling shareholder and/or his or her family members in exchange solely for an ownership interest in that entity.

In the event of the occurrence of any transaction pursuant to which we have a reasonable basis to believe that the common shares may not be sold under this prospectus pursuant to the rules governing permitted sales under form S-8, we reserve the right to require the selling shareholder, at his or her expense, to provide a legal opinion acceptable to the company or our legal counsel in our sole discretion or, in the alternative, a no-action letter from the SEC, to the effect that such transaction is allowable under this prospectus pursuant to those rules.

Compliance With State Securities Laws

In certain states the common shares offered by this prospectus may only be sold through registered or licensed brokers or dealers. We have advised the selling shareholders to ensure that any underwriters, brokers, dealers or agents effecting transactions on their behalf are registered to sell securities in all fifty states. In addition, in certain states the common shares offered by this prospectus may not be sold unless they are first registered or qualified for sale in that state or an exemption from the registration or qualification requirement is available and is complied with by the selling shareholder. We do not presently intend to obtain qualification of the sales in any state in reliance upon exemptions from state securities registrations requirements insofar as is practicable, and make no representations or undertakings to effect blue sky clearance for any particular state. Selling shareholders must contact the company or their own counsel to determine if sales are permitted in any given jurisdiction.

Distribution Expenses And Proceeds of Sale

We have agreed to pay all costs and expenses incurred in connection with the registration of the shares offered by this prospectus including, but not limited to, legal, accounting, printing and mailing fees. The selling shareholders and/or the purchasers participating in any sale under this prospectus will be responsible for any applicable underwriting commissions and expenses, brokerage fees and stock transfer taxes, as well as the fees and disbursements of their legal counsel and experts. We will receive no proceeds from any resales of the shares offered under this prospectus.

Other Matters

In the event that a selling shareholder is subject to the provisions of Section 16 of the Exchange Act, he or she will remain subject to such provisions, including filing and short-swing profit disgorgement obligations, notwithstanding his or her ability to sell shares under this prospectus. It shall be solely up to the selling shareholder to ascertain his or

her obligations under Section 16, if any.

Any NASD member participating in the distribution of the shares offered under this prospectus will be subject to compliance with NASD rules and regulations, including rules governing the timely filing of documents and disclosures with the Corporate Finance Department of the NASD prior to any sales

pursuant to NASD Rule 2710(b), limitations on the payment of underwriting compensation under NASD Rules 2710(c) and 2710(i), and restrictions on the sale, transfer, assignment or hypothecation of unregistered shares acquired by the member for a period of six months from the effective date of the registration statement of which this prospectus is a part pursuant to NASD Rule 2710(g).

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the penny stock rules. The penny stock rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors, generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser s written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell the common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Termination

We may terminate this offering without notice at any time.

LEGAL MATTERS

The validity of the issuance of the common shares to be sold by the selling shareholders under this prospectus was passed upon for our company by John M. Woodbury, Jr., Esq. This prospectus includes 57,700 restricted common shares held by Mr. Woodbury.

MATERIAL CHANGES

There have been no material changes in our affairs which have occurred since December 31, 2005 and the date of this prospectus, which have not been described in a report on Form 10-QSB or Form 8-K.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus information we file with it, which means we can disclose important information to you by referring you to documents we have filed with the SEC. The information incorporated by reference is considered to be a part of this prospectus. We incorporate by reference into this prospectus the documents listed below or excerpts therefrom, as the case may be, as well as all other documents we may file with the SEC pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of the registration statement containing this prospectus and prior to the filing of a post-effective amendment to that registration statement which indicates that all common shares offered under this prospectus have been sold, or which deregisters all common shares offered under this prospectus then remaining unsold:

(1)

our annual report on form 10-KSB filed for our fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission on April 3, 2006 pursuant to Section 13(a) of the Exchange Act of 1934, as it may be amended from time-to-time;

(2)

all other reports we have filed pursuant to Section 13(a) or 15(d) of the Exchange Act since December 31, 2005; and

(3)

the description of our common shares contained in that section captioned *Description of Equity Securities Common Shares* contained in our registration statement on form SB-2 (SEC file no. 333 126220) as filed with the Securities and Exchange Commission on June 29, 2005 and declared effective on July 22, 2005.

For purposes of this prospectus, any document or any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded to the extent that a subsequently filed document or a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such document or such statement in such document. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Notwithstanding the above, information that is "furnished to" the SEC shall not be deemed "filed with" the SEC and shall not be deemed incorporated by reference into this prospectus.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Our Certificate of Incorporation provides shall that we shall, to the maximum extent and in the manner under Delaware corporate law, indemnify each of our directors and officers against judgments, fines, settlements and other amounts, including expenses such as attorneys fees, actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. We may also have contractual indemnification obligations under our individual agreements with our directors, officers and employees.

The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, including breaches resulting from negligent or grossly negligent behavior, except under certain situations defined by statute, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees, even though such actions, if successful, might

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otherwise benefit our company and shareholders. We believe that the indemnification provisions in our Articles of Incorporation are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement on form S-8 we have filed with the SEC. This prospectus does not contain all of the information set forth in that registration statement and the exhibits and schedules filed therewith because that information has been omitted from this prospectus in accordance with the SEC s rules and regulations. You should refer to that registration statement and those exhibits and schedules for further information regarding our company and the common shares to be offered and sold under this prospectus. Please also note that any statements or descriptions contained in this prospectus relating to the contents of any contract or other document are not necessarily complete, and those statements or descriptions are qualified in all respects to the underlying contract or document in each instance where it is filed as an exhibit to the registration statement.

You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. Neither the delivery of this prospectus nor any sale or distribution made under this prospectus shall, under any circumstances, create any implication that information contained in this prospectus is correct as of any time subsequent to the date of this prospectus.

We are required to file annual reports on form 10-K or 10-KSB, quarterly reports on form 10-Q or 10-QSB, proxy statements and other reports, statements and information with the SEC prepared in accordance with the requirements of the Exchange Act. While we mail our annual proxy materials and annual reports on form 10-K or 10-KSB to our shareholders prior to our annual meeting of shareholders, we do not mail any other periodic reports and other information to our shareholders other than in response to specific requests for these materials.

You may review and print-out the registration statement containing this prospectus as well as any other reports and statements we may file with the SEC through its website at http://www.sec.gov. You may also inspect and copy any document we file with the SEC at its public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. For obtain information about this reference room you should call the SEC at 1-800-SEC-0330.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered, a copy of any or all of the information that has been incorporated by reference into this prospectus but not delivered with this prospectus. Any such person may request a copy of any document containing such information, at no cost, upon their written or oral request. You may request such information by either writing us at our principal executive offices located at 531 South Main Street, Suite 301, Greenville, South Carolina 29601; telephoning us (864) 233-2300; or e-mailing your request to info@signalife.com. Selected documents we file with the SEC are also available for print-out in pdf format on our corporate website at www.signalife.com.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

Items 1 and 2.

Plan Information; Registrant Information And Employee Plan Annual Information

Pursuant to Rule 428(b)(1) under the Securities Act of 1933, as amended (the *Securities Act*), we will distribute an information statement containing the information specified in Part I of Form S-8 (an "*Information Statement*") to the holders of the securities we may have previously granted under the various stand-alone common share purchase options (the *Options*) registered under this registration statement, as well as to prospective recipients of securities under the Options. This Information Statement and the documents we incorporate by reference into this registration statement pursuant to Item 3 of Part II below constitute a prospectus meeting the requirements of Section 10(a) of the Securities Act pursuant to Rule 428(a)(1) under the Securities Act. Although we have omitted this Information Statement as an exhibit to this registration statement pursuant to the instructions to Part I of Form S-8, we nevertheless incorporate it into this registration statement by reference.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item

3

Incorporation Of Documents By Reference

We incorporate by reference into this prospectus the documents listed below or excerpts therefrom, as the case may be, as well as all other documents we may file with the SEC pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this registration statement and prior to the filing of a post-effective amendment to this registration statement which indicates that all common shares offered under this registration statement have been sold, or which deregisters all common shares offered under this registration statement then remaining unsold::

(1)

our annual report on form 10-KSB filed for our fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission on April 3, 2006 pursuant to Section 13(a) of the Exchange Act of 1934, as it may be amended from time-to-time;

(2)

all other reports we have filed pursuant to Section 13(a) or 15(d) of the Exchange Act since December 31, 2005; and

(3)

the description of our common shares contained in that section captioned *Description of Equity Securities Common Shares* contained in our registration statement on form SB-2 (SEC file no. 333 126220) as filed with the Securities and Exchange Commission on June 29, 2005 and declared effective on July 22, 2005.

All documents we may file with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this registration statement and prior to the filing of a post-effective amendment to this registration statement which indicates that all common shares offered under this registration statement have been sold, or which deregisters all common shares offered under this registration statement then remaining unsold, shall be deemed to be incorporated by reference in the registration statement and to be a part hereof from the date of filing of such documents.

For purposes of this registration statement, any document or any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded to the extent that a subsequently filed document or a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such document or such statement in such document. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

Notwithstanding the above, information that is "furnished to" the SEC shall not be deemed "filed with" the SEC and shall not be deemed incorporated by reference into this registration statement.

Item 4.

Description of Securities

Not applicable the common shares to be offered and sold under this prospectus are registered under Section 12(b) of the Securities Exchange Act of 1934.

Item 5.

Interests of Named Experts and Counsel

Not applicable.

Item 6

Indemnification Of Directors And Officers

Our Certificate of Incorporation provides shall that we shall, to the maximum extent and in the manner under Delaware corporate law, indemnify each of our directors and officers against judgments, fines, settlements and other amounts, including expenses such as attorneys fees, actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. We may also have contractual indemnification obligations under our individual agreements with our directors, officers and employees.

The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, including breaches resulting from negligent or grossly negligent behavior, except under certain situations defined by statute, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees, even though such actions, if successful, might otherwise benefit our company and shareholders. We believe that the indemnification provisions in our Articles of Incorporation are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful

defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and we will be governed by the final adjudication of such issue.

Item 7

Exemption From Registration Claimed

The offer and sale of the previously granted common share purchase options or warrants the underlying common shares of which are being registered under this form S-8 were exempt from the registration requirements of the Securities Act under either (1) SEC Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act, or (2) SEC Rule 505 of Regulation D promulgated under Section 3(b) of the Securities Act. The offer and sale under SEC Rule 506 was so exempt insofar as: (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) pursuant to Rule 506(b)(2)(i), there were no more than 35 non-accredited investors in the offering; (3) pursuant to Rule 506(b)(2)(ii), each purchaser in the offering who was not accredited either alone or with his purchaser representative had such knowledge and experience in financial and business matters to be capable of evaluating the merits and risk of the investment, or the company reasonably believed immediately prior to making the sale that such investor came with this description; (4) no offers or sales under the offering was effected through any general solicitation or general advertising within the meaning of Rule 502(c); and (5) the transfer of the securities in the offering were restricted by the company in accordance with Rule 502(d). The offer and sale under SEC Rule 506 was so exempt insofar as: (1) except as stated below, none of the investors in the offering are to the company s knowledge accredited within the meaning of Rule 501(a); (2) pursuant to Rule 505(b)(2)(i), the aggregate offering price for the offering did not exceed $5,000,000, less the offering price of all securities sold within the twelve months preceding the start of and during the offering of securities under Rule 505 or in reliance upon any exemption under Section 3(b) of the Securities Act of 1933 or in violation of Section 5 of the Securities Act of 1933; (3) pursuant to Rule 505(b)(2)(ii), there were no more than 35 non-accredited investors in the offering; (4) no offers or sales under the offering was effected through any general solicitation or general advertising within the meaning of Rule 502(c); and (5) the transfer of the securities in the offering were restricted by the company in accordance with Rule 502(d). No underwriting discounts or commissions were payable with respect to any of the offerings.

Item 8

Exhibits And Financial Statement Schedules

3.1

Restated Certificate Of Incorporation Of Signalife, Inc. filed by the Delaware Secretary of State on May 5, 2006 (1)

3.2

Restated Bylaws adopted as of May 5, 2006 (1)

4

Signalife, Inc. 2006 Stock Plan [formerly known as the Recom Managed Systems, Inc. 2002 Stock Plan] dated November 1, 2002 (2)

5.

Legal opinion by John M. Woodbury, Jr., Esq. *

23.1

Consent of legal counsel (John M. Woodbury, Jr.) (3)

23.2

Consent of Independent Registered Public Accounting Firm (Elliott Davis, LLC) *

23.3

Consent of Independent Registered Public Accounting Firm (Stonefield Josephson, Inc.) *

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Powers of Attorney of Rodney Hildebrandt, Ellsworth Roston, Lowell T. Harmison, Jennifer Black, Norma Provencio and Rowland Perkins *

*

Filed herewith

(1)

Previously filed as an exhibit to our current report on form 8-K filed with the SEC on May 11, 2006.

(2)

Previously filed as an exhibit to our annual report on form 10-KSB for our fiscal year ended December 31, 2002 filed with the SEC on March 26, 2003.

(3)

Included in legal opinion filed as exhibit 5 *

Item 9

Undertakings

We hereby undertake to:

1.

File, during any period in which we offer or sell securities, a post-effective amendment to this registration statement to:

(i)

include any prospectus required by section 10(a)(3) of the Securities Act (unless incorporated by reference in this registration statement from periodic reports filed by the issuer under the Exchange Act),

(ii)

reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospects filed with the SEC under Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table on the face page of the effective registration statement (unless incorporated by reference in this registration statement from periodic reports filed by the issuer under the Exchange Act); or

(iii)

include any additional or changed material information on the plan of distribution.

2.

For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

3.

File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

4.

For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by any of our directors, officers or controlling persons in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Greenville, State of South Carolina, on October 6, 2006.

RECOM MANAGED SYSTEMS, INC.

By: */s/ Pamela M. Bunes*

Pamela M. Bunes
President and Chief Executive Officer
(principal executive officer)

By: */s/ Robert C. Scherne*

Robert C. Scherne
Interim Chief Financial Officer
(principal accounting and financial officer)

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated:

Signature	Title	Date
By: */s/ Pamela M. Bunes* Pamela M. Bunes	President, Chief Executive Officer and Director	October 9, 2006
By: */s/ Rodney Hildebrandt** Rodney Hildebrandt	Chief Operating Officer and Director	October 9, 2006
By: */s/ Ellsworth Roston** Ellsworth Roston	Director	October 9, 2006
By: */s/ Lowell T. Harmison** Lowell T. Harmison	Director	October 9, 2006
By: */s/ Jennifer Black** Jennifer Black	Director	October 9, 2006
By: */s/ Norma Provencio** Norma Provencio	Director	October 9, 2006
By: */s/ Rowland Perkins** Rowland Perkins	Director	October 9, 2006
*By: */s/ Pamela M. Bunes* Pamela M. Bunes Agent-In-Fact	Director	October 9, 2006

;">(29,094

)

(26,856
)
Net premises and equipment
$
23,886

$
25,727

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2014, 2013 and 2012 was $2.7 million, $2.7 million and $2.2 million, respectively. At December 31, 2014 and 2013, the Company has capitalized software costs of $3.6 million and $3.2 million, respectively, and related accumulated depreciation expense of $3.0 million and $2.7 million, respectively. Capitalized software costs are presented within other assets on the consolidated statement of condition. Depreciation and amortization expense on capitalized software costs for the years ended December 31, 2014, 2013, and 2012 were $335,000, $296,000, and $301,000, respectively.

Lease expense, primarily associated with the lease of the Company's office buildings and branch facilities, for the years ended December 31, 2014, 2013 and 2012 was $1.2 million, $1.3 million and $997,000, respectively. The Company has one capital lease for a branch facility with payments that extend until 2026 at an interest rate of 9.75% per year. The capital lease, recorded in premises and equipment, has a cost basis of $855,000 at December 31, 2014 and 2013 and accumulated depreciation of $373,000 and $331,000 at December 31, 2014 and 2013, respectively.

At December 31, 2014, under current operating and capital lease contracts, the Company had the following schedule of future minimum lease payments:

	Operating	Capital
2015	$1,274	$129
2016	1,198	127
2017	956	126
2018	714	126
2019	632	126
Thereafter	1,824	812
Total minimum lease payments	$6,598	$1,446
Less: amount representing interest[1]		462
Present value of net minimum lease payments[2]		$984

(1) Amount necessary to reduce net minimum lease payments to present value calculated at the Company's incremental borrowing rate at lease inception.

(2) Reflects the liability reported within other borrowed funds on the consolidated statements of condition. At December 31, 2014 and 2013, the capital lease liability was $984,000 and $1.0 million, respectively.

During 2012, the Company recorded a gain of $479,000 on the sale of a branch facility and is presented within non-interest income on the consolidated statements of income. There were no recorded gains or losses from the sale of premises or equipment for the years ended December 31, 2014 and 2013.

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7. OREO

The Company's OREO activity for the years ended December 31, 2014, 2013 and 2012 is presented in the below:

	2014	2013	2012
Balance at beginning of year	$2,195	$1,313	$1,682
Additions	1,337	1,958	2,180
Disposals	(1,759)	(906)	(2,388)
Write-downs	(186)	(170)	(161)
Balance at end of year	$1,587	$2,195	$1,313

The Company's OREO portfolio by property type is presented in the table below as of December 31:

	2014		2013	
	Number of Properties	Carrying Value	Number of Properties	Carrying Value
Residential	11	$575	10	$1,043
Commercial	6	1,012	6	1,152
Total	17	$1,587	16	$2,195

The Company recorded a net loss on sale of OREO property of $29,000 for the year ended December 31, 2014, a net gain of $40,000 for the year ended December 31, 2013, and a net loss of $318,000 for the year ended December 31, 2012. The gain or loss recorded on sale of OREO properties is presented within non-interest expense on the consolidated statements of income.

8. Mortgage Servicing

Residential real estate mortgages are originated by the Company both for its portfolio and for sale into the secondary market. The Company may sell its loans to institutional investors such as Freddie Mac. Under loan sale and servicing agreements with the investor, the Company generally continues to service the residential real estate mortgages. The Company pays the investor an agreed-upon rate on the loan, which is less than the interest rate received from the borrower. The Company retains the difference as a fee for servicing the residential real estate mortgages. The Company capitalizes MSRs at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and quarterly assesses the asset for impairment. The balance of capitalized MSRs, net of a valuation allowance, included in other assets on the consolidated statements of condition at December 31, 2014 and 2013 was $493,000 and $726,000, respectively. For the same periods, the fair value of MSRs was $1.4 million and $1.5 million, respectively. In evaluating the reasonableness of the carrying values of the MSRs, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes a variety of assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Prepayment assumptions, which are impacted by loan rates and terms, are calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association and modeled against the serviced loan portfolio by the third party valuation specialist. The discount rate is the quarterly average 10-year U.S. Treasury rate plus 4.77%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of the mortgage servicing rights, as well as write-offs of capitalized rights due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income. Mortgage servicing fee income, net of amortization and write-offs, for the years ended December 31, 2014, 2013, and 2012 was $251,000, $679,000, and $320,000, respectively. Mortgage servicing fee income is presented in mortgage banking income, net on the consolidated statements of income. Also included within mortgage banking income, net on the consolidated statements of income is the net gains or losses recognized upon the sale of originated mortgage loans to Freddie Mac. For the years ended December 31, 2014, 2013, and 2012, the Company sold $799,000, $33.3 million,

and $16.9 million of fixed rate residential mortgage loans on the secondary market, which resulted in a net gain on sale of loans of $31,000, $728,000, and $268,000, respectively.

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The following summarizes MSRs capitalized and amortized, along with the activity in the related valuation allowance:

	2014	2013	2012
MSRs:			
Balance at beginning of year	$726	$542	$768
Capitalized upon sale	15	466	153
Amortization charged against mortgage servicing fee income	(262)	(340)	(349)
Valuation adjustment	14	58	(30)
Balance at end of year	$493	$726	$542
Valuation Allowance:			
Balance at beginning of year	$(15)	$(73)	$(43)
Increase in impairment reserve	—	(34)	(174)
Reduction of impairment reserve	14	92	144
Balance at end of year	$(1)	$(15)	$(73)
Fair value, beginning of year[1]	$1,494	$879	$1,138
Fair value, end of year[1]	1,447	1,494	879

(1) Reported fair value represents all MSRs currently being serviced by the Company, regardless of carrying amount.

Mortgage loans serviced for Freddie Mac are not included in the accompanying consolidated statements of condition. Mortgage loans serviced for Freddie Mac at December 31, 2014, 2013 and 2012 were $141.1 million, $157.9 million and $156.1 million, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing for Freddie Mac, and included in demand deposits, were $484,000 and $518,000 at December 31, 2014 and 2013, respectively.

While not capitalized as MSRs, the Company serves as the primary servicer of loans originated by MaineHousing. The Company has entered into a contract with MaineHousing to perform loan servicing on the MaineHousing portfolio for a fee. For the years ended December 31, 2014, 2013, and 2012, the Company earned fees of $1.2 million, $1.1 million, and $1.2 million, respectively, for the servicing of MaineHousing loans included in other income on the consolidated statements of income. The MaineHousing loans serviced by the Company, which are not included in the accompanying consolidated statements of condition, totaled $585.3 million, $614.4 million, and $650.6 million at December 31, 2014, 2013 and 2012, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing for MaineHousing and included in demand deposits were $5.3 million at December 31, 2014 and 2013.

9. Deposits

The following is a summary of scheduled maturities of time deposits as of December 31, 2014:

	Retail	Brokered	Total
2015	$175,860	$24,982	$200,842
2016	61,094	28,622	89,716
2017	20,303	6,545	26,848
2018	7,635	—	7,635
2019	38,549	—	38,549
Thereafter	13,682	—	13,682
Total	$317,123	$60,149	$377,272

Time deposits issued in amounts that meet or exceed the FDIC insurance limit of $250,000 totaled $74.2 million and $71.0 million at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company, in the normal course of business, had deposits from certain officers, directors, and their associated companies totaling $6.6 million and $48.6 million, respectively. The decrease is due to a change in an associated company. The Company continues to maintain the deposit relationship with the associated company at December 31, 2014.

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The amount of overdraft deposits that were reclassified as loans at December 31, 2014 and 2013 was $595,000 and $722,000, respectively.

10. Borrowings

Other Borrowed Funds

Short-term borrowings consist of retail repurchase agreements, FHLBB advances due in less than 90 days, FHLBB and correspondent bank overnight borrowings, and other short-term borrowings due within one year. The Bank had an available line of credit with the FHLBB of $9.9 million at December 31, 2014 and 2013. The Company had no outstanding balance on the line of credit with the FHLBB at December 31, 2014 or 2013.

Long-term borrowings represent securities sold under repurchase agreements with major brokerage firms and notes payable with maturity dates over one year. Both wholesale and retail repurchase agreements are secured by mortgage-backed securities and securities of government sponsored enterprises.

The Company has a $10.0 million line of credit with a maturity date of December 20, 2015. Through the Bank, the Company also has available lines of credit with PNC Bank of $50.0 million and with the Fed Discount Window of $58.6 million as of December 31, 2014. We had no outstanding balances on these lines of credit at December 31, 2014.

The following table summarizes other borrowed funds as presented on the consolidated statements of condition at:

	December 31,	
	2014	2013
Short-Term Borrowings:		
Securities sold under repurchase agreements – retail	$157,758	$130,047
FHLBB advances less than 90 days	245,000	230,000
FHLBB and correspondent bank overnight borrowings	43,100	38,800
Capital lease obligation	63	60
Notes payable	—	25
Total short-term borrowings	445,921	398,932
Long-Term Borrowings:		
Securities sold under repurchase agreements – commercial	30,097	30,142
Capital lease obligation	921	984
Total long-term borrowings	31,018	31,126
Total other borrowed funds	$476,939	$430,058

The table below provides information on the Company's short-term borrowings, excluding capital lease obligations, at and for the period ended:

	December 31,					
	2014		2013		2012	
Balance outstanding at end of year	$445,921		$398,932		$192,681	
Average daily balance outstanding	417,585		271,281		261,335	
Maximum balance outstanding at any month end	467,811		398,932		346,786	
Weighted average interest rate for the year	0.19	%	0.19	%	0.21	%
Weighted average interest rate at end of year	0.20	%	0.16	%	0.18	%

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The securities sold under repurchase agreements – commercial are fixed rate borrowings, which are callable quarterly, with the following schedule of maturities, rate and year in which the instrument becomes callable, as of December 31, 2014:

	Amount	Rate		Callable
2016	$25,000	2.61	%	2015
2017	5,097	4.67	%	2015
Total	$30,097	2.96	%	

FHLB Advances

FHLB advances are those borrowings from the FHLBB greater than 90 days. FHLB advances are collateralized by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one- to four-family properties, certain commercial real estate loans, certain pledged investment securities and other qualified assets. The carrying value of residential real estate and commercial loans pledged as collateral was $843.2 million and $742.8 million at December 31, 2014 and 2013, respectively. The carrying value of securities pledged as collateral at the FHLB was $833,000 and $3.7 million at December 31, 2014 and 2013, respectively.

The advances payable to the FHLB are summarized as follows:

	Interest Rate Range	Weighted-Average Interest Rate	December 31, 2014			December 31, 2013		
			Balance	Callable	Call Amount	Balance	Callable	Call Amount
2015	2.75% - 4.75%	2.94%	$11,039	2015	$10,000	$11,112	2015	$10,000
2016	1.80% - 1.95%	1.92%	25,000	—	—	25,000	—	—
2017	3.99% - 4.06%	4.03%	20,000	2015	20,000	20,000	2015	20,000
Total			$56,039		$30,000	$56,112		$30,000

Junior Subordinated Debentures

In April 2006, the Company formed CCTA, which issued and sold trust preferred securities to the public. The Company received $36.1 million from the issuance of the trust preferred securities in return for junior subordinated debentures issued by the Company to CCTA. The Company owns all of the $1.1 million of outstanding common securities of CCTA. The interest rate of the trust preferred securities was fixed at 6.71% through June 2011 and now floats at the 3 month LIBOR plus 140 basis points. The proceeds from the offering were used to repurchase Company common stock under the tender offer completed in May 2006. The trust preferred securities, which pay interest quarterly at the same rate as the junior subordinated debentures held by CCTA, are mandatorily redeemable on June 30, 2036, or may be redeemed by CCTA at par any time on or after June 30, 2011.

In connection with the acquisition of Union Bankshares Company in 2008, the Company assumed $8.0 million of trust preferred securities, held through a Delaware trust affiliate, UBCT. In 2006, Union Bankshares Company issued an aggregate principal amount of $8.2 million of 30-year junior subordinated deferrable interest debt securities to UBCT. The Company owns all of the $248,000 of outstanding common securities of UBCT. The debt securities obligate the Company to pay interest on their principal sum quarterly in arrears on January 7, April 7, July 7, and October 7 of each year. The interest rate of the trust preferred securities until April 7, 2011 was a blended rate equal to the sum of (1) the product of 50% times the average three-month LIBOR plus 1.42%, plus (2) the product of 50% times 6.4725%. The rate is now the average three-month LIBOR plus 1.42%. The debt securities mature on April 7, 2036, but may be redeemed by the Company, in whole or in part, beginning on April 7, 2011, on any interest payment date. The debt securities may also be redeemed by the Company in whole or in part, within 90 days of the occurrence of certain special redemption events as defined in the Indenture.

CCTA and UBCT are Delaware statutory trusts created for the sole purpose of issuing trust preferred securities and investing the proceeds in junior subordinated debentures of the Company. The junior subordinated debentures are the sole assets of the trusts. The Company is the owner of all of the common securities of CCTA and UBCT and fully and unconditionally guarantees each trust's securities obligations. In accordance with GAAP, CCTA and UBCT are treated as unconsolidated subsidiaries. The common stock investment in the statutory trusts is included in other assets on the consolidated statements of condition. Interest expense on the junior subordinated debentures totaled $2.5 million for the years ended December 31, 2014, 2013 and 2012. At December 31, 2014, $43.0 million of the trust preferred securities were included in the Company's total Tier I capital and amounted to 17.3% of Tier I capital of the Company.

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The Company has a notional amount of $43.0 million in interest rate swap agreements on its junior subordinated debentures. Further discussion on the terms and accounting for the interest rate swap agreements is included within Note 17 to the consolidated financial statements.

11. Income Taxes

The current and deferred components of income tax expense on the consolidated statements of income were as follows:

	For The Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	$11,435	$11,853	$5,107
State	505	400	457
	11,940	12,253	5,564
Deferred:			
Federal	(500)	(121)	5,318
Income tax expense	$11,440	$12,132	$10,882

The income tax expense differs from the amount computed by applying the statutory federal income tax rate as a result of the following:

	For The Years Ended December 31,		
	2014	2013	2012
Computed tax expense	$12,604	$12,220	$12,008
Increase (reduction) in income taxes resulting from:			
Tax exempt income	(704)	(510)	(623)
Income from life insurance	(503)	(459)	(484)
State taxes, net of federal benefit	328	260	297
Low income housing credits	(286)	(299)	(328)
Goodwill impairment	—	991	—
Other	1	(71)	12
Income tax expense	$11,440	$12,132	$10,882

Temporary differences between the financial statements carrying amounts and the tax bases of assets and liabilities gave rise to the following deferred tax assets and liabilities:

	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Allowance for possible losses on loans	$7,397	$—	$7,564	$—
Pension and other benefits	4,018	—	3,900	—
Net unrealized losses on derivative instruments	3,200	—	1,369	—
Net unrealized losses on postretirement plans	1,165	—	992	—
Deferred compensation and benefits	945	—	963	—
Purchase accounting and deposit premium	329	—	321	—
Net unrealized losses on AFS securities	172	—	4,288	—
Allowance for OREO valuation	107	—	59	—
Allowance for OTTI of investments	71	—	71	—
Depreciation	—	1,910	—	1,765

Deferred loan origination fees	—	1,581	—	1,390
Prepaid expenses	—	620	—	766
MSRs	—	172	—	254
Other	1,313	—	695	—
	$18,717	$4,283	$20,222	$4,175

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Deferred income taxes have been calculated using a rate of 35%. No valuation allowance established on the Company's deferred tax assets as of December 31, 2014 or 2013.

Although not currently under review, income tax returns for the years ended December 31, 2011 through 2013 are open to audit by federal and Maine authorities. If the Company, as a result of an audit, were assessed interest and penalties, the amounts would be recorded within non-interest expense on the consolidated statements of income.

12. Shareholders' Equity

Dividends

The primary source of funds available to the Company for the payment of dividends to its shareholders is dividends paid to the Company by its subsidiaries. The Company's subsidiaries are subject to certain requirements imposed by federal banking laws and regulations. These requirements, among other things, establish minimum levels of capital and restrict the amount of dividends that may be distributed by the subsidiaries to the Company. Under regulations prescribed by the OCC, without prior OCC approval, a bank subsidiary may not declare dividends in any year in excess of the bank's (i) net income for the current year, (ii) plus its retained net income for the prior two years. The Company declared $8.3 million, $8.3 million and $7.7 million in dividends to shareholders for the years ended December 31, 2014, 2013 and 2012, respectively.

Common Stock Repurchase

On September 24, 2013, the board of directors authorized the 2013 Repurchase Plan. The 2013 Repurchase Plan allows for the repurchase of up to 250,000 shares of the Company's outstanding common stock. This program is expected to continue until the authorized number of shares is repurchased, or the Company's board terminates the program. As of December 31, 2014, the Company had repurchased 249,500 shares at a weighted-average price of $39.82, or 99.8% of the program's total allotment, and 3% of total outstanding shares.

13. EPS

The following is an analysis of basic and diluted EPS, reflecting the application of the two-class method, as described below:

	2014	2013	2012
Net income	$24,570	$22,783	$23,428
Dividends and undistributed earnings allocated to participating securities(1)	(75)	(64)	(60)
Net income available to common shareholders	$24,495	$22,719	$23,368
Weighted-average common shares outstanding for basic EPS	7,450,980	7,634,455	7,646,861
Dilutive effect of stock-based awards(2)	19,613	18,815	14,412
Weighted-average common and potential common shares for diluted EPS	7,470,593	7,653,270	7,661,273
Earnings per common share:			
Basic EPS	$3.29	$2.98	$3.06
Diluted EPS	3.28	2.97	3.05
Awards excluded from the calculation of diluted EPS(3):			
Stock options	36,250	15,250	49,500

(1) Represents dividends paid and undistributed earnings allocated to nonvested stock-based awards that contain non-forfeitable rights to dividends.

(2) Represents the effect of the assumed exercise of stock options, vesting of restricted shares, vesting of restricted stock units, and vesting of LTIP awards that have met the performance criteria, utilizing the treasury stock method.
(3) Represents stock-based awards not included in the computation of potential common shares for purposes of calculating diluted EPS, as the exercise prices were greater than the average market price of the Company's common stock.

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Nonvested stock-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested stock-based awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested stock-based awards.

Diluted EPS is computed in a similar manner, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

14. Employee Benefit Plans

401(k)/Profit Sharing Plan

The Company has a 401(k)/profit sharing plan and the majority of employees participate in the plan. Employees may contribute pre-tax contributions to the 401(k)/profit sharing plan up to the maximum amount allowed by federal tax laws. The Company makes matching contributions of up to 4% of an employee's eligible compensation. The Company may make additional matching contributions subject to the discretion of the board of directors. For the years ended December 31, 2014, 2013, and 2012, these contributions amounted to 3% of pre-tax compensation each year. For the years ended December 31, 2014, 2013 and 2012, expenses under the 401(k)/Profit Sharing plan amounted to $1.4 million, $1.4 million, and $1.2 million, respectively.

SERP and Other Postretirement Benefit Plan

The Company sponsors unfunded, non-qualified SERPs for certain officers. These agreements are designed to make up the shortfall (when compared to a non-highly compensated employee) in replacing income at retirement due to IRS compensation and benefit limits under the 401(k) plan and Social Security. With a SERP in place, participants should be able to replace 65 –75% of their final average compensation. For those eligible for benefits, the SERP provides for a minimum 15-year guaranteed benefit for all vested participants. In addition, the Company provides medical and life insurance to certain eligible retired employees under the other postretirement benefit plan.

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The following table summarizes changes in the benefit obligation and plan assets for (i) SERP and (ii) the other postretirement benefit plan as of December 31, 2014 and 2013:

	SERP		Other Postretirement Benefits	
	2014	2013	2014	2013
Benefit obligations:				
Beginning of year	$9,927	$10,346	$3,094	$3,536
Service cost	270	326	45	42
Interest cost	456	377	132	173
Actuarial (gain) loss	777	(579)	(134)	(538)
Benefits paid	(596)	(543)	(140)	(119)
End of year	10,834	9,927	2,997	3,094
Fair value of plan assets:				
Beginning of year	—	—	—	—
Employer contributions	596	543	140	119
Benefits paid	(596)	(543)	(140)	(119)
End of year	—	—	—	—
Funded status at end of year, included in other liabilities	$10,834	$9,927	$2,997	$3,094
Amounts recognized in AOCI, net of tax:				
Net actuarial loss	$1,953	$1,539	$378	$458
Prior service cost (credit)	17	29	(185)	(185)
Total	$1,970	$1,568	$193	$273

The accumulated benefit obligation for the SERP was $8.5 million and $8.0 million at December 31, 2014 and 2013, respectively. In 2015, approximately $218,000 and $19,000 in net actuarial losses and prior service cost, respectively, are expected to be recognized as components of net period benefit cost for the SERP, and approximately $24,000 and $22,000 in net actuarial loss and prior service credit, respectively, are expected to be recognized for the other postretirement benefit plan.

The components of net period benefit cost and other amounts recognized in OCI, before taxes, were as follows:

	SERP			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Net period benefit cost:						
Service cost	$270	$326	$269	$45	$42	$70
Interest cost	456	377	408	132	173	148
Recognized net actuarial loss	140	224	114	10	48	31
Amortization of prior service cost (credit)	19	19	19	(22)	(23)	—
Net period benefit cost	885	946	810	165	240	249
Changes in funded status recognized in OCI, before taxes:						
Net actuarial (gain) loss	777	(579)	1,334	(134)	(538)	275
Reclassifications to net period benefit cost:						
Amortization of net unrecognized actuarial loss	(140)	(224)	(114)	(10)	(48)	(31)
	(19)	(19)	(19)	22	23	—

Amortization of prior service (cost) credit						
Total recognized in OCI, before taxes	618	(822)	1,201	(122)	(563)	244
Total recognized in net period benefit cost and OCI, before taxes	$1,503	$124	$2,011	$43	$(323)	$493

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In the first quarter of 2014, the Company amended the terms of its other postretirement benefit plan impacting the eligibility of employees. The amendment to the plan reduced the Company's benefit obligation by $308,000 at December 31, 2014 and is reflected within the year ended December 31, 2014 other postretirement benefits plan net actuarial gain.

The following assumptions were used in determining benefit obligations and net period benefit costs:

	SERP						Other Postretirement Benefits					
	2014		2013		2012		2014		2013		2012	
Weighted-average assumptions as of end of year:												
Discount rate for benefit obligation	4.00	%	4.75	%	3.75	%	4.00	%	5.02	%	4.05	%
Discount rate for net period benefit cost	4.75	%	3.75	%	4.75	%	5.02	%	4.05	%	4.75	%
Rate of compensation increase for benefit obligation	4.00	%	4.50	%	4.50	%	—		—		—	
Rate of compensation increase for net periodic benefit cost	4.50	%	4.50	%	4.50	%	—		—		—	
Health care cost trend rate assumed for future years	—		—		—		7.00	%	7.00	%	7.00	%

A 1.0% increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation and the related service and interest cost $154,000 and $20,000, respectively, while a 1.0% decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and the related service and interest cost $363,000 and $26,000, respectively. The postretirement plan has a built-in cap on annual benefits to participants and, thus, the accumulated postretirement benefit obligation and the assumed health care cost trend are relatively stable each period.

In 2015, the expected contribution is $421,000 for the SERP and $138,000 for the other postretirement benefits plan. The expected benefit payments for the next ten years are presented in the following table:

	SERP	Other Postretirement Benefits
2015	$421	$138
2016	489	135
2017	473	133
2018	473	128
2019	477	131
2020-2024	3,408	750

In December 2003, the Act was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effects of the Act on the accumulated projected benefit obligation or net period post-retirement benefit cost are not reflected in the financial statements or accompanying notes because the Company has not concluded whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

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15. Stock-Based Compensation Plans

Stock-Based Compensation

On April 29, 2003 and May 1, 2012, the shareholders of the Company approved the 2003 Plan and 2012 Plan, respectively. The maximum number of shares of stock reserved and available for issuance under each the 2003 Plan and 2012 Plan is 800,000 shares. Awards may be granted in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, performance shares and dividend equivalent rights, or any combination of the preceding, and the exercise price shall not be less than 100% of the fair market value on the date of grant in the case of incentive stock options, or 85% of the fair market value on the date of grant in the case of non-qualified stock options. No stock options are exercisable more than 10 years after the date the stock option is granted. The exercise price of all options equaled the market price of the Company's stock on the date of grant.

Stock Option Awards

Stock options granted under the 2003 Plan and the 2012 Plan have been incentive stock options. Stock options granted vest pro rata over a five year period and have a contractual life of 10 years.

On the date of each grant, the fair value of each award is derived using the Black-Scholes option pricing model based on assumptions made by the Company as follows:

- Dividend yield is based on the dividend rate of the Company’s stock at the date of grant.
- Risk-free interest rate is based on the U.S. Treasury bond rate with a term equaling the expected life of the granted options.
- Expected volatility is based on the historical volatility of the Company’s stock price calculated over the expected life of the option.
- Expected life represents the period of time that granted options are expected to be outstanding based on historical trends.

The following table presents the option pricing assumptions and the estimated fair value of the options using these assumptions for grants made for the years ended:

	December 31,					
	2014		2013		2012	
Weighted-average dividend yield	2.90	%	2.40	%	2.20	%
Weighted-average risk-free interest rate	1.65	%	1.60	%	0.79	%
Weighted-average expected volatility	35.39	%	52.32	%	53.31	%
Weighted-average expected life in years	5.30		5.30		5.30	
Weighted-average fair value of options granted	$8.92		$15.97		$13.00	

Compensation expense is recognized on a straight-line basis over the option vesting period and totaled $81,000, $134,000 and $99,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The related income tax benefit from the compensation expense on stock options for the years ended December 31, 2014, 2013 and 2012 was $28,000, $47,000, and $35,000, respectively. Unrecognized compensation expense for nonvested stock options, which reflects an estimated forfeiture rate of 0% for executives and directors and 13% for all other officers, over the vesting period, totaled $103,000 at December 31, 2014. The forfeiture rate is used to estimate granted options that will be forfeited by executives, directors, and/or employees prior to vesting. The forfeiture rate is determined based on the Company's historical experience. Unrecognized compensation expense on stock options is expected to be recognized over the remaining weighted-average vesting period of 2.8 years. The total intrinsic value of options exercised during the years ended December 31, 2014, 2013, and 2012 was $134,000, $153,000, and $146,000, respectively.

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Stock option activity for the year ended December 31, 2014 is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2014	111,950	$33.36		
Granted	4,500	35.22		
Exercised	(19,000)	32.58		
Forfeited and expired	(3,200)	38.32		
Options outstanding at December 31, 2014	94,250	$33.44	4.5	$664
Options exercisable at December 31, 2014	73,150	$33.21	3.8	$545

A summary of the status of the Company’s nonvested stock options as of December 31, 2014 and changes during the year then ended is presented below:

	Awards	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2014	34,950	$11.23
Granted	4,500	8.92
Vested	(17,000)	9.88
Forfeited	(1,350)	12.05
Nonvested at December 31, 2014	21,100	$11.77

Restricted Stock Units, Restricted Stock Awards and MSPP

The Company issues restricted stock units to certain Company directors who make a valid election to defer under the Independent Directors' Equity Compensation Program, a component of the 2012 Plan. These units are deferred and have no voting or dividend rights until termination or retirement, at which time shares will be issued based on the grant date fair value of the awards issued. The vesting period for these awards is determined when granted.

The Company issues restricted stock awards to certain executives, directors, and employees. Restricted stock awards issued to executives and employees vest pro-rata over three years, with requisite service conditions and no performance-based conditions to such vesting. The vesting period for restricted stock awards issued to directors under the Independent Directors' Equity Compensation Program is determined when granted. Restricted stock awards issued to executives, directors, and employees participate in dividends and recipients are entitled to vote these restricted shares during the vesting period.

The Company provides a MSPP to provide an opportunity for certain executives and employees to receive restricted shares of the Company’s common stock in lieu of their annual incentive bonus. Restricted shares issued under the MSPP are granted at a discount of one-third of the fair market value of the stock on the date of grant and cliff vest two years after the grant date. Restricted stock issued under the MSPP to executives and employees participate in dividends and are entitled to vote these restricted shares during the vesting period.

Compensation expense recognized in connection with the restricted stock units, restricted stock awards, and MSPP is presented in the following table:

	For The Years Ended December 31,		
	2014	2013	2012
Restricted stock units	$40	$—	$—
Restricted stock awards	214	149	163

MSPP grants	67	73	65
Total compensation expense	$321	$222	$228
Related income tax benefit	$112	$78	$80
Fair value of grants vested	$332	$229	$121

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The following table presents a summary of the activity related to restricted stock units, restricted stock awards and the MSPP for the period indicated:

	Restricted Stock Units		Restricted Stock		MSPP	
	Number of Units	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2014	—	$ —	10,480	$ 34.53	14,220	$ 11.14
Granted	1,055	37.50	7,176	39.06	5,055	12.35
Vested	(1,055)	37.50	(6,183)	35.47	(6,923)	10.55
Forfeited	—	—	(516)	34.57	(247)	11.43
Nonvested at December 31, 2014	—	$ —	10,957	$ 36.96	12,105	$ 11.97

At December 31, 2014, unrecognized compensation cost related to nonvested restricted stock awards and MSPP was $207,000, which is expected to be recognized over a weighted-average period of 1.7 years.

LTIP

The LTIP is intended to attract and retain executives who will contribute to the Company’s future success. The long-term performance period is a period of three consecutive years beginning on January 1 of the first year and ending on December 31 of the third year. Awards are based upon the attainment of certain performance targets on specific performance measures selected by the Compensation Committee and approved by the board of directors. The performance-based share units granted will vest only if certain revenue and expense goals or service conditions, as defined under the LTIP, are achieved. Failure to achieve the goals and service conditions will result in all or a portion of the shares being forfeited.

Compensation expense recognized in connection with the LTIP is presented in the following table:

	For The Years Ended December 31,		
	2014	2013	2012
Compensation expense	$151	$200	$174
Related income tax benefit	$53	$70	$61
Fair value of grants vested	$—	$497	$609

The following table presents a summary of the activity related to LTIP for the period indicated:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2014	44,792	$35.78
Granted	20,613	41.18
Vested	—	—
Forfeited	(22,627)	34.77
Nonvested at December 31, 2014	42,778	$38.92

Based on current performance levels, unrecognized stock compensation expense for the performance share awards was $338,000 with a weighted-average remaining amortization period of 1.8 years at December 31, 2014.

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DCRP

The DCRP is an unfunded deferred compensation plan for the benefit of certain Company executives. The Company's Compensation Committee determines eligibility in the DCRP and annually, participants will receive a credit to an account administered by the Company of 10% of each participant's annual base salary and bonus for the prior performance period. Annual credits to a participant's account will be denominated in deferred stock awards (the right to receive a share of common stock of the Company upon the satisfaction of certain restrictions) based on the fair market value of the common stock of the Company on the date of grant. Vesting occurs ratably from the date of participation until the participant reaches the age of 65, at which time the participant is 100% vested. Upon retirement or termination of employment, the participant will receive shares of common stock equal to the Deferred Stock Awards in the account multiplied by the vested percentage, reduced by the amount to be withheld for income taxes. The Company granted 2,020, 2,304, and 2,322 of deferred stock awards during 2014, 2013 and 2012, respectively under the DCRP. Compensation expense totaled $46,000, $40,000, and $37,000 for the years ended December 31, 2014, 2013, and 2012, respectively. Unrecognized stock compensation expense for the deferred stock awards was $191,000 with a weighted-average remaining amortization period of 12.1 years at December 31, 2014.

16. Other Non-Interest Expenses

Detail of other expenses included in the consolidated statements of income is as follows:

	For The Years Ended December 31,		
	2014	2013	2012
Debit and ATM-related costs	$2,031	$2,118	$1,792
Donations and marketing	1,587	1,561	1,949
Employee-related costs[1]	1,287	1,217	1,113
Postage, freight, and courier	1,236	1,284	1,012
Office supplies and forms	736	997	1,067
Other expenses	2,693	3,197	2,059
Total	$9,570	$10,374	$8,992

(1) Employee-related costs include hiring, training, education, meeting and business travel costs.

17. Commitments and Contingencies

Legal Contingencies

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions. Although the Company is not able to predict the outcome of such actions, after reviewing pending and threatened actions with counsel, management believes that based on the information currently available the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position as a whole.

Reserves are established for legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. In many lawsuits and arbitrations, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case a reserve will not be recognized until that time.

As of December 31, 2014 and 2013, the Company did not have any loss contingencies that were both probable and reasonably estimable and, therefore, no accrued liability has been recognized.

Financial Instruments

In the normal course of business, the Company is a party to both on-and off-balance sheet financial instruments involving, to varying degrees, elements of credit risk and interest rate risk in addition to the amounts recognized in the consolidated statements of condition.

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The following is a summary of the contractual and notional amounts of the Company's financial instruments:

	December 31, 2014	2013
Lending-Related Instruments:		
Loan origination commitments and unadvanced lines of credit:		
Home equity	$303,815	$276,671
Commercial and commercial real estate	47,066	26,688
Residential	10,975	6,408
Letters of credit	3,103	1,789
Other commitments	1,305	437
Derivative Financial Instruments:		
Customer loan swaps	58,234	15,702
Interest rate swaps	43,000	43,000

Lending-Related Instruments

The contractual amounts of the Company's lending-related financial instruments do not necessarily represent future cash requirements since certain of these instruments may expire without being funded and others may not be fully drawn upon. These instruments are subject to the Company's credit approval process, including an evaluation of the customer's creditworthiness and related collateral requirements. Commitments generally have fixed expiration dates or other termination clauses.

Derivative Financial Instruments

The Company uses derivative financial instruments for risk management purposes (primarily interest rate risk) and not for trading or speculative purposes. The Company controls the credit risk of these instruments through collateral, credit approvals and monitoring procedures.

Interest Rate Swaps

The Company, from time to time, will enter into an interest rate swap agreement with a counterparty to manage interest rate risk associated with its borrowings. At December 31, 2014 and 2013, the Company held five interest rate swap agreements with $43.0 million of notional with a single counterparty that was designated as hedging instruments. The Company swapped its variable interest for a fixed interest on its junior subordinated debentures to manage its interest rate risk. These interest rate swap arrangements contain provisions that require the Company to post cash collateral with the counterparty for its contracts that are in a net loss position based on their fair value and the Company's credit rating. At December 31, 2014 and 2013, the Company had posted $9.9 million and $5.3 million, respectively, of cash as collateral. The details of its interest rate swap agreements are outlined in the table below:

					December 31, 2014	2013
Notional Amount	Trade Date	Maturity Date	Variable Index Received	Fixed Rate Paid	Fair Value[1]	Fair Value[1]
$10,000	3/18/2009	6/30/2021	3-Month USD LIBOR	5.09%	$(1,092)	(807)
10,000	7/8/2009	6/30/2029	3-Month USD LIBOR	5.84%	(2,511)	(1,121)
10,000	5/6/2010	6/30/2030	3-Month USD LIBOR	5.71%	(2,434)	(944)
5,000	3/14/2011	3/30/2031	3-Month USD LIBOR	4.35%	(1,279)	(493)
8,000	5/4/2011	7/7/2031	3-Month USD LIBOR	4.14%	(1,827)	(547)
$43,000					$(9,143)	$(3,912)

(1) Presented within accrued interest and other liabilities on the consolidated statements of condition.

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Each instrument qualifies as a highly effective cash flow hedge and, thus, the change in fair value for the years ended December 31 2014, 2013, and 2012 of ($3.4 million), $4.7 million, and $59,000, was recorded in OCI, net of tax. Net payments to the counterparty for the years ended December 31, 2014 and 2013 were $1.7 million and $1.6 million, respectively, and have been classified as cash flows from operating activities in the consolidated statements of cash flows. The Company would reclassify unrealized gains or losses accounted for within AOCI into earnings if the interest rate swaps were to become ineffective or the arrangements were to terminate. In the next 12 months, the Company does not believe it will reclassify any related unrealized gains or losses accounted for within AOCI into earnings.

Customer Loan Swaps

The Company will enter into interest rate swaps with its commercial customers, from time to time, to provide them with a means to lock into a long-term fixed rate, while simultaneously the Company enters into an arrangement with a counterparty to swap the fixed rate to a variable rate to allow it to effectively manage its interest rate exposure. At December 31, 2014 and 2013, the Company had interest rate swap agreements with a total notional amount of $29.1 million and $7.9 million, respectively, with its commercial customers, and interest rate swap agreements of equal notional amounts with a dealer bank. The Company's customer loan level derivative program is not designated as a hedge for accounting purposes. As the interest rate swap agreements have substantially equivalent and offsetting terms, they do not materially change the Company’s interest rate risk or present any material exposure to the Company's consolidated statements of income. The Company records its customer loan swaps at fair value and presents such on a gross basis within other assets and accrued interest and other liabilities on the consolidated statements of condition. The fair value of customer loan swaps at December 31, 2014 and 2013 were $1.1 million and $114,000, respectively.

Forward Commitments to Sell Residential Mortgage Loans

From time to time, the Company enters into forward commitments to sell residential mortgages in order to reduce the market risk associated with originating loans for sale in the secondary market. At December 31, 2014 and 2013, there were no commitments to sell residential mortgages.

Interest Rate Locks and Mortgage Loan Commitments

As part of originating residential mortgage and commercial loans, the Company may enter into rate lock agreements with customers, and may issue commitment letters to customers, which are considered interest rate lock or forward commitments. At December 31, 2014 and 2013, based upon the pipeline of mortgage loans with rate lock commitments and commercial loans with commitment letters, and the change in fair value of those commitments due to changes in market interest rates, the Company determined the impact on the consolidated financial statements was not material.

18. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using quoted market prices. However, in many instances, quoted market prices are not available. In such instances, fair values are determined using various valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

GAAP permits an entity to choose to measure certain eligible financial instruments and other items at fair value. The Company elected the fair value option for its loans held for sale. Electing the fair value option for loans held for sale enables the Company's financial position to more clearly align with the economic value of the actively traded asset. The Company did not have any loans held for sale at December 31, 2014 or 2013.

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The fair value hierarchy for valuation of an asset or liability is as follows:

Level 1:	Valuation is based upon unadjusted quoted prices in active markets for identical assets and liabilities that the entity has the ability to access as of the measurement date.
Level 2:	Valuation is determined from quoted prices for similar assets or liabilities in active markets, from quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.
Level 3:	Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon model-based techniques incorporating various assumptions including interest rates, prepayment speeds and credit losses. Assets and liabilities valued using model-based techniques are classified as either Level 2 or Level 3, depending on the lowest level classification of an input that is considered significant to the overall valuation. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Instruments Recorded at Fair Value on a Recurring Basis

AFS Securities: The fair value of debt AFS securities is reported utilizing prices provided by an independent pricing service based on recent trading activity and other observable information including, but not limited to, dealer quotes, market spreads, cash flows, market interest rate curves, market consensus prepayment speeds, credit information, and the bond's terms and conditions. The fair value of debt securities are classified as Level 2.

Trading Account Assets: Trading account assets are invested in mutual funds and classified as Level 1 based upon quoted prices.

Derivatives: The fair value of interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The credit value adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. As of December 31, 2014 and 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives due to collateral postings.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Company Determined Fair Value (Level 3)
December 31, 2014:				
Financial assets:				
AFS securities:				
Obligations of U.S. government-sponsored enterprises	$5,027	$—	$5,027	$—
Obligations of states and political subdivisions	26,777	—	26,777	—
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	381,308	—	381,308	—
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	343,897	—	343,897	—
Private issue collateralized mortgage obligations	6,054	—	6,054	—
Trading account assets	2,457	2,457	—	—
Customer loan swaps	1,140	—	1,140	—
Financial liabilities:				
Interest rate swap agreements	9,143	—	9,143	—
Customer loan swaps	1,140	—	1,140	—
December 31, 2013:				
Financial assets:				
AFS securities:				
Obligations of states and political subdivisions	$31,207	$—	$31,207	$—
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	395,903	—	395,903	—
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	374,435	—	374,435	—
Private issue collateralized mortgage obligations	6,932	—	6,932	—
Trading account assets	2,488	2,488	—	—
Customer loan swaps	114	—	114	—
Financial liabilities:				
Interest rate swap agreements	3,912	—	3,912	—
Customer loan swaps	114	—	114	—

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during 2014. The Company’s policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

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Financial Instruments Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or fair value that were recognized at fair value below cost at the end of the period.

Collateral-Dependent Impaired Loans: Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The Company's policy is to individually evaluate for impairment loans with a principal balance greater than $250,000 or more and are classified as substandard or doubtful and are on non-accrual status. Once the population of loans is identified for individual impairment assessment, the Company measures these loans for impairment by comparing NRV, which is the fair value of the collateral, less estimated costs to sell, to the carrying value of the loan. If NRV of the loan is less than the carrying value of the loan, then a loss is recognized as part of the ALL to adjust the loan's net carrying value to NRV. Accordingly, certain impaired loans may be subject to measurement at fair value on a non-recurring basis. Management has estimated the fair values of these assets using Level 2 inputs, such as the fair value of collateral based on independent third-party market approach appraisals for collateral-dependent loans, and Level 3 inputs where circumstances warrant an adjustment to the appraised value based on the age of the appraisal and/or comparable sales, condition of the collateral, and market conditions.

MSRs: The Company accounts for mortgage servicing assets at cost, subject to impairment testing. When the carrying value exceeds fair value, a valuation allowance is established to reduce the carrying cost to fair value. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The Company obtains a third-party valuation based upon loan level data including note rate, type and term of the underlying loans. The model utilizes a variety of observable inputs for its assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Other assumptions include delinquency rates, servicing cost inflation and annual unit loan cost. MSRs are classified within Level 2 of the fair value hierarchy.

Non-Financial Assets and Non-Financial Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Non-financial assets measured at fair value on a non-recurring basis consist of OREO and goodwill.

OREO: OREO properties acquired through foreclosure or deed in lieu of foreclosure are recorded at NRV, which is the fair value of the real estate, less estimated costs to sell. Any write-down of the recorded investment in the related loan is charged to the allowance for loan losses upon transfer to OREO. Upon acquisition of a property, a current appraisal or a broker’s opinion is used to substantiate fair value for the property. After foreclosure, management periodically obtains updated valuations of the OREO assets and, if additional impairments are deemed necessary, the subsequent write-downs for declines in value are recorded through a valuation allowance and a provision for losses charged to other non-interest expense on the consolidated statements of income. Certain assets require assumptions that are not observable in an active market in determination of fair value and are classified as Level 3.

Goodwill: Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The fair value of goodwill is estimated by utilizing several standard valuation techniques, including discounted cash flow analyses, bank merger multiples, and an estimation of the impact of business conditions and investor activities on the long-term value of the goodwill.

In 2014, the annual goodwill impairment evaluation did not identify any impairment. In 2013, the Company recorded goodwill impairment of $2.8 million to write-down its financial services reporting unit to fair value of $3.9 million.

Refer to Note 5 of the consolidated financial statements for discussion of goodwill impairment analysis and related significant inputs used, including Level 3 inputs. Additionally, the banking reporting unit was not deemed impaired.

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The table below highlights financial and non-financial assets measured and recorded at fair value on a non-recurring basis as of December 31, 2014 and 2013. Not included in the table below because they are not recorded at fair value at December 31, 2014 and 2013 are: (i) impaired loans of $17.6 million and $19.4 million, respectively; (ii) MSR's reported of $319,000 and $322,000, respectively; and (iii) OREO properties of $305,000 and $612,000, respectively.

	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Company Determined Fair Value (Level 3)
December 31, 2014:				
Financial assets:				
Collateral-dependent impaired loans	$3,581	$—	$—	$3,581
MSRs[1]	173	—	173	—
Non-financial assets:				
OREO	1,282	—	—	1,282
December 31, 2013:				
Financial assets:				
Collateral-dependent impaired loans	$8,557	$—	$—	$8,557
MSRs[1]	404	—	404	—
Non-financial assets:				
OREO	1,583	—	—	1,583

(1) Represents MSRs deemed to be impaired and a valuation allowance was established to carry at fair value at December 31, 2014 and 2013.

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2014 and 2013:

	Fair Value	Valuation Methodology	Unobservable input	Discount Range (Weighted-Average)	
December 31, 2014:					
Collateral-dependent impaired loans:					
Partially charged-off	$1,569	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 17%	(0%)
			Estimated selling costs	10%	(10%)
Specifically reserved	2,012	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 50%	(22%)
			Estimated selling costs	10%	(10%)
OREO	1,282	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 68%	(21%)
			Estimated selling costs	6 - 10%	(9%)
December 31, 2013:					
Collateral-dependent impaired loans:					
Partially charged-off	$1,874	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 85%	(14%)
Specifically reserved	6,683	Market approach appraisal of collateral	Management adjustment of appraisal	7 - 90%	(22%)
OREO	1,583	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 41%	(16%)
			Estimated selling costs	6 - 10%	(10%)

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At December 31, 2014, the Company amended its calculation of fair value for its collateral-dependent impaired loans for which a specific reserve is allocated. Historically, the specific reserve for collateral-dependent impaired loans was determined by any loan-to-value ratio in excess of 80% for consumer loans and any loan-to-value ratio in excess of 75% for commercial loans after applying any adjustments necessary to appraisals received to reflect changes in known factors, including, but not limited to, property condition and property location. For the December 31, 2014 valuation of fair value for the collateral-dependent impaired loans for which a specific reserve is allocated in accordance with Company policy, management calculated the reserve without consideration of loan-to-value ratios. Management calculated the estimated fair value of these impaired loans by reducing the appraised value of the collateral, adjusted for known factors, including, but not limited to, property condition, property location, by the estimated direct selling costs of the collateral. The amendment did not have a material impact on the ALL.

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The following methods and assumptions were used by the Company in estimating the fair values of its other financial instruments.

Cash and Due from Banks: The carrying amounts reported in the consolidated statements of condition approximate fair value.

HTM securities: The fair value is estimated utilizing prices provided by an independent pricing service based on recent trading activity and other observable information including, but not limited to, dealer quotes, market spreads, cash flows, market interest rate curves, market consensus prepayment speeds, credit information, and the bond’s terms and conditions. The fair value is classified as Level 2.

FHLB and FRB Stock and Investments in CCTA and UBCT: The carrying amounts reported in the consolidated statements of condition approximate fair value.

Loans: For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Interest Receivable and Payable: The carrying amounts reported in the consolidated statements of condition approximate fair value.

Deposits: The fair value of deposits with no stated maturity is equal to the carrying amount. The fair value of CDs is estimated using a discounted cash flow calculation that applies interest rates and remaining maturities for currently offered CDs.

Borrowings: The carrying amounts of short-term borrowings from the FHLB, securities sold under repurchase agreements, and other short-term borrowings approximate fair value. The fair values of long-term borrowings and commercial repurchase agreements are based on the discounted cash flows using current rates for advances of similar remaining maturities.

Junior Subordinated Debentures: The carrying amounts reported in the consolidated statements of condition approximate fair value.

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The following table presents the carrying amounts and estimated fair value for financial instrument assets and liabilities at December 31, 2014:

	Carrying Amount	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Prices (Level 2)	Company Determined Market Prices (Level 3)
Financial assets:					
Cash and due from banks	$60,813	$60,813	$60,813	$—	$—
AFS securities	763,063	763,063	—	763,063	—
HTM securities	20,179	20,425	—	20,425	—
FHLB and FRB stock	20,391	20,391	20,391	—	—
Trading account assets	2,457	2,457	2,457	—	—
Residential real estate loans	579,946	596,172	—	—	596,172
Commercial real estate loans	635,609	631,434	—	—	631,434
Commercial loans	249,823	244,713	—	—	244,713
Home equity loans	269,176	270,904	—	—	270,904
Consumer loans	16,940	17,007	—	—	17,007
MSRs(1)	493	1,447	—	1,447	—
Interest receivable	6,017	6,017	—	6,017	—
Investment in CCTA and UBCT	1,331	1,331	—	—	1,331
Customer interest rate swap agreement	1,140	1,140	—	1,140	—
Financial liabilities:					
Deposits	$1,932,097	$1,933,805	$1,361,604	$572,201	$—
FHLB advances	56,039	57,986	—	57,986	—
Commercial repurchase agreements	30,097	31,395	—	31,395	—
Other borrowed funds	446,842	446,909	446,909	—	—
Junior subordinated debentures	44,024	44,024	—	44,024	—
Interest payable	537	537	537	—	—
Interest rate swap agreements	9,143	9,143	—	9,143	—
Customer interest rate swap agreement	1,140	1,140	—	1,140	—

(1) Reported fair value represents all MSRs currently being serviced by the Company at December 31, 2014, regardless of carrying amount.

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The following table presents the carrying amounts and estimated fair value for financial instrument assets and liabilities at December 31, 2013:

	Carrying Amount	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Prices (Level 2)	Company Determined Market Prices (Level 3)
Financial assets:					
Cash and due from banks	$51,355	$51,355	$51,355	$—	$—
AFS securities	808,477	808,477	—	808,477	—
FHLB and FRB stock	19,724	19,724	19,724	—	—
Trading account assets	2,488	2,488	2,488	—	—
Residential real estate loans	563,425	577,153	—	—	577,153
Commercial real estate loans	536,107	535,961	—	—	535,961
Commercial loans	172,105	171,432	—	—	171,432
Home equity loans	269,888	271,041	—	—	271,041
Consumer loans	17,287	17,662	—	—	17,662
MSRs(1)	726	1,494	—	1,494	—
Interest receivable	5,808	5,808	—	5,808	—
Investment in CCTA and UBCT	1,331	1,331	—	—	1,331
Customer interest rate swap agreement	114	114	—	114	—
Financial liabilities:					
Deposits	$1,813,824	$1,817,199	$1,324,221	$492,978	$—
FHLB advances	56,112	59,118	—	59,118	—
Commercial repurchase agreements	30,142	32,038	—	32,038	—
Other borrowed funds	399,916	400,144	400,144	—	—
Junior subordinated debentures	43,922	43,922	—	43,922	—
Interest payable	567	567	567	—	—
Interest rate swap agreements	3,912	3,912	—	3,912	—
Customer interest rate swap agreement	114	114	—	114	—

(1) Reported fair value represents all MSRs currently being serviced by the Company at December 31, 2013, regardless of carrying amount.

19. Regulatory Capital Requirements

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by the FRB and the OCC. Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. These capital requirements represent quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I capital (as defined in the applicable regulations) to risk-weighted assets (as defined in the applicable regulations) and of Tier I capital to average assets (as defined in the applicable regulations). In addition, the OCC requires a minimum level of $2.5 million of Tier I capital to be maintained at Acadia Trust. Management believes that, as of December 31, 2014, the Company and its subsidiaries meet all capital requirements to which they are subject.

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As of December 31, 2014, the Company and the Bank were categorized by its supervisory regulatory agencies as "well capitalized". To be categorized as "well capitalized", the Company and Bank were required to maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Company or Bank's respective capital categories.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual Regulatory Capital			Minimum Regulatory Capital Required			Minimum Regulatory Provision To Be "Well Capitalized"		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
December 31, 2014:									
Total risk-based capital	$244,351	13.85	%	$141,120	8.00	%	$176,400	10.00	%
Tier I capital	223,218	12.65	%	70,560	4.00	%	105,840	6.00	%
Tier I leverage capital ratio	223,218	8.38	%	108,288	4.00	%	135,360	5.00	%
December 31, 2013:									
Total risk-based capital	$228,375	14.80	%	$123,421	8.00	%	$154,276	10.00	%
Tier I capital	209,062	13.55	%	61,710	4.00	%	92,566	6.00	%
Tier I leverage capital ratio	209,062	8.39	%	101,439	4.00	%	126,798	5.00	%

The Company's actual capital amounts and ratios are presented in the following table:

	Actual Regulatory Capital			Minimum Regulatory Capital Required			Minimum Regulatory Provision To Be "Well Capitalized"		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
December 31, 2014:									
Total risk-based capital	$269,497	15.16	%	$142,227	8.00	%	$177,783	10.00	%
Tier I capital	248,363	13.97	%	71,113	4.00	%	106,670	6.00	%
Tier I leverage capital ratio	248,363	9.26	%	109,201	4.00	%	136,501	5.00	%
December 31, 2013:									
Total risk-based capital	$256,648	16.45	%	$124,787	8.00	%	$155,983	10.00	%
Tier I capital	237,124	15.20	%	62,393	4.00	%	93,590	6.00	%
Tier I leverage capital ratio	237,124	9.43	%	102,551	4.00	%	128,188	5.00	%

In early July 2013, the FRB and FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier I capital ratio, increase the minimum Tier I capital ratio requirement, and implement a new capital conservation buffer. The rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for AOCI. The final rules took effect for community banks on January 1, 2015, subject to a transition period for certain parts of the rules. Management believes the Company and Bank will remain "well capitalized" under the new rules. See Item 1. "Business—Supervision and Regulation—Regulatory Capital Requirements."

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20. Parent Company Financial Statements

On January 1, 2014, the Company's parent company sold certain assets and liabilities, including premises, equipment, prepaid expenses and short-term liabilities, to the Bank in an arms-length transaction. Also, effective January 1, 2014, all employees of the parent company became Bank employees.

Following are the condensed statements of condition, income and cash flows for the Company's parent company:

STATEMENTS OF CONDITION

	December 31,	
	2014	2013
ASSETS		
Cash	$23,259	$21,788
Trading assets	2,457	2,488
Premises and equipment	—	4,797
Investment in subsidiaries:		
Bank subsidiary	266,940	246,213
Other subsidiary	9,450	8,733
Amounts receivable from subsidiaries	25	2,062
Investments in CCTA and UBCT	1,331	1,331
Other assets	8,812	7,278
Total assets	$312,274	$294,690
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Amounts due to subsidiaries	$—	$5
Junior subordinated debentures	44,024	43,922
Other liabilities	23,141	19,667
Shareholders’ equity	245,109	231,096
Total liabilities and shareholders’ equity	$312,274	$294,690

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STATEMENTS OF INCOME

	For The Years Ended December 31,		
	2014	2013	2012
Operating Income			
Dividend income from subsidiaries	$12,800	$13,500	$13,400
Fees from subsidiaries	—	20,930	20,070
Other income	104	270	170
Total operating income	12,904	34,700	33,640
Operating Expenses			
Interest on borrowings	2,532	2,532	2,546
Fees to Bank	160	—	—
Salaries and employee benefits	—	13,354	13,007
Furniture, equipment and data processing	—	4,570	3,971
Depreciation and amortization	—	1,197	1,196
Stock-based compensation expense	—	596	538
Net occupancy	—	523	492
Other operating expenses	453	1,454	1,056
Total operating expenses	3,145	24,226	22,806
Income before equity in undistributed earnings of subsidiaries and income taxes	9,759	10,474	10,834
Equity in undistributed earnings of subsidiaries	13,799	11,233	11,647
Income before income taxes	23,558	21,707	22,481
Income tax benefit	1,012	1,076	947
Net Income	$24,570	$22,783	$23,428

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STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,		
	2014	2013	2012
Operating Activities			
Net income	$24,570	$22,783	$23,428
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(13,799)	(11,233)	(11,647)
Depreciation and amortization	—	1,197	1,196
Stock-based compensation expense	—	596	538
Decrease (increase) in amount receivable from subsidiaries	2,037	498	(983)
Decrease (increase) in other assets	165	(845)	(1,334)
(Decrease) increase in accrued expenses	(2,106)	459	636
Net cash provided by operating activities	10,867	13,455	11,834
Investing Activities			
Proceeds from sale of assets	5,237	—	—
Purchase of premises and equipment	—	(896)	(1,009)
Net cash provided by (used by) investing activities	5,237	(896)	(1,009)
Financing Activities			
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	328	300	(212)
Capital contribution from subsidiaries	599	—	—
Common stock repurchase	(7,475)	(2,460)	(2,097)
Cash dividends paid on common stock	(8,085)	(8,121)	(7,667)
Net cash used by financing activities	(14,633)	(10,281)	(9,976)
Net increase in cash	1,471	2,278	849
Cash at beginning of year	21,788	19,510	18,661
Cash at end of year	$23,259	$21,788	$19,510
Supplemental information			
Common stock repurchased not yet settled	$—	$320	$—

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21. Quarterly Results of Operations (Unaudited)

The following table presents a summary of the quarterly results of operations for the years ended December 31:

	2014					2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Interest income	$21,393	$22,289	$22,422	$22,317	$88,421	$22,426	$22,481	$21,891	$21,419	$88,217
Interest expense	2,983	3,041	3,048	3,056	12,128	3,258	3,231	3,184	3,069	12,742
Net interest income	18,410	19,248	19,374	19,261	76,293	19,168	19,250	18,707	18,350	75,475
Provision for (release of) credit losses	493	643	539	545	2,220	674	695	665	(6)	2,028
Non-interest income	5,685	6,504	5,949	6,196	24,334	6,336	6,376	6,475	8,614	27,801
Non-interest expense	15,125	15,792	15,179	16,301	62,397	16,500	15,648	15,199	18,986	66,333
Income before income taxes	8,477	9,317	9,605	8,611	36,010	8,330	9,283	9,318	7,984	34,915
Income tax expense	2,762	3,001	3,154	2,523	11,440	2,668	2,952	2,952	3,560	12,132
Net income	$5,715	$6,316	$6,451	$6,088	$24,570	$5,662	$6,331	$6,366	$4,424	$22,783
Per common share:										
Basic	$0.76	$0.85	$0.87	$0.82	$3.29	$0.74	$0.83	$0.83	$0.58	$2.98
Diluted	$0.75	$0.85	$0.86	$0.82	$3.28	$0.74	$0.82	$0.83	$0.58	$2.97

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
Camden National Corporation

We have audited the accompanying consolidated statements of condition of Camden National Corporation and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. We have also audited Camden National Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Camden National Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Camden National Corporation and Subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of

America. Also, in our opinion, Camden National Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in COSO.

/s/ Berry Dunn McNeil & Parker, LLC

Berry Dunn McNeil & Parker, LLC
Portland, Maine
March 10, 2015

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During the past two fiscal years, the Company has not made changes in, and has not had disagreements with, its independent accountant on accounting and financial disclosures.

Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management conducted an evaluation with the participation of the Company's Chief Executive Officer and Chief Operating Officer and Chief Financial Officer & Principal Financial and Accounting Officer, regarding the effectiveness of the Company's disclosure controls and procedures, as of the end of the last fiscal year. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Operating Officer and Chief Financial Officer & Principal Financial and Accounting Officer concluded that they believe the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and we may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that our systems evolve with our business.

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of the Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Form 10-K. Management is also responsible for establishing and maintaining adequate internal control over financial reporting and for identifying the framework used to evaluate its effectiveness. Management has designed processes, internal controls and a business culture that foster financial integrity and accurate reporting. The Company's comprehensive system of internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements of the Company in accordance with accounting principles generally accepted in the United States of America. The Company's accounting policies and internal control over financial reporting, established and maintained by management, is under the general oversight of the Company's board of directors, including the board of directors' Audit Committee.

Management has made a comprehensive review, evaluation, and assessment of the Company's internal control over financial reporting as of December 31, 2014. The standard measures adopted by management in making its evaluation are the measures in Internal Control — Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon its review and evaluation, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting was effective and that there were no material weaknesses. However, Management recognizes a control system, no matter how well designed and operated, has inherent limitations and can provide only reasonable, not absolute, assurance that the control system's objectives will be met and may not prevent or detect all error and fraud. Therefore, even a system determined to be effective can

provide only reasonable assurance with respect to financial statement preparation and presentation.

Berry Dunn McNeil & Parker, LLC, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Form 10-K, has issued its written attestation report on management's assessment of the Company's internal control over financial reporting which precedes this report.

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Item 9B. Other Information

The Company entered into Amended and Restated Change of Control Agreements (the “Amended and Restated Agreements”), effective March 9, 2015, with each of the following executive officers of the Company:

- Gregory A. Dufour, President and Chief Executive Officer
- Joanne T. Campbell, Executive Vice President, Risk Management
- Peter F. Greene, Executive Vice President, Operations and Technology
- Deborah A. Jordan, CPA, Executive Vice President, Chief Operating Officer and Chief Financial Officer
- Timothy P. Nightingale, Executive Vice President, Senior Loan Officer
- June B. Parent, Executive Vice President, Retail Banking

The Amended and Restated Agreements prescribe certain severance benefits to be provided to the executives in the event of their termination following a Change of Control (as defined in the applicable Amended and Restated Agreement). The Amended and Restated Agreements provide that if an executive’s employment with the Company is terminated by the Company without “Cause” or by the executive for “Good Reason” (as these terms are defined in the applicable Amended and Restated Agreement) three months leading up to or within two years after a change of control of the Company, the executive will generally be entitled to receive the following severance benefits:

- Continuation of the executive’s annual base salary and an amount equal to the executive's preceding three years average bonus, as severance pay, over a 24 month period (36 months for Mr. Dufour).
- Continued medical group health plan coverage for the period the executive receives severance pay.

Payment of the foregoing severance benefits is conditioned upon the executive’s execution of a release of claims in favor of the Company, compliance with restrictive covenants regarding confidential information, and noncompetition and nonsolicitation agreement and business protection for a period of 12 months after executive’s termination (18 months for Mr. Dufour).

Each of the Agreements described above may be terminated by the Company effective December 31, 2015 if the Company takes action 90 days prior to that date. If no such action is taken, each Agreement will automatically extend the termination date to December 31 of each following year unless action is taken by the Company to terminate at least 90 days prior to such termination date.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on April 28, 2015.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on April 28, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities authorized for issuance under equity compensation plans are as follows:

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance (Excluding Securities in Column (a)) (c)
Equity compensation plans approved by shareholders	172,288	$19.98	805,579 (1)
Equity compensation plans not approved by shareholders	—	—	—
Total	172,288	$19.98	805,579

(1) Represents the 800,000 shares available under the 2012 Equity and Incentive Plan less awards granted plus shares added back due to the forfeiture, cancellation or reacquisition by the Company for the settlement of an award to cover the exercise price or tax withholding under the current and previous plans.

Refer to Notes 1 and 15 to the consolidated financial statements within Item 8. "Financial Statements and Supplementary Data" for further information related to the Company's equity compensation plans.

Other information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on April 28, 2015.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on April 28, 2015.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference from the material responsive to such item in the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on April 28, 2015.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Index to Financial Statements:

The consolidated financial statements of the Company and report of the Company's independent registered public accounting firm incorporated herein are included in Item 8 of this Report, as follows:

	Page
Consolidated Statements of Condition	55
Consolidated Statements of Income	56
Consolidated Statements of Comprehensive Income	57
Consolidated Statements of Changes in Shareholders' Equity	58
Consolidated Statements of Cash Flows	59
Notes to Consolidated Financial Statements	60
Report of Independent Registered Public Accounting Firm	108

2. Financial Statement Schedules:

Schedules have been omitted because they are not applicable or are not required under the instructions contained in Regulation S-X or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

3. Exhibits:

Exhibit No.	Definition
2.1	Purchase and Assumption Agreement, dated April 23, 2012, by and between Bank of America, National Association and Camden National Bank (incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed with the Commission on April 24, 2012).
3.1	Articles of Incorporation of Camden National Corporation, as amended (incorporated herein by reference to Exhibit 3.i.1 to the Company's Form 10-K filed with the Commission on March 2, 2011).
3.2	Amended and Restated Bylaws of Camden National Corporation (incorporated herein by reference to Exhibit 3.2 to the Company's Form 10-K filed with the Commission on March 12, 2014).
10.1+	Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Commission on August 8, 2008).
10.2+	Form of Incentive Stock Option Agreement under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K filed with the Commission on March 2, 2011).
10.3+	Form of Restricted Stock Award Agreement under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-K filed with the Commission on March 2, 2011).
10.4+	Camden National Corporation Management Stock Purchase Plan under the Camden National Corporation 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed with the Commission on May 1, 2008).
10.5+	Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on May 8, 2012).
10.6+*	Amendment to Camden National Corporation 2012 Equity and Incentive Plan, dated as of March 9, 2015.
10.7+	

	Form of Incentive Stock Option Agreement under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K filed with the Commission on February 28, 2013).
10.8+	Form of Restricted Stock Award Agreement under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Form 10-K filed with the Commission on February 28, 2013).

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Exhibit No.	Definition
10.9+	Camden National Corporation Management Stock Purchase Plan under the Camden National Corporation 2012 Equity and Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Form 10-K filed with the Commission on February 28, 2013).
10.10+*	Camden National Corporation Amended and Restated Defined Contribution Retirement Plan.
10.11+*	Camden National Corporation Confidentiality, Non-Competition and Non-Solicitation Agreement.
10.12+*	Amendment to Camden National Corporation Defined Contribution Retirement Plan, dated as of March 9, 2015.
10.13+	Supplemental Executive Retirement Program (incorporated herein by reference to Exhibit 99.1 to the Company’s Form 8-K filed with the Commission on February 4, 2008).
10.14+	Union Trust Company’s Amended and Restated Deferred Compensation Agreement (incorporated herein by reference to Exhibit 10.1 to the Company’s Form 10-Q filed with the Commission on May 12, 2008).
10.15+	Camden National Corporation Executive Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.9 to the Company’s Form 10-K filed with the Commission on March 17, 2008).
10.16+	Amendment to Executive Deferred Compensation Plan, dated as of February 26, 2013 (incorporated herein by reference to Exhibit 10.13 to the Company's Form 10-K filed with the Commission on February 28, 2013).
10.17+	Amendment and Restatement of Camden National Corporation Director Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Company’s Form 10-K filed with the Commission on March 9, 2007).
10.18+	2007 Amendment to the Camden National Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company’s Form 10-K filed with the Commission on March 17, 2008).
10.19	Camden National Corporation Audit Committee Complaint Procedures (incorporated herein by reference to Exhibit 10.12 to the Company’s Form 10-K filed with the Commission on March 2, 2011).
10.20+	2010 Executive Incentive Compensation Program (incorporated herein by reference to Exhibit 10.19 to the Company’s Form 10-K filed with the Commission on March 12, 2010).
10.21+*	Form of Change in Control Agreement for chief executive officer and other executive officers.
10.22+	Amended and Restated Employment Agreement, dated as of April 29, 2008, by and between Camden National Corporation and Robert W. Daigle (incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the Commission on May 1, 2008).
10.23+	Camden National Corporation 2011-2013 Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.17 to the Company’s Form 8-K filed with the Commission on March 30, 2011).
10.24+	Camden National Corporation 2012-2014 Long-Term Performance Plan (incorporated herein by reference to Exhibit 10.17 to the Company’s Form 8-K filed with the Commission on March 27, 2012).
10.25+	Camden National Corporation 2013-2015 Amended and Restated Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.23 to the Company's Form 8-K filed with the Commission on March 26, 2013).
10.26+	Camden National Corporation 2014-2016 Amended and Restated Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.24 to the Company's Form 8-K filed with the Commission on March 25, 2014).
11.1	Statement regarding computation of per share earnings (incorporated herein by reference to Note 13 to the Notes to Consolidated Financial Statements in this report.)
14	Camden National Corporation Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to the Company’s Form 10-K filed with the Commission on March 2, 2011).
21*	Subsidiaries of the Company.
23*	Consent of Berry Dunn McNeil & Parker, LLC.

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Exhibit No.	Definition
31.1*	Certification of President and Chief Executive Officer required by Section 302 of the Sarbanes- Oxley Act of 2002.
31.2*	Certification of Principal Financial and Accounting Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders’ Equity, (iv) the Consolidated Statements of Comprehensive Income (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.

* Filed herewith

** Furnished herewith

\+ Management contract or a compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 10, 2015	CAMDEN NATIONAL CORPORATION /s/ Gregory A. Dufour Gregory A. Dufour President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ Gregory A. Dufour Gregory A. Dufour	President, Director and Chief Executive Officer	March 10, 2015
/s/ Deborah A. Jordan	Chief Operating Officer and Chief Financial Officer and Principal Financial and Accounting Officer	March 10, 2015
Deborah A. Jordan		
/s/ Karen W. Stanley Karen W. Stanley	Chairman and Director	March 10, 2015
/s/ Ann W. Bresnahan Ann W. Bresnahan	Director	March 10, 2015
/s/ David C. Flanagan David C. Flanagan	Director	March 10, 2015
/s/ Craig S. Gunderson Craig S. Gunderson	Director	March 10, 2015
/s/ John W. Holmes John W. Holmes	Director	March 10, 2015
/s/ S. Catherine Longley S. Catherine Longley	Director	March 10, 2015
/s/ James H. Page James H. Page	Director	March 10, 2015
/s/ John M. Rohman John M. Rohman	Director	March 10, 2015
/s/ Robin A. Sawyer Robin A. Sawyer	Director	March 10, 2015
/s/ Lawrence J. Sterrs Lawrence J. Sterrs	Director	March 10, 2015