NORTHWAY FINANCIAL INC
Form 10-Q
August 12, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2002

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________________ to ______________________

Commission File Number 000-23129

NORTHWAY FINANCIAL, INC
(Exact name of registrant as specified in its charter)

New Hampshire	04-3368579
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9 Main Street Berlin, New Hampshire	03570
(Address of principal executive offices)	(Zip Code)

(603) 752-1171
(Registrant's telephone number, including area code)

No Change
(Former name, former address and former fiscal year, if changed since last year)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days. YES [X] NO [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date. At July 31, 2002, there were 1,516,574 shares of common stock outstanding, par value $1.00 per share.

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NORTHWAY FINANCIAL, INC.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		E
(Dollars in thousands, except per share data)	2002	2001	20
Interest and dividend income:			
Loans	$6,885	$8,002	$13,
Interest on debt securities:			
Taxable	712	462	1,

Tax-exempt	79	125	
Dividends	63	89	
Federal funds sold	13	94	
Interest bearing deposits	-	1	
Total interest and dividend income	7,752	8,773	15,
Interest expense:			
Deposits	1,569	3,005	3,
Borrowed funds	653	706	1,
Guaranteed preferred beneficial interest in junior subordinated debentures	96	-	
Total interest expense	2,318	3,711	4,
Net interest and dividend income	5,434	5,062	10,
Provision for loan losses	225	225	4
Net interest and dividend income after provision for loan losses	5,209	4,837	10,
Noninterest income:			
Service charges and fees on deposit accounts	367	311	
Securities gains, net	28	63	
Loan servicing income	74	123	
Other	283	288	
Total noninterest income	752	785	1,
Noninterest expense:			
Salaries and employee benefits	2,432	2,239	4,
Office occupancy and equipment	765	714	1,
Amortization of unidentifiable intangible assets	164	175	
Other	1,285	1,145	2,
Total noninterest expense	4,646	4,273	9,
Income before income tax expense	1,315	1,349	2,
Income tax expense	446	413	1,
Net income	$ 869	$ 936	$1,
Comprehensive net income	$ 908	$ 904	$1,
Per share data:			
Earnings per common share	$ 0.57	$ 0.62	$ 1
Cash dividends declared	$ 0.17	$ 0.17	$ 0
Weighted average number of common shares	1,515,797	1,520,525	1,513,

The accompanying notes are an integral part of these condensed consolidated financial state

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	June 30, 2002	Dec. 31, 2001
	(Unaudited)	
Assets		

Cash and due from banks and interest bearing deposits	$ 13,941	$ 22,741
Federal funds sold	8,825	6,900
Securities available-for-sale	64,809	60,276
Loans held-for-sale	1,399	2,026
Loans	400,077	400,316
Less: allowance for loan losses	4,870	4,642
Loans, net	395,207	395,674
Other real estate owned	25	22
Accrued interest receivable	2,413	2,237
Deferred income tax asset, net	1,891	1,861
Premises and equipment, net	11,997	11,485
Unidentifiable intangible assets	7,751	8,080
Other assets	3,300	2,637
Total assets	$511,558	$513,939
Liabilities and Stockholders' Equity		
Liabilities:		
Interest bearing deposits	$343,624	$349,994
Noninterest bearing deposits	61,236	62,846
Securities sold under agreements to repurchase	7,440	8,155
Long-term Federal Home Loan Bank advances	46,000	48,028
Other liabilities	1,684	1,577
Total liabilities	459,984	470,600
Guaranteed preferred beneficial interest in junior subordinated debentures	7,000	-
Stockholders' equity:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, $1 par value; 9,000,000 shares authorized; 1,731,969 issued at June 30, 2002 and December 31, 2001 and 1,516,074 outstanding at June 30, 2002 and 1,511,324 outstanding at December 31, 2001	1,732	1,732
Surplus	2,090	2,101
Retained earnings	47,393	45,955
Treasury stock, at cost (215,895 and 220,645 shares, respectively)	(5,726)	(5,864)
Accumulated other comprehensive loss, net of tax	(915)	(585)
Total stockholders' equity	44,574	43,339
Total liabilities and stockholders' equity	$ 511,558	$513,939

The accompanying notes are an integral part of these condensed consolidated financial statements.

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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(Dollars in thousands)	2
Cash flows from operating activities:	
Net income	$ 1
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	
Depreciation and amortization	
Deferred income tax expense	
Write-down of other real estate owned	
Gains on sales of securities available-for-sale, net	
Loss on disposal and write-down of premises and equipment	
Amortization of premiums and accretion of discounts on securities, net	
Increase in unearned income, net	
Gain on sales of other real estate owned and other personal property, net	
Net decrease (increase) in loans held-for-sale	
Net change in other assets and other liabilities	
Net cash provided by (used in) operating activities	3
Cash flows from investing activities:	
Proceeds from sales of securities available-for-sale	6
Proceeds from maturities of securities available-for-sale	9
Purchase of securities available-for-sale	(20
Loan originations and principal collections, net	
Recoveries of previously charged-off loans	
Proceeds from sales of and payments received on other real estate owned	
Proceeds from sales of and payments received on other personal property	
Additions to premises and equipment	(1
Net cash provided by (used in) investing activities	(6
Cash flows from financing activities:	
Net decrease in deposits	(7
Advances from FHLB	1
Repayment of FHLB advances	(3
Net decrease in short-term FHLB advances	
Net increase (decrease) in securities sold under agreements to repurchase	
Exercise of stock options	
Purchases of treasury stock	
Issuance of guaranteed preferred beneficial interest in junior subordinated debentures	7
Cash dividends paid	
Net cash provided by (used in) financing activities	(4
Net increase (decrease) in cash and cash equivalents	(6
Cash and cash equivalents at beginning of period	29
Cash and cash equivalents at end of period	$22
Supplemental disclosure of cash flows:	
Interest paid	$5
Taxes paid	$1
Loans transferred to other real estate owned	$
Loans transferred to other personal property	$

Carrying amount of held-to-maturity securities transferred to available-for-sale	$

The accompanying notes are an integral part of these condensed consolidated financial statements.

NORTHWAY FINANCIAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002
(Unaudited)

1. Basis of Presentation.

The unaudited condensed consolidated financial statements of Northway Financial, Inc. and its three wholly-owned subsidiaries, The Berlin City Bank, The Pemigewasset National Bank of Plymouth and the Northway Capital Trust I (an issuer of trust preferred securities) (collectively, "the Company") included herein have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted in accordance with such rules and regulations. The Company, however, believes that the disclosures are adequate to make the information presented not misleading. The amounts shown reflect, in the opinion of management, all adjustments necessary for a fair presentation of the financial statements for the periods reported.

The results of operations for the three and six month periods ended June 30, 2002 and 2001 are not necessarily indicative of the results of operations to be expected for the full year or any other interim periods. The interim financial statements are meant to be read in conjunction with the Company's audited financial statements presented in its Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheet and revenues and expenses for the reported periods. Actual results could differ from these estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

2. Impact of New Accounting Standards.

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts, and requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure them at fair value. If certain conditions are met, an entity may elect to designate a derivative as follows: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (2) a hedge of the exposure to variable cash flows of a forecasted transaction, or (3) a hedge of the foreign currency exposure of an unrecognized firm commitment, an available-for-sale security, a foreign currency denominated forecasted transaction, or a net investment in a foreign operation. SFAS No. 133 generally provides for matching the timing of the recognition of the gain or loss on derivatives designated as hedging instruments with the recognition of the changes in the fair value of the item being hedged. Depending on the type of hedge, such recognition will be either net income or other comprehensive income. For a derivative not designated as a hedging instrument, changes in fair value will be recognized in net income in the period of change. SFAS No. 133 allows for a one-time change in the classification of securities in the investment portfolio. Therefore, in conjunction with the adoption of SFAS No. 133, the Company transferred all securities held-to-maturity to the available-for-sale category at their market value of $2,731,000 as of January 1, 2001. In connection with the transfer, the Company recorded in comprehensive income an unrealized holding loss of approximately $13,000, net of tax effect. Under SFAS No. 133, this transfer will not call into question the Company's intent to hold other debt securities to maturity in the future. The adoption of SFAS No. 133 did not have any material impact on the Company's consolidated financial statements.

SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, replaces SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and rescinds SFAS No. 127, Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125. SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 140 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001; however, the disclosure provisions are effective for fiscal years ending after December 15, 2000. The adoption of SFAS No. 140 has had no material impact on the Company's consolidated financial statements.

SFAS No. 141, Business Combinations, improves the consistency of the accounting and reporting of business combinations by requiring that all business combinations be accounted for under a single method - the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS No. 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. The adoption of this SFAS No. 141 has had no material impact on the Company's consolidated financial statements.

SFAS No. 142, Goodwill and Other Intangible Assets, requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceases upon adoption of the statement, which for most companies, was January 1, 2002. The adoption of SFAS No. 142 has had no material impact on the Company's consolidated financial statements.

3. Preferred Beneficial Interest in Junior Subordinated Debentures.

On April 10, 2002, the Company completed the private placement of $7,000,000 aggregate liquidation amount of floating rate trust preferred securities (the "Capital Securities") issued by its Delaware statutory business trust, Northway Capital Trust I (the "Trust"). The Capital Securities were sold to a pooled investment vehicle sponsored by Sandler O'Neill & Partners, L.P. The proceeds from the sale of the Capital Securities, together with the proceeds from the sale by the Trust of its common securities to the Company, were invested in Floating Rate Junior Subordinated Debt Securities of the Company due 2032 ("the Junior Subordinated Debt"), which were issued pursuant to an Indenture, dated April 10, 2002, between the Company and Wilmington Trust Company, as Trustee. Both the Capital Securities and the Junior Subordinated Debt have a floating rate, which resets semi-annually, equal to 6-month LIBOR plus 3.70%, with a ceiling of 11.00% for the first five years. Currently, the interest rate on these securities is 6.0154%. Payments of distributions and other amounts due on the Capital Securities are irrevocably guaranteed by the

Company, to the extent that the Trust has funds available for the payments of such distributions, pursuant to a Guarantee Agreement, dated April 10, 2002, between the Company and Wilmington Trust Company, as Guarantee Trustee. The Junior Subordinated Debt and the Capital Securities may be redeemed at the option of the Company on fixed semi-annual dates beginning on April 22, 2007.

4. Branch Acquisition

On May 22, 2002, the Pemigewasset National Bank of Plymouth ("PNB") signed a purchase and sale agreement with Fleet National Bank ("Fleet") which will result in the acquisition of the Fleet branches located in Laconia, Belmont and Pittsfield, New Hampshire. Deposit levels at these branches totaled approximately $73.7 million as of March 31, 2002, for which the Company will pay a deposit purchase premium of 11.25%. In addition, PNB will purchase certain loans associated with the branches totaling approximately $16.9 million. The purchase is expected to close on October 18, 2002.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis and the related condensed consolidated financial statements relate to Northway Financial, Inc. and its three wholly-owned subsidiaries, The Berlin City Bank, The Pemigewasset National Bank of Plymouth and Northway Capital Trust I (collectively, the "Company").

Forward-Looking Statements

Certain statements in this Form 10-Q are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, but are not limited to, projections of revenue, income or loss, plans for future operations and acquisitions, and plans related to products or services of the Company. Such forward-looking statements are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the Company. To the extent any such risks, uncertainties and contingencies are realized, the Company's actual results, performance or achievements could differ materially from anticipated results, performance or achievements. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions, economic and business conditions in the Company's market areas, interest rate fluctuations, the demand for the Company's products and services, competitive factors in the industries in which the Company competes, changes in government regulations, and the timing, impact and other uncertainties of future acquisitions.

In addition to the factors described above, the following are some additional factors that could cause our financial performance to differ from any forward-looking statement contained herein; a) the current economic downturn nation-wide and regionally, as well as a deterioration of local business conditions, including termination of operations of a major employer in the primary market area of the Berlin City Bank last August and limited resumption of operations in June 2002, b) a change in product mix attributable to changing interest rates, customer preferences or competition; c) a significant portion of the Company's loan customers are in the hospitality business and therefore could be affected by weather conditions and/or high gasoline prices; and d) the effectiveness of advertising, marketing and promotional programs.

The words "believe," "expect," "anticipate," "intend," "estimate," "project," or the negative of such terms and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known or unknown risks, uncertainties or other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Although the Company has attempted to list comprehensively the factors which might affect forward-looking statements, the Company wishes to caution investors that other factors may in the future prove to be important in affecting the Company's results of operations. New factors emerge from time to time and it is not possible for management to anticipate all of such factors, nor can it assess the impact of each such factor, or combination of factors, which may cause actual results to differ materially from forward-looking statements.

Financial Condition

The Company's total assets at June 30, 2002 were $511,558,000 compared to $513,939,000 at December 31, 2001, a decrease of $2,381,000. Cash and cash equivalents decreased $6,875,000 to $22,766,000 at December 31, 2001 as a result of decreases in vault cash, cash in transit, and Federal Reserve balances. Net loans, including loans held-for-sale, decreased $1,094,000 to $396,606,000. This decrease was partially offset by an increase in securities available-for-sale of $4,533,000 to $64,809,000 due primarily to corporate and municipal security purchases. Deposits decreased $7,980,000 primarily due to lower time deposit balances which was partially offset by an increase in both savings and money market deposit balances. Guaranteed preferred beneficial interest in junior subordinated debentures increased $7,000,000 compared to none at December 31, 2001. Total stockholders' equity increased $1,235,000 from $43,339,000 at December 31, 2001 to $44,574,000 at June 30, 2002 due primarily to an increase in net income of $1,952,000 which was partially offset by dividends paid of $514,000 and an increase in accumulated other comprehensive loss of $330,000.

The Company maintains an allowance for loan losses to absorb future charge-offs of loans in the existing portfolio. The allowance is increased when a loan loss provision is recorded as an expense. When a loan, or portion thereof, is considered uncollectible, it is charged against this allowance. Recoveries of amounts previously charged-off are added to the allowance when collected. At June 30, 2002 the allowance for loan losses was $4,870,000, or 1.21% of total loans, compared to $4,642,000, or 1.16% of total loans at December 31, 2001. The allowance for loan losses is based on an evaluation by each bank's management and Board of Directors of current and anticipated economic conditions, changes in the diversification, size and risk within the loan portfolio, and other factors. An analysis of the allowance for loan losses for the three and six month periods ended June 30, 2002 and 2001 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2002	2001	2002	2001
Balance at beginning of period	$4,712	$4,460	$4,642	$4,354
Charge-offs	(112)	(218)	(326)	(379)
Recoveries	45	19	104	61
Net charge-offs	(67)	(199)	(222)	(318)
Provision for loan losses	225	225	450	450
Balance at end of period	$4,870	$4,486	$4,870	$4,486

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Nonperforming loans totaled $1,236,000 as of June 30, 2002, compared to $1,392,000 at December 31, 2001. The ratio of nonperforming loans to total loans was 0.31% as of June 30, 2002 compared to 0.35% at December 31, 2001. Nonperforming assets, which include nonperforming loans, other real estate owned and other chattels owned, totaled $1,364,000 as of June 30, 2002, compared to $1,519,000 at December 31, 2001. The ratio of nonperforming assets to total assets was 0.27% as of June 30, 2002 compared to 0.30% at December 31, 2001.

Results of Operations

The Company reported net income of $869,000, or $0.57 per common share, for the three months ended June 30, 2002, compared to $936,000, or $0.62 per common share, for the three months ended June 30, 2001. The decrease in net income for the quarter is primarily attributable to higher health insurance and pension costs and by increases in salaries and occupancy expenses, some of which are associated with the October 2001 Littleton branch acquisition. This was partially offset by a 7.3% increase in net interest income. Net income for the six months ended June 30, 2002 was $1,952,000, or $1.29 per common share, compared to $1,938,000, or $1.27 per common share, for the six months ended June 30, 2001.

Net interest and dividend income for the second quarter increased $372,000 to $5,434,000 compared to $5,062,000 for the second quarter of the prior year. For the six months ended June 30, 2002 net interest and dividend income increased $590,000, or 5.8%, to $10,753,000 compared to $10,163,000 for the same period of the prior year due primarily to a decrease in the Company's cost of funds and an increase in average earning assets partially offset by a decrease in the yield on earning assets. The decrease in interest expense was partially offset by an increase in interest expense of $96,000 associated with Northway Capital Trust I Capital Securities issued during April 2002.

The provision for loan losses remained unchanged for the second quarter 2002 at $225,000 compared to the second quarter 2001. In addition, the provision remained unchanged for the six months ended June 30, 2002 at $450,000 compared to the six months ended June 30, 2001.

Noninterest income decreased $33,000 to $752,000 in the second quarter of 2002 compared to $785,000 in the second quarter of 2001. The decrease was primarily due to a decrease in servicing asset income as well as a decrease in gains on sale of securities which was partially offset by an increase in overdraft fee income. For the six months ended June 30, 2002 noninterest income increased $326,000 to $1,704,000 compared to $1,378,000 for the same period of the prior year. The increase was the result of increases in several areas including securities gains, overdraft fees, loan servicing income and debit card fees.

Noninterest expense increased $373,000 to $4,646,000 for the quarter ended June 30, 2002 compared to the $4,273,000 recorded during the same period last year. Noninterest expense increased $733,000 to $9,035,000 for the six months ended June 30, 2002 compared to $8,302,000 for the same period last year. For both periods the increase is primarily due to significant increases in pension and employee insurance plan expenses over the same period last year as well as an increase in professional fees. In addition, the Littleton branch acquisition, which occurred during the fourth quarter of 2001, resulted in an increase in salaries and employee benefits as well as occupancy and other expense.

Income Tax Expense

The Company recognized income tax expense of $1,020,000 and $851,000 for the six months ended June 30, 2002 and 2001, respectively. The effective tax rates were 34.3% and 30.5% for those respective periods. The increase in the effective tax rate is due to the fact that during 2001 the Company obtained a number of State of New Hampshire tax credits related to economic development grants and carried a larger percentage of tax exempt securities and loans versus the amount carried this year.

Liquidity

Liquidity risk management refers to the Company's ability to raise funds in order to meet existing and anticipated financial obligations. These obligations to make payment include withdrawal of deposits on demand or at their contractual maturity, the repayment of borrowings as they mature, funding new and existing loan commitments as well as new business opportunities. Liquidity may be provided through amortization, maturity or sale of assets such as loans and securities available-for-sale, liability sources such as increased deposits, utilization of the Federal Home Loan Bank ("FHLB") credit facility, purchased or other borrowed funds, and access to the capital markets. Liquidity targets are subject to change based on economic and market conditions and are controlled and monitored by the Company's Asset/Liability Committee.

At the subsidiary bank level, liquidity is managed by measuring the net amount of marketable assets after deducting pledged assets, plus lines of credit, primarily with the FHLB, which are available to fund liquidity requirements. Management then measures the adequacy of that aggregate amount relative to the aggregate amount of liabilities deemed to be sensitive or volatile. These include core deposits in excess of $100,000, term deposits with short maturities, and credit commitments outstanding.

Additionally, the parent holding company requires cash for various operating needs including dividends to shareholders, the stock repurchase program, capital injections to the subsidiary banks, and the payment of general corporate expenses. The primary sources of liquidity for the parent holding company are dividends from the subsidiary banks.

Management believes that the Company's current level of liquidity and funds availability from outside sources is sufficient to meet the Company's needs.

Capital

The Company's Tier 1 and Total Risk Based Capital ratios were 11.03% and 12.26%, respectively, at June 30, 2002. The Company's Tier 1 leverage ratio at June 30, 2002 was 8.81%. As of June 30, 2002, the capital ratios of the Company and Pemigewasset National Bank exceeded the minimum capital ratio requirements of the "well-capitalized" category under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). Berlin City Bank's capital ratios as of June 30, 2002 exceeded the minimum capital ratio requirements of the "adequately-capitalized" category under FDICIA. This was the result of the branch acquisition during the fourth quarter of 2001, which caused Total Risk Based Capital to fall below the "well-capitalized" level.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Since December 31, 2001, there have been no material changes in the Company's quantitative and qualitative disclosures about market risk. A fuller description of the quantitative and qualitative disclosures about market risk was provided by the Company on pages 8 through 18 of the Company's 2001 Annual Report to Stockholders filed as Exhibit 13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on May 21, 2002. At the Annual Meeting, the stockholders elected Stephen G. Boucher, Barry J. Kelley, and Randall G. Labnon to three-year terms as directors. Each of these directors' terms will expire at the 2005 annual meeting. The final vote for each of these elected directors is as follows:

	For	Withheld
Stephen G. Boucher	1,194,063	40,476
Barry J. Kelley	1,194,111	40,428
Randall G. Labnon	1,174,911	59,628

The directors continuing in office are Fletcher W. Adams, Arnold P. Hanson, Jr., John H. Noyes, William J. Woodward, Charles H. Clifford, Jr. and John D. Morris.

Effective July 1, 2002, Peter H. Bornstein voluntarily resigned from the Board of Directors.

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. Indenture Dated as of April 10, 2002 Between Northway Financial Inc. as Issuer and Wilmington Trust Company as Trustee for Floating Rate Junior Subordinated Debt Securities Due 2032
2. Amended and Restated Declaration of Trust for Northway Capital Trust 1 Dated as of April 10, 2002
3. Guarantee Agreement for Northway Financial Inc. Dated as of April 10, 2002
4. Common Security Certificate
5. Capital Security Certificate
6. Floating Rate Junior Subordinated Debt Security Due 2032

(b) Current Report on Form 8-K dated April 10, 2002, as filed on April 25, 2002, announcing the private placement of $7,000,000 aggregate liquidation amount of floating rate trust preferred securities (the "Capital Securities") issued by the Company's wholly-owned Delaware statutory business trust, Northway Capital Trust I (the "Trust").

SIGNATURES

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

NORTHWAY FINANCIAL, INC.

August 12, 2002 BY: /s/ William J. Woodward

William J. Woodward
President & CEO
(Principal Executive Officer)

August 12, 2002 BY: /s/ Richard P. Orsillo

Richard P. Orsillo
Senior Vice President & CFO
(Principal Financial and Accounting Officer)