

NORTHWAY FINANCIAL INC
Form PRER14A
May 24, 2007

Preliminary Copy

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

SCHEDULE 14A
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

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

Northway Financial, Inc.
(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:
5) Total fee paid:
 Fee paid previously with preliminary materials:
 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
1) Amount previously paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

June 21, 2007

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders ("Annual Meeting") of Northway Financial, Inc. ("Northway"), to be held on Tuesday, July 31, 2007 at 2:00 p.m. at The Town and Country Motor Inn, Route 2, Shelburne, New Hampshire 03581.

At the Annual Meeting you will be asked to consider and act upon the following:

- (1) To consider and vote on a proposal to amend the amended and restated articles of incorporation ("the Articles") of Northway to effect a 1-for-400 reverse split of Northway's common stock. The primary purpose and effect of this transaction is to reduce the number of holders of record of Northway's common stock below 300, thereby permitting Northway to apply to the Securities and Exchange Commission (the "SEC") to terminate registration of Northway's stock and suspend Northway's reporting obligations with the SEC. The text of the proposed amendment is attached as Appendix A-1 to the accompanying Proxy Statement;
- (2) To consider and vote on a proposal to amend the Articles to effect an 800-for-1 forward split of Northway's common stock. The text of the proposed amendment is attached as Appendix A-2 to the accompanying Proxy Statement;
- (3) to elect three (3) class I Directors to serve until the 2010 Annual Meeting and one (1) class III Director to serve until the 2009 Annual Meeting or until their respective successors are duly elected and qualified; and
- (4) to transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

If approved at the Annual Meeting, the reverse/forward stock split transaction will affect our stockholders as follows:

STOCKHOLDER POSITION PRIOR TO SPLIT TRANSACTION	EFFECT OF SPLIT TRANSACTION
Stockholders holding in registered name 400 or more shares of common stock	Stockholders will ultimately hold twice as many shares
Stockholders holding in registered name fewer than 400 shares of common stock	Shares will be converted into \$37.50 per share of common stock as a result of the reverse stock split.
Stockholders holding common stock in "street name" through a nominee (such as a bank or broker)	Northway intends for the split transaction to affect stockholders in "street name" the same as those holding shares in a record book. However, the split transaction for their beneficial owners. However, the split transaction on your common stock, and your nominee must follow. Stockholders holding shares in "street name" must determine how the split transaction will affect them.

If you hold shares of Northway common stock in "street name" through a nominee (such as a broker or a bank), the effect of the split transaction on your shares of common stock may be different than for record holders. Your nominee may or may not effect the split transaction on your shares of common stock held in street name. You should contact your nominee to determine how the split transaction will affect you.

The primary effect of this transaction is expected to reduce our total number of stockholders of record to below 300. As a result, we expect to terminate the registration of our common stock under federal securities laws, upon such

termination, our reporting obligations with the SEC will be suspended, and we will no longer be eligible for trading on the NASDAQ Global Market.

We are proposing this transaction because our Board of Directors (the “Board”) has concluded, after careful consideration, that the costs and other disadvantages associated with being an SEC-reporting company outweigh the advantages. The reasons the Board reached this conclusion include:

- we estimate that we can eliminate current costs of approximately \$232,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of stockholder communications;
 - operating as a non-SEC reporting company will reduce the burden on our management that arises from increasingly stringent SEC reporting requirements, including requirements of the Sarbanes-Oxley Act of 2002 (“SOX”), thus allowing management to focus more of its attention on our customers and the communities in which we operate;
 - at least 815 of our 1,087 record stockholders own fewer than 400 shares and the elimination of those small stockholders can be expected to reduce significantly our costs of stockholder communications; and
 - these costs of being a public company outweigh the benefits to a well-capitalized company of our size, and terminating our public company status will free up management to focus more on long-term business opportunities beneficial to stockholders and customers.
-

The enclosed Proxy Statement includes a discussion of the alternatives and factors considered by the Board in connection with its approval of the reverse/forward stock split, and we encourage you to read carefully the Proxy Statement and its appendices. Your Board believes the terms of the proposed transaction are fair and are in the best interest of our stockholders, and unanimously recommends that you vote "FOR" the proposal to amend the Articles.

I, along with the other members of the Board, look forward to greeting you personally at the Annual Meeting. However, whether or not you plan to attend personally and regardless of the number of shares you own, it is important that your shares be represented. **You are urged to promptly sign, date and mail the enclosed proxy in the postage-paid envelope provided for your convenience.**

This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend.

Very truly yours,

William J. Woodward
Chairman of the Board

9 Main Street, Berlin, New Hampshire 03570/Telephone 603-752-1171

NORTHWAY FINANCIAL, INC.
9 Main Street
Berlin, New Hampshire 03570
Telephone 603-752-1171

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON TUESDAY, JULY 31, 2007

NOTICE IS HEREBY GIVEN THAT the Annual Meeting of Stockholders of Northway Financial, Inc. will be held on Tuesday, July 31, 2007 at 2:00 p.m. at The Town and Country Motor Inn, Route 2, Shelburne, New Hampshire 03581 for the following purposes:

- (1) to consider and vote on a proposal to amend the amended and restated articles of incorporation (the "Articles") of Northway Financial Inc. ("Northway") to effect a 1-for-400 reverse split of Northway's common stock. The primary purpose and effect of this transaction is to reduce the number of holders of record of Northway's common stock below 300, thereby permitting Northway to apply to the Securities and Exchange Commission (the "SEC") to terminate registration of Northway's common stock and suspend Northway's reporting obligations with the SEC. The text of the proposed amendment is attached as Appendix A-1 to the accompanying Proxy Statement;
- (2) to consider and vote on a proposal to amend the Articles to effect an 800-for-1 forward split of Northway's common stock. The text of the proposed amendment is attached as Appendix A-2 to the accompanying Proxy Statement;
- (3) to elect three (3) class I Directors to serve until the 2010 Annual Meeting of Stockholders and one (1) class III Director to serve until the 2009 Annual Meeting of Stockholders or until their respective successors are duly elected and qualified; and
- (4) to transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

Although the reverse stock split and forward stock split are two separate proposals on which you may vote, unless both the reverse and forward stock splits are approved by stockholders, neither of the splits will be implemented. Thus, a vote in favor of one of stock splits but not the other effectively acts as a vote against both of the splits and the transactions described in this document. We cannot complete the stock splits unless both amendments are approved by holders of a majority of the outstanding shares of common stock. Approximately 15.1% of the shares of common stock are held by Directors and Executive Officers of Northway who have indicated they will vote in favor of the amendments.

Under New Hampshire Law, dissenters' rights are available to stockholders who receive cash for their fractional shares and take certain other steps to perfect their rights. Please see "THE SPLIT TRANSACTION -- SPECIAL FACTORS - Dissenters' Rights" for more information.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE STOCK SPLITS, PASSED UPON THE MERITS OR FAIRNESS OF THE STOCK SPLITS, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROXY STATEMENT AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY NORTHWAY.

The foregoing items are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on June 1, 2007 as the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. Only holders of common stock of record at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

By Order of the Board of Directors

Joseph N. Rozek
Secretary
Berlin, New Hampshire
June 21, 2007

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, YOU ARE REQUESTED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY CARD.

NORTHWAY FINANCIAL, INC.
9 Main Street
Berlin, New Hampshire 03570
Telephone 603-752-1171

PROXY STATEMENT

**ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON TUESDAY, JULY 31, 2007**

This Proxy Statement and accompanying form of proxy are furnished in connection with the solicitation of proxies on behalf of the Board of Directors ("Board") of Northway Financial, Inc., a New Hampshire corporation ("Northway"), for use in voting at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at 2:00 p.m. on July 31, 2007, at The Town and County Motor Inn, Route 2, Shelburne, New Hampshire 03581 and at any postponements or adjournments thereof. This Proxy Statement and accompanying form of proxy were mailed on or about June 21, 2007 to stockholders of record at the close of business on June 1, 2007 in connection with the solicitation.

This Proxy Statement provides detailed information about a proposal to amend Northway's amended and restated articles of incorporation (the "Articles") to effect a 1-for-400 reverse stock split of Northway's common stock, followed immediately by an 800-for-1 forward stock split of Northway's common stock (collectively the "Split Transaction"). If the Split Transaction is completed:

- Each holder of fewer than 400 shares of common stock immediately before the reverse stock split will receive \$37.50, without interest, for each share of common stock held immediately before the reverse stock split and will no longer be a stockholder of Northway; and
- Each holder of 400 or more shares of common stock immediately before the reverse stock split will participate in an 800-for-1 forward stock split, which will result in such holder owning twice as many shares of common stock after the forward stock split as such holder owned immediately before the reverse stock split.

At the close of business on June 1, 2007, there were outstanding and entitled to vote 1,494,174 shares of Northway's common stock, par value of \$1.00 per share.

Each stockholder is entitled to one vote per share upon each matter submitted at the Annual Meeting. Only stockholders of record at the close of business on June 1, 2007 shall be entitled to vote at the Annual Meeting.

The proxies of holders of common stock are being solicited by the Board. Stockholders are requested to complete, date, sign and promptly return the accompanying proxy card in the enclosed envelope. Shares represented by a properly executed proxy received prior to the vote at the Annual Meeting and not revoked will be voted at the Annual Meeting as directed in the proxy. **IF A PROXY IS SUBMITTED AND NO DIRECTIONS ARE GIVEN, THE PROXY WILL BE VOTED "FOR" THE APPROVAL OF THE PROPOSALS TO BE CONSIDERED AT THE ANNUAL MEETING.**

A person giving the enclosed proxy may revoke it by filing an instrument of revocation with Joseph N. Rozek, Secretary, Northway Financial, Inc., 9 Main Street, Berlin, New Hampshire 03570. Any such person may also revoke a proxy by filing a duly executed proxy bearing a later date, or by appearing at the Annual Meeting in person, notifying the Secretary, and voting by ballot at the Annual Meeting. Any stockholder of record attending the Annual Meeting may vote in person whether or not a proxy has been previously given, but the mere presence (without notifying the Secretary) of a stockholder at the Annual Meeting will not constitute revocation of a previously given

proxy.

Northway will bear the cost of soliciting proxies from the stockholders, including mailing costs, and will pay all printing costs in connection with this Proxy Statement. Northway has retained The Altman Group, Inc. to help the Board solicit proxies and expects to pay a base fee of \$5,000, fees based upon the number of stockholder contacts plus reasonable out-of-pocket expenses for its help. In addition to the use of the mails, proxies may be solicited on Northway's behalf by the Directors, officers, and certain employees of Northway and Northway Bank, and by personal interviews, telephone and facsimile. Such Directors, officers and employees will not receive additional compensation for such solicitations but may be reimbursed for reasonable out-of-pocket expenses incurred in connection therewith. Northway may also make arrangements with brokerage houses and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to the beneficial owners of its common stock. Northway may reimburse such custodians, nominees, and fiduciaries for reasonable out-of-pocket expenses incurred in connection therewith.

The presence in person or by proxy of the holders of a majority of the issued and outstanding shares entitled to vote at the Annual Meeting is required to constitute a quorum. Abstentions and “broker non-votes” (as defined below) will be counted as present for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. A “broker non-vote” is a proxy from a broker or other nominee indicating that such person has not received instructions from the beneficial owner or other person entitled to vote the shares which are the subject of the proxy on a particular matter and with respect to which the broker or other nominee does not have discretionary voting power.

Northway is a New Hampshire corporation and the parent of Northway Bank, a New Hampshire-chartered bank based in Berlin, New Hampshire, Northway Capital Trust I, a Delaware statutory business trust, Northway Capital Trust II, a Delaware statutory business trust, and Northway Capital Trust III, a Delaware statutory business trust. Unless the context otherwise requires, references herein to the “Company” include Northway Financial, Inc. and its consolidated subsidiary, Northway Bank.

FORWARD-LOOKING STATEMENTS

Certain statements in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995; however, any statements made in connection with the Split Transaction are specifically excluded from the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act. Such forward-looking statements may include, but are not limited to, projections of revenue, income or loss, plans for future operations and acquisitions, projections based on assumptions regarding market and liquidity risk, 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 factors, overall economic and business conditions, economic and business conditions in the Company’s market areas, interest rate fluctuations, a prolonged continuation of the current interest rate environment, 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: i) changes in interest rates over the past year and the relative relationship between the various interest rate indices that the Company uses; ii) a deterioration in the financial markets affecting the valuation of securities held in the Company’s investment portfolio; (iii) a change in product mix attributable to changing interest rates, customer preferences or competition; iv) a significant portion of the Company’s loan customers are in the hospitality business and therefore could be affected by a slower economy, adverse weather conditions and/or rising gasoline prices; and v) the effectiveness of advertising, marketing and promotional programs.

The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project” or the negative of such terms and other similar 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. Northway expressly disclaims any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Though the Company has attempted to list comprehensively the factors which might affect forward-looking statements, the Company wishes to caution you 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.

TABLE OF CONTENTS

SUMMARY TERM SHEET	1
QUESTIONS AND ANSWERS ABOUT THE SPLIT TRANSACTION AND THE ANNUAL MEETING	5
ABOUT THE ANNUAL ANNUAL MEETING	7
Date, Time and Place of Annual Annual Meeting	7
Matters to be Considered at the Annual Meeting	7
Record Date; Voting Power	7
Quorum	7
Vote Required for Approval	7
Voting and Revocation of Proxies	7
Solicitation of Proxies; Expenses of Solicitation	8
Other Matters to be Considered at Annual Meeting	8
THE SPLIT TRANSACTION -- SPECIAL FACTORS	8
Overview of the Split Transaction	8
Background of the Split Transaction	9
Reasons for the Split Transaction	11
Current and Historical Market Prices of Northway's Common Stock	12
Premium over Market Price	12
Net Book Value	12
Going Concern Value	12
Liquidation Value	12
Stock Repurchases	12
Fairness of the Split Transaction	13
Substantive Fairness	13
Procedural Fairness	15
Effects of the Split Transaction on Affiliates	15
Board Recommendation	16
Fairness Opinion Northeast Capital	16
Availability of Documents	21
Structure of the Split Transaction	21
Effects of the Split Transaction on Northway	21
Elimination of Non-Continuing Stockholders	22
Financial Effects of the Split Transaction	22
Effect on Options	22
Effect on Conduct of Business after the Transaction	22
Dividend Payments	22
Plans or Proposals	22
Interests of Certain Persons in the Split Transaction	23
Financing of the Split Transaction	23
Federal Income Tax Consequences	23
Dissenters' Rights	24
Regulatory Requirements	24
Accounting Treatment	24
Fees and Expenses	24

SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA	24
MARKET PRICE OF NORTHWAY COMMON STOCK AND DIVIDEND INFORMATION	26
ELECTION OF DIRECTORS	28
Nominees and Directors Continuing in Office	28
Meetings and Committees of the Board	29
Stockholder Communications with the Board	31
Executive Officers	31
Security Ownership of Management and Principal Stockholders	32
Compensation Discussion and Analysis	32
Executive Compensation	35
Employment Contracts	36
Key Employee Agreement	37
Compensation of Directors	37
Fees Paid to Independent Auditors	38
Certain Relationships and Related Transactions	39
RELATIONSHIP WITH INDEPENDENT AUDITORS	39
OTHER MATTERS	39
INFORMATION INCORPORATED BY REFERENCE	39
AVAILABLE INFORMATION	39
STOCKHOLDER PROPOSALS	39
APPENDIX A-1 Proposed Form of Amendment to Amended and Restated Articles of Incorporation to Effect Reverse Stock Split	