

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **2005-05-02** | Period of Report: **2004-12-31**  
SEC Accession No. [0000892917-05-000091](#)

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### FILER

#### **PACIFIC FINANCIAL CORP**

CIK: **1093728** | IRS No.: **911815009** | State of Incorporation: **WA** | Fiscal Year End: **1231**  
Type: **10-K/A** | Act: **34** | File No.: **000-29829** | Film No.: **05792051**  
SIC: **6022** State commercial banks

Mailing Address  
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ABERDEEN WA 98502-5244

Business Address  
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ABERDEEN WA 98520-5244  
3605338870

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

FORM 10-K/A  
Amendment No. 1

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004; or

/ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 000-29829

PACIFIC FINANCIAL CORPORATION  
(Exact Name of Registrant as specified in its Charter)

Washington  
(State or Other Jurisdiction of  
Incorporation or Organization)

91-1815009  
(IRS Employer Identification No.)

300 East Market Street  
Aberdeen, Washington 98520-5244  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (360) 533-8870

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:  
Common Stock, par value \$1.00 per share

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 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined by Exchange Act Rule 12b-2). Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant at June 30, 2004, was \$109,163,732

The number of shares outstanding of the registrant's common stock, \$1.00 par value as of February 28, 2005, was 3,210,698 shares.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement filed in connection with its annual meeting of shareholders to be held April 20, 2005 are incorporated by reference into Part III of this Form 10-K.

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#### Explanatory Note

This amendment to the 2004 Annual Report on Form 10-K of Pacific Financial Corporation (the "Company") is being filed for the purpose of including "Management's Report on Internal Control Over Financial Reporting" and the "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" in Item 9A. These reports were omitted from the registrant's 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005 (the "Original Filing"), as permitted by Order under Section 36 of the Securities Exchange Act of 1934 Granting an Exemption from Specified Provisions of Exchange Act Rules 13a-1 and 15d-1 (which provided certain registrants up to 45 additional days from the due date of the Form 10-K in which to file these reports). Conforming changes are also being made to other disclosures included under Item 9A and to Exhibits 31.1 and 31.2 of the Original Filing. A consent of independent auditors is also being filed as Exhibit 23.

#### ITEM 9A. Controls and Procedures

##### Disclosure Controls And Procedures.

The Company's disclosure controls and procedures are designed to ensure that information the Company must disclose in its reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported on a timely basis. Our management has evaluated, with the participation and under the supervision of our chief executive officer (CEO) and chief financial officer (CFO), the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO concluded that, as of such date, the Company's disclosure controls and procedures are effective in ensuring that information relating to the Company, including its consolidated subsidiaries, required to be disclosed

in reports that it files under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

#### Management's Report on Internal Control Over Financial Reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2004. The Company's internal control over financial reporting is a process designed under the supervision of the Company's management, including the CEO and CFO, 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.

Management performed a comprehensive review, evaluation, and assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based upon criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the assessment, management has determined that, as of December 31, 2004, the Company's internal control over financial reporting is effective, based on the COSO criteria.

Management's assessment and conclusions regarding the effectiveness of the Company's internal control as of December 31, 2004, did not include the internal control of BNW Bancorp, Inc. ("BNW"), which was acquired by the Company in a purchase combination on February 27, 2004, and is included in the Company's 2004 consolidated financial statements. BNW was not included in management's assessment because it was not possible for management to conduct an assessment of BNW's internal control in the period between the date the acquisition was completed and the date of management's assessment. As of December 31, 2004, BNW's total assets of approximately \$150 million represented approximately 34% of the Company's total assets reported on a consolidated basis.

The Company's assessment of the effectiveness of its internal control over financial reporting as of December 31, 2004, has been audited by McGladrey & Pullen, LLP, an independent registered public accounting firm, as stated in their report which is included below.

#### Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
Pacific Financial Corporation  
Aberdeen, Washington

We have audited management's assessment, included in the accompanying Management's Report on Internal Controls over Financial Reporting, that Pacific Financial Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pacific Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 generally accepted accounting principles. 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 generally accepted accounting principles, 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.

As described in Management's Report on Internal Control over Financial

Reporting, management has excluded BankNorthwest (BNW) from its assessment of internal control over financial reporting as of December 31, 2004 because it was acquired by the Corporation in a purchase business combination during 2004. We have also excluded BNW from our audit of internal control over financial reporting. BNW's total assets represent approximately \$150 million of the Corporation's total assets reported on the consolidated financial statements for the year ended December 31, 2004.

In our opinion, management's assessment that Pacific Financial Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Pacific Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Pacific Financial Corporation and our report dated March 14, 2005 expressed an unqualified opinion.

McGladrey & Pullen, LLP

Tacoma, Washington  
April 28, 2005

Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2004 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

#### Part IV

#### ITEM 15. Exhibits and Financial Statement Schedules

(a) (3) Exhibits: See Exhibit Index immediately following the signature page.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 2d day of May, 2005.

PACIFIC FINANCIAL CORPORATION  
(Registrant)

/s/ Dennis A. Long  
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Dennis A. Long, President and CEO

/s/ Denise Portmann  
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Denise Portmann  
Treasurer

#### Exhibit Index

EXHIBIT NO. -----	EXHIBIT -----
2.1	Agreement and Plan of Merger between the Company and BNW Bancorp, Inc. dated as of October 22, 2003 (1)
3.1	Restated Articles of Incorporation (2)
3.2	Bylaws (3)
10	Executive Compensation Plans and Arrangements and Other Management Contracts
10.1	Employment Agreement with Dennis A. Long dated January 27, 2004 (4)
10.2	Employment Agreement with John Van Dijk dated January 2, 2003 (5)
10.3	Employment Agreement with Bruce D. MacNaughton dated January 2, 2003 (5)
10.4	Bank of the Pacific Incentive Stock Option Plan (6)
10.5	The Bank of Grays Harbor Incentive Stock Option Plan (6)
10.6	2000 Stock Incentive Compensation Plan (7)
10.7	Bonus Program for Officers (7)
10.8	The Bank of Grays Harbor Employee Deferred Compensation Plan (8)
21	Subsidiaries of Registrant - Bank of the Pacific, organized under Washington law

23	Consent of McGladrey & Pullen, LLP, Independent Auditors*
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)*
32	Certification Pursuant to 18 U.S.C. 1350**
99	Description of common stock of the Company (9)

\* Included with this Amendment No. 1.

\*\* Previously filed.

(1) Incorporated by reference to Exhibit 99.1 to the Company's current report on Form 8-K dated October 22, 2003.

(2) Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

(3) Incorporated by reference to Exhibit 2b to Form 8-A filed by the Company and declared effective on March 7, 2000 (Registration No. 000-29329)

(4) Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

(5) Incorporated by reference to Exhibits 10.2, and 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

(6) Incorporated by reference to Exhibits 10.7 and 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(7) Incorporated by reference to Exhibits 10.1 and 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.

(8) Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(9) Incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.



Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 333-51242 and 333-113224) of Pacific Financial Corporation ("Pacific") of our report, dated April 28, 2005, with respect to Pacific management's assessment of the effectiveness of its internal control over financial reporting and the effectiveness of Pacific's internal control over financial reporting as of December 31, 2004, included in this Amendment No. 1 to Annual Report on Form 10-K/A of Pacific.

/s/ McGladrey & Pullen LLP

Tacoma, Washington  
April 29, 2005

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
UNDER RULE 13a-14(a)

I, Dennis A. Long, certify that:

1. I have reviewed this annual report on Form 10-K of Pacific Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most-recent fiscal quarter (the registrant's fourth

fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2005

/s/ Dennis A. Long

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Dennis A. Long

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
UNDER RULE 13a-14(a)

I, Denise Portmann, certify that:

1. I have reviewed this annual report on Form 10-K of Pacific Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most-recent fiscal quarter (the registrant's fourth

fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- (c) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2005

/s/ Denise Portmann

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Denise Portmann  
Treasurer