PACIFIC FINANCIAL CORP
Form 10-Q
May 02, 2003

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

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2003
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 000-29829

PACIFIC FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Washington	91-1815009
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

300 East Market Street
Aberdeen, Washington 98520-5244
(360) 533-8870

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes X No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Class	Outstanding at March 31, 2003
Common Stock, par value $1.00 per share	2,512,659 shares

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets
(Dollars in thousands)

Pacific Financial Corporation
March 31, 2003 and December 31, 2002

	March 31, 2003 (Unaudited)	December 31, 2002
Assets		
Cash and due from banks	$ 6,943	$ 8,473
Interest bearing balances with banks	664	373
Federal funds sold	8,580	---

Investment securities available for sale	51,690	52,230
Investment securities held-to-maturity	10,035	10,362
Federal Home Loan Bank stock, at cost	881	866
Loans held for sale	---	286
Loans	187,045	185,504
Allowance for credit losses	2,354	2,473
Loans, net	184,691	183,031
Premises and equipment	3,766	3,850
Foreclosed real estate	1,058	686
Accrued interest receivable	1,640	1,493
Cash surrender value of life insurance	5,971	5,898
Other assets	1,121	986
Total assets	$277,040	$268,534
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$ 41,424	$ 40,084
Interest bearing	193,934	185,170
Total deposits	235,358	225,254
Accrued interest payable	287	318
Short-term borrowings	---	1,800
Long-term borrowings	13,500	11,000
Other liabilities	2,000	5,479
Total liabilities	251,145	243,851
Shareholders' Equity		
Common Stock (par value $1); authorized: 25,000,000 shares; issued March 31,2003-2,512,659 shares; December 31, 2002-2,512,659 shares	2,513	2,513
Additional paid-in capital	9,839	9,839
Retained earnings	12,726	11,614
Accumulated other comprehensive income	817	717
Total shareholders' equity	25,895	24,683
Total liabilities and shareholders' equity	$277,040	$268,534

Condensed Consolidated Statements of Income
Three months ended March 31, 2003 and 2002
(Dollars in thousands, except per share)

	2003 (UNAUDITED)	2002 (UNAUDITED)
Interest Income		
Loans	$3,250	$3,294
Securities held to maturity:		
Taxable	73	---
Tax exempt	48	62
Securities available for sale:		

Taxable	431	360
Tax-exempt	117	146
Deposits with banks and federal funds sold	3	18
Total interest income	3,922	3,880
Interest Expense		
Deposits	790	938
Other borrowings	109	33
Total interest expense	899	971
Net Interest Income	3,023	2,909
Provision for credit losses	---	954
Net interest income after provision for credit losses	3,023	1,955
Non-interest Income		
Service charges	250	234
Mortgage loan origination fees	22	---
Gain (loss) on sale of foreclosed real estate	(8)	(17)
Gain on sale of investments	4	---
Other operating income	176	237
Total non-interest income	444	454
Non-interest Expense		
Salaries and employee benefits	1,140	990
Occupancy and equipment	238	234
Other	532	595
Total non-interest expense	1,910	1,819
Income before income taxes	1,557	590
Provision for income taxes	445	182
Net Income	$1,112	$ 408
Earnings per common share:		
Basic	$.44	$.16
Diluted	.44	.16
Average shares outstanding:		
Basic	2,512,659	2,491,629
Diluted	2,534,640	2,515,376

Condensed Consolidated Statements of Cash Flows
Three months ended March 31, 2003 and 2002
(Dollars in thousands)

	2003 (UNAUDITED)	2002 (UNAUDITED)
OPERATING ACTIVITIES		
Net income	$ 1,112	$ 408

Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	---	954
Depreciation and amortization	105	108
Stock dividends received	(14)	(57)
Proceeds of loans held for sale	286	---
Gain on sale of investment securities	(4)	---
Loss on sale of foreclosed real estate	8	---
Increase in accrued interest receivable	(147)	(165)
Decrease in accrued interest payable	(31)	(38)
Write-down of foreclosed real estate	119	288
Other	(274)	176
Net cash provided by operating activities	1,160	1,674
INVESTING ACTIVITIES		
Net increase in federal funds	(8,580)	(4,495)
Increase in interest bearing deposits with banks	(291)	(647)
Purchase of securities held to maturity	(390)	---
Purchase of securities available for sale	(4,423)	(2,163)
Proceeds from maturities of investments held to maturity	697	30
Proceeds from sales of securities available for sale	2,994	---
Proceeds from maturities of securities available for sale	2,055	1,503
Net increase in loans	(2,669)	(2,707)
Additions to foreclosed real estate	(18)	---
Proceeds from sales of foreclosed real estate	534	---
Additions to premises and equipment	(11)	(14)
Net cash used in investing activities	(10,102)	(8,493)
FINANCING ACTIVITIES		
Net increase in deposits	10,104	5,033
Net decrease in short-term borrowings	(1,800)	---
Proceeds from issuance of long-term debt	2,500	4,000
Payment of dividends	(3,392)	(3,289)
Net cash provided by financing activities	7,412	5,744
Net decrease in cash and due from banks	$ (1,530)	$(1,075)
CASH AND DUE FROM BANKS		
Beginning of period	$8,473	$10,231
End of period	$6,943	$ 9,156
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 930	$ 1,009
Income Taxes	375	25
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Foreclosed real estate acquired in settlement of loans	$ (1,069)	$ (212)
Financed sale of foreclosed real estate	54	
Change in fair value of securities available for sale, net of tax	100	(115)

Condensed Consolidated Statements of Shareholders' Equity
Three months ended March 31, 2003 and 2002
(Dollars in thousands) (Unaudited)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINE EARNIN
Balance December 31, 2001	$2,492	$9,524	$11,09
Other comprehensive income:			
Net income			40
Change in fair value of securities available for sale, net			
Comprehensive income			
	------	------	------
Balance March 31, 2002	$2,492	$9,524	$11,49
Balance December 31, 2002	$2,513	$9,839	$11,61
Other comprehensive income:			
Net income			1,11
Change in fair value of securities available for sale, net			
Comprehensive income			
	------	------	------
Balance March 31, 2003	$2,513	$9,839	$12,72

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared by Pacific Financial Corporation ("Pacific" or the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003, are not necessarily indicative of the results anticipated for the year ending December 31, 2003. The December 31, 2002 condensed balance sheet is derived from the audited consolidated financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

All dollar amounts in tables, except per share information, are stated in thousands.

2. Investment Securities

Investment securities consist principally of short and intermediate term debt instruments issued by the U.S. Treasury, other U.S. government agencies, state and local government units, and other corporations.

SECURITIES HELD TO MATURITY	AMORTIZED COST	UNREALIZED GAINS (LOSSES)	FAIR VALUE
March 31, 2003			
U.S. Government Securities	$5,912	$103	$6,015
State and Municipal Securities	4,123	36	4,159
TOTAL	$10,035	$139	$10,174

SECURITIES AVAILABLE FOR SALE	AMORTIZED COST	UNREALIZED GAINS (LOSSES)	FAIR VALUE
March 31, 2003			
U.S. Government Securities	$ 17,741	$356	$18,097
State and Municipal Securities	11,499	687	12,186
Corporate Securities	4,976	171	5,147
Mutual Funds	16,237	23	16,260
TOTAL	$ 50,453	$1,237	$51,690

-7-

3. Allowance for Credit Losses

	THREE MONTHS ENDED MARCH 31, 2003	2002	TWELVE MONTHS ENDED DECEMBER 31, 2002
Balance at beginning of period	$2,473	$2,109	$2,109
Provision for possible credit losses	---	954	954
Charge-offs	(120)	(416)	(632)
Recoveries	1	9	42
Net recoveries (charge-offs)	(119)	(407)	(590)
Balance at end of period	$2,354	$2,656	$2,473
Ratio of net charge-offs to average loans outstanding	.06%	.23%	.33%

4. Computation of Basic Earnings per Share:

THREE MONTHS ENDED
MARCH 31,

	2003	2002
Net Income	$1,112,000	$408,000
Shares Outstanding, Beginning of Period	2,512,659	2,491,629
Shares Repurchased During Period Times Average Time Outstanding	----	---
Average Shares Outstanding	2,512,659	2,491,629
Basic Earnings Per Share	$.44	$.16

5. Computation of Diluted Earnings Per Share:

	THREE MONTHS ENDED MARCH 31, 2003	2002
Net Income	$1,112,000	$408,000
Options Outstanding	210,550	177,046
Proceeds Were Options Exercised	$4,763,248	$ 3,773,253
Average Share Price During Period	$25.26	$24.50
Proceeds Divided By Average Share Price	188,569	154,010
Incremental Shares	21,981	23,747
Average Shares Outstanding	2,512,659	2,491,629
Incremental Shares Plus Outstanding Shares	2,534,640	2,515,376
Diluted Earnings Per Share	$.44	$.16

6. Computation of Pro Forma Basic and Diluted Earnings Per Share:
At March 31, 2003, the Company has a stock-based employee compensation plan. The Company accounts for the plan under recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

THREE MONTHS ENDED MARCH 31, 2003	2002

Net Income, as reported	$1,112,000	$408,000
Less total stock-based compensation expense determined under fair value method for all qualifying awards	21,000	14,000
Pro forma net income	1,091,000	394,000
Earnings per Share		
Basic:		
As reported	.44	.16
Pro forma	.43	.16
Diluted:		
As reported	.44	.16
Pro forma	.43	.16

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A WARNING ABOUT FORWARD-LOOKING INFORMATION

This document contains forward-looking statements that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to them. Forward-looking statements include the information concerning our possible future results of operations set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions.

Any forward-looking statements in this document are subject to risks relating to, among other things, the following:

1. competitive pressures among depository and other financial institutions may impede our ability to attract and retain borrowers, depositors and other customers;

2. changes in the interest rate environment may reduce margins;

3. general economic or business conditions, either nationally or in the state or regions in which we do business, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality, including as a result of lower prices in the real estate market, or a reduced demand for credit;

4. legislative or regulatory changes may adversely affect the businesses in which we are engaged; and

5. the securities markets may continue to experience a downturn.

Our management believes the forward-looking statements are reasonable; however, you should not place undue reliance on them. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Many of the factors that will determine our future results and share value are beyond our ability to control or predict. We undertake no obligation to update forward-looking statements.

NET INCOME. For the three months ended March 31, 2003, Pacific's net income was $1,112,000 compared to $408,000 for the same period in 2002. The most significant factor contributing to the increase was a decrease in the provision for credit losses from $954,000 to zero, partially offset by an increase in the provision for income taxes. During the first quarter of 2002, management performed additional analysis on the loan portfolio upon the hiring of a new chief credit officer and received updated appraisals on some large credits that warranted additional provisions during February 2002. Management's current year analysis of the loan portfolio did not warrant an additional provision for credit losses at this time.

NET INTEREST INCOME. Net interest income for the three months ended March 31, 2003 increased $114,000, or 3.9%, compared to the same period in 2002. This is due primarily to increased investment income and decreased interest expense.

Interest income for the three months ended March 31, 2003, increased $42,000, or 1.1%, compared to the comparable period in 2002. Securities balances were higher during the three months ended March 31, 2003, compared to the three months ended March 31, 2002 due to the purchases of securities during the third and fourth quarters of 2002. This increase in securities resulted in higher interest income of $101,000 on securities. On the other hand, the lower interest rates earned on loans during the period ended March 31, 2003 due to the 50 basis point drop in the prime rate during the fourth quarter of 2002 resulted in decreased loan interest income of $44,000 compared to the same period in 2002. Average total loans outstanding for the three months ended March 31, 2003, and March 31, 2002, were $186,953,000, and $181,257,000, respectively, or an increase of 3.1% in 2003 over 2002.

Interest expense for the three months ended March 31, 2003 decreased $72,000, or 7.4%, compared to the same period in 2002. Average interest-bearing deposit balances for the three months ended March 31, 2003 and March 31, 2002 were $189,499,000 and $177,368,000, respectively, representing an increase of 6.8% compared to last year's period. The increase is attributable primarily to growth in commercial demand deposits, public deposits and retail certificates of deposit. Average short term borrowings and federal funds purchased for the periods were $1,542,000 and $3,766,000, respectively, a decrease of 59.1% over the 2002 period. Average long term borrowings for the three months ended March 31, 2003 were $11,806,000 compared to $4,000,000 for the same period in 2002. The Company borrowed funds from the Federal Home Loan Bank of Seattle to purchase investment securities during the third and fourth quarters of 2002.

PROVISION AND ALLOWANCE FOR CREDIT LOSSES. The allowance for credit losses reflects management's current estimate of the amount required to absorb losses on existing loans and commitments to extend credit. Loans deemed uncollectible are charged against and reduce the allowance. Periodically, a provision for credit losses is charged to current expense. This provision acts to replenish the allowance for credit losses and to maintain the allowance at a level that management deems adequate. There is no precise method of predicting specific credit losses or amounts that ultimately may be charged off on segments of the loan portfolio. The determination that a loan may become uncollectible, in whole or in part, is a matter of judgment. Similarly, the adequacy of the allowance for credit losses can be determined only on a judgmental basis, after full review, including (a) consideration of economic conditions and the effect on particular industries and specific borrowers; (b) a review of borrowers' financial data, together with industry data, the competitive situation, the borrowers' management capabilities and other factors; (c) a continuing evaluation of the loan portfolio, including monitoring by lending officers and staff credit personnel of all loans which are identified as being of less than acceptable quality; (d) an in-depth appraisal, on a monthly basis, of all loans judged to present a possibility of loss (if, as a result of such monthly appraisals, the loan is judged to be not fully collectible, the carrying value of the loan is reduced to that portion considered collectible); and (e) an evaluation of the underlying collateral for secured lending, including the use of independent appraisals of real estate properties securing loans. A formal analysis of the

adequacy of the allowance is conducted monthly and is reviewed by the Board of Directors. Based on this analysis, management considers the allowance for credit losses to be adequate at March 31, 2003. Periodic provisions for credit losses are made to maintain the allowance for credit losses at an appropriate level. The provisions are based on an analysis of various factors including historical loss experience based on volumes and types of loans, volumes and trends in delinquencies and non-accrual loans, trends in portfolio volume, results of internal and independent external credit reviews, and anticipated economic conditions. For additional information, please see the discussion under the heading "Critical Accounting Policy" in Item 7 of our Annual Report on Form 10K for the year ended December 31, 2002.

During the three months ended March 31, 2003, no provision was provided for possible credit losses, compared to $954,000 provided in the same period in 2002. For the three months ended March 31, 2003, net charge-offs were $119,000, compared to net charge-offs of $407,000 during the same period in 2002, and compared to $590,000 in net charge-offs during the twelve months ended December 31, 2002. The charge-offs for the period ended March 31, 2003 are primarily related to commercial loan write downs of $119,700.

At March 31, 2003, the allowance for credit losses stood at $2,354,000 compared to $2,473,000 at December 31, 2002, and $2,656,000 at March 31, 2002. The ratio of the allowance to total loans outstanding was 1.26%, 1.33% and 1.49%, respectively, at March 31, 2003, December 31, 2002, and March 31, 2002.

NON-PERFORMING ASSETS AND FORECLOSED REAL ESTATE OWNED. Non-performing assets totaled $5,083,000 at March 31, 2003. This represents 2.72% of total loans, compared to $2,552,000 or 1.38% at December 31, 2002, and $3,026,000 or 1.69% at March 31, 2002. Non-accrual loans at March 31, 2003 totaled $4,025,000 of which $3,999,000 are secured by real estate. In particular, one loan secured by real estate totals $3,587,000. Although it was placed in non-accrual status, management has been in discussions with the borrower and believes the loan will be brought current over the next 60 days. Based on current analysis, management believes losses associated with non-accrual loans will be minimal. Foreclosed real estate consists of various properties secured by real estate with no individual material balances. The Company has been successful during the recent months in selling individual properties with minimal impact to net income.

ANALYSIS OF NON-PERFORMING ASSETS

(in thousands)	MARCH 31 2003	DECEMBER 31 2002	MARCH 31 2002
Accruing loans past due 90 days or more	$---	$2	$---
Non-accrual loans	4,025	1,864	2,062
Foreclosed real estate	1,058	686	964

TOTAL	$5,083	$2,552	$3,026

NON-INTEREST INCOME AND EXPENSE. Non-interest income for the three months ended March 31, 2003 decreased $10,000 compared to the same period in 2002. Service charges on deposit accounts increased $16,000 compared to the three months ended March 31, 2002. Loan origination fees increased $22,000 compared to the three months ended March 31, 2002. Loss on the sale of other real estate owned decreased $9,000. Other operating income for the three months ended March 31, 2003 decreased $57,000 compared to the same period in 2002, primarily due to a decrease in income from operations on real estate owned.

Non-interest expense for the three months ended March 31, 2003 increased $91,000 compared to the same period in 2002. For the three-month period in 2003, salaries and benefits increased $150,000, primarily due to an increase in the number of employees and higher bonus accruals. Also, occupancy expenses increased $4,000, while other expenses decreased $63,000, compared to the same period in 2002.

INCOME TAXES. The federal income tax provision for the three months ended March 31, 2003 was $445,000, an increase of $263,000 compared to the same period in 2002.

FINANCIAL CONDITION. Total assets were $277,040,000 at March 31, 2003, an increase of $8,506,000, or 3.2%, over year-end 2002. Loans were $187,045,000 at March 31, 2003, an increase of $1,254,000, or .7%, over year-end 2002. Total deposits were $235,358,000 at March 31, 2003, an increase of $10,104,000, or 4.5%, compared to December 31, 2002.

LOANS. Loan detail by category as of March 31, 2003 and December 31, 2002 follows:

	March 31, 2003	December 31, 2002
Commercial and industrial	$61,294	$61,236
Agricultural	7,641	8,558
Real estate mortgage	99,631	101,151
Real estate construction	11,948	9,697
Installment	5,683	4,114
Credit cards and other	848	1,034
Total Loans	187,045	185,790
Allowance for credit losses	(2,354)	(2,473)
Net Loans	$184,691	$183,317

LIQUIDITY. Adequate liquidity is available to accommodate fluctuations in deposit levels, fund operations, and provide for customer credit needs and meet obligations and commitments on a timely basis. The Company has no brokered deposits. It generally has been a net seller of federal funds. When necessary, liquidity can be increased by taking advances available from the Federal Home Loan Bank of Seattle.

SHAREHOLDERS' EQUITY. Total shareholders' equity was $25,895,000 at March 31, 2003, an increase of $1,212,000, or 4.9%, compared to December 31, 2002. The increase was due to net income and an increase in the fair value of securities available for sale. Book value per share increased to $10.31 at March 31, 2003 compared to $9.82 at December 31, 2002. Book value is calculated by dividing total equity capital by total shares outstanding.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate, credit, and operations risks are the most significant market risks which affect the Company's performance. The Company relies on loan review, prudent loan underwriting standards and an adequate allowance for possible credit losses to mitigate credit risk.

An asset/liability management simulation model is used to measure interest rate risk. The model produces regulatory oriented measurements of interest rate risk exposure. The model quantifies interest rate risk by simulating forecasted net interest income over a 12 month time period under various interest rate scenarios, as well as monitoring the change in the present value of equity under the same rate scenarios. The present value of equity is defined as the difference between the market value of assets less current liabilities. By measuring the change in the present value of equity under various rate scenarios, management is able to identify interest rate risk that may not be evident from changes in forecasted net interest income.

The Company is currently asset sensitive, meaning that interest earning assets mature or re-price more quickly than interest-bearing liabilities in a given period. Therefore, a significant increase in market rates of interest could improve net interest income. Conversely, a decreasing rate environment may adversely affect net interest income.

It should be noted that the simulation model does not take into account future management actions that could be undertaken should actual market rates change during the year. An important point should be kept in mind; the model simulation results are not exact measures of the Company's actual interest rate risk. They are rather only indicators of rate risk exposure, based on assumptions produced in a simplified modeling environment designed to heighten sensitivity to changes in interest rates. The rate risk exposure results of the simulation model typically are greater than the Company's actual rate risk. That is due to the conservative modeling environment, which generally depicts a worst-case situation. Management has assessed the results of the simulation reports as of March 31, 2003, and believes that there has been no material change since December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Our 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, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported on a timely basis. Within 90 days prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer ("CEO") and chief financial officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective in bringing to their attention on a timely basis information required to be disclosed by the Company in reports that it files or submits under the Exchange Act. Also, since the date of their evaluation, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Pacific Financial Corporation held its Annual Meeting of Shareholders on April 16, 2003, at which the shareholders of the Company voted on and approved the following:

1. The election of one Class B director of Pacific Financial Corporation (Douglas M. Schermer) for a term expiring at the Annual Meeting of Shareholders in 2004. The election of four Class A directors of Pacific Financial Corporation for terms expiring at the Annual Meeting of Shareholders in 2006.

The voting with respect to each of these matters was as follows:

1. Election of Directors

NAME	FOR	WITHHOLD
Edwin Ketel	1,752,060	63,305
Dennis A. Long	1,779,885	35,480
Joseph A. Malik	1,777,275	38,090
Robert J. Worrell	1,811,690	3,675
Douglas M. Schermer	1,777,275	38,090

ITEM 5. OTHER INFORMATION

The Company has notified appropriate state regulatory agencies of its intent to establish a loan production office in Clatsop County, Oregon. It is anticipated the loan production office will commence operations approximately July 1, 2003, and will be located in Gearhart, Oregon.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:
See Exhibit Index immediately following the Certifications.

(b) Reports on Form 8-K:
No reports on Form 8-K were filed during the quarter ended March 31, 2003.

SIGNATURES

Pursuant to the 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.

PACIFIC FINANCIAL CORPORATION

DATED: May 1, 2003

By: /s/ Dennis A. Long
Dennis A. Long
President

By: /s/ John Van Dijk
John Van Dijk, Secretary/Treasurer
(Principal Financial and
Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dennis A. Long, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ Dennis A. Long

Dennis A. Long
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Van Dijk, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ John Van Dijk

John Van Dijk,
Treasurer

EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT
99	Section 906 Certifications