

BLACKHAWK BANCORP INC
Form DEF 14A
February 08, 2005

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

SCHEDULE 14A

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

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
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BLACKHAWK BANCORP, INC.

(Name of Registrant as Specified In Its Charter)

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

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 - (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):
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Dear Shareholder:

You are cordially invited to attend a special meeting of shareholders of Blackhawk Bancorp, Inc. to be held on Wednesday, March 16, 2005 at 10:00 a.m. local time at The Beloit Inn, 500 Pleasant Street, Beloit, Wisconsin 53511.

At this important meeting, you will be asked to vote on proposed amendments to our articles of incorporation. These amendments will provide for a reverse 1-for-1,000 stock split followed immediately by a forward 1,000-for-1 stock split of our common stock. The text of the proposed amendments is attached as Appendix A to the accompanying proxy statement.

If approved at the special meeting, the transaction will affect our shareholders as follows:

If you are a record shareholder with:	Effect:
1,000 or more shares:	Will continue to hold the same number of shares
Fewer than 1,000 shares:	Will be entitled to \$15.25 in cash, without interest, per share

The primary effect of this transaction will be to reduce our total number of record shareholders to below 300. As a result, we will terminate the registration of our common stock under federal securities laws and our SEC reporting obligations will be suspended.

We are proposing this transaction because our board has concluded, after careful consideration, that the costs and other disadvantages associated with being an SEC-reporting company outweigh any of the advantages. The reasons the board considered in reaching this conclusion include:

we estimate that we will eliminate costs and avoid immediately anticipated future costs of approximately \$375,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of shareholder 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, thus allowing management to focus more of its attention on our customers and the communities in which we operate; and

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by eliminating the pressure and expectation to produce short-term per share earnings, management may have increased flexibility to consider and initiate actions that may produce long-term benefits and growth.

Except for the effects described in the accompanying proxy statement, we do not expect this transaction to adversely affect our operations. In addition, we have no current intentions to engage in any significant transactions following the split transaction, but instead expect to focus management's energy on our core business and our customers.

Your board of directors believes the terms of the proposed transaction are fair and are in the best interest of our unaffiliated shareholders, and unanimously recommends that you vote **FOR** the proposal to amend our articles of incorporation. The enclosed proxy statement includes a discussion of the alternatives and factors considered by the board in connection with its approval of the transaction, and we encourage you to read carefully the proxy statement and appendices.

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, date, sign and return your proxy promptly in the enclosed envelope, which requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy.

On behalf of our board of directors, I would like to express our appreciation for your continued interest in the affairs of Blackhawk Bancorp, Inc.

Sincerely,

R. Richard Bastian, III
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the merits or fairness of this transaction or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated February 8, 2005, and is being mailed to shareholders on or about February 14, 2005.

BLACKHAWK BANCORP, INC.

400 Broad Street

Beloit, Wisconsin 53511

(608) 364-8911

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON MARCH 16, 2005

A special meeting of shareholders of Blackhawk Bancorp, Inc. will be held on Wednesday, March 16, 2005, at 10:00 a.m., local time at The Beloit Inn, 500 Pleasant Street, Beloit, Wisconsin 53511:

- (1) To consider and vote upon a proposal to adopt two amendments to Blackhawk Bancorp, Inc.'s articles of incorporation. The amendments will provide for (a) a reverse 1-for-1,000 stock split, followed immediately by (b) a forward 1,000-for-1 stock split. Each record shareholder owning less than 1,000 shares of common stock immediately prior to the reverse split will, instead of participating in the forward split, receive a cash payment equal to \$15.25 per share on a pre-split basis.

- (2) To consider and vote upon a proposal to transact any other business that properly comes before the special meeting or any adjournment or postponement of the special meeting.

The board of directors has fixed the close of business on February 7, 2005, as the record date for determining those shareholders entitled to vote at the special meeting and any adjournment or postponement of the special meeting. Only shareholders at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

By order of the Board of Directors

Todd J. James
Executive Vice President and Secretary

YOUR VOTE IS VERY IMPORTANT.

Whether or not you plan to attend the special meeting in person, please take the time to vote by completing and marking the enclosed proxy card in the enclosed postage-paid envelope. If you attend the special meeting, you may still vote in person if you wish, even if you have previously returned your proxy card.

*Your board of directors unanimously recommends that you vote **FOR** approval of the amendments to our articles of incorporation.*

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SUMMARY TERM SHEET

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This summary provides an overview of material information from this proxy statement about the proposed reverse stock split and forward stock split transaction. However, it is a summary only. To better understand the transaction and for a more complete description of its terms we encourage you to read carefully this entire document and the documents to which it refers before voting.

In this proxy statement, Blackhawk we, our, ours, us and the company refer to Blackhawk Bancorp, Inc., a Wisconsin corporation. The term the Bank refers to Blackhawk's wholly-owned subsidiary, Blackhawk State Bank, which is a Wisconsin-chartered commercial bank. The term split transaction refers to the reverse and forward stock splits, together with the related cash payments to shareholders holding fewer than 1,000 shares at the effective time of the split transaction. The term non-continuing shareholders of Blackhawk means all record holders of common stock of Blackhawk with less than 1,000 shares at the effective time of the reverse stock split transaction. The term continuing shareholders means all record holders of common stock of Blackhawk with at least 1,000 shares at the effective time of the reverse stock split transaction. References to common stock or shares refer to Blackhawk's common stock, par value \$0.01 per share.

Blackhawk Bancorp, Inc. and Blackhawk State Bank

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Blackhawk Bancorp, Inc. is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended, with a business address of 400 Broad Street, Beloit, Wisconsin 53511 and a business telephone number of (608) 364-8911. We own 100% of our subsidiary bank, Blackhawk State Bank, a Wisconsin-chartered commercial bank and 100% of the common securities of Blackhawk Statutory Trust I, which was formed in December 2002 for the purpose of issuing trust preferred securities. Blackhawk's common stock is publicly traded on the Over the Counter Market (OTCBB) under the symbol BKHB. As of the close of business on February 1, 2005, the market price of our common stock as reported on the OTCBB was \$14.31 per share.

Blackhawk State Bank is a Wisconsin-chartered commercial bank with a business address of 400 Broad Street, Beloit, Wisconsin 53511 and a business telephone number of (608) 364-8911. The Bank operates nine free-standing branches, three of which are in Beloit, Wisconsin and six of which are located in the following cities in Illinois: Belvedere (2); Capron; Machesney Park; Rockford; and Roscoe. The Bank has three wholly-owned subsidiaries: Nevahawk Investment, Inc., an investment subsidiary located in Las Vegas, Nevada; RSL, Inc., which in turn owns Midland Acceptance Corporation, both of which are substantially inactive; and First Financial Services, whose primary activity is ownership of a closed facility of the Bank. The Bank offers a wide range of services that include consumer banking, business banking and related financial services. The Bank also provides trust and investment services through a third party marketing agreement with full service trust and brokerage companies.

Introduction and Overview of the Split Transaction

(see page 13)

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We are proposing that our shareholders adopt amendments to our articles of incorporation that will result in a reverse 1-for-1,000 stock split followed immediately by a forward 1,000-for-1 stock split. If the split transaction is completed, our record shareholders who hold only fractional shares after giving effect to the reverse 1,000-for-1 stock split will receive a payment of \$15.25 per share for each pre-split share. If the reverse stock split is completed, record shareholders with less than 1,000 pre-split shares will have no interest in the company and will become entitled only to a cash payment for their shares following the reverse stock split. We expect to pay a total of approximately \$3,407,000 to shareholders in the reverse stock split and we anticipate that the number of outstanding shares of our common stock will decrease approximately 8.8%, from 2,528,895 shares to approximately 2,305,503 shares. After we

complete the reverse stock split and identify those shareholders entitled to payment for their pre-split shares, we will complete a forward stock split in which each share of common stock will be converted into 1,000 shares of common stock post-split. As a result of this subsequent forward stock split, record shareholders who hold 1,000 or more shares prior to the reverse stock split will ultimately hold the same number of shares following the forward stock split. The effect of the split transaction will be to reduce the number of shareholders of record to less than 300, which will allow us to suspend our reporting obligations under federal securities laws.

Background of the Split Transaction

(see pages 14 through 20)

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For a description of the events leading to the approval of the split transaction by our board of directors and the reasons for its approval, you should refer to Special Factors Background of the Split Transaction, Special Factors Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation and Special Factors Purpose and Structure of the Split Transaction on pages 14 through 30 and pages 39 and 40. As we explain more fully in these sections, our board considered and rejected various alternative methods of effecting a transaction that would enable us to become a non-SEC reporting company, while remaining an independent, community-owned company.

Reasons for the Split Transaction

(see pages 20 through 23)

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Our reasons for the split transaction include the following:

we estimate that we will eliminate costs and avoid immediately anticipated future costs of approximately \$375,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of shareholder communications;

given the low trading volume in our common stock, the fact that, at the time our board approved the split transaction, approximately 47.0% of our record shareholders held fewer than 1,000 shares, and that our earnings are sufficient to support growth, thereby eliminating any need to raise capital in the public market, there is little justification for remaining a reporting company;

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, thus allowing management to focus more of its attention on our customers and the communities in which we operate;

by eliminating the pressure and expectation to produce short-term per share earnings, management may have increased flexibility to consider and initiate actions that may produce long-term benefits and growth;

the split transaction proposal allows us to suspend our reporting obligations with the SEC, and allows the non-continuing shareholders to receive fair value and cash for their shares, in a quick and cost-effective manner;

the split transaction will allow the non-continuing shareholders to realize what our board has determined to be a fair value for their Blackhawk common stock; in reaching this conclusion, our board of directors considered the valuation report prepared by Prairie Capital Services, Inc., and in particular, our board considered that the \$15.25 price represents

21.9 times earnings for the nine months ended September 30, 2004, and a 43.8% premium over book value, which values are in line with comparable SEC-reporting companies.

We considered that some of our shareholders may prefer to continue as shareholders of Blackhawk as an SEC-reporting company, which is a factor weighing against the split transaction. However, we believe that the disadvantages of continuing our reporting obligations with the SEC outweigh any advantages associated with doing so. To review the reasons for the split transaction in greater detail, please see pages 20 through 23.

Fairness of the Split Transaction; Board Recommendation

(see pages 23 through 30)

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Based on a careful review of the facts and circumstances relating to the split transaction, our board of directors believes that the split transaction and the terms and provisions of the split transaction, including the cash to be paid to the non-continuing shareholders, are substantively and procedurally fair to our unaffiliated shareholders, including both unaffiliated shareholders that are continuing shareholders and unaffiliated shareholders that are non-continuing shareholders. Our board of directors unanimously approved the split transaction.

In the course of determining that the split transaction is substantively and procedurally fair to and is in the best interests of our unaffiliated shareholders, including both unaffiliated shareholders that are continuing shareholders and unaffiliated shareholders that are non-continuing shareholders, the board, after consulting with legal and financial advisors, considered a number of positive and negative factors affecting these groups of unaffiliated shareholders in making their determination.

The board considered that the following factors support the substantive fairness of the split transaction to our unaffiliated shareholders that are not continuing shareholders:

the cash price of \$15.25 represents a 43.8% premium over our book value of our common stock as of September 30, 2004;

our common stock trades infrequently, with an average trading volume of approximately 26,000 shares per month, or approximately 1.0% of our outstanding common stock, a volume that the board felt did not provide our shareholders with sufficient opportunity to easily obtain cash for their shares;

the cash to be paid to unaffiliated non-continuing shareholders being cashed out in the split transaction will provide certainty of value to those shareholders and immediate liquidity for them; and

no brokerage or other transaction costs are to be incurred by them in connection with the divesture of their shares.

The factors that our board considered support the substantive fairness of the split transaction to our unaffiliated shareholders that are continuing shareholders include:

they will continue to have the opportunity to participate in our future growth and earnings;

they will realize the potential benefits of termination of registration of our common stock, including reduced expenses as a result of no longer needing to comply with SEC reporting requirements;

the fact that we anticipate that our shares will continue to be traded on the OTCBB after the split transaction, which will provide opportunities for continuing shareholders to trade their shares in the future; and

the two step structure of the split transaction will avoid disruption to holders of 1,000 or more shares of our common stock, who are not being cashed out in the transaction, by avoiding the requirement that these shareholders forward their stock certificates to the company for cash for fractional shares of common stock and replacement stock certificates for whole shares of common stock.

In addition, in concluding that the split transaction is procedurally fair to our unaffiliated shareholders, the board of directors considered a number of factors, including:

the split transaction is being effected in accordance with all applicable requirements of Wisconsin law;

our board of directors is primarily comprised of independent members;

the board obtained a valuation report and fairness opinion from an independent third party concerning our common stock;

the board retained and received advice from legal counsel in evaluating the terms of the split transaction;

management and the board considered alternative methods of effecting a transaction that would result in our becoming a non-SEC reporting company;

shareholders will have the opportunity to determine whether or not they will remain shareholders after the split transaction by acquiring sufficient shares so that they hold at least 1,000 shares immediately prior to the split transaction or selling sufficient shares so that they hold less than 1,000 shares immediately prior to the split transaction; and

we had sufficient cash resources to undertake the necessary actions to finance the split transaction.

For a complete discussion of the positive and negative factors considered by the board, please see pages 23 through 30.

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In addition, under the federal securities laws, the Bank and Mr. Bastian are required to join in the filing of this proxy statement. The Bank and Mr. Bastian adopt the analyses and conclusions of the Blackhawk board of directors. Please see pages 29 and 30.

*Our Board of Directors unanimously recommends that you vote **FOR** the proposed amendments to our articles of incorporation that will effect the split transaction.*

Valuation of Financial Advisor; Fairness Opinion

(see pages 30 through 39)

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We retained Prairie Capital Services, Inc. to perform an independent valuation of the fair value of our common stock. In that report, Prairie Capital determined that the fair value of our common stock was between \$13.90 and \$15.25 per share as of October 20, 2004. Taking this valuation into consideration, in

In addition to other factors discussed in this proxy statement, the board determined the fair value of our common stock for purpose of the split transaction to be \$15.25.

In deciding to approve the split transaction and recommend it to our shareholders, our board of directors considered the opinion of Prairie Capital that the \$15.25 consideration proposed to be paid to the affiliated and unaffiliated non-continuing shareholders is fair from a financial point of view. The full text of the valuation report and opinion are attached to this proxy statement as [Appendix B-2](#) and [Appendix C](#), and you are encouraged to read them carefully.

Purpose and Structure of the Split Transaction

(see pages 39 and 40)

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The purpose of the split transaction is to consolidate ownership of our common stock and reduce the number of our record shareholders to less than 300. If successful, we will be able to discontinue our SEC reporting requirements and allow our management to refocus time spent on complying with SEC-reporting obligations on operational and business goals.

The transaction has been structured as a two-step stock split transaction because the reverse stock split will enable us to reduce the number of our record shareholders to fewer than 300, while the forward stock reverse stock split will avoid disruption to the record shareholders that own 1,000 or more shares of common stock prior to the split transaction. Because shareholders owning 1,000 or more shares of common stock are not affected by the two-step structure, this structure minimizes the costs of our becoming a non-SEC reporting company while achieving the goals outlined in this proxy statement. *See* Special Factors Background of the Split Transaction beginning on page 14.

The split transaction is being effected at the record shareholder level. This means that we will look at the number of shares registered in the name of a single holder to determine if that holder's shares will be cashed out. It is important that our shareholders understand how shares that are held by them in street name will be treated for purposes of the split transaction described in this proxy statement. Shareholders who have transferred their shares of Blackhawk stock into a brokerage or custodial account are no longer shown on our shareholder records as the record holder of these shares. Instead, the brokerage firms or custodians typically hold all shares of Blackhawk stock that its clients have deposited with it through a single nominee; this is what is meant by street name. If that single nominee is the record shareholder for 1,000 or more shares, then the stock registered in that nominee's name will be completely unaffected by the split transaction. Because the split transaction only affects record shareholders, it does not matter whether any of the underlying beneficial owners for whom that nominee acts own less than 1,000 shares. At the end of this transaction, these beneficial owners will continue to beneficially own the same number of shares of our stock as they did at the start of this transaction, even if the number of shares they own is less than 1,000.

If you hold your shares in street name, you should talk to your broker, nominee or agent to determine how they expect the split transaction to affect you. Because other street name holders who hold through your broker, agent or nominee may adjust their holdings prior to the split transaction, you may have no way of knowing whether you will be cashed out in the transaction until it is completed. However, because we think it is likely that any brokerage firm or other nominee will hold more than 1,000 shares in any one account, we think it is likely that all street name holders will remain continuing shareholders.

Effects of the Split Transaction

(see pages 40 through 49)

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The split transaction is a going private transaction for Blackhawk, meaning it will allow us to deregister with the SEC and our reporting obligations under federal securities laws will be suspended. As a result of the split transaction, among other things:

the number of our record shareholders will be reduced from approximately 506 to approximately 169, and the number of outstanding shares of our common stock will decrease approximately 8.8%, from 2,528,895 shares to approximately 2,305,503 shares;

the affiliated and unaffiliated non-continuing shareholders will receive \$15.25 in cash per share of our common stock owned by them;

because of the reduction of our total number of record shareholders to less than 300, we will be allowed to suspend our status as a reporting company with the SEC;

once our SEC reporting obligations are suspended, we will not be subject to the provisions of The Sarbanes-Oxley Act of 2002 or the liability provisions of the Securities Exchange Act of 1934, as amended, and our officers will not be required to certify the accuracy of our financial statements under SEC rules. However, we will continue to be subject to the rules and regulations imposed by our banking regulatory agencies, including those relating to financial reporting;

the affiliated and unaffiliated non-continuing shareholders will no longer have an interest in, or be record shareholders of, Blackhawk, and therefore, will not be able to participate in our future earnings and growth, if any;

the liquidity of our common stock will likely be reduced following the split transaction because of the reduction in the number of our record shareholders. However, because Blackhawk, as a bank holding company, and the Bank will be required to make filings with our appropriate Federal and State regulatory agencies, we anticipate that our stock will continue to be eligible for trading on the OTCBB; and

our regulatory and Tier 1 capital will each be reduced approximately \$3,572,000, from approximately \$27,945,000 and \$25,595,000, respectively, as of September 30, 2004, to \$24,373,000 and \$22,023,000, respectively, on a pro forma basis.

For a further description of how the split transaction will affect our unaffiliated shareholders, including the different effects on the continuing and non-continuing shareholders, please *see* Special Factors Effects of the Split Transaction on Shareholders of Blackhawk on pages 45 through 49.

Interests of Certain Persons in the Split Transaction

(see pages 49 and 50)

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You should be aware that the directors and executive officers of Blackhawk and the Bank, including Mr. Bastian, have interests in the split transaction that may present actual or potential, or the appearance of actual or potential, conflicts of interest in connection with the split transaction.

Our bylaws require our directors to own at least 3,000 shares of our common stock, which they must acquire within three years of becoming a director. We expect that all of the directors of Blackhawk and the Bank, other than James D. Metz and Stephen R. Thomas, who currently do not own shares of our

common stock, will own more than 1,000 shares of common stock at the effective time of the split transaction, and will therefore continue as shareholders if the split transaction is approved. We expect that the directors who will continue to own shares after the split transaction will be Mr. Bastian, Roger G. Bryden, Stephen P. Carter, John B. Clark, Prudence A. Harker, Charles Hart, Kenneth A. Hendricks, Charles J. Howard, Marco T. Lenis, George D. Merchant and Merrit J. Mott.

With the exception of Mr. Bastian, only one executive officer of the company and the Bank, Todd J. James, the Executive Vice President and Chief Financial Officer of the company and the Bank, is a record holder of our common stock. Because Mr. James holds less than 1,000 shares we expect him to be cashed out in the split transaction, although he will continue to hold options to purchase shares of our common stock. Mr. Bastian will continue to beneficially own 61,167 shares of common stock following the split transaction. *See* Security Ownership of Certain Beneficial Owners and Management.

Because there will be fewer outstanding shares, the directors and executive officers who will be continuing as shareholders will own a larger relative percentage of the company on a post-split basis. This represents a potential conflict of interest because the directors of Blackhawk approved the split transaction and are recommending that you approve it. Despite this potential conflict of interest, the board believes the proposed split transaction is fair to our unaffiliated shareholders for the reasons discussed in this proxy statement.

In addition, the board of directors of Blackhawk, throughout its consideration of the transaction, recognized that the interests of the non-continuing shareholders and the continuing shareholders are different and possibly in conflict. The non-continuing shareholders may wish to remain shareholders of an SEC-reporting company to share in future growth and, in the split transaction, may have the goal of obtaining the highest value for their shares. On the other hand, the continuing shareholders may have the goal of retaining cash for our future operations. *See* Special Factors Background of the Split Transaction and Special Factors Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation for a discussion of how the board of directors addressed this situation.

Financing of the Split Transaction

(see pages 50 and 51)

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We estimate that the total funds required to fund the payment of the split transaction consideration to the non-continuing shareholders and to pay fees and expenses relating to the split transaction will be approximately \$3,572,000.

We intend to finance a portion of the split transaction through dividends paid to us by the Bank. The remainder of the funds required to finance the split transaction will be obtained by us from a credit facility from U.S. Bank.

Material Federal Income Tax Consequences of the Split Transaction

(see pages 51 through 54)

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We believe that the split transaction, if approved and completed, will have the following federal income tax consequences:

the split transaction should result in no material federal income tax consequences to us, the Bank or Mr. Bastian;

the receipt of cash in the split transaction by the non-continuing shareholders will be taxable to those shareholders, who will generally recognize gain or loss in the split transaction in an

amount determined by the difference between the cash they receive and their adjusted tax basis in their common stock surrendered; and

the continuing shareholders will not recognize any gain or loss or dividend income in connection with the transaction.

The split transaction will be a taxable transaction to the non-continuing shareholders. For United States federal income tax purposes, non-continuing shareholders will generally recognize gain or loss in the split transaction in an amount determined by the difference between the cash they receive and the tax basis in their common stock surrendered.

Because determining the tax consequences of the split transaction can be complicated, you should consult your own tax advisor to understand fully how the split transaction will affect you.

Appraisal Rights

(see page 54)

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Under Wisconsin law, you do not have appraisal rights in connection with the split transaction. For a description of Wisconsin law governing this transaction, see page 54. Although you will not have appraisal rights in connection with the split transaction, you may pursue all available remedies under applicable law.

Date, Time and Place of Special Meeting; Proposal to be Considered at the Special Meeting

(see pages 55 and 56)

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Our board of directors is asking for your proxy for use at a special meeting of shareholders to be held on Wednesday, March 16, 2005, at 10:00 a.m. local time at The Beloit Inn, 500 Pleasant Street, Beloit, Wisconsin 53511, and at any adjournments or postponements of that meeting. At the special meeting, shareholders will be asked:

to consider and vote upon a proposal to adopt amendments to our articles of incorporation that will result in a 1-for-1,000 reverse stock split followed immediately by a 1,000-for-1 forward stock split; and

to consider and vote upon any other matters that may properly be submitted to a vote at the meeting or any adjournment or postponement of the special meeting.

Record Date

(see page v)

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You may vote at the special meeting if you owned Blackhawk common stock at the close of business on February 7, 2005, which has been set as the record date. At the close of business on the record date, there were 2,528,895 shares of our common stock outstanding held by approximately 506 record shareholders. You are entitled to one vote on each matter considered and voted upon at the special meeting for each share of common stock you held of record at the close of business on the record date.

Vote Required for Approval

(see pages 56 and 57)

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Approval of the split transaction requires the affirmative vote of the holders of a majority in voting power of all outstanding shares of our common stock entitled to vote at the special meeting, or 1,264,448 of the 2,528,895 outstanding shares. Because the executive officers and directors of

Blackhawk and the Bank have the power to vote a total of 605,204 shares and because Mr. Bastian has informed us that he intends to vote in favor of the transaction and we believe that all of the remaining executive officers and directors will vote in favor of the transaction, this means a total of 659,244 shares held by shareholders who are not executive officers or directors of the company or the Bank will be required to vote in favor of the transaction for it to be approved. Because the executive officers and directors of Blackhawk and the Bank own only approximately 23.9% of the voting power of our outstanding common stock, there is no assurance that the split transaction will be approved.

Abstentions and broker non-votes will have the effect of a vote AGAINST the split transaction. Approval of the split transaction does not require the separate vote of a majority of our unaffiliated shareholders, and no separate vote will be conducted.

You may vote your shares in person by attending the special meeting, or by mailing us your completed proxy if you are unable or do not wish to attend. You can revoke your proxy at any time before we take a vote at the meeting by submitting either a written notice revoking the proxy or a later-dated proxy to our secretary. You may also revoke your proxy by attending the meeting and voting in person.

Provisions for Unaffiliated Shareholders

(see page 29)

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Blackhawk has not made any provisions in connection with the split transaction to grant unaffiliated shareholders access to our corporate files or the files of the continuing shareholders, or to obtain counsel or appraisal services for unaffiliated shareholders at our expense or at the expense of the continuing shareholders.

QUESTIONS AND ANSWERS ABOUT THE SPLIT TRANSACTION

Q: What is the date, time and place of the special meeting?

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A: The special meeting of our shareholders will be held on Wednesday, March 16, 2005, at 10:00 a.m. local time at The Beloit Inn, 500 Pleasant Street, Beloit, Wisconsin 53511, to consider and vote upon the split transaction proposal.

Q: What is the proposed split transaction?

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A: We are proposing that our shareholders approve a reverse 1-for-1,000 stock split followed immediately by a forward 1,000-for-1 stock split of our outstanding common stock.

The purpose of the split transaction is to allow us to suspend our SEC-reporting obligations (referred to as *going private*) by reducing the number of our record shareholders to less than 300. This will allow us to terminate our registration under the Securities Exchange Act of 1934, as amended, and relieve us of the costs typically associated with the preparation and filing of public reports and other documents.

Q: *What will I receive in the split transaction?*

A: If you own in record name fewer than 1,000 shares of our common stock on the date of the reverse stock split, you will receive \$15.25 in cash from us for each pre-split share you own. If you own in record name 1,000 or more shares of our common stock on the date of the reverse stock split, you will not receive any cash payment for your shares in connection with the split transaction and will continue to hold the same number of shares of our common stock as you did before the split transaction.

Q: *Why is 1,000 shares the cutoff number for determining which shareholders will be cashed out and which shareholders will remain as shareholders of Blackhawk?*

A: The purpose of the split transaction is to reduce the number of our record shareholders to fewer than 300, which will allow us to de-register as an SEC-reporting company. Our board selected 1,000 shares as the cutoff number in order to enhance the probability that after the split transaction, if approved, we will have fewer than 300 record shareholders.

Q: *May I buy additional shares in order to remain a shareholder of Blackhawk?*

A: Yes. The key date for acquiring additional shares is March 16, 2005. So long as you are able to acquire a sufficient number of shares so that you are the record owner of 1,000 or more shares by March 16, 2005, your shares of common stock will not be cashed out by the split transaction.

Q: *What if I hold my shares in street name?*

A: The split transaction will be effected at the record shareholder level. This means that we will look at the number of shares registered in the name of a single holder to determine if that holder's shares will be cashed out. So for shares held in street name, because it is likely that your brokerage firm holds 1,000 or more shares total, you will not be cashed out, even if fewer than 1,000 shares are held on your behalf. If you hold shares in street name, you should talk to your broker, nominee or agent to determine how the split transaction will affect you.

Q: What is the recommendation of our board of directors regarding the proposal?

A: Our board of directors has determined that the split transaction is advisable and in the best interests of Blackhawk's unaffiliated shareholders. Our board of directors has unanimously approved the split transaction and recommends that you vote **FOR** approval of this matter at the special meeting.

Q: When is the split transaction expected to be completed?

A: If the proposed amendments to our articles of incorporation and split transaction are approved at the special meeting, we expect the split transaction to be completed on the date of the special meeting.

Q: Who is entitled to vote at the special meeting?

A: Holders of record of our common stock as of the close of business on February 7, 2005, are entitled to vote at the special meeting. Each of our shareholders is entitled to one vote for each share of our common stock owned at the record date.

Q: What vote is required for our shareholders to approve the split transaction?

A: For the amendments to our articles of incorporation to be adopted and the split transaction to be approved, holders of a majority of the outstanding voting power represented by shares entitled to vote at the special meeting must vote **FOR** the split transaction.

Q: What if the proposed split transaction is not completed?

A: It is possible that the proposed split transaction will not be completed. The proposed split transaction will not be completed if, for example, the holders of a majority of our common stock do not vote to adopt the proposed amendments to our articles of incorporation and approve the proposed split transaction. If the split transaction is not completed, we will continue our current operations, and we will continue to be subject to the reporting requirements of the SEC.

Q: What happens if I do not return my proxy card?

A: Because the affirmative vote of the holders of a majority of the shares of our common stock outstanding on the record date is required to approve the split transaction, unless you vote in person, a failure to return your proxy card will have the same effect as voting against the split transaction proposal.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement, please vote your shares of common stock as soon as possible. You may vote your shares by returning the enclosed proxy or by voting in person at the special meeting of shareholders. This proxy statement includes detailed information on how to cast your vote.

Q: If my shares are held for me by my broker, will my broker vote those shares for me?

A: Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should instruct your broker on how to vote your shares using the voting instruction card provided by your broker.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting by following the procedures outlined in this proxy statement.

Q: Do I need to attend the special meeting in person?

A: No. You do not have to attend the special meeting to vote your Blackhawk shares.

Q: Will I have appraisal or dissenter's rights in connection with the split transaction?

A: No. Under Wisconsin law, which governs the split transaction, you do not have the right to demand the appraised value of your shares or any other dissenter's rights if you vote against the proposed split transaction. Your rights are described in more detail under "Special Factors Appraisal Rights and Dissenter's Rights; Escheat Laws" at page 54.

Q: Should I send in my stock certificates now?

A: No. If you own in record name fewer than 1,000 shares of common stock of record after the split transaction is completed, our transfer agent will send you written instructions for exchanging your stock certificates for cash. If you own in record name 1,000 or more shares of our common stock, you will continue to hold the same shares after the split transaction as you did before.

Q: Where can I find more information about Blackhawk?

A: We file periodic reports and other information with the SEC. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available at the Internet site maintained by the SEC at <http://www.sec.gov>. General information about us is available at our Internet site at <http://www.blackhawkbank.com>; the information on our Internet site is not incorporated by reference into this proxy statement and does not form a part of this proxy statement. For a more detailed description of the information available, please see pages 63 and 64.

Q. Who can help answer my questions?

A. If you have questions about the split transaction after reading this proxy statement or need assistance in voting your shares, you should contact R. Richard Bastian, III, our President and Chief Executive Officer, or Todd J. James, our Executive Vice President and Chief Financial Officer, at (800) 209-2616 (toll-free) or (608) 364-8911 (call collect).

SPECIAL FACTORS

Overview of the Split Transaction

This proxy statement is furnished in connection with the solicitation of proxies by the board of directors of Blackhawk Bancorp, Inc., a Wisconsin corporation, and is to be used at a special meeting at which our shareholders will be asked to consider and vote upon a proposal to amend our articles of incorporation. If approved, the amendments will result in a 1-for-1,000 reverse split of our common stock, followed immediately by a 1,000-for-1 forward split of our common stock.

If the reverse and forward stock splits are approved as described below, record holders of less than 1,000 shares of our common stock prior to the reverse split will no longer be shareholders of the company. Instead, those shareholders will be entitled only to receive payment of \$15.25 per share of common stock held prior to the reverse split. Record shareholders holding 1,000 or more pre-split shares will remain shareholders. We intend, immediately following the split transaction, to terminate the registration of our shares, and our registration and further reporting under the Securities Exchange Act of 1934, as amended.

If approved by our shareholders at the special meeting and implemented by our board of directors, the split transaction will generally affect our shareholders as follows:

SHAREHOLDER POSITION PRIOR TO SPLIT TRANSACTION

EFFECT OF SPLIT TRANSACTION

Shareholders holding in record name 1,000 or more shares of common stock	Shareholders will continue to hold the same number of shares held pre-split transaction. We anticipate that our shares will continue to be traded on the OTCBB; however, some brokers may no longer actively make a market in our common stock.
Shareholders holding in record name fewer than 1,000 shares of common stock	Shares will be converted into \$15.25 per share of common stock outstanding immediately prior to the reverse split for those shareholders holding in record name less than 1,000 pre-split shares of common stock.
Shareholders holding common stock in street name through a nominee (such as a bank or broker)	The split transaction will be effected at the record shareholder level. Therefore, regardless of the number of beneficial holders or the number of shares held by each beneficial holder, shares held in street name will be subject to the forward split, and the beneficial holders who hold their shares in street name will be continuing shareholders with the same number of shares as before the split transaction.

The effects of the split transaction on each group of unaffiliated shareholders are described more fully below under Effects of the Split Transaction on Shareholders of Blackhawk, and the effects on the company are described more fully below under Effects of the Split Transaction on Blackhawk; Plans or Proposals after the Split Transaction.

Background of the Split Transaction

As an SEC reporting company, we are required to prepare and file with the SEC, among other items, the following:

Annual Reports on Form 10-KSB;

Quarterly Reports on Form 10-QSB;

Proxy Statements and related materials as required by Regulation 14A under the Securities Exchange Act;
and

Current Reports on Form 8-K.

In addition to the burden on management, the costs associated with these reports and other filing obligations comprise a significant corporate overhead expense. These costs include securities counsel fees, auditor fees, special board meeting fees, costs of printing and mailing shareholder documents, and word processing, specialized software and filing costs. These registration and reporting related costs have been increasing over the years, and we believe they will continue as a significant expense of the Company, particularly as a result of the additional reporting and disclosure obligations imposed on SEC-reporting companies by the recently enacted The Sarbanes-Oxley Act of 2002. We estimate that our costs and expenses incurred in connection with SEC reporting increased by approximately \$80,000 in 2003 and \$215,000 in 2004 as a result of the adoption and implementation of The Sarbanes-Oxley Act.

As of January 27, 2005, there were 2,528,895 shares of our common stock issued and outstanding, held by approximately 506 current record shareholders. Of our approximately 506 record shareholders, we believe approximately 66.6% hold fewer than 1,000 shares. Our board of directors and management believe that the recurring expense and burden of our SEC-reporting requirements described above are not cost efficient for Blackhawk. Becoming a non-SEC reporting company will allow us to avoid these costs and expenses. In addition, once our SEC reporting obligations are suspended, we will not be subject to the provisions of The Sarbanes-Oxley Act of 2002 or the liability provisions of the Securities Exchange Act of 1934, as amended, and our officers will not be required to certify the accuracy of our financial statements under SEC rules. However, we will continue to be subject to the rules and regulations imposed by our banking regulatory agencies, including those relating to financial reporting.

There can be many advantages to being a public company, possibly including a higher stock value, a more active trading market and the enhanced ability to use company stock to raise capital or make acquisitions. However, there is a limited market for our common stock, and we have therefore not been able to effectively take advantage of these benefits. For example, we believe that in recent years the public marketplace has had less interest in public companies with a small market capitalization and a limited amount of securities available for trading. We believe it is highly speculative whether our common stock would ever achieve significant market value with an active and liquid market comprised of many buyers and sellers. In addition, as a result of our limited trading market, we are unlikely to be well-positioned to use our public company status to raise capital in the future through sales of our common stock in a public offering or to acquire other business entities using our stock as consideration. Moreover, our limited trading market could make it difficult for our shareholders to liquidate a large number of shares of our

stock without negatively affecting the per share sale price. The split transaction will allow our small shareholders to sell their shares at a fixed price that will not decline based upon the number of shares sold, and allow them to do so without incurring typical transaction costs. Therefore, our board of directors and management have concluded that the benefits of being an SEC-reporting company are substantially outweighed by the burden on management and the expense related to the SEC reporting

obligations. The board considered that many of the factors arguing in favor of de-registration, including eliminating costs associated with registration and allowing management to focus on customers, community and core business initiatives, had been in existence for some time, and felt that the increasingly stringent regulation brought on by The Sarbanes-Oxley Act would only make these factors more compelling as time went on. In addition, as the board evaluated the company's overall strategic planning process, they determined that there would be excess capital generated from the sale of two of the Bank's branch offices located in Rochelle and Oregon, Illinois, which might be put to use to fund a deregistration transaction. As a result of the confluence of these factors in the second and third quarters of this year, the board determined at that time that it would be beneficial to consider the pursuit of such a transaction. Please refer to "Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation" for a further discussion of the reasons supporting the split transaction. As a result of the board's conclusions, our management began to explore the possibility of reducing our number of record shareholders to below 300 in order to suspend our periodic reporting obligations to the SEC.

At the regular monthly meeting of our board held on January 21, 2004, our directors requested that management arrange for an update by legal counsel on corporate governance issues, including The Sarbanes-Oxley Act. As a result of that request, management arranged for a presentation at the March 17, 2004, meeting of our board regarding corporate governance and the responsibilities of directors. Following that presentation, the board engaged in a discussion concerning the benefits and detriments of remaining a public company subject to the reporting requirements of the SEC. Our board expressed concern that the requirements imposed by The Sarbanes-Oxley Act may materially increase our reporting costs, which might already be high for a company of our size in light of our limited ability to take advantage of the possible benefits of maintaining a public market for our stock, such as an active trading market in our stock and enhanced ability to use stock to raise capital. No formal action to pursue a going private transaction was taken by the board at this meeting.

On March 17, 2004, the Bank retained Prairie Capital to assist with the proposed sale of the Rochelle and Oregon, Illinois branch offices.

At the next regular monthly meeting of our board held on April 21, 2004, Mr. Bastian, revisited the issue of Blackhawk's escalating reporting costs, which were increasing primarily from activities relating to compliance with the newest requirements imposed by The Sarbanes-Oxley Act, which would take effect at the beginning of 2005. He told our board, however, that management had not taken any steps to perform a detailed analysis of a possible going private transaction that would eliminate these costs. A thorough analysis would need to be performed before the board could properly consider a transaction, which would include analyzing the cost of a going private transaction and the amount of capital and funding necessary to repurchase stock from enough record shareholders to bring our total number of record shareholders below 300. He concluded that management would continue focusing on the sale of the Bank's Rochelle and Oregon branch offices, the profits from which might impact the capital available to the company to effect a going private transaction.

On June 22, 2004, the Bank entered into an Office Purchase and Assumption Agreement, providing for the sale of the Rochelle and Oregon branch offices to The First National Bank and Trust Company of Rochelle.

Subsequent to the execution of the Office Purchase and Assumption Agreement, management began to analyze a possible going private transaction. Management prepared detailed estimates of management opportunity costs and direct outside expenses related to our SEC reporting, compiled information regarding our shareholder base and trading activity in our stock and researched going private transactions undertaken by other public bank holding companies in order to better understand possible structures, the process required and the anticipated costs. In furtherance of this analysis, our management contacted representatives of Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP, prospective legal

counsel, and engaged in a preliminary discussion of a possible going private transaction and available methods of reducing the number of our record shareholders to allow us to suspend our SEC reporting obligations.

At the regular monthly meeting of our board held on September 15, 2004, Mr. Bastian and Mr. James made a detailed presentation to our board concerning a possible going private transaction, including the potential advantages and disadvantages of a transaction as compared to continuing operations as an SEC-reporting company, alternative methods of effecting a transaction, the estimated costs of a transaction and information regarding our shareholder base. Alternative methods of effecting the proposed going private transaction that were discussed by Mr. Bastian and Mr. James included an open market stock repurchase, a tender offer, a cash-out merger and a reverse stock split. For a more detailed discussion of the alternative methods of effecting a going private transaction that were discussed by the board, *see* Special Factors Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation Blackhawk's Reasons for the Split Transaction.

Following the presentation by Mr. Bastian and Mr. James, the board discussed the future costs and expenses that might be incurred by the company in connection with complying with the requirements of The Sarbanes-Oxley Act as estimated by Mr. Bastian and Mr. James and the time that might be allotted for management and other employees in connection with compliance, the alternative methods by which the Company might reduce the number of its record shareholders, the possible response from the community and unaffiliated shareholders to the proposed going private transaction and the possible effects of the proposed going private transaction on our unaffiliated shareholders. Our board considered that our unaffiliated shareholders who are cashed out in a going private transaction will be able to liquidate their holdings without having to pay brokerage fees or commissions, but would have to pay income taxes on the cash received in the transaction and would no longer be able to participate in any of our future earnings and growth. The board also considered that our unaffiliated shareholders who are not cashed out in the transaction, on the other hand, will continue to participate in our future earnings and growth, but may find that the liquidity for our common stock will likely be reduced because of the reduction in the number of our record shareholders. Members of the board expressed a concern that some unaffiliated shareholders who are also members of the community might want to continue owning shares in the community financial institution with which they bank. Conversely, it was noted that some unaffiliated shareholders may wish to take advantage of the opportunity to obtain cash for their shares. The board noted that pursuing a reverse stock split might provide our unaffiliated shareholders with flexibility to determine whether to participate in the going private transaction, because they would be aware of the share cutoff for being cashed out. The board of directors directed management to further analyze the costs and benefits of a going private transaction and authorized management to retain legal counsel and financial advisors for this purpose. Our board's determination to further evaluate a going private transaction was based on:

the administrative burden and expense of making our periodic filings with the SEC and the estimated costs savings we might experience if we suspended our SEC reporting obligations, which management estimated at this meeting might be between \$375,000 and \$500,000 annually;

management's increased flexibility to consider and initiate actions as a non-SEC reporting company that might produce long-term benefits and growth;

the low trading volume of approximately 26,000 shares of our common stock on average per month and the resulting lack of liquidity for our shareholders;

the fact that management does not anticipate us needing to raise capital in the future in the public market and that management believes that we could raise capital in the future through borrowings, private placements or institutional sales of debt or equity securities; and

the estimated expense of a going private transaction.

During the week following this meeting, our management contacted several financial advisors, including Prairie Capital, to discuss their possible engagement as financial advisors to Blackhawk in the going private transaction. Management discussed with each financial advisor possible structures for a going private transaction, methods of financing a possible transaction and various valuation methodologies for valuing our common stock. Although management believed each of the financial advisors was well-qualified, management decided to retain Prairie Capital based on that firm's extensive experience, knowledge and background in valuing financial institutions and holding companies. In addition, management chose Prairie Capital because Prairie Capital would provide a valuation and fairness opinion at a cost to the company lower than the other financial advisors contacted, thereby retaining cash that could be paid to non-continuing shareholders as well as retained in the company for future operations.

On September 21, 2004, Mr. Bastian and Mr. James met with representatives of Barack Ferrazzano to engage in further discussions concerning a possible transaction. Following this meeting, Messrs. Bastian and James considered these discussions and evaluated the costs associated with a potential going private transaction compared to the ongoing costs of remaining an SEC-reporting company.

Our management retained Barack Ferrazzano on September 23, 2004, and Prairie Capital on September 26, 2004.

At a special meeting of our board held on October 6, 2004, management presented its report on the further exploration of a going private transaction. At the meeting, representatives of Barack Ferrazzano advised the board on the methods for proceeding with a going private transaction. Barack Ferrazzano reviewed alternative methods of effecting the transaction with the board and informed the board of the potential advantages to the use of a reverse stock split transaction as a preferred method to achieve this result. For a discussion of the alternatives considered, *see* Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation below. Representatives of Barack Ferrazzano also discussed with the board various other corporate and securities law matters applicable to the transaction, including the possible creation of an independent special committee of the board of directors comprised of independent members of the board to review and evaluate the proposed transaction on behalf of our shareholders.

Following discussion, the board determined not to form an independent special committee to evaluate the proposed split transaction. In making this determination, the board took into consideration the fact that our board members are required by our bylaws to own shares of our common stock. Each member of our board (other than Mr. Metz and Mr. Thomas) currently owns shares of our common stock, and after a going private transaction each of the members of our board will continue to own shares of our common stock or will purchase shares of our common stock to satisfy the bylaw requirement. As a result, the board determined that each of its members shared a similar interest in a going private transaction and the formation of a special committee would not add any significant protection for our unaffiliated shareholders. Also, at that time, the board believed that, in a going private transaction, we would likely repurchase less than 3% of our outstanding common stock, resulting in only a slight increase of less than 1.0% in the ownership percentage of common stock of our directors. *See* Effects of the Split Transaction on Blackhawk; Plans or Proposals After the Split Transaction Effect on our Directors and

Executive Officers for a further discussion of the effect on director and executive officer share ownership.

Barack Ferrazzano also discussed with the board the application to the transaction of the going private statute adopted by the Wisconsin Department of Financial Institutions, Division of Securities, and the fact that obtaining recommendations from two independent appraisers with respect to the consideration to be paid in the transaction may result in a presumption that the consideration was fair under Wisconsin law. The board considered that obtaining an additional valuation or appraisal would likely result in a material additional cost to us, and that the presumption created by the second valuation would still be rebuttable by any shareholder who presented contrary evidence. Because our board felt that the valuation coupled with the fairness opinion to be provided by Prairie Capital would provide sufficient procedural safeguards with respect to the cash to be paid to the non-continuing shareholders, the board determined that it would be unnecessary to incur the additional cost associated with obtaining a second recommendation from a second independent appraiser, notwithstanding the possible presumption of fairness under Wisconsin law.

Also at the October 6 meeting of the board of directors, our board was provided with a draft copy of the valuation report prepared by Prairie Capital, a copy of which is attached as [Appendix B-1](#). Mr. James reviewed the draft valuation report with our board and described the methodologies used by Prairie Capital in the report to value our common stock. Mr. James also discussed with the board the possible dividend from the Bank to Blackhawk to fund a proposed transaction, which would include profits from the sale of the Bank's branch offices, and the anticipated affect the dividend would have on the Bank's and Blackhawk's capital. Following a lengthy discussion and consideration of the matters presented at the meeting, the board authorized management to continue pursuing a going private transaction structured as a reverse stock split followed by a forward stock split and ratified management's engagement of Barack Ferrazzano and Prairie Capital.

The branch sale was completed on October 8, 2004.

On October 15, 2004, Mr. James and a representative of Barack Ferrazzano met with representatives of the Federal Reserve to discuss the terms of the proposed split transaction and the possible dividend from the Bank to Blackhawk of up to \$2,500,000, a portion of which would be used to fund the proposed going private transaction. During that week, Mr. James also contacted the Wisconsin Department of Financial Institutions to discuss the proposed transaction.

At the regular monthly meeting of the board of directors held on October 20, 2004, a representative of Barack Ferrazzano reviewed with the board the various corporate and securities laws that would need to be taken into consideration, the regulatory processes involved, and procedural matters. Following the legal presentation, Prairie Capital delivered to the board of directors its report, dated October 20, 2004, on the valuation of our common stock, a copy of which is attached as [Appendix B-2](#). This final valuation report is identical in form and result to the draft provided to the board at the October 6, 2004 meeting, which is attached as [Appendix B-1](#). The final Prairie Capital valuation report indicated that the fair value of our common stock, as of October 20, 2004, ranged from \$13.90 to \$15.25 per share. Prairie Capital's report and its presentation to the board provided the board with a detailed explanation of the financial analyses supporting the range of values and the methods utilized in preparing its valuation report. The valuation report also included a general discussion of approaches to valuation, and an analysis of our financial condition. Additionally, the valuation report included a discounted dividend analysis of the company; information concerning the financial condition and performance of bank holding companies based in or having significant operations in Illinois and Wisconsin; and information on recent bank merger and acquisition transactions in Illinois, Wisconsin and other Midwestern states. The valuation report also included a discussion of the assumptions made by Prairie Capital in preparing the

report as well as certain other limiting conditions. See Valuation of Financial Advisor; Fairness Opinion.

After reviewing the valuation report of Prairie Capital and considering the review by Barack Ferrazzano and following lengthy discussion, the board unanimously approved the split transaction by means of a 1 for 1,000 reverse stock split followed by a 1,000 for 1 forward stock split, pursuant to which shareholders owning less than 1,000 shares would receive \$15.25 in cash for their pre-split shares of our common stock. The \$15.25 per share price represents the high-end of the range of fair value of our common stock determined by Prairie Capital. Following the board's determination of the \$15.25 per share price, Prairie Capital delivered its oral opinion that the \$15.25 per share cash consideration to be paid to shareholders holding less than 1,000 shares of our common stock prior to the reverse stock split was fair from a financial point of view to both our affiliated and unaffiliated non-continuing shareholders who will be cashed out in the transaction.

In determining the number of shares a shareholder needed to own in order to remain a shareholder after the split transaction, the board's primary consideration was how best to achieve the goal of becoming a non-SEC reporting company by reducing the number of our record shareholders to a number below 300. In achieving that goal, the board wanted to reach an optimal threshold that would result in cashing out enough shareholders to provide us with some assurance that we will continue to remain under the 300 threshold in the future without cashing out so many shareholders that we needlessly increase the cost of the transaction. The board considered a variety of cutoff thresholds ranging from 500 to 1,250 as the minimum number of shares a shareholder needed to own in order to continue as a shareholder after the split transaction. The board determined, however, that cutoff numbers under 1,000 shares were too low because, although there would be fewer than 300 record shareholders if a transaction were completed at any of these levels, the number of continuing shareholders would be reduced to levels of 200 or above, which the board felt were too close to the 300 record shareholder threshold that would retrigger SEC reporting obligations and would not allow enough room for growth going forward. In the board's opinion, ratios above 1,000 would result in more than an adequate number of shareholders being cashed out while needlessly increasing the cost of the transaction. Based on this analysis, the board selected 1,000 shares as the minimum number of shares required to remain as a record shareholder. This number was chosen because it represented a cut-off among shareholders that would likely sufficiently reduce the shares outstanding so that our reporting obligation would not be retriggered in the near future, even if continuing shareholders who hold their shares in street name transfer ownership of their shares into their record names. At the same time, this would result in a relatively moderate number of shares (estimated at approximately 65,283, or approximately 2.6%, of our outstanding shares at the time of the meeting) being cashed-out in the proposed split transaction. Subsequently, a number of shareholders have transferred shares out of street name to record accounts holding less than 1,000 shares with the result that we now anticipate, as of the date of this proxy statement, purchasing approximately 223,392 shares, or approximately 8.8% of our outstanding shares, in the transaction.

In approving the split transaction, the board took into consideration the fact that, because shareholders would be aware of the 1,000 share cutoff for participating in the forward split, small shareholders who would still prefer to remain as shareholders of the company, despite the board's recommendation, could elect to do so by acquiring sufficient shares or consolidating stock ownership so that they would hold at least 1,000 shares in their own name immediately prior to the split transaction or by transferring their stock to a brokerage account or to another nominee so that it is held in street name. This would allow a small shareholder to have some control over the decision as to whether to remain a continuing shareholder after the split transaction is effected, or to be a non-continuing shareholder and receive a cash payment for their shares. In addition, beneficial owners who would be cashed out if they were record owners instead of beneficial owners, and who wish to receive a cash payment from us as a part of the split transaction, would have the ability to inquire of their broker or nominee as to the

procedure and cost, if any, to transfer their shares into a record account into their own name. The board felt that this flexibility helped to balance the interests of the continuing and non-continuing shareholders.

The board determined that the proposed transaction was fair to our unaffiliated shareholders, and specifically with respect to the unaffiliated, non-continuing shareholders receiving cash in the split transaction. In making this determination, the board did not utilize the following procedural safeguards:

the split transaction was not structured to require separate approval by a majority of those shareholders who are not executive officers or directors of the company or the Bank; and

the board of directors did not retain any unaffiliated representative to act solely on behalf of shareholders who are not officers or directors of the company or the Bank for purposes of negotiating the terms of the split transaction or to prepare a report regarding the fairness of the transaction.

As discussed above, because our shareholders will have some control over the decision as to whether to remain a continuing shareholder, by acquiring additional shares, by consolidating their stock ownership or by transferring stock in or out of record name, we felt that these procedural safeguards would not add significant additional protection for our unaffiliated shareholders.

On October 28, 2004, Prairie Capital delivered to us its written fairness opinion, dated October 20, 2004, a copy of which is attached as Appendix C.

We have not sought, and have not received, any proposals from third parties for any business combination transactions, such as a merger, consolidation or sale of all or substantially all of our assets. Our board did not seek any such proposals because these types of transactions are inconsistent with the narrower purpose of the proposed transaction, which is to discontinue our SEC reporting obligations.

Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation

Blackhawk's Reasons for the Split Transaction

Blackhawk is undertaking the split transaction at this time to end our SEC reporting obligations, which will enable us to save the company and our shareholders the substantial costs associated with being a reporting company. The specific factors considered in electing at this time to undertake the split transaction and become a non-SEC reporting company are as follows:

We estimate that we will eliminate costs and avoid immediately anticipated future costs of approximately \$375,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of shareholder communications. These expenses for 2005 are expected to include legal expenses (\$22,000), accounting expenses (\$85,000), expenses for testing controls (\$97,000) and software and data processing (\$6,000). We will also realize cost savings by avoiding the need to add additional staff and from reduced staff and management time (\$165,000) spent on reporting and securities law compliance matters;

We believe that, as a result of the recent disclosure and procedural requirements resulting from the Sarbanes Oxley Act of 2002, the legal, accounting and administrative expense, and diversion of our board of directors, management and staff effort necessary to continue as an SEC-reporting company will remain significant as regulations implementing the act continue to be issued, without a commensurate benefit to our shareholders. We expect to continue to provide our shareholders with company financial information by disseminating our annual

reports, but we anticipate that the costs associated with these reports will be substantially less than those we incur currently;

In the board of directors' judgment, little or no justification exists for the continuing direct and indirect costs of registration with the SEC, which costs have recently increased as a result of heightened government oversight, given the low trading volume in our common stock and the fact that, at the time our board approved the split transaction, approximately 47.0% of our shareholders held fewer than 1,000 shares, and given that our earnings are sufficient to support growth and we therefore do not depend on raising capital in the public market, and do not expect to do so in the near future. If it becomes necessary to raise additional capital, we believe that there are adequate sources of additional capital available, whether through borrowing at the holding company level or through private or institutional sales of equity or debt securities, although we recognize that there can be no assurance that we will be able to raise additional capital when required, or that the cost of additional capital will be attractive;

Operating as a non-SEC reporting company will reduce the burden on our management that arises from the increasingly stringent SEC reporting requirements, thus allowing management to focus more of its attention on our customers and the communities in which we operate;

Operating as a non-SEC reporting company may eliminate the pressure and expectation to produce short-term per share earnings and may increase management's flexibility to consider and initiate actions that may produce long-term benefits and growth;

The split transaction proposal allows us to suspend our reporting obligations with the SEC, and allows both the affiliated and unaffiliated non-continuing shareholders to receive fair value and cash for their shares, in a quick and cost-effective manner, particularly given the possible ineffectiveness and inefficiencies of a tender offer, an open market share repurchase or a cash-out merger;

The split transaction will allow the non-continuing shareholders to realize what our board has determined to be fair value for their Blackhawk common stock. In reaching this conclusion, our board considered, among other factors, the valuation report prepared by Prairie Capital. In particular, our board considered that the \$15.25 price represents 21.9 times earnings for the nine months ended September 30, 2004, and a 43.8% premium over our book value as of September 30, 2004, which values are in line with comparable SEC-reporting companies;

At this point in time, following the sale of two branch offices of the Bank located in Rochelle and Oregon, Illinois, Blackhawk had sufficient excess capital available that it could put to use in strategic planning, and in determining how to best manage and utilize this excess capital, the board determined that the most beneficial use of the funds would be to undertake a deregistration transaction that would allow us to eliminate the costs and realize the other benefits outlined above;

Because, after evaluating Blackhawk's recent performance and management's expectations as to future performance, the board considered it likely that a transaction could be completed at a lower cost now than if we were to wait, and that therefore a transaction conducted at this time had the greatest likelihood of being completed; and

Completing the split transaction at this time will allow us to begin to realize the cost savings, will allow our management to redirect its focus to our customers and communities, and will allow the non-continuing shareholders to receive cash for their shares, all at the earliest possible date.

We considered that some shareholders may prefer to continue as shareholders of Blackhawk as an SEC-reporting company, which is a factor weighing against the split transaction. However, we believe that the disadvantages of remaining a public company subject to the registration and reporting requirements of the SEC outweigh any advantages. We have no present intention to raise capital through sales of securities in a public offering in the future or to acquire other business entities using stock as the consideration for such acquisition. Accordingly, we are not likely to make use of any advantage that our status as an SEC-reporting company may offer.

The board realized that many of the benefits of a deregistration transaction, such as eliminating costs associated with SEC reporting obligations and allowing management to focus on customers, community and core business initiatives, have been in existence for some time. However, it was not until the board felt the impact over time of the increasingly stringent regulation brought on by The Sarbanes-Oxley Act that it began seriously to consider a strategic transaction that would result in the deregistration of our common stock. Moreover, it was not until the board and management determined, in connection with the company's overall strategic planning process, including the proposed sale of two branch offices of the Bank, that we had excess capital available that the board felt the company was in a position to begin to undertake such a transaction. As a result of the confluence of these factors in the second and third quarters of this year, the board determined that it should undertake the transaction at this time. *See* Background of the Split Transaction.

Other than the cost savings and other benefits associated with becoming a non-SEC reporting company, as outlined above and as described in the discussion under Purpose and Structure of the Split Transaction, Blackhawk does not have any other purpose for engaging in the split transaction at this particular time.

In view of the wide variety of factors considered in connection with its evaluation of the split transaction, our board of directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors it considered in reaching its determinations.

The split transaction, if completed, will have different effects on the non-continuing shareholders and the continuing shareholders. You should read the discussions under Blackhawk's Position as to the Fairness of the Split Transaction and Effects of the Split Transaction on Shareholders of Blackhawk for more information regarding these effects of the split transaction.

We considered various alternative transactions to accomplish the proposed transaction, but ultimately elected to proceed with the split transaction. The following were the alternative transactions considered, but rejected:

Tender Offer to all Unaffiliated Shareholders. Our board of directors determined that we do not have the funds to effect a tender offer and would have to incur an unacceptably high amount of additional debt, if available, in order to effect this transaction. In addition, there might not be a sufficient number of record shareholders tendering their shares to reduce the number of record shareholders below 300, resulting in the requirement of a second-step merger.

Open Market Stock Repurchase. The board considered announcing a stock buy-back plan and purchasing shares on the open market. Although the expenses associated with such a

transaction would be low, it might not result in the desired reduction of shareholders of record. The board determined that an open market stock repurchase would deplete our capital and possibly not achieve the record shareholder reduction objective.

Cash-Out Merger. The board considered a cash-out merger of the company into a newly-formed corporation, with the conversion of the outstanding shares occurring in the same general manner and ratios as in the split transaction. This type of merger would have the same net effect on our shareholders as the split transaction. However, the board determined that a cash-out merger was not a preferable option because it did not offer any advantages over the split transaction, but would have required the formation of a new corporation, more documentation than the split transaction, including a detailed plan of the merger, and likely more regulatory issues and increased costs.

Business Combination. We have not sought, and have not received, any proposals from third parties for any business combination transactions, such as a merger, consolidation or sale of all or substantially all of our assets. Our board did not seek any such proposals because these types of transactions are inconsistent with the narrower purpose of the proposed transaction, which is to suspend our SEC reporting obligations. The board believes that by implementing a deregistration transaction, our management will be better positioned to focus its attention on our customers and the communities in which we operate, and expenses will be reduced.

Maintaining the Status Quo. The board considered maintaining the status quo. In that case, we would continue to incur the significant expenses, as outlined above, of being an SEC-reporting company without the expected commensurate benefits. Thus, the board considered maintaining the status quo not to be in our best interests or the best interests of our unaffiliated shareholders and rejected this alternative.

See Purpose and Structure of the Split Transaction for further information as to why this split transaction structure was chosen.

Blackhawk's Position as to the Fairness of the Split Transaction

Based on a careful review of the facts and circumstances relating to the split transaction, our board of directors believes that the split transaction and the terms and provisions of the split transaction, including the cash to be paid to the non-continuing shareholders, are substantively and procedurally fair to our unaffiliated shareholders. Our board of directors unanimously approved the split transaction.

In concluding that the terms and conditions of the split transaction, including the cash to be paid to the non-continuing shareholders, are substantively fair to our unaffiliated shareholders, our board of directors considered a number of factors. In its consideration of both the procedural and substantive fairness of the transaction, the board considered the potential effect of the transaction as it relates to all shareholders generally, to non-continuing shareholders and to continuing shareholders. Because the transaction will affect shareholders differently only to the extent that some will be cashed out in the split transaction and some will retain their interest in the company, these are the only groups of

shareholders with respect to which the board considered the relative fairness and the potential effects of the transaction. *See* Effects of the Transaction on Shareholders of Blackhawk.

The factors that our board of directors considered positive for all unaffiliated shareholders, including both those that are continuing and non-continuing shareholders, included the following:

our smaller shareholders who prefer to remain as shareholders of Blackhawk, despite the board's recommendation, may elect to do so by acquiring sufficient shares so that they hold

at least 1,000 shares of common stock in their own names immediately prior to the split transaction;

beneficial owners who hold their shares in street name, who would be cashed out if they were record owners instead of beneficial owners, and who wish to be cashed out as if they were record owners instead of beneficial owners, can work with their broker or nominee to transfer their shares into a record account in their own name so that they will be cashed out; and

shareholders receive limited benefit from us being an SEC-reporting company because of our small size, the lack of analyst coverage, and limited trading of our common stock.

In addition to the positive factors applicable to all of our unaffiliated shareholders set forth above, the factors that the board of directors considered positive for the unaffiliated shareholders that are non-continuing shareholders included:

the cash price of \$15.25 represents a 43.8% premium over our book value of our common stock as of September 30, 2004;

our common stock trades infrequently, with an average trading volume of approximately 26,000 shares per month, or approximately 1.0% of our outstanding common stock, a volume that the board felt did not provide our shareholders with sufficient opportunity to easily obtain cash for their shares;

the cash to be paid to them in the split transaction will provide certainty of value to those shareholders and immediate liquidity for them; and

no brokerage or other transaction costs are to be incurred by them in connection with the divesture of their shares.

In addition to the positive factors applicable to all of our shareholders set forth above, the factors that the board of directors considered positive for the unaffiliated shareholders that are continuing shareholders included:

they will continue to have the opportunity to participate in our future growth and earnings;

they will realize the potential benefits of termination of registration of our common stock, including reduced expenses as a result of no longer needing to comply with SEC reporting requirements;

the fact that we anticipate that our shares will continue to be traded on the OTCBB after the split transaction, which will provide opportunities for continuing shareholders to trade their shares in the future; and

the two step structure of the split transaction will avoid disruption to holders of 1,000 or more shares of our common stock, who are not being cashed out in the transaction, by avoiding the requirement that these shareholders forward their stock certificates to the company for cash for fractional shares of common stock and replacement stock certificates for whole shares of common stock.

Our board considered each of the foregoing factors to weigh in favor of the substantive fairness of the split transaction to our unaffiliated shareholders, whether they are non-continuing shareholders or

continuing shareholders. In addition, although the board arrived at the \$15.25 per share price, which represents a premium of 43.8% over our book value as of September 30, 2004, on the basis that it had, in consultation with its financial advisor, determined this amount to be a fair value to be paid to non-continuing shareholders, the board also considered this per-share purchase price to be fair from the perspective of continuing shareholders, because, as indicated above, the premium level was determined to be in line with that of comparable SEC-reporting companies. In addition, the board considered the purchase of shares in the split transaction at this price to be the best use of the company's excess capital. *See* Blackhawk's Reasons for the Split Transaction.

The board is aware of, and has considered, the impact of certain potentially countervailing factors on the substantive fairness of the split transaction to the unaffiliated shareholders. In particular, the factors that our board of directors considered as potentially negative for the unaffiliated shareholders that are non-continuing shareholders included:

they will be required to surrender their shares involuntarily in exchange for the cash-out price determined by the board without the opportunity to liquidate their shares at a time and for a price of their choosing;

they will not have the opportunity to participate in any of our future growth and earnings; and

they will be required to pay income tax on the receipt of cash in the split transaction.

The factors that our board of directors considered as potentially negative for the unaffiliated shareholders that are continuing shareholders included:

they will have reduced access to our financial information once we are no longer an SEC-reporting company, although we do intend to continue to provide the continuing shareholders with our annual reports and Blackhawk and the Bank will continue to be subject to the filing requirements of our Federal and State regulatory agencies;

the continuing shareholders will lose certain anti-takeover protections provided to public companies under Wisconsin law, unless we subsequently adopt amendments to our articles of incorporation electing to be covered by those statutes;

the fact that future business partners might require more information from us before entering into a business relationship due to the lack of publicly available information about us;

the fact that we may have a lower public profile in our community, which may be a negative factor with some of our customers; and

the fact that continuing shareholders will lose certain protections currently provided under the Securities Exchange Act, such as limitations on short-swing transactions by executive officers and directors under Section 16 of the Securities Exchange Act.

Our board of directors believes that these potentially countervailing factors did not, individually or in the aggregate, outweigh the overall substantive fairness of the split transaction to our unaffiliated shareholders, whether they be continuing or non-continuing shareholders and that the foregoing factors are outweighed by the positive factors previously described.

We believe that the split transaction is procedurally fair to our unaffiliated shareholders, including those that are continuing shareholders and those that are non-continuing shareholders. In concluding that the split transaction, including the cash to be paid to the non-continuing shareholders, is procedurally fair to our unaffiliated shareholders, the board of directors considered a number of factors. The factors that our board of directors considered positive for all unaffiliated shareholders, including both continuing and non-continuing shareholders, included the following:

the split transaction is being effected in accordance with all applicable requirements of Wisconsin law;

our board of directors is primarily comprised of independent members, and, accordingly, there was no need to form a special committee or retain any unaffiliated representative(s) to represent unaffiliated shareholders, as the board was able to adequately balance the competing interests of the non-continuing shareholders and the continuing shareholders in accordance with their fiduciary duties. Although all but two of our board members do own stock in Blackhawk, and are required by our bylaws to own 3,000 shares within three years of becoming a director, the 1,000 share cutoff set in the split transaction was determined without regard to the directors' share ownership, and as this represented the sole potential conflict of interest and the board members will be treated identically to all other shareholders in the split transaction, the board did not feel that any additional protections that may be afforded by a special committee would be significant;

the board obtained a valuation report and fairness opinion from an independent third party concerning our common stock, and the board imposed no limitations upon Prairie Capital with respect to the investigation made or procedures followed in rendering its valuation report and fairness opinion;

the board retained and received advice from legal counsel in evaluating the terms of the split transaction;

management and the board considered alternative methods of effecting a transaction that would result in our becoming a non-SEC reporting company, each of which was determined to be impractical, more expensive than the split transaction, or potentially ineffective in achieving the goals of providing cash and value to the non-continuing shareholders as soon as possible and eliminating the costs and burdens of public company status;

shareholders will have the opportunity to determine whether or not they will remain shareholders after the split transaction by acquiring sufficient shares so that they hold at least 1,000 shares immediately prior to the split transaction or selling sufficient shares so that they hold less than 1,000 shares immediately prior to the split transaction, so long as they act sufficiently in advance of the split transaction so that the sale or purchase is reflected in our shareholder records by the close of business (local time) on the effective date of the split transaction; and

Blackhawk had sufficient cash resources to undertake the necessary actions to finance the split transaction.

The board of directors considered each of the foregoing factors to weigh in favor of the procedural fairness of the split transaction to our unaffiliated shareholders, whether they are continuing or non-continuing shareholders.

The board is aware of, and has considered, the impact of the following potentially countervailing

factors, which affect both continuing and non-continuing shareholders to the same degree, on the procedural fairness of the split transaction:

although the interests of the continuing shareholders are different from the interests of the non-continuing shareholders and may create actual or potential conflicts of interest in connection with the split transaction, neither the board nor any of the directors retained an independent, unaffiliated representative to act solely on behalf of the non-continuing, shareholders for the purpose of negotiating the terms of the split transaction or preparing a report concerning the fairness of the split transaction;

the transaction is not structured to require approval of at least a majority of unaffiliated shareholders; however, we determined that any such voting requirement would improperly usurp the power of the holders of a majority of our outstanding shares to consider and approve the proposed amendment as provided in our articles of incorporation and under Wisconsin law;

no appraisal or dissenters' rights are available under Wisconsin law to shareholders who dissent from the split transaction;

we did not solicit any outside expressions of interest in acquiring the company; and

we did not receive a valuation of our common stock by a second independent appraiser, in addition to the valuation report prepared by Prairie Capital, even though the receipt of recommendations from two independent appraisers with respect to the consideration to be paid in the split transaction may result in a presumption that the consideration was fair under Wisconsin law.

The board of directors believes that the foregoing potentially countervailing factors did not, individually or in the aggregate, outweigh the overall procedural fairness of the split transaction to our unaffiliated shareholders, whether they are continuing or non-continuing shareholders, and the foregoing factors are outweighed by the procedural safeguards previously described. In particular, with reference to the lack of a special committee, the board felt that the consideration of the transaction by the full board, whose sole conflict of interest is a relatively insignificant increase in aggregate share ownership following the split transaction and who will be treated identically to unaffiliated shareholders in the split transaction, was a sufficient procedural safeguard that made it unnecessary to form a special committee or retain an independent fairness advisor.

In addition, with respect to the determination not to seek a second opinion on valuation, our board felt that the valuation coupled with the fairness opinion to be given by Prairie Capital provided sufficient procedural safeguards with respect to the cash to be paid to the affiliated and unaffiliated non-continuing shareholders, and determined that it would be unnecessary to incur the additional cost associated with obtaining a second recommendation from a second independent appraiser, particularly given that the possible presumption of fairness under Wisconsin law would be rebuttable by any shareholder presenting contrary evidence.

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Because shareholders will have the opportunity to adjust their share ownership levels and thereby elect whether or not to remain a shareholder, the board did not consider the absence of appraisal rights to be a significant factor with respect to the split transaction.

We therefore believe that the split transaction is substantively and procedurally fair to our unaffiliated shareholders, including those that are continuing shareholders and those that are non-continuing shareholders, for the reasons and factors described above. In reaching this determination, we

have not assigned specific weights to particular factors, and we considered all factors as a whole. None of the factors that we considered led us to believe that the split transaction is unfair to our unaffiliated shareholders, whether they are continuing or non-continuing shareholders.

No unaffiliated person has made any offer during the past two years regarding our merger or consolidation with or into such person, for the sale or other transfer of all or any substantial part of our assets, or for the purchase of a controlling number of shares of our common stock.

In evaluating the \$15.25 per share that unaffiliated, non-continuing shareholders will receive in the split transaction, the board considered whether this constitutes fair value in relation to current and historical (including recent) market prices, net book value, going concern value, and the valuation report and fairness opinion of Prairie Capital. In particular, the board was aware that our common stock, during the two years prior to its consideration of the split transaction through the quarter that ended immediately prior to its approval of the transaction, traded in the range of \$8.25 to \$14.00 and during the period from October 1, 2004 through October 20, 2004, the date of its approval of the transaction, was trading in the range of \$11.90 to \$12.50 and on October 20, 2004, was trading at \$12.00 per share (*see* Market Price of Blackhawk Common Stock and Dividend Information Comparative Market Price Data) and therefore the \$15.25 price represents an approximate 9.0% to 85.0% premium over those market prices during the two years prior to its consideration of the transaction, an approximate 22% to 28% premium over those market prices during the period from October 1, 2004 through October 20, 2004, and an approximate 27% premium over the market price on October 20, 2004. However, given the low trading volume of our common stock, the board recognized that our current and historical market prices may not be the most meaningful indication of value. As discussed above, the board considered the fact that the \$15.25 cash price represents a 43.8% premium over our book value as of September 30, 2004, to be a factor weighing in favor of the split transaction.

In evaluating the \$15.25 share price in relation to our independent going concern value for purposes of determining the fairness of the split transaction, our board noted that fair value as determined under Wisconsin law takes into account the shareholders' proportionate interest in the company as a going concern, prior to taking the corporate action. Therefore, with respect to this factor, we relied upon the financial analyses performed by Prairie Capital, which calculated a range of fair values of our common stock, utilizing comparable peer group analysis, comparable transactions analysis and discounted dividend analysis, among other analyses. Prairie Capital's analyses are summarized in Valuation of Financial Advisor; Fairness Opinion. We expressly adopt the analyses and conclusions of Prairie Capital set forth in its valuation report and fairness opinion, and have relied on these analyses in making our fairness determination as described in this proxy statement.

In reaching a determination as to fairness, we did not consider the liquidation value of our assets to be a material factor in our consideration of the fairness of the split transaction, because we believe that the value that could be obtained through a liquidation of our assets would be significantly less than the value that could be obtained through a cash-out, going-private transaction. As a general rule, financial institutions do not have tangible assets that would bring a high value in a liquidation sale, but instead have assets that are dependent on a strong customer base. Because financial institutions are so heavily regulated, a liquidation process would be lengthy, and it is likely that if the company announced a liquidation sale customers would move their loans and deposits, which account for the most significant bank assets, to other institutions. Therefore, liquidation of a financial institution such as Blackhawk would not be likely to result in as high a value as if the company were to remain a going concern.

Because we have not repurchased shares of our common stock during the past two years, we did not consider purchase prices paid in previous transactions in our consideration of the fairness of the split transaction.

Neither we nor any of the members of our board of directors received any reports, opinions or appraisals from any outside party relating to the split transaction or the fairness of the consideration to be received by our shareholders, other than the fairness opinion and valuation report received from Prairie Capital and attached as Appendix B-2 and Appendix C to this proxy statement.

We have not made any provision in connection with the split transaction to grant unaffiliated shareholders access to our corporate files or to obtain counsel or appraisal services at our expense. With respect to unaffiliated shareholders' access to our corporate files, our board determined that this proxy statement, together with our other filings with the SEC, provide adequate information for unaffiliated shareholders. With respect to obtaining counsel or appraisal services solely for unaffiliated shareholders at our expense, the board did not consider these actions necessary or customary. Our board also considered the fact that under Wisconsin corporate law, and subject to certain conditions set forth under Wisconsin law, shareholders have the right to review our relevant books and records of account.

Board Recommendation

*Our board of directors believes the terms of the split transaction are fair and in the best interests of our unaffiliated shareholders and unanimously recommends that you vote **FOR** the proposal to adopt the amendments to our articles of incorporation that will allow us to effect the split transaction.*

The Bank's Reasons and Purpose for the Split Transaction

The Bank is joining in the filing of this proxy statement solely because of its role in providing, by dividend to the company, at the direction of the Company, its sole stockholder, funds necessary to complete the split transaction. *See* Financing of the Split Transaction. The Bank is wholly-owned by Blackhawk, all of the directors of Blackhawk are also directors of the Bank, and the management of Blackhawk also serves as management of the Bank. As a result, the Bank's reasons and purposes for engaging in the split transaction are the same as those of Blackhawk. *See* Blackhawk's Reasons for the Split Transaction and Purpose and Structure of the Split Transaction.

The Bank's Position as to the Fairness of the Split Transaction

The rules of the SEC require the Bank to express its belief as to the substantive and procedural fairness of the split transaction to Blackhawk's unaffiliated shareholders. The Bank's board of directors, all of whom also serve as directors of Blackhawk, believes that the split transaction and the terms and provisions of the split transaction, including the cash to be paid to Blackhawk's non-continuing shareholders, are substantively and procedurally fair to Blackhawk's unaffiliated shareholders, including both unaffiliated shareholders that are continuing shareholders and unaffiliated shareholders that are non-continuing shareholders. In reaching this conclusion, the Bank's directors relied upon the factors considered by and the analyses and conclusions of the Blackhawk board of directors, as well as the analysis and conclusions of Blackhawk's financial advisor, Prairie Capital, and the Bank adopts such analyses and conclusions as its own. *See* Blackhawk's Position as to the Fairness of the Split Transaction. The Bank is not making any recommendation regarding how Blackhawk's shareholders should vote.

Mr. Bastian's Reasons and Purpose for the Split Transaction

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Mr. Bastian is joining in the filing of this proxy statement solely because under the SEC rules he is an affiliate of the company, as its President and Chief Executive Officer. In addition, Mr. Bastian is a member of the company's board of directors. In his capacity as an officer and a director of the company, Mr. Bastian has played a role in the company's review and consideration of the going private transaction and participated in the deliberations of the company's board of directors. *See* Background of the Split

Transaction. Mr. Bastian's reasons and purposes for engaging in the split transaction are the same as those of the Company. See Blackhawk's Reasons for the Split Transaction and Purpose and Structure of the Split Transaction. He does not have any independent, personal reasons or purposes for engaging in the transaction apart from those of the company.

Mr. Bastian's Position as to the Fairness of the Split Transaction

The rules of the SEC require Mr. Bastian to express his belief as to the substantive and procedural fairness of the split transaction to the company's unaffiliated shareholders. Mr. Bastian, who serves as the President and Chief Executive Officer and also as a director of the company, believes that the split transaction and the terms and provisions of the split transaction, including the cash to be paid to the Company's non-continuing shareholders, are substantively and procedurally fair to the Company's unaffiliated shareholders, including both unaffiliated shareholders that are continuing shareholders and unaffiliated shareholders that are non-continuing shareholders. In reaching this conclusion, Mr. Bastian relied upon the same factors considered by and the analyses and conclusions of the full board of directors, as well as the analysis and conclusions of the company's financial advisor, Prairie Capital, and Mr. Bastian adopts such analyses and conclusions as its own. See Blackhawk's Position as to the Fairness of the Split Transaction. As a member of the board of directors, Mr. Bastian recommends that the Company's shareholders vote to approve the split transaction.

Valuation of Financial Advisor; Fairness Opinion

On September 26, 2004, we retained Prairie Capital to act as our financial advisor with respect to the split transaction, including providing a valuation of our common stock to be repurchased and issuing an opinion as to the fairness, from a financial point of view, of the per share price offered to our shareholders who will be cashed-out as a result of the reverse stock split.

Prairie Capital is an investment banking firm and financial advisory firm serving financial institutions exclusively. Prairie Capital specializes in advising on and effecting bank mergers and acquisitions and branch purchases and sales. Related to these services, Prairie Capital also provides valuations and fairness opinions to financial institutions and their stockholders for a variety of purposes including stock redemptions.

David E. Downen and David E. Albertson prepared Prairie Capital's report. Both are principals of Prairie Capital. Mr. Downen has served many years as an investment banker and financial analyst specializing in financial institutions and is a Chartered Financial Analyst. Mr. Albertson has over 35 years experience with financial institutions in management, operations, commercial lending, mergers and acquisitions and strategic planning. Prairie Capital has knowledge of, and experience with, the banking market in which we operate and banking organizations within this market, and was selected by us because of Prairie Capital's knowledge of, experience with, and reputation in the financial services industry.

Management decided to retain Prairie Capital based on that firm's extensive experience, knowledge and background in valuing financial institutions and holding companies. In addition, our management chose Prairie Capital because Prairie Capital would provide a valuation and fairness opinion at a cost to the company lower than the other financial advisors contacted, thereby retaining cash that could be paid to non-continuing shareholders as well as retained in the company for future operations. See Background of the Split Transaction.

Prairie Capital prepared its valuation report (a copy of which is attached as [Appendix B-2](#)), which stated that as of October 20, 2004, the fair value range of the shares to be repurchased in the split transaction was between \$13.90 and \$15.25 per share. A draft copy of the valuation

report was provided to our board of directors at a meeting held on October 6, 2004 and a copy of this draft is attached as

Appendix B-1. The draft report is identical in form and result to the final valuation report. A representative of Prairie Capital then presented the final valuation report to our board at a meeting held on October 20, 2004. After the presentation and at the October 20 meeting, the board discussed the valuation report and set the price for the shares in the split transaction at \$15.25 per share, which was at the top of the range of values indicated in the presentation by Prairie Capital. After the board determined the price at the October 20 meeting, Prairie Capital delivered to us its oral opinion based on and subject to the assumptions, factors, and limitations as set forth in the written opinion attached as Appendix C that the \$15.25 per share price to be paid by us in the split transaction is fair from a financial point of view to our unaffiliated non-continuing shareholders who will be cashed out in the split transaction. On October 28, 2004, Prairie Capital delivered to us its written fairness opinion, dated October 20, 2004 (a copy of which is attached as Appendix C). See Background of the Split Transaction for further discussion of these meetings.

No limitations were imposed by our board of directors upon Prairie Capital with respect to the investigations made or procedures followed by it in rendering its opinion. The following is a summary of the procedures followed, the findings and recommendations and the bases for and methods of arriving at such findings and recommendations, which were presented in the Prairie Capital valuation report and used to generate its fairness opinion.

The full text of Prairie Capital's valuation report and fairness opinion, each of which sets forth the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Prairie Capital, are attached as Appendix B-2 and Appendix C, respectively, to this proxy statement. Our shareholders are urged to read the attached Prairie Capital fairness opinion and valuation report in their entirety. The Prairie Capital fairness opinion and valuation report are directed to our board of directors and are directed only to the per share price that will be paid to the non-continuing shareholders who will be cashed-out as a result of the split transaction. Neither document addresses our underlying business decision to effect the proposed split transaction, nor do they constitute a recommendation to any shareholder as to how the shareholder should vote with respect to the proposed split transaction at the special meeting or as to any other matter. The Prairie Capital valuation report, together with the fairness opinion, were among many factors taken into consideration by our board of directors in making its determination of the repurchase price. The fairness opinion and valuation report of Prairie Capital does not address the relative merits of the split transaction as compared to any alternative business strategies that might exist for us or the effect of any other strategy in which we might engage. The summary of the Prairie Capital opinion and valuation report set forth in this proxy statement is qualified in its entirety by reference to the full text of each of these documents.

In conducting its analyses and preparing its valuation report and fairness opinion, Prairie Capital considered the financial and other factors as it deemed appropriate under the circumstances including the following:

our annual reports to shareholders and our SEC reports on Form 10-KSB for the years ended December 31, 1998 through 2003;

our SEC Report on Form 10-QSB for the quarterly period ended June 30, 2004;

the Notice of Annual Meeting of Shareholders on May 19, 2004;

the June 30, 2004 Uniform Bank Performance Report for the Bank and our June 2004 Bank Holding Company Performance Report;

internal and operating information for the Bank and for us related to deposits and other funding sources, investments, loans, interest rate risk and budgets, transactions in our common stock, projections of financial results for the fiscal years 2004 through 2009 (which are summarized in Table 5 attached to Prairie Capital's valuation report attached as Appendix B-2 to this proxy statement), among other data;

various materials on the proposed plan to consolidate common stock ownership to fewer than 300 registered holders;

the recent common stock market prices, earnings, book values, profitability and capital ratios, among other data, of twenty-six bank holding companies based and/or operating in Illinois and Wisconsin;

data on sixteen Illinois and Wisconsin bank merger and acquisition transactions announced in 2003 through 2004 and on twenty-eight transactions during the same period in other Midwestern states, will all the transactions ranging in value from \$10 million to under \$100 million;

data on acquisition premiums recorded by NASDAQ-traded common stocks of financial institutions the proposed sale of which was announced in 2004; and

additional information Prairie Capital deemed relevant.

Additionally, Prairie Capital:

conducted or reviewed such other studies, analyses, inquiries and examinations as it deemed appropriate;

discussed with our management the financial condition, businesses, assets, earnings and management's views about our future performance; and

reviewed the nature and terms of certain other going-private transactions that it believed to be relevant.

Prairie Capital also considered its assessment of general economic, market, financial and regulatory conditions and trends, as well as its knowledge of the financial institutions industry, its knowledge of securities valuation generally, and its knowledge of going-private transactions in the financial services industry.

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In connection with its review, Prairie Capital relied upon and assumed, without independent verification, the accuracy and completeness of our financial and other information that was publicly available or provided to Prairie Capital by us and our representatives. Prairie Capital is not an expert in the evaluation of allowance for loan losses. Therefore, Prairie Capital did not assume any responsibility for making an independent evaluation of the adequacy of the allowance for loan losses set forth in our consolidated balance sheets as of June 30, 2004, and Prairie Capital assumed such allowances were adequate and complied fully with applicable law, regulatory policy, sound banking practice and policies of the SEC as of that date. Prairie Capital discussed certain operating forecasts and financial projections (and the assumptions and basis therefore) with our management. Prairie Capital assumed that these forecasts and projections reflected the best currently available estimates and judgments of management. In certain instances, for the purposes of its analyses, Prairie Capital made adjustments to these forecasts and projections, which in Prairie Capital's judgment were appropriate under the circumstances. Prairie Capital was not retained to nor did it make any independent evaluation or appraisal of our assets or

liabilities or the assets or liabilities of the Bank nor did Prairie Capital review any loan files of the Bank. Prairie Capital also assumed that the transaction in all respects is, and will be, undertaken and consummated in compliance with all laws and regulations that are applicable to us.

The preparation of a valuation involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, Prairie Capital's valuation report is not readily susceptible to partial analysis or summary description. In arriving at its valuation, Prairie Capital performed a variety of financial analyses. Prairie Capital believes that its analyses must be considered as a whole and the consideration of portions of such analyses and the factors considered therein, or any one method of analysis, without considering all factors and analyses, could create an incomplete view of the analyses and the evaluation process underlying Prairie Capital's opinion.

The forecasts and projections discussed with Prairie Capital were prepared by our management without input or guidance from Prairie Capital. We do not publicly disclose internal management projections of the type provided to Prairie Capital in connection with its valuation report. The projections were not prepared with a view toward public disclosure. The public disclosure of the projections could be misleading because the projections were based on numerous variables and assumptions that are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

In its analyses, Prairie Capital, as background for its analysis and conclusions, gave consideration to the status and outlook for the economy and banking industry. The U.S. economy has continued to gather strength with third quarter 2004 GDP growth of 3.4%, although the Rockford and Beloit markets have been adversely affected by manufacturing job losses from foreign competition. The unemployment rate has declined and was 5.4% for the U.S. in September 2004 compared to 6.0% for Illinois and 5.0% for Wisconsin. Rockford and Beloit (Janesville-Beloit) have lagged behind with unemployment rates of 7.1% and 5.8%, respectively.

The Federal Reserve has been moving interest rates moderately higher with the Federal funds rate rising from 1% to 2.25% in four steps. Although the price indexes have been rising at a modest rate, there has been anecdotal evidence of renewed inflation along with higher oil and gasoline prices. Also, the decline in the dollar vis-à-vis the euro, yen and other currencies will contribute to rising import prices and may bring about higher interest rates.

The commercial banking industry has come through the recession with only modest increases in nonperforming assets and steady profitability. More recently, net interest margins have been under pressure as asset yields have dropped more than the cost of funds. The latter part of the year of 2003 the yield curve flattened out. Subsequently, long-term rates increased for a while but then, despite the Federal Reserve's stance, long-term rates declined. More recently, long-term rates began rising again. Offsetting the decline in net interest margins has been an increase in fee income from high mortgage refinancing volume as interest rates hit a 45 year low in June 2003. In addition, with the decline in interest rates many banks have supplemented earnings with gains from the sale of securities.

In 2004, mortgage refinancing activity has slowed down and as a result mortgage finance income has declined sharply in many cases. It was anticipated that commercial loan activity would increase and offset the decline in mortgage finance income. However, commercial loan growth has been slower than anticipated. Earnings growth for banks has slowed.

Intense competition in the Rockford and Beloit markets continues. There are 21 banking institutions directly competing in the Rockford market (Winnebago County and Boone County, Illinois) and 18 in the Beloit area (Rock County, Wisconsin).

The market for bank stocks as measured by the NASDAQ Bank Index after a long rise reached a record of 2290 in April 1998. From that point, the Index declined to a low of 1340 in March 2000. It then began recovering, reaching 2245 in the third week of August 2001, which was close to the previous record, before declining to 1855 in the third week of September 2001 following the terrorist attacks.

Since then, with some fluctuations, particularly in 2002, the bank stock market has generally been strong. It reached an interim high of 2476 in mid-May 2002 and then declined to 2228 at 2002 year-end. The Bank Index declined further, to 2100, in mid-March 2003. Since the 2003 low, the Bank Index has generally risen, reaching a high of 2928 in December 2003 and closed the year at just under 2900. In 2004, the Bank Index slowly declined to a low of 2712 in May and then climbed back to 2975 at the end of September 2004. The bank common stocks used in our analyses have followed a pattern similar to the Bank Index.

In summary, the economy has strengthened although it appears that growth is slowing. For the bank industry, earnings are growing but at a slower rate, asset quality is good and bank stock prices have been reaching new highs. Any estimates contained in Prairie Capital's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates. Estimates of values of companies do not purport to be appraisals nor do they necessarily reflect the prices at which companies or their securities may actually be sold. In rendering its analysis, Prairie Capital assumed that, in the course of obtaining the necessary approvals for the transaction, no conditions would be imposed that will have a material adverse effect on the contemplated benefits of the transaction.

Prairie Capital's valuation report and opinion were based solely upon the information available to it and the economic, market and other circumstances, as they existed as of the date of the valuation report and opinion. Prairie Capital has not undertaken to reaffirm or revise its valuation report or opinion or otherwise comment upon any events occurring after the date of the valuation report and opinion.

Scope of Prairie Capital's Analysis

In the valuation of any business or property, there are generally three approaches to value although all three approaches may not be deemed appropriate in every case. These three approaches are as follows:

the income approach;

the market approach; and

the cost approach.

The income approach is based on the premise that a prudent investor would pay no more for an asset than the present value of its future income. Therefore, the income approach establishes the value of a business based on capitalization of the net cash flows generated by the business. Estimated future cash flows are discounted to a present value using a rate of return that takes into consideration the unique risks and attributes of the entity being valued relative to alternative rates of return otherwise available in the market to investors.

The market approach is based on the premise that an informed purchaser would be pay no more for an asset than the cost of acquiring an existing asset with the same utility. The market approach establishes value through analysis of recent sales of comparable assets. In determining a value for an on-going privately held business entity, the market approach provides guidance to the value that investors are setting for similar businesses in the marketplace. The implied market capitalization values indicated by

similar companies that are either publicly traded or those that have been reported for merger and acquisition transactions is analyzed.

The cost approach is based on the proposition that an informed purchaser would pay no more for an asset than the cost of producing a substitute asset with the same utility as the asset being valued. In the cost approach method to valuing a business entity, an itemized valuation is performed for each of the entity's assets. The sum of the values represents the value of the enterprise, although this results in a static value of the entity, rather than a value of the entity as a going concern.

To determine the fair value of Blackhawk as a going concern, Prairie Capital used three valuation methodologies.

A comparable company analysis, which is a market approach of valuation. Prairie Capital compared the valuations of similar publicly traded bank holding companies in Illinois and Wisconsin expressed in terms of price/earnings ratios and price/book value ratios to our value based on the recent market price of our common stock. Because the market price of our common stock represents a minority value, Prairie Capital added a premium to reach our going concern value.

A comparable transaction analysis, which is another market approach of valuation. Prairie Capital examined announced bank merger and acquisition transactions in Illinois, Wisconsin and other Midwestern states in 2003 and 2004. Prairie Capital applied the price/book value ratios obtained from these transactions to our tangible book value per share and adjusted the results to exclude merger synergies.

A discounted cash flow analysis, which is an income approach of valuation.

Because cost approaches to valuation disregard the going concern value of the business entity being valued and are more appropriate for valuing entities that are dependent on the value of assets such as real estate and machinery or equipment, Prairie Capital did not employ a cost approach method of valuation when determining the value of the company.

As discussed below in the more detailed summaries of each valuation method, Prairie Capital determined the following range of values using each valuation method:

\$12.94 to \$13.95 per share based on the comparable company analysis;

\$14.54 to \$15.51 per share based on the comparable transaction analysis; and

\$14.56 to \$17.35 per share based on the discounted cash flow analysis.

After giving each of the values obtained by these analysis an appropriate weight (as noted in the table below and discussed in the conclusion at the end of this section), in Prairie Capital's opinion, and based on Prairie Capital's experience in evaluating financial institutions, Prairie Capital concluded that, as of October 20, 2004, our fair value as a going concern ranged between \$13.90 to \$15.25 per share. Although, the comparable transaction analysis and the discounted cash flow analysis resulted in values that ranged above the final fair value range determined by Prairie Capital, based on its experience and judgment, Prairie Capital believed that the three methodologies when considered together and appropriately weighted provided an accurate indication of a range of our fair value. When considering Prairie Capital's valuation report, our board, including Mr. Bastian, considered the results of Prairie Capital's valuation methodologies as a whole and did not reach a conclusion based on any individual methodology.

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The following table compares the ranges yielded by each valuation methodology used by Prairie Capital to the purchase price determined by the board in the split transaction:

Fair value based:	Market values of comparable companies.	\$	12.94	\$	13.95	.4(Weight)	\$	5.18	\$	5.58	
	Values from bank merger and acquisition transactions.	\$	14.54	\$	15.51	.4	\$	5.82	\$	6.20	
	Discounted cash flow analysis	\$	14.56	\$	17.35	.2	\$	2.91	\$	3.47	
							\$	13.91	\$	15.25	
							rounded	\$	13.90	\$	15.25
Purchase Price in split transaction						\$	15.25				

Comparable Company Analysis

Prairie Capital's first method of valuation was a comparable company analysis. Prairie Capital selected 26 publicly traded bank holding companies divided into four groups with significant operations in Illinois and Wisconsin for purposes of comparison with us. Prairie Capital reviewed our service area, business, operations, financial condition and performance among other factors. Our results, including profitability, capital, asset quality, reserve strength and growth, were compared to these publicly-traded bank holding companies. With few exceptions, we ranked at or near the bottom in all categories.

Prairie Capital then selected four bank holding companies located in outstate Illinois and eight bank holding companies listed on the OTCBB as being most comparable with us. Prairie Capital noted that the average and median price/earnings ratios of the eight bank holding companies listed on the OTCBB were 14.9 and 13.6 times, which Prairie Capital found reasonable in its opinion.

Prairie Capital considered that the price of \$12.40 per share for our common stock as of September 27, 2004, was 23.8 times latest twelve months earnings (ended June 30, 2004), 124.4% of stated book value and 172.7% of tangible book value. In its opinion, Prairie Capital found that our price/earnings of 23.8 times was distorted and not a good valuation guide because of our low profitability. Prairie Capital also determined that it is difficult to value us based on price/book value ratios because of our low tangible book value. At the \$12.40 price, our common stock was valued at 14.4 times a 2005 earnings projection of \$0.86 per share compared to the average and median price/earnings ratios for the eight bank holding companies listed on the OTCBB of 14.0 and 13.6 times last twelve month earnings. With little earnings visibility yet, Prairie Capital found that our common stock seemed fully valued, and concluded that a reasonable minority value for our common stock, in its opinion, was in the range of \$11.50 to \$12.40 per share.

In order to determine our fair value as a going concern, Prairie Capital next added an acquisition premium to this minority value range. The following table represents a summary of Prairie Capital's data on acquisition premiums derived from acquisition premiums paid for 41 publicly traded bank holding company common stocks in 2004:

Deal Price % over:	Average	Price one day before deal announcement		Price one month before deal announcement	
		Median	Average	Median	
Acquisition premiums for: 14 Midwestern transactions	23.6%	16.1%	27.9%	16.8%	

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27 Other transactions	25.9%	22.5%	30.7%	30.9%
All 41 transactions	25.1%	19.1%	29.7%	27.6%

Working with the premium from the announced price in a transaction against the stock price on the day before the announcement of the transaction, the average and median premiums ranged from 16.1% to 30.9%. Prairie Capital chose to use a premium close to the average for all 41 transactions as the most representative premium and therefore selected an acquisition premium of 25%.

Because the split transaction is not a merger or sale, Prairie Capital next deducted from the acquisition premium attributable to the synergies of a merger, assuming that half of the premium represents values from merger synergies.

To the range of the minority market value of our common stock that Prairie Capital determined as \$11.50 to \$12.40 per share, Prairie Capital added this acquisition premium and then discounted to remove the values related to merger synergies that are part of the acquisition premium as follows:

$$\$11.50 \times 1.25 \times .9 = \mathbf{\$12.94}$$

$$\$12.40 \times 1.25 \times .9 = \mathbf{\$13.95}$$

Comparable Transaction Analysis

Prairie Capital's second method of valuation was based upon announced acquisitions of bank holding companies. From these values, Prairie Capital deducted values derived from the analysis that it believed could be attributed to the synergies and benefits of a merger with another financial institution. Prairie Capital concluded that it was inappropriate to include synergy premiums in determining fair value on a going concern basis.

Prairie Capital reviewed data from 18 bank merger and acquisition transactions completed in 2003 and 2004 in Illinois and Wisconsin and from 28 transactions during the same period in other Midwestern states. The value of these transactions ranged from \$10 million to under \$100 million. The following table includes a summary of the data reviewed by Prairie Capital:

		Price/ Bk.Val.	Price/ Tang.Bk.Val.	Price/ Earnings
18 Illinois and Wisconsin Bank M & A transactions	Average	210.3%	223.3%	21.4X
	Median	203.5%	213.1%	21.1X
28 Other Midwestern Bank M & A transactions	Average	175.9%	179.5%	24.4X
	Median	170.7%	175.5%	20.7X
All 46 Bank M & A transactions	Average	189.4%	196.6%	23.1X
	Median	183.9%	190.2%	21.1X

As reflected in the above table, Prairie Capital determined that the Illinois and Wisconsin transactions were priced higher than the other Midwestern transactions at 213.1% to 223.3% of tangible book value, partly, in Prairie Capital's opinion, due to a significant number of relatively high-priced transactions in the Chicago area that Prairie Capital did not think were directly applicable to our value. Although Prairie Capital noted that a lower multiple of tangible book value might be appropriate, it found that we have a low tangible equity to assets ratio of 4.4%.

which would tend to increase the price/tangible book value ratio. Therefore, in Prairie Capital opinion, a reasonable price/tangible book value ratio for us would be in the range of 225% to 240%. Adjusting our tangible equity to a more standard 6% ratio of assets, the price/tangible book value range would be 190.9% to 201.8%.

Because the split transaction is not a sale or merger, Prairie Capital determined that the values derived from the comparison to merger and acquisition transactions should be adjusted to remove the values related to merger synergies. Consistent with its comparable company analysis, Prairie Capital assumed an acquisition premium of 25% and a discount for merger synergies of half of that premium or 10%, resulting in a range of fair values as follows:

\$7.18 (tangible book value per share)	X 2.25 X .9 = \$14.54
\$7.18	X 2.40 X .9 = \$15.51

Discounted Cash Flow Analysis

Prairie Capital's third method of valuation was a discounted cash flow analysis. For purposes of this analysis, Prairie Capital used projections prepared by our management of our assets, earnings and dividends for the years 2005 through 2009. Prairie Capital found, in its opinion, that the projections were aggressive, showing a rising stream of dividends and an increasing tangible equity ratio. The following table reflects the stream of dividends:

Discounted cash flow analysis (000 s \$)	2005	2006	2007	2008	2009
Cash dividends to shareholders	\$ 910	\$ 910	\$ 1,212	\$ 1,212	\$ 1,515
Terminal value (14-17X 2009 net income)				\$	\$ 63,448
				\$	\$ 77,044