

BLACKHAWK BANCORP INC
Form PRER14A
January 10, 2005

QuickLinks -- Click here to rapidly navigate through this document

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
- Soliciting Material Pursuant to §240.14a-12

BLACKHAWK BANCORP, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Edgar Filing: BLACKHAWK BANCORP INC - Form PRER14A

BLACKHAWK BANCORP, INC.
400 Broad Street
Beloit, Wisconsin 53511
(608) 364-8911

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:

<u>If you are a record shareholder with:</u>	<u>Effect:</u>
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

management will 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 , 2005, and is being mailed to shareholders on or about February , 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.

TABLE OF CONTENTS

SUMMARY TERM SHEET	1
Blackhawk Bancorp, Inc. and Blackhawk State Bank	1
Introduction and Overview of the Split Transaction	1
Background of the Split Transaction	2
Reasons for the Split Transaction	2
Fairness of the Split Transaction; Board Recommendation	3
Valuation of Financial Advisor; Fairness Opinion	4
Purpose and Structure of the Split Transaction	4
Effects of the Split Transaction	5
Interests of Certain Persons in the Split Transaction	6
Financing of the Split Transaction	7
Material Federal Income Tax Consequences of the Split Transaction	7
Appraisal Rights	7
Date, Time and Place of Special Meeting; Proposal to be Considered at the Special Meeting	7
Record Date	8
Vote Required for Approval	8
Provisions for Unaffiliated Shareholders	8
QUESTIONS AND ANSWERS ABOUT THE SPLIT TRANSACTION	9
SPECIAL FACTORS	12
Overview of the Split Transaction	12
Background of the Split Transaction	13
Reasons for the Split Transaction; Fairness of the Split Transaction; Board Recommendation	19
Valuation of Financial Advisor; Fairness Opinion	28
Purpose and Structure of the Split Transaction	37
Effects of the Split Transaction on Blackhawk; Plans or Proposals after the Split Transaction	38
Effects of the Split Transaction on Shareholders of Blackhawk	43
Interests of Certain Persons in the Split Transaction	46
Financing of the Split Transaction	48
Material Federal Income Tax Consequences of the Split Transaction	48
Appraisal Rights and Dissenter's Rights; Escheat Laws	51
Regulatory Requirements	51
Accounting Treatment	52
Fees and Expenses	52
ABOUT THE SPECIAL MEETING	53
Date, Time and Place of Special Meeting; Proposal to be Considered at the Special Meeting	53
Record Date	53
Quorum; Vote Required for Approval	53
Voting and Revocation of Proxies	55
Solicitation of Proxies; Expenses of Solicitation	55
Authority to Adjourn Special Meeting to Solicit Additional Proxies	55
FINANCIAL INFORMATION	56
Selected Historical and Pro Forma Financial Data	56
MARKET PRICE OF BLACKHAWK BANCORP, INC. COMMON STOCK AND DIVIDEND INFORMATION	58
Comparative Market Price Data	58
Dividends	58

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	59
COMMON STOCK PURCHASE INFORMATION	61
Prior Stock Purchases	61
Recent Transactions	61
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	61
Related Transactions	61
Agreements Involving Blackhawk's Securities	61
OTHER MATTERS	62
Reports, Opinions, Appraisals and Negotiations	62
Persons Making the Solicitation	62
Shareholder Proposals for 2005 Annual Meeting	62
Other Matters of Special Meeting	62
Forward Looking Statements	62
Where You Can Find More Information	62
Information Incorporated by Reference	63

SUMMARY TERM SHEET

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

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 January 5, 2005, the market price of our common stock as reported on the OTCBB was \$14.25 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 pages)

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 \$2,860,000 to shareholders in the reverse stock split and we anticipate that the number of outstanding shares of our common stock will decrease approximately 7.4%, from 2,527,895 shares to approximately 2,340,295 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)

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 through and page . 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)

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;

management will 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 through .

Fairness of the Split Transaction; Board Recommendation

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 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 divestiture 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.

Edgar Filing: BLACKHAWK BANCORP INC - Form PRER14A

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 through .

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 through .

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)

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 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 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)

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 .

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)

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 481 to approximately 189, and the number of outstanding shares of our common stock will decrease approximately 7.4%, from 2,527,895 shares to approximately 2,340,395 shares;

the 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 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 \$3,025,000, from approximately \$27,945,000 and \$25,595,000, respectively, as of September 30, 2004, to \$24,920,000 and \$22,570,000, 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 through .

Interests of Certain Persons in the Split Transaction

(*see pages*)

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. Mr. Bastian will continue to own 61,167 shares of common stock following the split transaction.

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)

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 \$3,025,000.

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)

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 pages)

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 . 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)

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 pages)

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 2,527,895 shares of our common stock outstanding held by approximately 481 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)

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 1,263,948 of the 2,527,895 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 658,744 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 pages)

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?

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?

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?

Edgar Filing: BLACKHAWK BANCORP INC - Form PRER14A

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 .

Edgar Filing: BLACKHAWK BANCORP INC - Form PRER14A

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 page .

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 1, 2005, there were 2,527,895 shares of our common stock issued and outstanding, held by approximately 481 current record shareholders. Of our approximately 481 record shareholders, we believe approximately 62.4% 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. 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 and the possible response from the community and unaffiliated shareholders to the split transaction. 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. However, the board believed that the benefits of a going private transaction might outweigh the disadvantages and could be structured in a manner that was fair to the unaffiliated shareholders and so the board of directors directed management to further analyze the costs and benefits of a going private transaction. The board also 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 our 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