BLACKHAWK BANCORP INC
Form 10QSB
August 09, 2002

FORM 10-QSB
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ---- TO ----

COMMISSION FILE NUMBER 0-18599

BLACKHAWK BANCORP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

WISCONSIN	39-1659424
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I. R. S. EMPLOYER IDENTIFICATION NO.)

400 BROAD STREET
BELOIT, WISCONSIN 53511
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(608) 364-8911
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)
NOT APPLICABLE
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR,
IF CHANGED SINCE LAST REPORT)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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

Class of Common Stock	Outstanding at July 23, 2002
$.01 par value	2,501,321 shares

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PART I - FINANCIAL INFORMATION

Page

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	JUNE 30, 2002	DECEMBER 31, 2001
ASSETS	(Dollars in thousands)	
Cash and cash equivalents	$12,514	$11,746
Interest-bearing deposit accounts	326	7,857
Federal funds sold and other short-term investments	5,431	16,417
Securities available for sale	69,007	42,623
Securities held to maturity, fair value of $25,789 and $24,172	24,203	23,735
Federal Home Loan Bank of Chicago stock, at cost	2,449	2,385
Loans held for sale	624	2,752
Loans, net of allowance for loan losses of $2,519 and $2,404	192,773	206,383
Bank premises and equipment, net	6,443	6,716
Accrued interest receivable	2,136	2,067
Intangible assets	4,845	5,040
Other assets	2,211	2,554
Total Assets	$322,962	$330,275

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:		
Deposits:		
Non-interest bearing	$ 31,399	$ 36,618
Interest bearing	208,361	212,987
Total deposits	239,760	249,605
Borrowed Funds:		
Short-term borrowings	14,408	6,087
Other borrowings	41,167	48,388
Total borrowed funds	55,575	54,475
Accrued interest payable	860	1,044
Other liabilities	1,363	1,410
Total Liabilities	297,558	306,534
SHAREHOLDERS' EQUITY:		
Preferred stock 1,000,000 shares, $.01 par value per share authorized, none issued or outstanding	--	--
Common stock 10,000,000 shares, $.01 par value per share authorized, 2,502,199 and 2,371,398 shares issued	25	24
Additional paid-in capital	8,668	7,555
Retained earnings	15,750	15,447
Treasury stock, 2,260 and 4,980 shares, at cost	(26)	(58)
Accumulated other comprehensive income	987	773
Total Shareholders' Equity	25,404	23,741
Total Liabilities and Shareholders' Equity	$322,962	$330,275

See Notes to Unaudited Consolidated Condensed Financial Statements

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2002	2001
INTEREST INCOME:	(Dollars in thousands)	
Interest and fees on loans	$3,673	$4,806
Interest on securities:		
Taxable	926	741
Exempt from federal income taxes	209	192
Interest on fed funds sold and other short-term investments	19	20
Interest on interest-bearing deposits	5	13
Total Interest Income	4,832	5,772
INTEREST EXPENSE:		
Interest on deposits	1,547	2,374

Interest on short-term borrowings	49	294
Interest on other borrowings	555	531
Total Interest Expense	2,151	3,199
Net Interest Income	2,681	2,573
Provision for loan losses (Note 3)	122	171
Net Interest Income After Provision For Loan Losses	2,559	2,402
OTHER OPERATING INCOME:		
Service charges on deposit accounts	396	381
Gain on sale of mortgage loans	54	142
Gain on sale of securities	225	94
Brokerage and annuity commissions	53	65
Net loss on sale of other assets	(17)	---
Other income	159	143
Total Other Operating Income	870	825
OTHER OPERATING EXPENSES:		
Salaries and employee benefits	1,338	1,330
Occupancy expense, net	261	182
Furniture and equipment	208	200
Data processing	188	172
Amortization of intangible assets	78	124
Legal and professional fees	117	117
Office supplies	69	68
Telephone and telecommunications	79	71
Other operating expenses	501	442
Total Other Operating Expenses	2,839	2,706
Income Before Income Taxes	590	521
Provision for Income Taxes	160	169
Net Income	$ 430	$ 352
Basic Earnings Per Share	$ 0.17	$ 0.15
Diluted Earnings Per Share	$ 0.17	$ 0.15
Dividends Per Share	$ 0.09	$ 0.12

See Notes to Unaudited Consolidated Condensed Financial Statements

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
INTEREST INCOME:	(Dollars in thousands)	
Interest and fees on loans	$7,581	$9,534
Interest on securities:		
Taxable	1,612	1,629

Exempt from federal income taxes	417	363
Interest on fed funds sold and other short-term investments	55	38
Interest on interest-bearing deposits	29	26
Total Interest Income	9,694	11,590
INTEREST EXPENSE:		
Interest on deposits	3,108	4,886
Interest on short-term borrowings	95	681
Interest on other borrowings	1,119	1,024
Total Interest Expense	4,322	6,591
Net Interest Income	5,372	4,999
Provision for loan losses (Note 3)	261	275
Net Interest Income After Provision For Loan Losses	5,111	4,724
OTHER OPERATING INCOME:		
Service charges on deposit accounts	745	718
Gain on sale of mortgage loans	127	230
Gain on sale of securities	229	94
Brokerage and annuity commissions	82	83
Net loss on sale of other assets	(1)	5
Other income	330	297
Total Other Operating Income	1,512	1,427
OTHER OPERATING EXPENSES:		
Salaries and employee benefits	2,731	2,597
Occupancy expense, net	449	388
Furniture and equipment	428	399
Data processing	387	320
Amortization of intangible assets	154	248
Legal and professional fees	296	211
Office supplies	125	150
Telephone and telecommunications	151	147
Other operating expenses	899	795
Total Other Operating Expenses	5,620	5,255
Income Before Income Taxes	1,003	896
Provision for Income Taxes	256	278
Net Income	$ 747	$ 618
Basic Earnings Per Share	$ 0.31	$ 0.26
Diluted Earnings Per Share	$ 0.31	$ 0.26
Dividends Per Share	$ 0.18	$ 0.24

See Notes to Unaudited Consolidated Condensed Financial Statements

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
	(Dollars in thousands)	
Common Stock:		
Balance at beginning of period	$ 24	$ 23
Stock options exercised	1	1
Balance at end of period	25	24
Additional Paid-in Capital:		
Balance at beginning of period	7,555	7,417
Stock options exercised	1,117	118
Sale of treasury stock	(4)	--
Balance at end of period	8,668	7,535
Retained Earnings:		
Balance at beginning of period	15,447	15,573
Net income	747	618
Dividends declared on common stock	(444)	(565)
Balance at end of period	15,750	15,626
Treasury Stock, at cost:		
Balance at beginning of period	(58)	(120)
Sale of treasury stock	32	18
Balance at end of period	(26)	(102)
Accumulated other comprehensive income:		
Balance at beginning of period	773	102
Other comprehensive income, net of taxes	214	421
Balance at end of period	987	523
Total Shareholders' Equity	$25,404	$23,606

See Notes to Unaudited Consolidated Condensed Financial Statements

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 747	$ 618
Adjustments to reconcile net income to net cash		

provided by (used in) operating activities:		
Provision for loan losses	261	275
Provision for depreciation and amortization	617	698
Amortization of premiums and (accretion of discounts) on Investment securities, net	41	29
Gain on sale of loans held for sale	(127)	(230)
FHLB stock dividends	(60)	(75)
(Gain) loss on sale of property, equipment and OREO	76	(5)
Gain on sale of securities	(229)	(94)
Loans originated for sale	(9,971)	(16,316)
Proceeds from sale of loans held for sale	12,226	13,633
Change in assets and liabilities:		
Decrease in other assets	122	458
(Increase) decrease in accrued interest receivable	(74)	223
Decrease in accrued interest payable	(184)	(497)
Increase (decrease) in other liabilities	8	(183)
Net cash provided by (used in) operating activities	3,453	(1,466)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in federal funds sold, interest-bearing deposits and other short-term investments, net	18,517	2,451
Proceeds from maturities and calls of securities available-for-sale	6,263	23,608
Purchase of securities available-for-sale	(40,600)	(13,952)
Proceeds from maturities and calls of securities held-to-maturity	2,363	1,629
Purchase of securities held-to-maturity	(2,868)	(4,528)
Proceeds from sale of securities available-for-sale	8,523	96
(Loans originated), net of principal collected	13,064	(1,265)
Proceeds from the sale of property, equipment and OREO	376	641
Purchase of bank premises and equipment	(225)	(661)
Net cash provided by investing activities	5,413	8,019

See Notes to Unaudited Consolidated Condensed Financial Statements.

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(CONTINUED)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2002	2001
	(Dollars in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock options exercised	$ 1,050	$ 119
Sale of treasury stock	28	18
Net decrease in deposits	(9,845)	(24,665)
Net increase in borrowings	1,100	18,965
Dividends paid	(431)	(565)
Net cash used in financing activities	(8,098)	(6,128)

Increase in cash and cash equivalents	768	425
CASH AND CASH EQUIVALENTS:		
Beginning	11,746	13,336
Ending	$12,514	$13,761
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest	$ 4,506	$ 7,088
Income taxes	$ (118)	$ 108
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Other assets acquired in settlement of loans	$ 285	$ 741

See Notes to Unaudited Consolidated Condensed Financial Statements.

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
June 30, 2002

Note 1. General:

The accompanying consolidated condensed financial statements conform to generally accepted accounting principles and to general practices within the banking industry. The more significant policies used by the Company in preparing and presenting its financial statements are stated in the Corporation's Form 10-KSB.

The effect of timing differences in the recognition of revenue and expense for tax liability is not determined until the end of each fiscal year.

In the opinion of Management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Corporation as of June 30, 2002, and the results of operations for the three and six months ended June 30, 2002 and 2001.

The results of operations for the three and six months ended June 30, 2002 and 2001 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made to the 2001 historical financial statements to conform to the 2002 presentation.

Note 2. Non-Performing Loans

Non-performing loans includes loans which have been categorized by management as non-accruing because collection of interest is not assured, and loans which are past-due ninety days or more as to interest and/or principal payments. The following summarizes information concerning non-performing loans:

(Dollars in thousands)	JUNE 30, 2002	DECEMBER 31, 2001

Non-accruing loans	$3,065	$2,808
Past due 90 days or more and still accruing	56	356
Total non-performing loans	$3,121	$3,164
Performing loans classified as impaired	$ 638	$1,147

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
June 30, 2002
(CONTINUED)

Note 3. Allowance For Loan Losses

A summary of transactions in the allowance for loan losses is as follows:

	THREE MONTHS ENDED JUNE 30,	
(Dollars in thousands)	2002	2001
Balance at beginning of period	$2,517	$3,912
Provision charged to expense	122	171
Loans charged off	131	2,076
Recoveries	11	50
Balance at end of period	$2,519	$2,057

	SIX MONTHS ENDED JUNE 30,	
(Dollars in thousands)	2002	2001
Balance at beginning of period	$2,404	$3,894
Provision charged to expense	261	275
Loans charged off	182	2,168
Recoveries	36	56
Balance at end of period	$2,519	$2,057

Note 4. Earnings Per Share

Presented below are the calculations for basic and diluted earnings per share:

	THREE MONTHS ENDED JUNE 30,		SIX MON JUN
	2002	2001	2002
Basic:			

Net income available to common stockholders	$ 430,000	$ 352,000	$ 747,000
Weighted average shares outstanding	2,478,283	2,348,125	2,431,572
Basic earnings per share	$ 0.17	$ 0.15	$ 0.31
Diluted:			
Net income available to common stockholders	$ 430,000	$ 352,000	$ 747,000
Weighted average shares outstanding	2,478,283	2,348,125	2,431,572
Effect of dilutive stock options outstanding	9,782	42,685	9,782
Diluted weighted average shares outstanding	2,488,065	2,390,810	2,441,354
Diluted earnings per share	$ 0.17	$ 0.15	$ 0.31

BLACKHAWK BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
June 30, 2002
(CONTINUED)

Note 5. Recent Accounting Developments

Business Combinations

In September 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 supersedes Accounting Principles Board (APB) Opinion No. 16, "Business Combinations", and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires the use of the purchase method of accounting for business combinations initiated after September 30, 2001. SFAS No. 142 supersedes APB Opinion No. 17, "Intangible Assets." SFAS No. 142 addresses how intangible assets acquired outside of a business combination should be accounted for upon acquisition and how goodwill and other intangible assets should be accounted for after they have been initially recognized. SFAS No. 142 eliminates the amortization for goodwill and other intangible assets with indefinite lives. Other intangible assets with a finite life will be amortized over their useful life. Goodwill and other intangible assets with indefinite useful lives shall be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001.

The Company's strategy over the past several years has included business combinations accounted for under the purchase accounting method which created goodwill upon the transactions' closings. The Company has goodwill of $3.1 million on its balance sheet as of June 30, 2002. It was previously being amortized over 20 years. The pronouncement eliminates amortization of this asset and subjects it to periodic impairment analysis.

The Company adopted SFAS No. 142 on January 1, 2002. The Company passed step one of the goodwill impairment test at January 1, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The purpose of Management's discussion and analysis is to provide relevant information regarding the Registrant's financial condition and its results of operations. The information included herein should be read in conjunction with the company's consolidated financial statements and footnotes thereto for the year ended December 31, 2001.

This quarterly Report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically declines any obligation, to publicly release the results of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30

The company reported net income of $747,000 for the six months ended June 30, 2002, an increase of $129,000 or 20.9% from the $618,000 reported for the same six month period in 2001. Net income for the six months ended June 30, 2002 includes the effect of adopting Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Accordingly, amortization of intangible assets with indeterminable useful lives resulting from prior acquisitions accounted for under the purchase method of accounting was discontinued. The adoption of SFAS No. 142 had the impact of increasing net income by $94,000 for the six months ended June 30, 2002 compared to the same period in 2001. In the second quarter of 2002 the company recorded an after tax charge of $45,000 to reflect the consolidation of it's Wal-Mart branch into a nearby full service branch. The charge reflects the current write-off of the net book value of the branch's fixed assets and the estimated cost to return the leased space to its condition prior to the company's use as a branch. The Company also recorded a $117,000 charge for officer severance agreements. Diluted earnings per share for the six months ended June 30, 2002 were $0.31, a $0.05 or 19.2% increase compared to the $0.26 per diluted share for the same period in 2001.

NET INTEREST INCOME

Net interest income, which is the sum of interest and certain fees generated by earning assets minus interest paid on deposits and other funding sources, is the primary source of the company's earnings. Net interest income increased by $373,000, or 7.5%, to $5,372,000 for the six months ended June 30, 2002, compared to $4,999,000 for the comparable period in 2001. The net interest margin, which is the tax equivalent net interest income divided by average interest earning assets increased 35 basis points to 3.87% for the six months ended June 30, 2002 compared to 3.52% for the six months ended June 30, 2001.

The following table sets forth the company's consolidated average balances of assets, liabilities and shareholders' equity as well as interest income and expense on related items, and the company's average rate for the six month periods ended June 30, 2002 and 2001:

AVERAGE BALANCE SHEET WITH RESULTANT INTEREST AND RATES

(yields on a tax-equivalent basis)	Six months ended June 30, 2002			Six month
	Average Balance	Interest	Average Rate	Average Balance
INTEREST EARNING ASSETS:				
Interest-bearing deposit Accounts	$ 3,267	$ 29	1.79%	$ 1,004
Federal funds sold & short-term investments	6,734	55	1.65%	1,574
Investment securities:				
Taxable investment securities	61,421	1,612	5.29%	52,517
Tax-exempt investment securities	19,453	417	6.55%	17,115
Total investment securities	80,874	2,029	5.60%	69,632
Loans	199,928	7,581	7.65%	224,643
TOTAL EARNING ASSETS	$290,803	$9,694	6.87%	$296,853
Allowance for loan losses	(2,519)			(3,874)
Cash and cash equivalents	9,820			10,038
Other assets	17,203			18,477
TOTAL ASSETS	$315,307			$321,494
INTEREST BEARING LIABILITIES:				
Interest bearing demand deposits	$ 32,148	$ 172	1.08%	$ 26,755
Savings deposits	53,778	321	1.20%	49,856
Time deposits	121,435	2,615	4.34%	133,325
Total interest bearing deposits	207,361	3,108	3.02%	209,936
Short-term borrowings	10,338	95	1.85%	24,416
Other borrowings	41,833	1,119	5.39%	35,665
TOTAL INTEREST-BEARING LIABILITIES	$259,532	$4,322	3.36%	$270,017
NET INTEREST SPREAD			3.51%	

Demand deposits	29,257			25,090
Other liabilities	2,113			2,574
Total liabilities	290,902			297,681
Shareholders' equity	24,405			23,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$315,307			$321,494
NET INTEREST MARGIN		$5,372	3.87%	

For the six months ended June 30, 2002, total interest income decreased by $1,896,000, or 16.4%, to $9,694,000 compared to $11,590,000 for the same period in 2001. The decrease in interest income is due to a 2.0% decrease in average earning assets, and a 113 basis point decrease in the yield on average earning assets to 6.87% for the first six months of 2002, compared to 8.00% for the same period in 2001. The decrease in the yield on average earning assets reflects a shift in the asset mix from loans to investment securities and short-term investments for the first six months of 2002 compared to 2001. The decrease in the yield on average earning assets also reflects the lower interest rate environment during the first six months of 2002 compared to the same period in 2001. Interest and fees on loans decreased 20.5% to $7,581,000 for the six months ended June 30, 2002 compared to $9,534,000 in same period of 2001. This decrease was the result of a $24.7 million or 11.0% decrease in average loans outstanding and a 91 basis point decrease in yield on the portfolio. The lower overall portfolio yield reflects the Federal Reserve Bank's lowering of managed rates by 3.75% during 2001.

Interest income on taxable securities decreased by $17,000 or 1.0% in the first six months of 2002 to $1,612,000 from $1,629,000 for the same period in 2001. Average balances of taxable investment securities increased 17.0% to $61.4 million for the six months ended June 30, 2002 compared to $52.5 million for the same period in the prior year. The increase in average balances outstanding was offset by a decrease of 97 basis points in average yield to 5.29% for the first six months of 2002 compared to 6.26% for the first six months of 2001. Average tax exempt securities increased to $19.5 million for the six months ended June 30, 2002 compared to $17.1 for the same period in 2001 while their average tax equivalent yield increased from 6.48% for the six months ended June 30, 2001 to 6.55% for the similar period in 2002.

Interest from fed funds sold and short-term investments increased to $55,000 for the six months ended June 30, 2002 from $38,000 during the same period in 2001 and reflect higher average invested balances kept in the first quarter of 2002. Interest on interest-bearing deposit accounts increased to $29,000 for the first six months of 2002 compared to $26,000 for the same period in 2001 and also reflects higher average balances from the first quarter of 2002. Excess liquidity from loan and investment scheduled payments and prepayments were invested short-term for much of the first three months of 2002 before being re-deployed into investment securities during the second quarter of 2002.

Total interest expense decreased by $2,269,000, or 34.4%, to $4,322,000 for the six months ended June 30, 2002 compared to $6,591,000 for the same period in 2001. This decrease is the result of the aforementioned lower interest rate environment coupled with favorable shifts in the company's funding mix. While interest paid on deposits decreased $1,778,000, or 36.4%. to $3,108,000 during the six months ended June 30, 2002 compared to $4,886,000 for the same period in

2001, average interest bearing deposits decreased only $2.6 million or 1.2% year over year. The average balance of time deposits decreased $11.9 million, or 8.9%, to $121.4 million for the six months ended June 30, 2002 compared to $133.3 million for the same period in 2001. The decrease in the average balance of time deposits was offset with increases in the average balances of demand deposits, interest-bearing demand deposits and savings accounts of $4.2 million, $5.4 million and $3.9 million, respectively.

Interest on short-term borrowings decreased $586,000 to $95,000 for the six months ended June 30, 2002 compared to $681,000 for the same period in 2001. This decrease is the result of the decrease in managed interest rates as mentioned earlier and a $14.1 million, or 57.7% decrease in average short-term borrowings to $10.3 million for the six months ended June 30, 2002 compared to the same period in 2001.

Interest expense on other borrowings increased $95,000, or 9.3%, to $1,119,000 for the first six months of 2002 compared to $1,024,000 for the first six months of 2001. The increase is the result of a $6.2 million, or 17.3% increase in the average balance of other borrowings to $41.8 million for the six months ended June 30, 2002 compared to $35.7 million for the first six months of 2001. The increase in other borrowings is the result of refinancing FHLB daily advances to term notes during 2001.

PROVISION FOR LOAN LOSSES

The provision for loan losses is an amount added to the allowance for loan losses to provide for the known and estimated amount of loans that will not be collected. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management determines the appropriate provision based upon a number of criteria, including a detailed evaluation of certain credits, historical performance, economic conditions and overall quality of the loan portfolio. Activity in the allowance for loan losses account for the first six months of 2002 and 2001 is detailed in note 3 to the consolidated condensed financial statements.

The provision for loan losses recorded in the first six months of 2002 was $261,000 compared to $275,000 in 2001. At June 30, 2002 the allowance for loan losses was equal to 1.29% of portfolio loans compared to 1.15% at December 31, 2001. It is management's opinion that this amount represents an adequate allowance for loan losses.

OTHER OPERATING INCOME

Total other operating income increased $85,000, or 6.0%, to $1,512,000 for the six months ended June 30, 2002 compared to $1,427,000 for the same period in 2001. The Company recognized securities gains of $229,000 in the first six months of 2002 compared to $94,000 in the same period of 2001. Gain on sale of mortgage loans decreased $103,000 or 44.8% to $127,000 for the six months ended June 30, 2002 compared to $230,000 for the same period in 2001. The decrease is due to lower volume and less favorable market pricing. The average gain in 2002 was 1.04% on the $12.2 million in loans sold to the secondary market compared to an average gain of 1.72% on the $13.6 million of loans sold in the same period in 2001. Service charges on deposit accounts increased $27,000, or 3.8%, to $745,000 for the first six months of 2002 compared to $718,000 the prior year.

OPERATING EXPENSES

Total operating expenses increased $365,000, or 6.9%, to $5,620,000 for the six months ended June 30, 2002 compared to $5,255,000 for the same period in 2001. This includes a $134,000, or 5.2% increase in compensation and benefits. The increase reflects the addition of a number of key management personnel as part of the company's restructuring efforts. Occupancy expenses increased 15.7%, or $61,000, to $449,000 for the six months ended June 30, 2002 compared to $388,000 for the six months ended June 30, 2001 and include $75,000 in pre-tax charges related to the Wal-Mart branch consolidation previously discussed. Data processing costs increased $67,000, or 20.9%, to $387,000 for the six months ended June 30, 2002. This increase reflects the cost of the company's internet banking and platform systems, which were implemented at the end of 2001, and a conversion credit that was received in the first six months of 2001. Amortization of intangible assets decreased $94,000 to $154,000 for the six months ended June 30, 2002, which reflects the adoption of SFAS No. 142, as discussed in Note 5 to the consolidated condensed financial statements. Legal and professional fees increased $85,000 to $296,000 as a result of increased legal fees related to the Company's claim against a former data processing service provider and charges in the first quarter of 2002 for a bank regulatory exam. Office supplies decreased by $25,000 to $125,000 for the six months ended June 30, 2002 reflecting company efforts to control supply costs. Other operating expenses increased $104,000 to $899,000 for the six months ended June 30, 2002 reflecting higher costs for marketing, postage and loan collection expense. Other operating expense also includes $117,000 of charges to accrue severance payments for executive officers that left the company in 2002. In addition, the company realized an $87,000 credit against other operating expenses due to an adjustment related to stale reconciling items.

Income taxes decreased $22,000, or 7.9%, to $256,000 for the six months ended June 30, 2002 from $278,000 for the same period in 2001. The decline in effective tax rate to 25.5% for the 2002 period from 31.0% in the same period of 2001 is reflective of greater tax efficiency brought about by an increase in non-taxable income and a reduction in nondeductible purchase accounting amortization.

BALANCE SHEET ANALYSIS

OVERVIEW

Total assets decreased to $323.0 million at June 30, 2002 compared to $330.3 million at December 31, 2001, a decrease of 2.2%. The December 31, 2001 balance sheet included short-term year-end deposits of $14.4 million, which were invested in federal funds sold at December 31, 2001. Excluding these deposits, total assets increased 2.2% from December 31, 2001 to June 30, 2002. While total assets, excluding the short-term year-end deposits, increased by $7.1 million, there was a considerable shift in balances from loans and short-term investments to investment securities. Securities available for sale increased by $26.4 million, while loans, net of allowance for loan losses, decreased by $13.6 million and short-term investments, excluding the year-end deposits of $14.4 million, decreased by $4.1 million.

LOANS

Net portfolio loans decreased $13.6 million, or 6.6%, to $192.8 million on June 30, 2002 compared to $206.4 million on December 31, 2001. The bank experienced decreases in consumer, commercial and real estate loans outstanding at June 30, 2002 compared to December 31, 2001. The economic conditions in the markets served by the bank adversely effected loan demand leading to decreases in all categories of loans outstanding.

The allowance for loan losses was $2.5 million or 1.29% of portfolio loans at June 30, 2002 compared to $2.4 million or 1.15% of portfolio loans at December 31, 2001. The increase in the reserve percentage reflects the company's commitment to provide an adequate reserve given the weak economy in our markets. As of June 30, 2002, non-performing loans totaled $3.8 million compared to $4.3 million at December 31, 2001. Management believes that the allowance is adequate at this time.

SHORT-TERM INVESTMENTS

Fed funds sold and other short-term investments decreased $11.0 million to $5.4 million at June 30, 2002 compared to $16.4 million at December 31, 2001. The decrease primarily reflects the liquidation of short-term year-end investments on January 2, 2002 associated with the December 31, 2001 year-end deposits of $14.4 million.

INVESTMENT SECURITIES

Securities available for sale increased $26.4 million, or 61.9%, to $69.0 million at June 30, 2002 compared to $42.6 million at December 31, 2001. The increase in investments in securities available for sale resulted from the redeployment of cash flows from the decrease in loans and increase in deposits. Securities held to maturity increased $.5 million or 2.0% to $24.2 million at June 30, 2002 from $23.7 million at December 31, 2001.

DEPOSITS

Total deposits decreased $9.8 million to $239.8 million at June 30, 2002 compared to $249.6 million at December 31, 2001. As noted above, the Company's December 31, 2001 financial statements reflect short-term year-end deposits of $14.4 million. Excluding the short-term year-end deposits, total deposits increased 1.9% from December 31, 2001. Excluding the short-term year-end deposits of $5.9 million and $8.5 million included in non-interest bearing and interest bearing deposits, respectively, non-interest bearing deposits increased by $0.7 million and interest bearing deposits increased by $3.9 million at June 30, 2002 compared to December 31, 2001.

BORROWINGS

Short-term borrowings increased $8.3 million to $14.4 million at June 30, 2002 from $6.1 million at year-end. The increase is due to higher outstanding balances of repurchase agreements with commercial customers. Other borrowings, consisting of long-term borrowings incurred in part to complete the First Financial acquisition and term advances from the Federal Home Loan Bank ("FHLB"), were $41.2 million at June 30, 2002 compared to $48.4 million at December 31, 2001. The decrease primarily reflects the repayment of $6.8 million in FHLB advances during January 2002.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased $1.7 million to $25.4 million at June 30, 2002 compared to $23.7 million at December 31, 2001. During the first six months of 2002 additional paid in capital increased by $1.1 million from stock options exercised. Accumulated other comprehensive income, which is the adjustment of securities available for sale to market value, net of tax, increased $.2 million to $1.0 million at June 30, 2002 from $.8 million at December 31, 2001. In addition the company declared two dividends of $0.09 per share on common stock, which totaled $444,000.

The Company is subject to certain regulatory capital requirements and continues to remain in a well-capitalized position. The following table shows the company's capital ratios and regulatory requirements to maintain a well-capitalized rating.

	JUNE 30, 2002	DECEMBER 31, 2001	REGULATORY REQUIREMENTS

Total Capital (To Risk-Weighted Assets)	11.0%	9.6%	8.0%
Tier I Capital (To Risk-Weighted Assets)	9.8%	8.5%	4.0%
Tier I Capital (To Average Assets)	6.3%	5.9%	4.0%

LIQUIDITY

Liquidity, as it relates to the subsidiary bank, is a measure of its ability to fund loans and withdrawals of deposits in a cost-effective manner. The Bank's principal sources of funds are deposits, scheduled amortization and prepayment of loan principal, maturities of investment securities, short-term borrowings and income from operations. Additional sources include purchasing fed funds, sale of securities, sale of loans, borrowing from both the Federal Reserve Bank and Federal Home Loan Bank, and dividends paid by Nevahawk, a wholly owned subsidiary of the Bank.

The liquidity needs of the Company generally consists of payment of dividends to its shareholders, payments of principal and interest on borrowed funds, and a limited amount of expenses. The sources of funds to provide this liquidity are issuance of capital stock and dividends from its subsidiary bank. Certain restrictions are imposed upon the Bank, which could limit its ability to pay dividends if it did not have net earnings or adequate capital in the future. The Company maintains adequate liquidity to pay its expenses.

OFF BALANCE SHEET ITEMS AND CONTINGENCIES

Off-balance sheet items consist of credit card lines of credit, mortgage commitments, letters of credit and other commitments totaling approximately $20.5 million as of June 30, 2002. This compares to $25.8 million at December 31, 2001. The Bank has historically funded off-balance sheet commitments with its primary sources of funds and management anticipates that this will continue.

At June 30, 2002 the Company continues to carry a $271,000 receivable related to a $541,000 claim against its former data processor. The claim relates to an improper charge made by a former data processing service provider ("Provider") to the Company's check clearing account maintained with the Federal Home Loan Bank of Chicago. Trial in this matter has been rescheduled for October 2002. The receivable will be adjusted based on the results of the upcoming trial or other developments as they occur. Legal fees relating to this matter are being expensed as incurred. Management intends to aggressively pursue recovery of the entire $541,000, that was improperly charged, and related legal fees.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30

The company reported net income of $430,000 for the three months ended June 30, 2002, an increase of $78,000 or 22.2% from the $352,000 reported for the same three month period in 2001. Net income for the quarter ended June 30, 2002 includes the second quarter effect of adopting Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Accordingly, amortization of intangible assets with indeterminable useful lives resulting from prior acquisitions accounted for under the purchase method of accounting was discontinued. The adoption of SFAS No. 142 had the impact of increasing net income by $46,000 for the second quarter of 2002 compared to the same period in 2001. Diluted earnings per share for the second quarter of 2002 were $0.17, a $0.02 or 13.3% increase compared to the $0.15 per diluted share for the second quarter of 2001.

NET INTEREST INCOME

Net interest income, which is the sum of interest and certain fees generated by earning assets minus interest paid on deposits and other funding sources, is the primary source of the company's earnings. Net interest income increased by $108,000, or 4.2%, to $2,681,000 for the quarter ended June 30, 2002, compared to $2,573,000 for the comparable period in 2001. The net interest margin, which is the tax equivalent net interest income divided by average interest earning assets increased 19 basis points to 3.81% for the second quarter of 2002 compared to 3.62% the similar period in 2001.

The following table sets forth the company's consolidated average balances of assets, liabilities and shareholders' equity as well as interest income and expense on related items, and the company's average rate for the three month periods ended June 30, 2002 and 2001:

AVERAGE BALANCE SHEET WITH RESULTANT INTEREST AND RATES

(yields on a tax-equivalent basis)	Three months ended June 30, 2002			Three mon
	Average Balance	Interest	Average Rate	Average Balance
INTEREST EARNING ASSETS:				
Interest-bearing deposit accounts	$ 844	$ 5	2.38%	$ 1,078
Federal funds sold & short-term investments	4,469	19	1.71%	1,702
Investment securities:				
Taxable investment securities	72,345	926	5.13%	48,405
Tax-exempt investment securities	19,598	209	6.49%	18,188
Total investment securities	91,943	1,135	5.42%	66,593
Loans	196,087	3,673	7.51%	226,898
TOTAL EARNING ASSETS	$293,343	$4,832	6.75%	$296,271
Allowance for loan losses	(2,518)			(3,812)
Cash and cash equivalents	10,173			10,196
Other assets	16,980			18,072
TOTAL ASSETS	$317,978			$320,727
INTEREST BEARING LIABILITIES:				
Interest bearing demand deposits	$ 33,172	$ 89	1.08%	$ 28,380
Savings deposits	53,730	157	1.17%	49,776
Time deposits	121,827	1,301	4.28%	131,013
Total interest bearing deposits	208,729	1,547	2.97%	209,169
Short-term borrowings	10,879	49	1.81%	21,997
Other borrowings	41,306	555	5.39%	37,160
TOTAL INTEREST-BEARING LIABILITIES	$260,914	$2,151	3.31%	$268,326
NET INTEREST SPREAD			3.45%	

Demand deposits	30,274			26,113
Other liabilities	2,011			2,785
Total liabilities	293,199			297,224
Shareholders' equity	24,779			23,503
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$317,978			$320,727
NET INTEREST MARGIN		$2,681	3.81%	

For the three months ended June 30, 2002, total interest income decreased by $940,000, or 16.3%, to $4,832,000 compared to $5,772,000 for the same period in 2001. The decrease in interest income is due to a 1.0% decrease in average earning assets, and a 120 basis point decrease in the yield on average earning assets to 6.75% for the second three months of 2002, compared to 7.95% for the same period in 2001. The decrease in the yield on average earning assets reflects a shift in the asset mix from loans to investments for the second quarter of 2002 compared to 2001. The decrease in the yield on average earning assets also reflects the lower interest rate environment during the second three months of 2002 compared to the same period in 2001. Interest and fees on loans decreased 23.6% to $3,673,000 for the three months ended June 30, 2002 compared to $4,806,000 in same period of 2001. This decrease was the result of a $30.8 million or 13.6% decrease in average loans outstanding and a 99 basis point decrease in yield on the portfolio. The lower overall portfolio yield reflects the Federal Reserve Bank's lowering of managed rates by 3.75% during 2001.

Interest income on taxable securities increased by $185,000 or 25.0% in the second three months of 2002 to $926,000 from $741,000 for the same period in 2001. Average balances of taxable investment securities increased 49.4% to $72.3 million for the quarter ended June 30, 2002 compared to $48.4 million for the same period in the prior year. However, the yield on average taxable investment securities decreased 101 basis points to 5.13% for the second quarter of 2002 compared to 6.14% for the second quarter of 2001, reflecting the decrease in managed rates which occurred throughout 2001. Tax exempt investment securities increased $1.4 million, or 7.8% to an average balance of $19.6 million for the three months ended June 30, 2002 compared to $18.2 for the same period in 2001.

Interest from fed funds sold and short-term investments decreased to $19,000 for the three months ended June 30, 2002 from $20,000 during the same period in 2001. Interest on interest-bearing deposit accounts decreased to $5,000 for the second quarter of 2002 compared to $13,000 for the same period in 2001. This is the result of a $2.5 million increase in the average balance of interest-bearing deposit accounts, fed funds sold and short-term investments to $5.3 million for the three months ended June 30, 2002 compared to $2.8 for the same period in 2001 and reflects the lower yields earned in 2002.

Total interest expense decreased by $1,048,000, or 32.8%, to $2,151,000 for the three months ended June 30, 2002 compared to $3,199,000 for the same period in 2001. This decrease is the result of the aforementioned lower interest rate environment coupled with favorable shifts in the company's funding mix. While interest paid on deposits decreased $827,000, or 34.8% to $1,547,000 during the three months ended June 30, 2002 compared to $2,374,000 for the same period in 2001, average total deposits increased $3.7 million quarter over quarter. The average balance of time deposits decreased $9.2 million, or 7.0%, to $121.8 million for the three months ended June 30, 2002 compared to $131.0 million for the same period in 2001. The decrease in the average balance of time deposits was offset with increases in the average balances of demand deposits, interest-bearing demand deposits and savings accounts of $4.2 million, $4.8 million and $4.0 million, respectively.

Interest on short-term borrowings decreased $245,000 to $49,000 for the three months ended June 30, 2002 compared to $294,000 for the same period in 2001. This decrease is the result of the decrease in managed interest rates as mentioned earlier and an $11.1 million, or 50.5% decrease in average short-term borrowings to $10.9 million for the three months ended June 30, 2002 compared to $22.0 million in the same period in 2001. The decrease in short-term borrowings is also the result of refinancing FHLB daily advances to term notes during 2001.

Interest expense on other borrowings increased $24,000, or 4.5%, to $555,000 for the second quarter of 2002 compared to $531,000 for the second quarter of 2001. The decrease is the result of a $4.1 million or 11.2% increase in the average balance of other borrowings to $41.3 million for the three months ended June 30, 2002 compared to $37.2 million for the second quarter of 2001. The increase in other borrowings is the result of refinancing FHLB daily advances to term notes during 2001.

PROVISION FOR LOAN LOSSES

The provision for loan losses is an amount added to the allowance for loan losses to provide for the known and estimated amount of loans that will not be collected. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management determines the appropriate provision based upon a number of criteria, including a detailed evaluation of certain credits, historical performance, economic conditions and overall quality of the loan portfolio. Activity in the allowance for loan loss account is detailed in note 3 to the consolidated condensed financial statements.

The provision for loan losses recorded in the second quarter of 2002 was $122,000 compared to $171,000 in 2001. At June 30, 2002 the allowance for loan losses was equal to 1.29% of portfolio loans compared to 1.15% at December 31, 2001. It is management's opinion that this amount represents an adequate allowance for loan losses.

OTHER OPERATING INCOME

Total other operating income increased $45,000, or 5.5%, to $870,000 for the three months ended June 30, 2002 compared to $825,000 for the same period in 2001. Service charges on deposit accounts increased $15,000, or 3.9%, to $396,000 for the second quarter of 2002 compared to $381,000 in the second quarter of the prior year. The Company recognized security gains of $225,000 during the second quarter of 2002 compared to the $94,000 that was recognized in the second quarter of 2001. Gain on the sale of mortgage loans decreased $88,000 or 62.0% to $54,000 for the second quarter of 2002 compared to $142,000 of gains recognized during the second quarter of 2001. In the second quarter of 2002 $3.9 million of loans were sold to the secondary market compared to $9.0 million for the same period in 2001.

OPERATING EXPENSES

Total operating expenses increased $133,000, or 4.9%, to $2,839,000 for the three months ended June 30, 2002 compared to $2,706,000 for the same period in 2001. Occupancy expenses increased 43.4%, or $79,000, to $261,000 for the quarter ended June 30, 2002 and include $75,000 in pre-tax charges related to the Wal-Mart branch consolidation previously discussed. Data processing costs increased $16,000, or 9.3%, to $188,000 for the quarter ended June 30, 2002. This increase reflects the cost of the company's internet banking and platform systems, which were implemented in 2001. Amortization of intangible assets decreased $46,000 to $78,000 for the three months ended June 30, 2002, which reflects the adoption of SFAS No. 142, as discussed in Note 5 to the consolidated condensed financial statements. Other operating expenses increased $59,000 to $501,000 for the three months ended June 30, 2002 reflecting higher costs for marketing, postage, travel reimbursements and loan collection expenses. Other operating expense also includes a $50,000 charge to accrue severance agreements.

Income taxes decreased $9,000, or 5.3%, to $160,000 for the three months ended June 30, 2002 from $169,000 for the same period in 2001. The decline in effective tax rate to 27.1% for the 2002 period from 32.4% in the same period of 2001 is reflective of greater tax efficiency brought about by an increase in non-taxable income and a reduction in nondeductible purchase accounting amortization.

PART II

OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

On May 15, 2002, at the annual meeting of shareholders of the Company, the shareholders re-elected R. Richard Bastian, III, John B. Clark and Charles Hart and elected Roger G. Bryden to three-year terms expiring in 2004. The vote, with respect to the election of each director was as follows:

R. Richard Bastian, III
- 2,430,838 total votes eligible to be cast
- 2,072,698 votes were represented at the Annual Meeting
- 2,026,674 votes were cast "For" re-election
- No votes were cast "Against" re-election
- 46,024 votes abstained

John B. Clark
- 2,430,838 total votes eligible to be cast
- 2,072,698 votes were represented at the Annual Meeting
- 2,029,274 votes were cast "For" re-election
- No votes were cast "Against" re-election
- 43,424 votes abstained

Charles Hart
- 2,430,838 total votes eligible to be cast
- 2,072,698 votes were represented at the Annual Meeting
- 2,007,609 votes were cast "For" re-election
- No votes were cast "Against" re-election
- 65,089 votes abstained

Roger G. Bryden
- 2,430,838 total votes eligible to be cast
- 2,072,698 votes were represented at the Annual Meeting
- 2,030,574 votes were cast "For" re-election
- No votes were cast "Against" re-election
- 42,124 votes abstained

ITEM 6. A) EXHIBITS

See Exhibit Index following the signature page in this report, which is incorporated herein by this reference.

B) REPORTS ON FORM 8-K

There were three reports on Form 8-K filed during the second quarter of 2002.

A report dated April 5, 2002 announced the appointment of Todd J. James as Senior Vice President and Chief Financial Officer of the Company.

A report dated April 24, 2002 announced the resignation of David A. Stearns, Executive Vice President effective May 1, 2002.

A report dated May 15, 2002 announced the results of the election of directors at the Company's annual shareholders meeting and the decision of Mr. Roger K. Taylor to step down as a director of Blackhawk Bancorp, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Blackhawk Bancorp, Inc.

(Registrant)

Date: July 23, 2002

/s/R. Richard Bastian, III

R. Richard Bastian, III
President and Chief Executive Officer

/s/Todd J. James

Todd J. James
Senior Vice President
and Chief Financial Officer

/s/Thomas L. Lepinski, CPA

Thomas L. Lepinski, CPA
Principal Accounting Officer

BLACKHAWK BANCORP, INC.

INDEX TO EXHIBITS

Exhibit Number	Description	Incorporated Herein By Reference To:	Filed Here-with	Page No.
4.1	Amended and restated Articles of Incorporation of the Registrant	Exhibit 3.1 to Amendment No. 1 to Registrant's Registration Statement on Form		

		S-1 (Reg. No. 33-32351)		
4.2	By-laws of Registrant as amended	Exhibit 3.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-1 (Reg. No. 33-32351)		
4.3	Plan of Conversion Beloit Savings Bank as amended	Exhibit 1.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-1 (Reg. No. 33-32351)		
4.4	Severance Agreement with Dennis M. Conerton	Exhibit A	X	26
4.5	Severance Agreement with David A. Stearns	Exhibit B	X	27-30
4.6	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit C	X	31
4.7	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit D	X	32