

Blackhawk Fund
Form 10QSB
August 03, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2005

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

For the transition period from _____, 20____ to _____, 20____.

Commission File Number: 000-49672

THE BLACKHAWK FUND

(Exact Name of Small Business Issuer as Specified in its Charter)

NEVADA
(State or Other Jurisdiction of
Incorporation or Organization)

88-0408213
(IRS Employer
Identification Number)

1802 N. CARSON STREET, SUITE 212-3018

CARSON CITY, NEVADA 89701

Address of Principal Executive Offices

(775) 887-0670

(Registrant's Telephone Number, Including Area Code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and 2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

State the number of shares outstanding of each of the Issuer's classes of common equity as of the latest practicable date: As of June 30, 2005, the issuer had 967,209,709 shares of its common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

THE BLACKHAWK FUND

BALANCE SHEET

As of June 30, 2005

(Unaudited)

ASSETS

Cash

\$ 1,291

Note receivable related party

46,000

Total Current Assets

\$ 47,291

=====

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities

Accounts payable

\$ 6,355

Note payable - related party

4,863

Total Current Liabilities

11,218

Commitments and Contingencies

-

STOCKHOLDERS' EQUITY

Preferred stock, \$.001 par value:

Series A: Authorized 20,000,000, 9,000,000

issued and outstanding

9,000

Series B: Authorized 10,000,000, 10,000,000

issued and outstanding

10,000

Series C: Authorized 20,000,000, 10,000,000

issued and outstanding

10,000

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Common stock, \$.001 par value, 4,000,000,000 shares

authorized, 967,209,709 shares issued and outstanding

967,210

Additional paid in capital

33,452,151

Retained deficit

(34,412,288)

Total Stockholders' Equity

36,073

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 47,291

=====

See accompanying notes to financial statements.

THE BLACKHAWK FUND

STATEMENTS OF OPERATIONS

For the Three Months and Six Months

Ended June 30, 2005 and 2004

(Unaudited)

Three Months Ended

Six Months Ended

June 30,

June 30,

2005

2004

2005

2004

Revenue

\$

8,533

\$

-

\$ 11,651

\$

-

Expenses:

General & administrative

85,574

376,011

4,684,213

405,250

Other expense:

Interest expense

-

-

-

50

Loss on the sale of assets-

related party

-

-

-

290,769

NET LOSS \$ (77,041) \$(376,011) \$(4,672,562) \$(696,069)

=====

Basic and diluted loss

per share	\$ (.00)	\$ (.02)	\$ (.01)	\$ (.06)
-----------	----------	----------	----------	----------

Weighted average shares

Outstanding	863,720,820	17,359,890	528,063,852	11,703,039
-------------	-------------	------------	-------------	------------

See accompanying notes to financial statements.

THE BLACKHAWK FUND

STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2005 and 2004

(Unaudited)

2005

2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss

\$(4,672,562)

\$(696,069)

Adjustments to reconcile net loss to net

cash used in operating activities:

Stock issued for services

4,014,700

-

Stock option expense

401,122

40,000

Loss on sale of assets related party

-

290,769

Changes in:

Accounts payable

6,355

150,000

Accrued expenses

-

(15,508)

NET CASH USED IN OPERATING ACTIVITIES

(250,385)

(230,808)

CASH FLOWS FROM INVESTING ACTIVITIES

Advances to related party

(46,000)

-

Proceeds from the sale of

assets related party

-

10,300

NET CASH (USED IN) PROVIDED BY

INVESTING ACTIVITIES

(46,000)

10,300

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of common stock

292,813

260,000

Proceeds from note payable - related party

4,863

-

Payments on loan payable related party

-

(5,343)

NET CASH PROVIDED BY FINANCING ACTIVITIES

297,676

254,657

NET CHANGE IN CASH

1,291

34,149

CASH BALANCES

-Beginning of period

-

115

-End of period

\$ 1,291

\$ 34,264

=====

=====

Supplemental disclosures:

Interest paid

\$ -

\$ 50

Income taxes paid

-

5,828

See accompanying notes to financial statements.

THE BLACKHAWK FUND
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of The Blackhawk Fund ("Blackhawk") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in Blackhawk's Annual Report filed with the SEC on Form 10-KSB. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for 2004 as reported in the 10-KSB have been omitted.

Stock Compensation. Blackhawk adopted the disclosure requirements of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation FAS No. 123 and FAS No. 148 with respect to pro forma disclosure of compensation expense for options issued. For purposes of the pro forma disclosures, the fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model.

Blackhawk accounts for its employee stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. Blackhawk granted 740,000,014 options to purchase common stock to employees during the six months ended June 30, 2005. All options vest immediately, have an exercise price of 85 percent of market value on the date of grant and expire 10 years from the date of grant. Blackhawk recorded compensation expense of \$401,122 under the intrinsic value method during the six months ended June 30, 2005.

The following table illustrates the effect on net loss and net loss per share if Blackhawk had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

Three Months Ended

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Six Months Ended

June 30,

June 30,

2005

2004

2005

2004

Net loss as reported \$ (77,041) \$ (376,011) \$ (4,672,562) \$ (696,069)

Add: stock based

compensation

determined under

intrinsic value-

based method	7,860	40,000	401,122	40,000
--------------	-------	--------	---------	--------

Less: stock based

compensation

determined under

fair value-

based method	(52,400)	(99,635)	(2,674,146)	(99,635)
--------------	----------	----------	-------------	----------

Pro forma net loss \$ (121,581) \$ (435,646) \$ (6,945,586) \$ (755,704)

=====

NOTE 1 - BASIS OF PRESENTATION, continued

Three Months Ended

Six Months Ended

June 30,

June 30,

2005

2004

2005

2004

Basic and diluted net

loss per common share:

As reported

\$(.00

)

\$(.02)

\$(.01

)

\$(.06)

Pro forma

(.00

)

(.03)

(.01

)

(.06)

The weighted average fair value of the stock options granted during 2005 and 2004 was \$.004 and n/a, respectively. Variables used in the Black-Scholes option-pricing model include (1) 1.5% risk-free interest rate and n/a respectively, (2) expected option life is the actual remaining life of the options as of each period end, (3) expected volatility was 728% and n/a respectively, and (4) zero expected dividends.

NOTE 2 NOTE RECEIVABLE TO RELATED PARTY

Blackhawk loaned \$46,000 to their parent company, Palomar Enterprises, Inc., repayable in three years with 8% annual interest and no collateral.

NOTE 3 COMMON STOCK

During the six-months ended June 30, 2005, employees exercised options to acquire 740,000,014 shares of common stock on a cashless basis through an outside broker. The broker sold the shares on the open market and Blackhawk received proceeds totaling \$292,813. Blackhawk recorded compensation expense of \$401,122 under the intrinsic value method during the six months ended June 30, 2005.

In January 2005, Palomar exchanged 10 million shares of Series A preferred stock for 100 million shares of Blackhawk's common stock. The 10 million shares of Series A preferred were convertible under their terms into 125,000 shares of post-split common stock. The additional 99,875,000 shares had a fair market value of \$.04 per share resulting in additional compensation of \$3,995,000.

NOTE 4 SUBSEQUENT EVENT

Palomar Enterprises, Inc. repaid the \$46,000 loan in July 2005.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

FORWARD-LOOKING INFORMATION

Much of the discussion in this Item is "forward looking" as that term is used in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. Actual operations and results may materially differ from present plans and projections due to changes in economic conditions, new business opportunities, changed business conditions, and other developments. Other factors that could cause results to differ materially are described in our filings with the Securities and Exchange Commission.

There are several factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to general economic, financial and business conditions, changes in and compliance with governmental laws and regulations, including various state and federal environmental regulations, our ability to obtain additional financing from outside investors and/or bank and mezzanine lenders and our ability to generate sufficient revenues to cover operating losses and position us to achieve positive cash flow.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. We believe the information contained in this Form 10-QSB to be accurate as of the date hereof. Changes may occur after that date. We will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding our financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part I of this Form 10 Q-SB, as well as the financial statements in Item 7 of Part II of our Form 10-KSB for the fiscal year ended December 31, 2004.

MANAGEMENT'S PLAN OF OPERATIONS.

CURRENT BUSINESS PLAN

Our current purpose is to seek, investigate and, if such investigation warrants, acquire an interest in business opportunities presented to us by persons or firms who or which desire to seek the perceived advantages of a

corporation which is registered under the Securities Exchange Act of 1934, as amended. We do not restrict our search to any specific business; industry or geographical location and we may participate in a business venture of virtually any kind or nature.

We may seek a business opportunity with entities which have recently commenced operations, or which wish to utilize the public marketplace in order to raise additional capital in order to expand into new products or markets, to develop a new product or service or for other corporate purposes. We may acquire assets and establish wholly owned subsidiaries in various businesses or acquire existing businesses as subsidiaries.

As part of our investigation of potential merger candidates, our officers and directors will meet personally with management and key personnel, may visit and inspect material facilities, obtain independent analysis or verification of certain information provided, check references of management and key personnel and take other reasonable investigative measures, to the extent of our financial resources and management expertise. The manner in which we participate in an opportunity will depend on the nature of the opportunity, the respective needs and desires of us and other parties, the management of the opportunity, our relative negotiation strength and that of the other management.

We intend to concentrate on identifying preliminary prospective business opportunities that may be brought to our attention through present associations of our officers and directors, or by our shareholders. In analyzing prospective business opportunities, we will consider such matters as the available technical, financial and managerial resources; working capital and other financial requirements; history of operations, if any; prospects

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for the future; nature of present and expected competition; the quality and experience of management services which may be available and the depth of that management; the potential for further research, development or exploration; specific risk factors not now foreseeable but which then may be anticipated to impact our proposed activities; the potential for growth or expansion; the potential for profit; the perceived public recognition or acceptance of products, services or trades; name identification; and other relevant factors.

Our officers and directors will meet personally with management and key personnel of the business opportunity as part of their investigation. We will not acquire or merge with any company for which audited financial statements cannot be obtained within a reasonable period of time after closing of the proposed transaction, as required by the Exchange Act.

We will not restrict our search to any specific kind of firms, but may acquire a venture which is in its preliminary or development stage, which is already in operation, or which is in essentially any stage of its corporate life. It is impossible to predict at this time the status of any business in which we may become engaged, in that such business may need to seek additional capital, may desire to have its shares publicly traded or may seek other perceived advantages which we may offer.

RECENT EVENTS

Effective January 3, 2005, we changed our name from "Zannwell Inc." to "The Blackhawk Fund" and implemented a one for 800 reverse split of our common stock.

Effective January 4, 2005, we amended our articles of incorporation to authorize 4,000,000,000 shares of common stock, par value \$0.001 per share, and 50,000,000 shares of preferred stock, par value \$0.001 per share.

RESULTS OF OPERATIONS

CONTINUING OPERATIONS

REVENUE

THREE MONTHS ENDED JUNE 30, 2005 COMPARED TO THE THREE MONTHS ENDED JUNE 30,

2004.

Total net sales and revenues were at \$8,533 for the three months ended June 30, 2005 compared to \$0 for the prior period. Revenues in this period were derived from consulting fees.

General and administrative expenses for the three months ended June 30, 2005 compared to 2004 decreased by \$290,437 to \$85,574 from \$376,011 in the prior period.

Operating loss decreased from a loss of \$376,011 to a loss of \$77,041 for the three months ended June 30, 2005.

Interest expense, net for the three months ended June 30, 2005 and 2004 was \$0.

SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2004.

Total net sales and revenues were at \$11,651 for the six months ended June 30, 2005 compared to \$0 for the prior period. Revenues in this period were derived from consulting fees.

General and administrative expenses for the six months ended June 30, 2005 compared to 2004 increased by \$4,278,963 to \$4,684,213 from \$405,250 in the prior period. The 2005 expenses include a \$3,995,000 charge for compensation expense on 99,875,000 shares issued in conversion of Preferred A shares into Common shares and a \$19,700 charge for 127,000,000 shares issued for services.

Operating loss increased from a loss of \$696,069 to a loss of \$4,672,562 for the six months ended June 30, 2005.

Interest expense, net for the six months ended June 30, 2005 was \$0 as compared to the same period of \$50.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2005, we had working capital of \$36,073.

Cash used in investing activities: During the period there was an advance of \$46,000 to Blackhawk's parent company pursuant to a floating note.

Cash provided by financing activities included \$292,813 from sales of stock, including stock option exercises and \$4,863 from a related party.

COMPENSATION FOR OFFICERS AND DIRECTORS:

The officers have agreed that any and all salaries and/or other forms of compensation that have not been paid because of the Company's financial condition do not accrue. The officers have agreed to forego any and all amounts that might have come to them for past services rendered in its behalf.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances.

Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements, we believe the following critical accounting policy involve the most complex, difficult and subjective estimates and judgments.

STOCK-BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123 - Accounting for Stock-Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting for stock based employee compensation. FAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. The provisions of this statement related to transition methods are effective for fiscal years ending after December 15, 2002, while provisions related to disclosure requirements are effective in financial reports for interim periods beginning after December 31, 2002.

We elected to continue to account for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the provisions of APB No. 25, compensation expense is measured at the grant date for the difference between the fair value of the stock and the exercise price.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after June 15, 2005. Accordingly, the Company will implement the revised standard in the third quarter of fiscal year 2005. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2005 and thereafter.

OFF-BALANCE SHEET ARRANGEMENTS.

We do not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure and Controls and Procedures. As of the end of the period covered by this Quarterly Report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, except that adjustments were required by our auditors in their review. We are reviewing our accounting department procedures to ensure that future adjustments in these areas are not required.

Changes in Internal Controls Over Financial Reporting. There was no change in our internal controls, which are included within disclosure controls and procedures, during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Reference is made to our Annual Report for the year ended December 31, 2004, filed with the Commission on April 15, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On January 3, 2005, the holder of the majority of our outstanding voting capital stock voted to effect the following corporate actions:

1.

Amendment to our articles of incorporation to change our name from "ZannWell Inc." to "The BlackHawk Fund";

2.

Amendment to our articles of incorporation to increase the authorized number of shares of our common stock from 900,000,000 to 4,000,000,000 shares;

3.

Grant discretionary authority to our board of directors to implement a reverse stock split of our common stock on the basis of one post-consolidation share for up to each 800 pre-consolidation shares to occur at some time within 12 months of the date of this information statement, with the exact time of the reverse split to be determined by the board of directors;

4.

Grant discretionary authority to the directors to implement a proposal for ZannWell Inc. to become a Business Development Corporation to occur at some time within 12 months of the date of this information statement, with the exact time of such conversion to be determined by the board of directors;

5.

Ratify the removal of R. Patrick Liska from our board of directors; and

6.

Ratify the election of Steve Bonenberger and Brent Fouch as our directors.

We had a consenting stockholder, Palomar Enterprises, Inc., a Nevada corporation, ("Palomar"), which holds 19,000,000 shares of our series A preferred stock, 10,000,000 shares of our series B preferred stock, and 10,000,000 shares of our series C preferred stock. The shares of the series A preferred stock do not have voting rights. Each share of the series B preferred stock entitles the holder to one vote of our common stock on all matters brought before our stockholders. Each share of the series C preferred stock entitles the holder to 100 votes of our common stock on all matters brought before our stockholders. Therefore, Palomar will have the power to vote 1,010,000,000 shares of the common stock, which number exceeds the 167,750,000 issued and outstanding shares of our common stock on the record date.

Palomar voted in favor of the proposed amendments to our articles of incorporation, to ratify the removal of a director and the election of new directors, and for the grant of discretionary authority to the board with respect to the stock split and conversion to a Business Development Corporation.

Palomar had the power to pass the proposed corporate actions without the concurrence of any of our other stockholders.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS.

EXHIBIT NO.

IDENTIFICATION OF EXHIBIT

- | | |
|------|---|
| 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer, pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE BLACKHAWK FUND

Dated August 3, 2005.

By /s/ Steve Bonenberger

Steve Bonenberger, President, Chief

Executive Officer and Director

By: /s/ Brent Fouch

Brent Fouch, Treasurer, Chief

Financial Officer and Director